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Project No. 18661  
Entergy Texas, Inc.

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

PUBLIC UTILITY COMMISSION  
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(Mark One)

FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number, and IRS Employer Identification No.	Commission File Number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number, and IRS Employer Identification No.
1-11299	ENTERGY CORPORATION (a Delaware corporation) 639 Loyola Avenue New Orleans, Louisiana 70113 Telephone (504) 576-4000 72-1229752	1-35747	ENTERGY NEW ORLEANS, LLC (a Texas limited liability company) 1600 Perdido Street New Orleans, Louisiana 70112 Telephone (504) 670-3700 82-2212934
1-10764	ENTERGY ARKANSAS, INC. (an Arkansas corporation) 425 West Capitol Avenue Little Rock, Arkansas 72201 Telephone (501) 377-4000 71-0005900	1-34360	ENTERGY TEXAS, INC. (a Texas corporation) 10055 Grogans Mill Road The Woodlands, Texas 77380 Telephone (409) 981-2000 61-1435798
1-32718	ENTERGY LOUISIANA, LLC (a Texas limited liability company) 4809 Jefferson Highway Jefferson, Louisiana 70121 Telephone (504) 576-4000 47-4469646	1-09067	SYSTEM ENERGY RESOURCES, INC. (an Arkansas corporation) 1340 Echelon Parkway Jackson, Mississippi 39213 Telephone (601) 368-5000 72-0752777
1-31508	ENTERGY MISSISSIPPI, INC. (a Mississippi corporation) 308 East Pearl Street Jackson, Mississippi 39201 Telephone (601) 368-5000 64-0205830		



Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit such files). Yes ☒ No ☐

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Securities Exchange Act of 1934.

	<b>Large accelerated filer</b>	<b>Accelerated filer</b>	<b>Non- accelerated filer</b>	<b>Smaller reporting company</b>	<b>Emerging growth company</b>
Entergy Corporation	✓				
Entergy Arkansas, Inc.			✓		
Entergy Louisiana, LLC			✓		
Entergy Mississippi, Inc.			✓		
Entergy New Orleans, LLC			✓		
Entergy Texas, Inc.			✓		
System Energy Resources, Inc.			✓		

If an emerging growth company, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

<b>Common Stock Outstanding</b>		<b>Outstanding at October 31, 2018</b>
Entergy Corporation	(\$0.01 par value)	181,142,215

Entergy Corporation, Entergy Arkansas, Inc., Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, LLC, Entergy Texas, Inc., and System Energy Resources, Inc. separately file this combined Quarterly Report on Form 10-Q. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company reports herein only as to itself and makes no other representations whatsoever as to any other company. This combined Quarterly Report on Form 10-Q supplements and updates the Annual Report on Form 10-K for the calendar year ended December 31, 2017 and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, filed by the individual registrants with the SEC, and should be read in conjunction therewith.

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## FORWARD-LOOKING INFORMATION

In this combined report and from time to time, Entergy Corporation and the Registrant Subsidiaries each makes statements as a registrant concerning its expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “will,” “could,” “project,” “believe,” “anticipate,” “intend,” “expect,” “estimate,” “continue,” “potential,” “plan,” “predict,” “forecast,” and other similar words or expressions are intended to identify forward-looking statements but are not the only means to identify these statements. Although each of these registrants believes that these forward-looking statements and the underlying assumptions are reasonable, it cannot provide assurance that they will prove correct. Any forward-looking statement is based on information current as of the date of this combined report and speaks only as of the date on which such statement is made. Except to the extent required by the federal securities laws, these registrants undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements involve a number of risks and uncertainties. There are factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, including those factors discussed or incorporated by reference in (a) Item 1A. Risk Factors in the Form 10-K, (b) Management’s Financial Discussion and Analysis in the Form 10-K and in this report, and (c) the following factors (in addition to others described elsewhere in this combined report and in subsequent securities filings):

- resolution of pending and future rate cases, formula rate proceedings and related negotiations, including various performance-based rate discussions, Entergy’s utility supply plan, and recovery of fuel and purchased power costs;
- long-term risks and uncertainties associated with the termination of the System Agreement in 2016, including the potential absence of federal authority to resolve certain issues among the Utility operating companies and their retail regulators;
- regulatory and operating challenges and uncertainties and economic risks associated with the Utility operating companies’ participation in MISO, including the benefits of continued MISO participation, the effect of current or projected MISO market rules and market and system conditions in the MISO markets, the allocation of MISO system transmission upgrade costs, and the effect of planning decisions that MISO makes with respect to future transmission investments by the Utility operating companies;
- changes in utility regulation, including with respect to retail and wholesale competition, the ability to recover net utility assets and other potential stranded costs, and the application of more stringent transmission reliability requirements or market power criteria by the FERC or the U.S. Department of Justice;
- changes in the regulation or regulatory oversight of Entergy’s nuclear generating facilities and nuclear materials and fuel, including with respect to the planned, potential, or actual shutdown of nuclear generating facilities owned or operated by Entergy Wholesale Commodities, and the effects of new or existing safety or environmental concerns regarding nuclear power plants and nuclear fuel;
- resolution of pending or future applications, and related regulatory proceedings and litigation, for license renewals or modifications or other authorizations required of nuclear generating facilities and the effect of public and political opposition on these applications, regulatory proceedings, and litigation;
- the performance of and deliverability of power from Entergy’s generation resources, including the capacity factors at Entergy’s nuclear generating facilities;
- increases in costs and capital expenditures that could result from the commitment of substantial human and capital resources required for the operation and maintenance of Entergy’s nuclear generating facilities;
- Entergy’s ability to develop and execute on a point of view regarding future prices of electricity, natural gas, and other energy-related commodities;
- prices for power generated by Entergy’s merchant generating facilities and the ability to hedge, meet credit support requirements for hedges, sell power forward or otherwise reduce the market price risk associated with those facilities, including the Entergy Wholesale Commodities nuclear plants, especially in light of the planned shutdown or sale of each of these nuclear plants;
- the prices and availability of fuel and power Entergy must purchase for its Utility customers, and Entergy’s ability to meet credit support requirements for fuel and power supply contracts;

## FORWARD-LOOKING INFORMATION (Continued)

- volatility and changes in markets for electricity, natural gas, uranium, emissions allowances, and other energy-related commodities, and the effect of those changes on Entergy and its customers;
- changes in law resulting from federal or state energy legislation or legislation subjecting energy derivatives used in hedging and risk management transactions to governmental regulation;
- changes in environmental laws and regulations, agency positions or associated litigation, including requirements for reduced emissions of sulfur dioxide, nitrogen oxide, greenhouse gases, mercury, particulate matter, heat, and other regulated air and water emissions, requirements for waste management and disposal and for the remediation of contaminated sites, wetlands protection and permitting, and changes in costs of compliance with these environmental laws and regulations;
- changes in laws and regulations, agency positions, or associated litigation related to protected species and associated critical habitat designations;
- the effects of changes in federal, state, or local laws and regulations, and other governmental actions or policies, including changes in monetary, fiscal, tax, environmental, trade/tariff, or energy policies;
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel and nuclear waste storage and disposal and the level of spent fuel and nuclear waste disposal fees charged by the U.S. government or other providers related to such sites;
- variations in weather and the occurrence of hurricanes and other storms and disasters, including uncertainties associated with efforts to remediate the effects of hurricanes, ice storms, or other weather events and the recovery of costs associated with restoration, including accessing funded storm reserves, federal and local cost recovery mechanisms, securitization, and insurance;
- effects of climate change, including the potential for increases in sea levels or coastal land and wetland loss;
- changes in the quality and availability of water supplies and the related regulation of water use and diversion;
- Entergy's ability to manage its capital projects and operation and maintenance costs;
- Entergy's ability to purchase and sell assets at attractive prices and on other attractive terms;
- the economic climate, and particularly economic conditions in Entergy's Utility service area and the northern United States and events and circumstances that could influence economic conditions in those areas, including power prices, and the risk that anticipated load growth may not materialize;
- federal income tax reform, including the enactment of the Tax Cuts and Jobs Act, and its intended and unintended consequences on financial results and future cash flows, including the potential impact to credit ratings, which may affect Entergy's ability to borrow funds or increase the cost of borrowing in the future;
- the effects of Entergy's strategies to reduce tax payments, especially in light of federal income tax reform;
- changes in the financial markets and regulatory requirements for the issuance of securities, particularly as they affect access to capital and Entergy's ability to refinance existing securities, execute share repurchase programs, and fund investments and acquisitions;
- actions of rating agencies, including changes in the ratings of debt and preferred stock, changes in general corporate ratings, and changes in the rating agencies' ratings criteria;
- changes in inflation and interest rates;
- the effect of litigation and government investigations or proceedings;
- changes in technology, including (i) Entergy's ability to implement new technologies, (ii) the impact of changes relating to new, developing, or alternative sources of generation such as distributed energy and energy storage, energy efficiency, demand side management, and other measures that reduce load, and (iii) competition from other companies offering products and services to Entergy's customers based on new or emerging technologies;
- the effects, including increased security costs, of threatened or actual terrorism, cyber-attacks or data security breaches, natural or man-made electromagnetic pulses that affect transmission or generation infrastructure, accidents, and war or a catastrophic event such as a nuclear accident or a natural gas pipeline explosion;
- Entergy's ability to attract and retain talented management, directors, and employees with specialized skills;
- changes in accounting standards and corporate governance;
- declines in the market prices of marketable securities and resulting funding requirements and the effects on benefits costs for Entergy's defined benefit pension and other postretirement benefit plans;



### **FORWARD-LOOKING INFORMATION (Concluded)**

- future wage and employee benefit costs, including changes in discount rates and returns on benefit plan assets;
- changes in decommissioning trust fund values or earnings or in the timing of, requirements for, or cost to decommission Entergy's nuclear plant sites and the implementation of decommissioning of such sites following shutdown;
- the decision to cease merchant power generation at all Entergy Wholesale Commodities nuclear power plants by mid-2022, including the implementation of the planned shutdowns of Pilgrim, Indian Point 2, Indian Point 3, and Palisades;
- the effectiveness of Entergy's risk management policies and procedures and the ability and willingness of its counterparties to satisfy their financial and performance commitments;
- factors that could lead to impairment of long-lived assets; and
- the ability to successfully complete strategic transactions Entergy may undertake, including mergers, acquisitions, divestitures, or restructurings, regulatory or other limitations imposed as a result of any such strategic transaction, and the success of the business following any such strategic transaction.

## DEFINITIONS

Certain abbreviations or acronyms used in the text and notes are defined below:

Abbreviation or Acronym	Term
ALJ	Administrative Law Judge
ANO 1 and 2	Units 1 and 2 of Arkansas Nuclear One (nuclear), owned by Entergy Arkansas
APSC	Arkansas Public Service Commission
ASU	Accounting Standards Update issued by the FASB
Board	Board of Directors of Entergy Corporation
Cajun	Cajun Electric Power Cooperative, Inc.
capacity factor	Actual plant output divided by maximum potential plant output for the period
City Council	Council of the City of New Orleans, Louisiana
D.C. Circuit	U.S. Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
Entergy	Entergy Corporation and its direct and indirect subsidiaries
Entergy Corporation	Entergy Corporation, a Delaware corporation
Entergy Gulf States, Inc.	Predecessor company for financial reporting purposes to Entergy Gulf States Louisiana that included the assets and business operations of both Entergy Gulf States Louisiana and Entergy Texas
Entergy Gulf States Louisiana	Entergy Gulf States Louisiana, L.L.C., a Louisiana limited liability company formally created as part of the jurisdictional separation of Entergy Gulf States, Inc. and the successor company to Entergy Gulf States, Inc. for financial reporting purposes. The term is also used to refer to the Louisiana jurisdictional business of Entergy Gulf States, Inc., as the context requires. Effective October 1, 2015, the business of Entergy Gulf States Louisiana was combined with Entergy Louisiana.
Entergy Louisiana	Entergy Louisiana, LLC, a Texas limited liability company formally created as part of the combination of Entergy Gulf States Louisiana and the company formerly known as Entergy Louisiana, LLC (Old Entergy Louisiana) into a single public utility company and the successor to Old Entergy Louisiana for financial reporting purposes.
Entergy Texas	Entergy Texas, Inc., a Texas corporation formally created as part of the jurisdictional separation of Entergy Gulf States, Inc. The term is also used to refer to the Texas jurisdictional business of Entergy Gulf States, Inc., as the context requires.
Entergy Wholesale Commodities	Entergy's non-utility business segment primarily comprised of the ownership, operation, and decommissioning of nuclear power plants, the ownership of interests in non-nuclear power plants, and the sale of the electric power produced by its operating power plants to wholesale customers
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FitzPatrick	James A. FitzPatrick Nuclear Power Plant (nuclear), previously owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which was sold in March 2017
Form 10-K	Annual Report on Form 10-K for the calendar year ended December 31, 2017 filed with the SEC by Entergy Corporation and its Registrant Subsidiaries
Grand Gulf	Unit No. 1 of Grand Gulf Nuclear Station (nuclear), 90% owned or leased by System Energy
GWh	Gigawatt-hour(s), which equals one million kilowatt-hours
Independence	Independence Steam Electric Station (coal), owned 16% by Entergy Arkansas, 25% by Entergy Mississippi, and 7% by Entergy Power, LLC

## DEFINITIONS (Continued)

Abbreviation or Acronym	Term
Indian Point 2	Unit 2 of Indian Point Energy Center (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
Indian Point 3	Unit 3 of Indian Point Energy Center (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
IRS	Internal Revenue Service
ISO	Independent System Operator
kW	Kilowatt, which equals one thousand watts
kWh	Kilowatt-hour(s)
LPSC	Louisiana Public Service Commission
MISO	Midcontinent Independent System Operator, Inc., a regional transmission organization
MMBtu	One million British Thermal Units
MPSC	Mississippi Public Service Commission
MW	Megawatt(s), which equals one thousand kilowatts
MWh	Megawatt-hour(s)
Net debt to net capital ratio	Gross debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents
Net MW in operation	Installed capacity owned and operated
NRC	Nuclear Regulatory Commission
NYPA	New York Power Authority
Palisades	Palisades Nuclear Plant (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
Parent & Other	The portions of Entergy not included in the Utility or Entergy Wholesale Commodities segments, primarily consisting of the activities of the parent company, Entergy Corporation
Pilgrim	Pilgrim Nuclear Power Station (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
PPA	Purchased power agreement or power purchase agreement
PUCT	Public Utility Commission of Texas
Registrant Subsidiaries	Entergy Arkansas, Inc., Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, LLC, Entergy Texas, Inc., and System Energy Resources, Inc.
River Bend	River Bend Station (nuclear), owned by Entergy Louisiana
SEC	Securities and Exchange Commission
System Agreement	Agreement, effective January 1, 1983, as modified, among the Utility operating companies relating to the sharing of generating capacity and other power resources. The agreement terminated effective August 2016.
System Energy	System Energy Resources, Inc.
TWh	Terawatt-hour(s), which equals one billion kilowatt-hours
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended and approved by the FERC, among Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf
Utility	Entergy's business segment that generates, transmits, distributes, and sells electric power, with a small amount of natural gas distribution
Utility operating companies	Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas

## DEFINITIONS (Concluded)

Abbreviation or Acronym	Term
Vermont Yankee	Vermont Yankee Nuclear Power Station (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which ceased power production in December 2014
Waterford 3	Unit No. 3 (nuclear) of the Waterford Steam Electric Station, 100% owned or leased by Entergy Louisiana
weather-adjusted usage	Electric usage excluding the effects of deviations from normal weather
White Bluff	White Bluff Steam Electric Generating Station, 57% owned by Entergy Arkansas

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**ENTERGY CORPORATION AND SUBSIDIARIES**  
**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS**

Entergy operates primarily through two business segments: Utility and Entergy Wholesale Commodities.

- The **Utility** business segment includes the generation, transmission, distribution, and sale of electric power in portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operation of a small natural gas distribution business.
- The **Entergy Wholesale Commodities** business segment includes the ownership, operation, and decommissioning of nuclear power plants located in the northern United States and the sale of the electric power produced by its operating plants to wholesale customers. Entergy Wholesale Commodities also provides services to other nuclear power plant owners and owns interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers. See “**Entergy Wholesale Commodities Exit from the Merchant Power Business**” below and in the Form 10-K for discussion of the operation and planned shutdown or sale of each of the Entergy Wholesale Commodities nuclear power plants.

See Note 7 to the financial statements herein for financial information regarding Entergy’s business segments.

**Results of Operations**

**Third Quarter 2018 Compared to Third Quarter 2017**

Following are income statement variances for Utility, Entergy Wholesale Commodities, Parent & Other, and Entergy comparing the third quarter 2018 to the third quarter 2017 showing how much the line item increased or (decreased) in comparison to the prior period:

	Utility	Entergy Wholesale Commodities	Parent & Other (a)	Entergy
		(In Thousands)		
<b>3rd Quarter 2017 Consolidated Net Income (Loss)</b>	\$403,733	\$55,765	(\$57,854)	\$401,644
Net revenue (operating revenue less fuel expense, purchased power, and other regulatory charges/credits)	(253,847)	(50,681)	(2)	(304,530)
Other operation and maintenance	50,746	24,903	3,363	79,012
Asset write-offs, impairments, and related charges	—	138,994	—	138,994
Taxes other than income taxes	1,388	775	279	2,442
Depreciation and amortization	(17,013)	(12,845)	(253)	(30,111)
Other income	26,926	88,207	(624)	114,509
Interest expense	2,256	3,386	7,526	13,168
Other expenses	(628)	(6,271)	—	(6,899)
Income taxes	(367,682)	(161,222)	4,103	(524,801)
<b>3rd Quarter 2018 Consolidated Net Income (Loss)</b>	<u>\$507,745</u>	<u>\$105,571</u>	<u>(\$73,498)</u>	<u>\$539,818</u>

(a) Parent & Other includes eliminations, which are primarily intersegment activity.

Refer to “**ENTERGY CORPORATION AND SUBSIDIARIES - SELECTED OPERATING RESULTS**” for further information with respect to operating statistics.

Third quarter 2018 results of operations includes impairment charges of \$155 million (\$123 million net-of-tax) due to costs being charged directly to expense as a result of the impaired value of the Entergy Wholesale

Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet, a \$107 million reduction of income tax expense, recognized by Entergy Wholesale Commodities, as a result of a restructuring of the investment holdings in one of its nuclear plant decommissioning trust funds, and a \$23 million reduction of income tax expense, recognized by Entergy Wholesale Commodities, as a result of a state income tax audit. See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business" below and in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. See Note 10 to the financial statements herein for discussion of the state income tax audit and restructuring of its interest in the decommissioning trust fund.

## Net Revenue

### Utility

Following is an analysis of the change in net revenue comparing the third quarter 2018 to the third quarter 2017:

	<u>Amount</u>
	(In Millions)
2017 net revenue	\$1,811
Return of unprotected excess accumulated deferred income taxes to customers	(277)
Grand Gulf recovery	(39)
Retail electric price	(8)
Volume/weather	44
Net wholesale revenue	26
<b>2018 net revenue</b>	<b><u><u>\$1,557</u></u></b>

The return of unprotected excess accumulated deferred income taxes to customers resulted from activity in the third quarter 2018 at Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy in response to the enactment of the Tax Cuts and Jobs Act. There is no effect on net income as the reductions in net revenue were offset by reductions in income tax expense. Entergy Texas's proposal for the return of its unprotected excess accumulated deferred income taxes is pending before the PUCT in an unopposed settlement in its base rate case proceeding. See Note 2 to the financial statements herein and in the Form 10-K for further discussion of regulatory activity regarding the Tax Cuts and Jobs Act.

The Grand Gulf recovery variance is primarily due to a reduction in depreciation expense recognized in third quarter 2018 upon FERC approval of the settlement in the Unit Power Sales Agreement proceeding, a reduction in income tax expense associated with the reduction in the federal income tax rate in 2018, and a reduction in recoverable decommissioning costs, primarily attributable to increased earnings on the decommissioning trust funds. This was partially offset by increases in other capacity costs. See Note 2 to the financial statements herein for a discussion of the Unit Power Sales Agreement settlement. See Note 3 to the financial statements in the Form 10-K for a discussion of the Tax Cut and Jobs Act.

The retail electric price variance is primarily due to regulatory charges recorded in the third quarter 2018 to reflect the effects of regulatory agreements to return the benefits of the lower income tax rate in 2018 to customers in Louisiana and New Orleans and a decrease in formula rate plan revenues implemented with the first billing cycle of September 2017 at Entergy Louisiana. The decrease was substantially offset by an increase in formula rate plan rates effective with the first billing cycle of January 2018 at Entergy Arkansas, as approved by the APSC, and an increase in energy efficiency revenues. See Note 2 to the financial statements herein and in the Form 10-K for further discussion of the regulatory proceedings.

The volume/weather variance is primarily due to an increase of 1,851 GWh, or 6%, in billed electricity usage, including the effect of more favorable weather on residential and commercial sales and an increase in industrial usage. The increase in industrial usage is primarily driven by small industrials and cogeneration sales, as well as continued growth from new and expansion customers. The increase was partially offset by the effect of less favorable weather during the unbilled sales period.

The net wholesale revenue variance is primarily because of the regulatory lag experienced by certain Utility operating companies as a result of the change in the federal income tax rate in 2018 and its effect on wholesale rates. See Note 2 herein and in the Form 10-K for discussion of regulatory activity regarding the Tax Cuts and Jobs Act.

#### Entergy Wholesale Commodities

Following is an analysis of the change in net revenue comparing the third quarter 2018 to the third quarter 2017:

	<b>Amount</b>
	(In Millions)
2017 net revenue	\$392
Nuclear realized price changes	(24)
Nuclear volume	(14)
Other	(13)
<b>2018 net revenue</b>	<b>\$341</b>

As shown in the table above, net revenue for Entergy Wholesale Commodities decreased by \$51 million in the third quarter 2018 as compared to the third quarter 2017 primarily due to lower realized wholesale energy prices, partially offset by higher capacity prices, and lower volume in the Entergy Wholesale Commodities nuclear fleet resulting from more non-refueling outage days in the third quarter 2018 as compared to the third quarter 2017.

Following are key performance measures for Entergy Wholesale Commodities for the third quarter 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Owned capacity (MW)	3,962	3,962
GWh billed	7,576	8,234
<u>Entergy Wholesale Commodities Nuclear Fleet (a)</u>		
Capacity factor	90%	98%
GWh billed	6,976	7,633
Average energy price (\$/MWh)	\$38.01	\$39.94
Average capacity price (\$/kW-month)	\$9.32	\$9.09

- (a) The Entergy Wholesale Commodities nuclear power plants had no refueling outage days in the third quarter 2018 or the third quarter 2017.

#### Other Income Statement Items

##### Utility

Other operation and maintenance expenses increased from \$584 million for the third quarter 2017 to \$635 million for the third quarter 2018 primarily due to:



- an increase of \$16 million in fossil-fueled generation expenses primarily due to an overall higher scope of work performed in third quarter 2018 as compared to third quarter 2017;
- an increase of \$15 million in energy efficiency costs;
- an increase of \$8 million in customer service costs primarily due to higher contract costs;
- an increase of \$7 million in information technology costs primarily due to higher software maintenance costs and higher contract costs; and
- a \$6 million loss in 2018 on the sale of fuel oil inventory per an agreement approved by the MPSC in June 2018 resulting from the stipulation related to the effects of the Tax Act. There is no effect on net income as the loss on the sale of fuel oil inventory is offset by a reduction in income tax expense.

Depreciation and amortization expenses decreased primarily due to updated depreciation rates used in calculating Grand Gulf plant depreciation and amortization expenses under the Unit Power Sales Agreement as part of a settlement approved by the FERC in August 2018. See Note 2 to the financial statements herein and in the Form 10-K for further discussion of the Unit Power Sales Agreement.

Other income increased primarily due to changes in decommissioning trust fund investment activity, including portfolio rebalancing of certain of the decommissioning trust funds in the third quarter 2018.

#### Entergy Wholesale Commodities

Other operation and maintenance expenses increased from \$184 million for the third quarter 2017 to \$209 million for the third quarter 2018 primarily due to an increase of \$19 million in severance and retention costs as a result of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business"** below and in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet.

The asset write-offs, impairments, and related charges variance is primarily due to impairment charges of \$155 million (\$123 million net-of-tax) in the third quarter 2018 compared to impairment charges of \$16 million (\$10 million net-of-tax) in the third quarter 2017. The impairment charges are due to nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets being charged to expense as incurred as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. The increase in impairment charges in the third quarter 2018 is primarily due to \$117 million (\$93 million net-of-tax) of impairment charges related to Pilgrim primarily resulting from the effects of an updated decommissioning cost study. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business"** below and in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. See Note 14 to the financial statements herein for a discussion of asset retirement obligations. See Note 14 to the financial statements in the Form 10-K for a discussion of impairment of long-lived assets.

Depreciation and amortization expenses decreased primarily due to the decision in the third quarter 2017 to continue operating Palisades until May 31, 2022. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business"** in the Form 10-K for a discussion of the planned shutdown of Palisades.

Other income increased primarily due to higher realized gains on the decommissioning trust fund investments in the third quarter 2018 as compared to the third quarter 2017, including the effect of portfolio rebalancing in the third quarter 2018.

## Income Taxes

The effective income tax rate was (110.2%) for the third quarter 2018. The difference in the effective income tax rate for the third quarter 2018 versus the federal statutory rate of 21% was primarily due to amortization of excess accumulated deferred income taxes, a restructuring of the investment holdings in one of the Entergy Wholesale Commodities' nuclear plant decommissioning trusts for which additional tax basis is now recoverable, and the conclusion of a state income tax audit involving Entergy Wholesale Commodities. See Notes 2 and 10 to the financial statements herein and Notes 2 and 3 to the financial statements in the Form 10-K for a discussion of the effects and regulatory activity regarding the Tax Cuts and Jobs Act. See Note 10 to the financial statements herein for discussions of the restructuring and the conclusion of the state income tax audit.

The effective income tax rate was 37.6% for the third quarter 2017. The difference in the effective income tax rate for the third quarter 2017 versus the federal statutory rate of 35% was primarily due to state income taxes, partially offset by book and tax differences related to the allowance for equity funds used during construction.

### Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Following are income statement variances for Utility, Entergy Wholesale Commodities, Parent & Other, and Entergy comparing the nine months ended September 30, 2018 to the nine months ended September 30, 2017 showing how much the line item increased or (decreased) in comparison to the prior period:

	Utility	Entergy Wholesale Commodities	Parent & Other (a)	Entergy
		(In Thousands)		
<b>2017 Consolidated Net Income (Loss)</b>	\$817,738	\$252,455	(\$169,129)	\$901,064
Net revenue (operating revenue less fuel expense, purchased power, and other regulatory charges/credits)	(377,472)	(140,849)	(13)	(518,334)
Other operation and maintenance	114,009	(61,579)	8,444	60,874
Asset write-offs, impairments, and related charges	—	(124,502)	—	(124,502)
Taxes other than income taxes	18,478	(2,337)	451	16,592
Depreciation and amortization	10,660	(40,640)	(253)	(30,233)
Gain on sale of assets	—	(16,270)	—	(16,270)
Other income	28,651	25,853	(2,464)	52,040
Interest expense	9,449	7,618	18,504	35,571
Other expenses	(2,633)	(29,664)	—	(32,297)
Income taxes	(785,124)	340,837	11,905	(432,382)
<b>2018 Consolidated Net Income (Loss)</b>	<u>\$1,104,078</u>	<u>\$31,456</u>	<u>(\$210,657)</u>	<u>\$924,877</u>

(a) Parent & Other includes eliminations, which are primarily intersegment activity.

Refer to “**ENTERGY CORPORATION AND SUBSIDIARIES - SELECTED OPERATING RESULTS**” for further information with respect to operating statistics.

Results of operations for the nine months ended September 30, 2018 include impairment charges of \$297 million (\$235 million net-of-tax) due to costs being charged directly to expense as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet, a \$107 million reduction of income tax expense, recognized by Entergy Wholesale Commodities, as a

result of a restructuring of the investment holdings in one of its nuclear plant decommissioning trust funds, a \$52 million income tax benefit, recognized by Entergy Louisiana, as a result of the settlement of the 2012-2013 IRS audit, associated with the Hurricane Katrina and Hurricane Rita contingent sharing obligation associated with the Louisiana Act 55 financing, and a \$23 million reduction of income tax expense, recognized by Entergy Wholesale Commodities, as a result of a state income tax audit. See “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business**” below and in the Form 10-K for a discussion of management’s strategy to reduce the size of the Entergy Wholesale Commodities’ merchant fleet. See Note 10 to the financial statements herein for discussion of the IRS audit settlement, the state income tax audit, and restructuring of its interest in the decommissioning trust fund.

Results of operations for the nine months ended September 30, 2017 include impairment charges of \$422 million (\$274 million net-of-tax) due to costs being charged directly to expense as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants’ long-lived assets due to the significantly reduced remaining estimated operating lives associated with management’s strategy to reduce the size of the Entergy Wholesale Commodities’ merchant fleet and a reduction of income tax expense, net of unrecognized tax benefits, of \$373 million as a result of a change in the tax classification of legal entities that own Entergy Wholesale Commodities nuclear power plants. See “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business**” below and in the Form 10-K for a discussion of management’s strategy to reduce the size of the Entergy Wholesale Commodities’ merchant fleet and Note 3 to the financial statements in the Form 10-K for additional discussion of the tax elections.

## Net Revenue

### Utility

Following is an analysis of the change in net revenue comparing the nine months ended September 30, 2018 to the nine months ended September 30, 2017:

	<b>Amount</b>
	(In Millions)
2017 net revenue	\$4,765
Return of unprotected excess accumulated deferred income taxes to customers	(555)
Grand Gulf recovery	(74)
Retail electric price	(4)
Net wholesale revenue	35
Volume/weather	203
Other	18
<b>2018 net revenue</b>	<b><u><u>\$4,388</u></u></b>

The return of unprotected excess accumulated deferred income taxes to customers resulted from activity in 2018 at Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy in response to the enactment of the Tax Cuts and Jobs Act. There is no effect on net income as the reductions in net revenue were offset by reductions in income tax expense. Entergy Texas’s proposal for the return of its unprotected excess accumulated deferred income taxes is pending before the PUCT in an unopposed settlement in its base rate case proceeding. See Note 2 to the financial statements herein and in the Form 10-K for further discussion of regulatory activity regarding the Tax Cuts and Jobs Act.

The Grand Gulf recovery variance is primarily due to a reduction in depreciation expense recognized in third quarter 2018 upon FERC approval of the settlement in the Unit Power Sales Agreement proceeding, a reduction in income tax expense associated with the reduction in the federal income tax rate in 2018, and a reduction in recoverable decommissioning costs, primarily attributable to increased earnings on the decommissioning trust funds. This was

partially offset by increases in other capacity costs. See Note 2 to the financial statements herein for a discussion of the Unit Power Sales Agreement settlement. See Note 3 to the financial statements in the Form 10-K for a discussion of the Tax Cut and Jobs Act.

The retail electric price variance is primarily due to regulatory charges recorded in 2018 to reflect the effects of regulatory agreements to return the benefits of the lower income tax rate in 2018 to customers in Louisiana and New Orleans. The decrease was substantially offset by the following:

- an increase in formula rate plan rates effective with the first billing cycle of January 2018 at Entergy Arkansas, as approved by the APSC;
- an increase in energy efficiency revenues;
- higher storm damage rider revenues at Entergy Mississippi; and
- an increase in the distribution cost recovery factor rider rate in September 2017 at Entergy Texas, as approved by the PUCT.

See Note 2 to the financial statements herein and in the Form 10-K for further discussion of the regulatory proceedings discussed above.

The net wholesale revenue variance is primarily because of the regulatory lag experienced by certain Utility operating companies as a result of the change in the federal income tax rate in 2018 and its effect on wholesale rates. See Note 2 herein and in the Form 10-K for discussion of regulatory activity regarding the Tax Cuts and Jobs Act.

The volume/weather variance is primarily due to an increase of 4,576 GWh, or 5%, in billed electricity usage, including the effect of more favorable weather on residential and commercial sales and an increase in industrial usage. The increase in industrial usage is primarily driven by small industrial sales, as well as continued growth from new and expansion customers.

#### Entergy Wholesale Commodities

Following is an analysis of the change in net revenue comparing the nine months ended September 30, 2018 to the nine months ended September 30, 2017:

	<b>Amount</b>
	(In Millions)
2017 net revenue	\$1,136
FitzPatrick reimbursement agreement	(98)
Nuclear realized price changes	(35)
Nuclear volume	21
Other	(29)
<b>2018 net revenue</b>	<b><u>\$995</u></b>

As shown in the table above, net revenue for Entergy Wholesale Commodities decreased by \$141 million in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 primarily due to:

- a decrease resulting from the reimbursement agreement with Exelon pursuant to which Exelon reimbursed Entergy in the first quarter 2017 for specified out-of-pocket costs associated with preparing for the refueling and operation of FitzPatrick that otherwise would have been avoided had Entergy shut down FitzPatrick in January 2017. Revenues received from Exelon under the reimbursement agreement were offset by other operation and maintenance expenses and taxes other than income taxes and had no effect on net income. See Note 14 to the financial statements in the Form 10-K for discussion of the sale of FitzPatrick and the reimbursement agreement with Exelon; and

- lower realized wholesale energy prices and the effect of rising forward power prices on electricity derivative instruments that are not designated as hedging instruments, partially offset by higher capacity prices.

The decrease was partially offset by higher volume in the Entergy Wholesale Commodities nuclear fleet resulting from fewer refueling outage days in the nine months ended September 30, 2018, partially offset by a larger exercise of resupply options in the nine months ended September 30, 2017 provided for in purchase power agreements where Entergy Wholesale Commodities may elect to supply power from another source when the plant is not running.

Following are key performance measures for Entergy Wholesale Commodities for the nine months ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Owned capacity (MW)	3,962	3,962
GWh billed	21,853	22,616
<u>Entergy Wholesale Commodities Nuclear Fleet</u>		
Capacity factor	86%	79%
GWh billed	20,096	20,861
Average energy price (\$/MWh)	\$40.72	\$42.46
Average capacity price (\$/kW-month)	\$7.01	\$6.33
Refueling outage days:		
FitzPatrick	—	42
Indian Point 2	33	—
Indian Point 3	—	66
Pilgrim	—	43
Palisades	—	27

#### Other Income Statement Items

##### Utility

Other operation and maintenance expenses increased from \$1,738 million for the nine months ended September 30, 2017 to \$1,852 million for the nine months ended September 30, 2018 primarily due to:

- an increase of \$38 million in fossil-fueled generation expenses primarily due to an overall higher scope of work performed in 2018 as compared to 2017;
- an increase of \$27 million in energy efficiency costs;
- an increase of \$12 million in storm damage provisions, primarily at Entergy Mississippi. See Note 2 to the financial statements herein and in the Form 10-K for discussion of storm cost recovery;
- an increase of \$11 million in customer service costs primarily due to higher contract costs;
- an increase of \$10 million in transmission expenses primarily due to higher labor and contract costs to support industrial customers;
- an increase of \$10 million in information technology costs primarily due to higher software maintenance costs and higher labor costs, including contract labor;
- an increase of \$6 million in nuclear generation expenses primarily due to higher nuclear labor costs, including contract labor, to position the nuclear fleet to meet its operational goals and a higher scope of work performed during plant outages in 2018 as compared to the same period in 2017;
- a \$6 million loss in 2018 on the sale of fuel oil inventory per an agreement approved by the MPSC in June 2018 resulting from the stipulation related to the effects of the Tax Act. There is no effect on net income as the loss on the sale of fuel oil inventory is offset by a reduction in income tax expense; and
- an increase of \$6 million in vegetation maintenance costs.

The increase was partially offset by higher nuclear insurance refunds of \$15 million.

Taxes other than income taxes increased primarily due to increases in ad valorem taxes and payroll taxes. Ad valorem taxes increased primarily due to higher assessments.

Other income increased primarily due to changes in decommissioning trust fund investment activity, including portfolio rebalancing of certain of the decommissioning trust funds in the third quarter 2018 and an increase in the allowance for equity funds used during construction due to higher construction work in progress in 2018, which included the St. Charles Power Station project.

#### Entergy Wholesale Commodities

Other operation and maintenance expenses decreased from \$661 million for the nine months ended September 30, 2017 to \$599 million for the nine months ended September 30, 2018 primarily due to the absence of other operation and maintenance expenses from the FitzPatrick plant, which was sold to Exelon in March 2017. The decrease was partially offset by an increase of \$17 million in severance and retention costs as a result of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business**" below and in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet.

The asset write-offs, impairments, and related charges variance is primarily due to impairment charges of \$297 million (\$235 million net-of-tax) in the nine months ended September 30, 2018 compared to impairment charges of \$422 million (\$274 million net-of-tax) in the nine months ended September 30, 2017. The impairment charges are due to nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets being charged to expense as incurred as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. The decrease in impairment charges in 2018 is primarily due to Palisades expenditures incurred after September 30, 2017, no longer being charged to expense as incurred but recorded as assets and depreciated or amortized, and the timing of nuclear refueling outage spending and nuclear fuel spending at the remaining impaired Entergy Wholesale Commodities nuclear plants, partially offset by an increase in impairment charges related to Pilgrim primarily resulting from the effects of an updated decommissioning cost study. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business**" below and in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. See Note 14 to the financial statements herein for a discussion of asset retirement obligations. See Note 14 to the financial statements in the Form 10-K for a discussion of impairment of long-lived assets.

Depreciation and amortization expenses decreased primarily due to the decision in the third quarter 2017 to continue operating Palisades until May 31, 2022. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business**" in the Form 10-K for a discussion of the planned shutdown of Palisades.

The gain on sale of assets resulted from the sale in March 2017 of the 838 MW FitzPatrick plant to Exelon. Entergy sold the FitzPatrick plant for approximately \$110 million, which included a \$10 million non-refundable signing fee paid in August 2016, in addition to the assumption by Exelon of certain liabilities related to the FitzPatrick plant, resulting in a pre-tax gain of \$16 million on the sale. See Note 14 to the financial statements in the Form 10-K for discussion of the sale of FitzPatrick.

Other income increased primarily due to higher realized gains on the decommissioning trust fund investments in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, including the effect of portfolio rebalancing in 2018.

Other expenses decreased primarily due to the absence of decommissioning expense from the FitzPatrick plant after it was sold to Exelon in March 2017 and a reduction in deferred refueling outage amortization costs related to the impairments of the Indian Point 3, Indian Point 2, and Palisades plants and related assets. See Note 14 to the financial statements in the Form 10-K for discussion of the sale of FitzPatrick and impairments and related charges.

### Income Taxes

The effective income tax rate was (128.4%) for the nine months ended September 30, 2018. The difference in the effective income tax rate for the nine months ended September 30, 2018 versus the federal statutory rate of 21% was primarily due to amortization of excess accumulated deferred income taxes, a restructuring of the investment holdings in one of the Entergy Wholesale Commodities' nuclear plant decommissioning trusts for which additional tax basis is now recoverable, and an IRS audit settlement for the 2012-2013 tax returns. See Notes 2 and 10 to the financial statements herein and Notes 2 and 3 to the financial statements in the Form 10-K for a discussion of the effects and regulatory activity regarding the Tax Cuts and Jobs Act. See Note 10 to the financial statements herein for a discussion of the IRS audit settlement and the restructuring.

The effective income tax rate was (10.8%) for the nine months ended September 30, 2017. The difference in the effective income tax rate for the nine months ended September 30, 2017 versus the federal statutory rate of 35% was primarily due to a change in the tax classification of legal entities that own Entergy Wholesale Commodities nuclear power plants, which resulted in both permanent and temporary differences under the income tax accounting standards and the re-determined tax basis of the FitzPatrick plant as a result of its sale on March 31, 2017, partially offset by state income taxes. See Note 3 to the financial statements in the Form 10-K for further discussion of the change in tax classification and the tax benefit associated with the sale of FitzPatrick.

### Income Tax Legislation

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Income Tax Legislation" in the Form 10-K for a discussion of the Tax Cuts and Jobs Act enacted in December 2017.

See Note 2 to the financial statements herein and in the Form 10-K for discussion of proceedings commenced or other responses by Entergy's regulators to the Tax Act.

### Entergy Wholesale Commodities Exit from the Merchant Power Business

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Entergy Wholesale Commodities Exit from the Merchant Power Business" in the Form 10-K for a discussion of management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. Following are updates to that discussion.

#### **Shutdown and Planned Sale of Vermont Yankee**

As discussed in the Form 10-K, in December 2014 the Vermont Yankee plant ceased power production and entered its decommissioning phase, and in November 2016, Entergy entered into an agreement to sell 100% of the membership interests in Entergy Nuclear Vermont Yankee, LLC to a subsidiary of NorthStar. In March 2018, Entergy and NorthStar entered into a settlement agreement and a Memorandum of Understanding with State of Vermont agencies and other interested parties that set forth the terms on which the agencies and parties support the Vermont Public Utility Commission's approval of the transaction. The agreements provide additional financial assurance for decommissioning, spent fuel management and site restoration, and detail the site restoration standards that will apply to protect the environment and the health and safety of workers and the public. The provisions of the agreements will become effective upon approval of the transaction by the Vermont Public Utility Commission consistent with the agreements' terms, the NRC's approval of the license transfer application, and the closing of the transaction. In October 2018 the

NRC issued an order approving the application to transfer Vermont Yankee's license to NorthStar for decommissioning. The Vermont Public Utility Commission is expected to issue its decision in the fourth quarter of 2018.

Entergy Nuclear Vermont Yankee has an outstanding credit facility with borrowing capacity of \$145 million to pay for dry fuel storage costs. This credit facility is guaranteed by Entergy Corporation. At or before closing, a subsidiary of Entergy will assume the obligations under the existing credit facility or enter into a new credit facility, and Entergy will guarantee the credit facility. At the closing of the sale transaction, NorthStar will pay \$1,000 for the membership interests in Entergy Nuclear Vermont Yankee, and NorthStar will cause Entergy Nuclear Vermont Yankee to issue a promissory note to an Entergy affiliate. The amount of the promissory note issued will be equal to the amount drawn under the credit facility or the amount drawn under the new credit facility, plus borrowing fees and costs incurred by Entergy in connection with such facility. The principal amount drawn under the outstanding credit facility was \$132 million as of September 30, 2018. The transaction is expected to result in a loss based on the difference between Entergy's net investment in Entergy Nuclear Vermont Yankee and the sale price plus any agreed adjustments. As of September 30, 2018, Entergy's adjusted net investment in Entergy Nuclear Vermont Yankee was \$266 million. The primary variables in the ultimate loss are the values of the nuclear decommissioning trusts and the asset retirement obligations at closing, financial results from the plant until the closing, and any changes in Entergy's investment in Entergy Nuclear Vermont Yankee before closing.

### **Planned Sales of Pilgrim and Palisades**

On July 30, 2018, Entergy entered into purchase and sale agreements with Holtec International to sell to a Holtec subsidiary (i) 100% of the equity interests in Entergy Nuclear Generation Company, the owner of Pilgrim, and (ii) 100% of the equity interests in Entergy Nuclear Palisades, LLC, the owner of Palisades and the Big Rock Point Site. The sales of Entergy Nuclear Generation Company and Entergy Nuclear Palisades will include the transfer of each entity's nuclear decommissioning trust and obligation for spent fuel management and plant decommissioning. At the closing of each sale transaction, the Holtec subsidiary will pay \$1,000 each (subject to adjustment for net liabilities and other amounts) for the equity interests in Entergy Nuclear Generation Company and Entergy Nuclear Palisades.

The Pilgrim transaction is subject to certain closing conditions, including: the permanent shutdown of Pilgrim and the transfer of all nuclear fuel from the reactor vessel to the spent nuclear fuel pool; NRC approval for the transfer of the operating and the independent spent fuel storage installation licenses; FERC approval for the change in control of the switchyard; receipt of a favorable private letter ruling from the IRS; the market value of the nuclear decommissioning trust for Pilgrim, less the hypothetical income tax on the aggregate unrealized gain of such fund assets at closing, equaling or exceeding a specified minimum amount; and, the Palisades purchase and sale agreement not having been terminated due to a breach by Holtec or its subsidiary.

The Palisades transaction is subject to certain closing conditions, including: the permanent shutdown of Palisades and the transfer of all nuclear fuel from the reactor vessel to the spent nuclear fuel pool; NRC regulatory approval for the transfer of the Palisades and Big Rock Point operating and independent spent fuel storage installation licenses; receipt of a favorable private letter ruling from the IRS; the market value of the nuclear decommissioning trust for Palisades, less the hypothetical income tax on the aggregate unrealized gain of such fund assets at closing, equaling or exceeding a specified minimum amount; and, the Pilgrim transaction having closed.

Subject to the above conditions, the Pilgrim transaction is expected to close by the end of 2019 and the Palisades transaction is expected to close by the end of 2022. Each transaction is expected to result in a loss based on the difference between Entergy's net investment in each subsidiary and the sale price plus any agreed adjustments. As of September 30, 2018, Entergy's adjusted net investment in Entergy Nuclear Generation Company was \$456 million and Entergy's adjusted net investment in Entergy Nuclear Palisades was \$210 million. The primary variables in the ultimate loss are the values of the nuclear decommissioning trusts and the asset retirement obligations at closing, financial results from plant operations until the closing, and the level of any deferred tax balances at closing.



### **Costs Associated with Entergy Wholesale Commodities Strategic Transactions**

Entergy expects to incur employee retention and severance expenses associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet of approximately \$155 million in 2018, of which \$103 million has been incurred as of September 30, 2018, and a total of approximately \$215 million from 2019 through mid-2022. In addition, Entergy Wholesale Commodities incurred impairment charges related to nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets of \$155 million for the three months ended September 30, 2018 and \$297 million for the nine months ended September 30, 2018. These costs were charged to expense as incurred as a result of the impaired value of certain of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet. Entergy expects to continue to incur costs associated with nuclear fuel-related spending and expenditures for capital assets and, except for Palisades, expects to continue to charge these costs to expense as incurred because Entergy expects the value of the plants to continue to be impaired.

### **Entergy Wholesale Commodities Authorizations to Operate Indian Point**

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - **Entergy Wholesale Commodities Authorizations to Operate Indian Point**" in the Form 10-K for a discussion of the NRC operating licensing proceedings for Indian Point 2 and Indian Point 3 and the settlement reached with New York State in January 2017. Following are updates to that discussion.

In April 2018 the NRC issued a supplement to the final supplemental environmental impact statement, and in August 2018 the NRC issued a supplemental safety evaluation report. The supplements update the environmental record and safety record related to the Indian Point license renewal. In September 2018 the NRC issued renewed operating licenses for Indian Point 2 through April 2024 and for Indian Point 3 through April 2025.

As discussed in the Form 10-K, in January 2017, Entergy reached a settlement with New York State, several State agencies, and Riverkeeper, Inc. under which Indian Point 2 and Indian Point 3 will cease commercial operation by April 30, 2020 and April 30, 2021, respectively. Operations may be extended up to four additional years for each unit by mutual agreement of Entergy and New York State based on an exigent reliability need for Indian Point generation. In accordance with the FERC-approved tariff of the New York Independent System Operator (NYISO), Entergy submitted to the NYISO a notice of generator deactivation based on the dates in the settlement. In December 2017 the NYISO issued a report stating there will not be a system reliability need following the deactivation of Indian Point. In April 2018 the NYISO issued a determination that the retirement of Indian Point was economically justified and, therefore, did not raise competition concerns.

### **Liquidity and Capital Resources**

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - **Liquidity and Capital Resources**" in the Form 10-K for a discussion of Entergy's capital structure, capital expenditure plans and other uses of capital, and sources of capital. Following are updates to that discussion.

## Capital Structure

Entergy's debt to capital ratio is shown in the following table. The increase in the debt to capital ratio for Entergy as of September 30, 2018 is primarily due to the net issuance of debt in 2018.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Debt to capital	68.2%	67.1%
Effect of excluding securitization bonds	(0.5%)	(0.8%)
Debt to capital, excluding securitization bonds (a)	67.7%	66.3%
Effect of subtracting cash	(1.3%)	(1.1%)
Net debt to net capital, excluding securitization bonds (a)	66.4%	65.2%

- (a) Calculation excludes the Arkansas, Louisiana, New Orleans, and Texas securitization bonds, which are non-recourse to Entergy Arkansas, Entergy Louisiana, Entergy New Orleans, and Entergy Texas, respectively.

Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable and commercial paper, capital lease obligations, and long-term debt, including the currently maturing portion. Capital consists of debt, common shareholders' equity, and subsidiaries' preferred stock without sinking fund. Net capital consists of capital less cash and cash equivalents. Entergy uses the debt to capital ratios excluding securitization bonds in analyzing its financial condition and believes they provide useful information to its investors and creditors in evaluating Entergy's financial condition because the securitization bonds are non-recourse to Entergy, as more fully described in Note 5 to the financial statements in the Form 10-K. Entergy also uses the net debt to net capital ratio excluding securitization bonds in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy's financial condition because net debt indicates Entergy's outstanding debt position that could not be readily satisfied by cash and cash equivalents on hand.

Entergy Corporation has in place a credit facility that has a borrowing capacity of \$3.5 billion and expires in September 2023. The facility includes fronting commitments for the issuance of letters of credit against \$20 million of the total borrowing capacity of the credit facility. The commitment fee is currently 0.225% of the undrawn commitment amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior unsecured debt ratings of Entergy Corporation. The weighted average interest rate for the nine months ended September 30, 2018 was 3.46% on the drawn portion of the facility. Following is a summary of the borrowings outstanding and capacity available under the facility as of September 30, 2018:

<b>Capacity</b>	<b>Borrowings</b>	<b>Letters of Credit</b>	<b>Capacity Available</b>
(In Millions)			
\$3,500	\$630	\$6	\$2,864

A covenant in Entergy Corporation's credit facility requires Entergy to maintain a consolidated debt ratio, as defined, of 65% or less of its total capitalization. The calculation of this debt ratio under Entergy Corporation's credit facility is different than the calculation of the debt to capital ratio above. One such difference is that it excludes the effects, among other things, of certain impairments related to the Entergy Wholesale Commodities nuclear generation assets. Entergy is currently in compliance with the covenant and expects to remain in compliance with this covenant. If Entergy fails to meet this ratio, or if Entergy or one of the Utility operating companies (except Entergy New Orleans) defaults on other indebtedness or is in bankruptcy or insolvency proceedings, an acceleration of the facility's maturity date may occur. See Note 4 to the financial statements herein for additional discussion of the Entergy Corporation credit facility and discussion of the Registrant Subsidiaries' credit facilities.

Entergy Nuclear Vermont Yankee has a credit facility guaranteed by Entergy Corporation with a borrowing capacity of \$145 million that expires in November 2020. As of September 30, 2018, \$132 million in cash borrowings were outstanding under the credit facility. The weighted average interest rate for the nine months ended September

30, 2018 was 3.37% on the drawn portion of the facility. See Note 4 to the financial statements herein for additional discussion of the Vermont Yankee facility.

Entergy Corporation has a commercial paper program with a Board-approved program limit of up to \$2 billion. As of September 30, 2018, Entergy Corporation had approximately \$1,947 million of commercial paper outstanding. The weighted-average interest rate for the nine months ended September 30, 2018 was 2.42%.

#### Equity Forward Sale Agreements

In June 2018, Entergy marketed an equity offering of 15.3 million shares of common stock. In lieu of issuing equity at the time of the offering, Entergy entered into forward sale agreements with several counterparties. Settlement of the forward sale agreements is expected to occur on or prior to June 7, 2019. See Note 3 to the financial statements herein for discussion of the equity forwards.

#### **Capital Expenditure Plans and Other Uses of Capital**

See the table and discussion in the Form 10-K under “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS - Liquidity and Capital Resources - Capital Expenditure Plans and Other Uses of Capital,**” that sets forth the amounts of planned construction and other capital investments by operating segment for 2018 through 2020. Following are updates to the discussion.

#### Preliminary Capital Investment Plan Estimate for 2019-2021

Entergy is developing its capital investment plan for 2019 through 2021 and currently anticipates that the Utility will make approximately \$11.1 billion in capital investments during that period and that Entergy Wholesale Commodities will make approximately \$0.2 billion in capital investments, not including nuclear fuel, during that period. The preliminary Utility estimate includes amounts associated with specific investments such as the New Orleans Power Station, the Washington Parish Energy Center, and the Choctaw Generating Station, each discussed below, the Lake Charles Power Station, the St. Charles Power Station, and the Montgomery County Power Station; transmission projects to enhance reliability, reduce congestion, and enable economic growth; distribution spending to enhance reliability and improve service to customers, including advanced meters and related investments; resource planning, including potential generation projects; system improvements; investments in the nuclear fleet; software and security; and other investments. The preliminary Entergy Wholesale Commodities estimate includes amounts associated with specific investments, such as the investments in the nuclear fleet, component replacement, software and security, and dry cask storage. Estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of business restructuring, regulatory constraints and requirements, environmental regulations, business opportunities, market volatility, economic trends, changes in project plans, and the ability to access capital.

#### New Orleans Power Station

As discussed in the Form 10-K, in June 2016, Entergy New Orleans filed an application with the City Council seeking a public interest determination and authorization to construct the New Orleans Power Station, a 226 MW advanced combustion turbine in New Orleans, Louisiana, at the site of the existing Michoud generating facility. In July 2017, Entergy New Orleans submitted a supplemental and amending application to the City Council seeking approval to construct either the originally proposed 226 MW advanced combustion turbine, or alternatively, a 128 MW unit composed of natural gas-fired reciprocating engines and a related cost recovery plan. In March 2018 the City Council adopted a resolution approving construction of the 128 MW unit. The targeted commercial operation date is Spring 2020, subject to receipt of all necessary permits by the end of November 2018. In April 2018 intervenors opposing the construction of the New Orleans Power Station filed with the City Council a request for rehearing, which was subsequently denied, and a petition for judicial review of the City Council’s decision, and also filed a lawsuit challenging the City Council’s approval based on Louisiana’s open meeting law. In May 2018 the City Council announced that it would initiate an investigation into allegations that Entergy New Orleans, Entergy, or some other

entity paid or participated in paying certain attendees and speakers in support of the New Orleans Power Station to attend or speak at certain meetings organized by the City Council. In June 2018, Entergy New Orleans produced documents in response to a City Council resolution relating to this investigation. The City Council issued a request for qualifications for an investigator and in June 2018 selected two investigators. In October 2018 the investigators for the City Council released their report, concluding that individuals were paid to attend and/or speak in support of the New Orleans Power Station and that Entergy New Orleans “knew or should have known that such conduct occurred or reasonably might occur.” The City Council held a special meeting on October 31, 2018 to allow the investigators to present the report and for the City Council to consider next steps. At that meeting, the City Council issued a resolution requiring Entergy New Orleans to show cause why it should not be fined \$5 million as a result of the findings in the report. A response to the resolution is due within 30 days from issuance of the certified resolution. Entergy New Orleans disagrees with certain characterizations and omissions of fact in the report and submitted its response to the City Council.

#### Washington Parish Energy Center

As discussed in the Form 10-K, in April 2017, Entergy Louisiana signed an agreement with a subsidiary of Calpine Corporation for the construction and purchase of a peaking plant. In May 2017, Entergy Louisiana filed an application with the LPSC seeking certification of the plant. In April 2018 the parties reached a settlement recommending certification and cost recovery through the additional capacity mechanism of the formula rate plan, consistent with prior LPSC precedent with respect to the certification and recovery of plants previously acquired by Entergy Louisiana. The LPSC issued an order approving the settlement in May 2018.

#### Choctaw Generating Station

In August 2018, Entergy Mississippi announced that it signed an asset purchase agreement to acquire from a subsidiary of GenOn Energy Inc. the Choctaw Generating Station, an 810 MW natural gas fired combined-cycle turbine plant located near French Camp, Mississippi. The purchase price is expected to be approximately \$314 million. Entergy Mississippi also expects to invest in various plant upgrades at the facility after closing and expects the total cost of the acquisition to be approximately \$401 million. The purchase is contingent upon, among other things, obtaining necessary approvals, including full cost recovery, from applicable federal and state regulatory and permitting agencies. These include regulatory approvals from the MPSC and the FERC, as well as clearance under the Hart-Scott-Rodino Antitrust Improvements Act. In October 2018, Entergy Mississippi filed an application with the MPSC seeking approval of the acquisition and cost recovery. In a separate filing in October 2018, Entergy Mississippi proposed revisions to its formula rate plan that would provide for a mechanism, the interim capacity rate adjustment mechanism, in the formula rate plan to recover the non-fuel related costs of additional owned capacity acquired by Entergy Mississippi, including the non-fuel annual ownership costs of the Choctaw Generating Station, as well as to allow similar cost recovery treatment for other future capacity additions approved by the MPSC. Closing is expected to occur by the end of 2019.

#### Dividends

Declarations of dividends on Entergy's common stock are made at the discretion of the Board. Among other things, the Board evaluates the level of Entergy's common stock dividends based upon earnings per share from the Utility operating segment and the Parent and Other portion of the business, financial strength, and future investment opportunities. At its October 2018 meeting, the Board declared a dividend of \$0.91 per share, an increase from the previous \$0.89 quarterly dividend per share that Entergy has paid since the fourth quarter 2017.

## Cash Flow Activity

As shown in Entergy's Consolidated Statements of Cash Flows, cash flows for the nine months ended September 30, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	(In Millions)	
Cash and cash equivalents at beginning of period	\$781	\$1,188
Cash flow provided by (used in):		
Operating activities	1,860	1,713
Investing activities	(3,000)	(2,828)
Financing activities	1,347	473
Net increase (decrease) in cash and cash equivalents	207	(642)
Cash and cash equivalents at end of period	<u>\$988</u>	<u>\$546</u>

## Operating Activities

Net cash flow provided by operating activities increased by \$147 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to:

- a decrease of \$130 million in spending on nuclear refueling outages in 2018 as compared to the same period in 2017;
- severance and retention payments of \$92 million in 2017. See Note 7 to the financial statements herein for a discussion of severance and retention costs in connection with management's strategy to manage and reduce the risk of the Entergy Wholesale Commodities business;
- a refund to customers in January 2017 of approximately \$71 million as a result of the settlement approved by the LPSC related to the Waterford 3 replacement steam generator project. See Note 2 to the financial statements in the Form 10-K for discussion of the settlement and refund;
- the effect of favorable weather on billed Utility sales in 2018; and
- an increase due to the timing of recovery of fuel and purchased power costs in 2018 as compared to the same period in 2017. See Note 2 to the financial statements in the Form 10-K for a discussion of fuel and purchased power cost recovery.

The increase was partially offset by:

- lower Entergy Wholesale Commodities net revenue in 2018 as compared to the same period in 2017 (except for the revenues resulting from the FitzPatrick reimbursement agreement with Exelon), as discussed above. See Note 14 to the financial statements in the Form 10-K for discussion of the reimbursement agreement;
- the return of unprotected excess accumulated deferred income taxes to Utility customers. See Note 2 to the financial statements herein and in the Form 10-K for a discussion of the regulatory activity regarding the Tax Cuts and Jobs Act;
- an increase of \$50 million in interest paid in 2018 as compared to the same period in 2017 resulting from an increase in interest expense;
- income tax payments of \$18 million in 2018 compared to income tax refunds of \$12 million in 2017. Entergy made income tax payments in 2018 for estimated federal income taxes. Entergy received income tax refunds in 2017 resulting from the carryback of net operating losses; and
- proceeds of \$23 million received in 2017 from the DOE resulting from litigation regarding spent nuclear fuel storage costs that were previously expensed. See Note 8 to the financial statements in the Form 10-K for discussion of the spent nuclear fuel litigation.

### Investing Activities

Net cash flow used in investing activities increased \$172 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to:

- an increase of \$261 million in construction expenditures, primarily in the Utility business. The increase in construction expenditures in the Utility business is primarily due to an increase of \$183 million in fossil-fueled generation construction expenditures primarily due to higher spending in 2018 on self-build projects in the Utility business and an increase of \$62 million in nuclear construction expenditures primarily due to a higher scope of work performed during the Grand Gulf outage in 2018;
- proceeds of \$100 million from the sale in March 2017 of the FitzPatrick plant to Exelon. See Note 14 to the financial statements in the Form 10-K for a discussion of the sale of FitzPatrick; and
- proceeds of \$25 million received in 2017 from the DOE resulting from litigation regarding spent nuclear fuel storage costs that were previously capitalized. See Note 8 to the financial statements in the Form 10-K for discussion of the DOE litigation.

The increase was partially offset by:

- \$113 million in funds held on deposit in 2017 for principal and interest payments that were due October 1, 2017;
- changes in the decommissioning trust funds, including portfolio rebalancing of certain decommissioning trust funds in the third quarter 2018; and
- a decrease of \$55 million in nuclear fuel purchases due to variations from year to year in the timing and pricing of fuel reload requirements, material and services deliveries, and the timing of cash payments during the nuclear fuel cycle.

### Financing Activities

Net cash flow provided by financing activities increased \$874 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to long-term debt activity providing approximately \$1,422 million of cash in 2018 compared to using approximately \$309 thousand in 2017. Borrowings and repayments of borrowings on Entergy's long-term credit facility are included in long-term debt activity. The increase was partially offset by a decrease of \$448 million in net issuances of commercial paper in 2018 compared to the same period in 2017 and a net decrease of \$121 million in 2018 in short-term borrowings by the nuclear fuel company variable interest entities. For the details of Entergy's commercial paper program, the nuclear fuel company variable interest entities' short-term borrowings, and long-term debt, see Note 4 to the financial statements herein and Note 5 to the financial statements in the Form 10-K.

### **Rate, Cost-recovery, and Other Regulation**

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - **Rate, Cost-recovery, and Other Regulation**" in the Form 10-K for discussions of rate regulation, federal regulation, and related regulatory proceedings.

#### **State and Local Rate Regulation and Fuel-Cost Recovery**

See Note 2 to the financial statements herein for updates to the discussion in the Form 10-K regarding these proceedings.

## **Federal Regulation**

See Note 2 to the financial statements herein for updates to the discussion in the Form 10-K regarding federal regulatory proceedings.

## **Market and Credit Risk Sensitive Instruments**

### **Commodity Price Risk**

#### **Power Generation**

As a wholesale generator, Entergy Wholesale Commodities' core business is selling energy, measured in MWh, to its customers. Entergy Wholesale Commodities enters into forward contracts with its customers and also sells energy in the day ahead or spot markets. Entergy Wholesale Commodities also sells unforced capacity, which allows load-serving entities to meet specified reserve and related requirements placed on them by the ISOs in their respective areas. Entergy Wholesale Commodities' forward physical power contracts consist of contracts to sell energy only, contracts to sell capacity only, and bundled contracts in which it sells both capacity and energy. While the terminology and payment mechanics vary in these contracts, each of these types of contracts requires Entergy Wholesale Commodities to deliver MWh of energy, make capacity available, or both. In addition to its forward physical power contracts, Entergy Wholesale Commodities may also use a combination of financial contracts, including swaps, collars, and options, to manage forward commodity price risk. Certain hedge volumes have price downside and upside relative to market price movement. The contracted minimum, expected value, and sensitivities are provided in the table below to show potential variations. The sensitivities may not reflect the total maximum upside potential from higher market prices. The information contained in the following table represents projections at a point in time and will vary over time based on numerous factors, such as future market prices, contracting activities, and generation. Following is a summary of Entergy Wholesale Commodities' current forward capacity and generation contracts as well as total revenue projections based on market prices as of September 30, 2018 (2018 represents the remainder of the year):

**Entergy Wholesale Commodities Nuclear Portfolio**

	2018	2019	2020	2021	2022
<b>Energy</b>					
Percent of planned generation under contract (a):					
Unit-contingent (b)	98%	95%	86%	87%	66%
Firm LD (c)	10%	—%	—%	—%	—%
Offsetting positions (d)	(10%)	—%	—%	—%	—%
Total	98%	95%	86%	87%	66%
Planned generation (TWh) (e) (f)	6.7	25.6	17.7	9.6	2.8
Average revenue per MWh on contracted volumes:					
Expected based on market prices as of September 30, 2018	\$33.6	\$40.3	\$42.9	\$57.3	\$58.8
<b>Capacity</b>					
Percent of capacity sold forward (g):					
Bundled capacity and energy contracts (h)	22%	26%	36%	68%	97%
Capacity contracts (i)	42%	22%	3%	—%	—%
Total	64%	48%	39%	68%	97%
Planned net MW in operation (average) (f)	3,568	3,167	2,195	1,158	338
Average revenue under contract per kW per month (applies to capacity contracts only)	\$8.0	\$7.2	\$1.8	\$—	\$—
<b>Total Energy and Capacity Revenues (j)</b>					
Expected sold and market total revenue per MWh	\$44.1	\$46.3	\$46.9	\$55.3	\$47.1
Sensitivity: +/- \$10 per MWh market price change	\$44.0- \$44.3	\$45.8- \$46.8	\$45.9- \$47.9	\$54.0- \$56.7	\$43.3- \$50.9

- (a) Percent of planned generation output sold or purchased forward under contracts, forward physical contracts, forward financial contracts, or options that mitigate price uncertainty that may require regulatory approval or approval of transmission rights. Positions that are not classified as hedges are netted in the planned generation under contract.
- (b) Transaction under which power is supplied from a specific generation asset; if the asset is not operating, the seller is generally not liable to the buyer for any damages. Certain unit-contingent sales include a guarantee of availability. Availability guarantees provide for the payment to the power purchaser of contract damages, if incurred, in the event the seller fails to deliver power as a result of the failure of the specified generation unit to generate power at or above a specified availability threshold. All of Entergy's outstanding guarantees of availability provide for dollar limits on Entergy's maximum liability under such guarantees.
- (c) Transaction that requires receipt or delivery of energy at a specified delivery point (usually at a market hub not associated with a specific asset) or settles financially on notional quantities; if a party fails to deliver or receive energy, the defaulting party must compensate the other party as specified in the contract, a portion of which may be capped through the use of risk management products. This also includes option transactions that may expire without being exercised.
- (d) Transactions for the purchase of energy, generally to offset a Firm LD transaction.
- (e) Amount of output expected to be generated by Entergy Wholesale Commodities resources considering plant operating characteristics, outage schedules, and expected market conditions that affect dispatch.
- (f) Assumes the planned shutdown of Pilgrim on May 31, 2019, planned shutdown of Indian Point 2 on April 30, 2020, planned shutdown of Indian Point 3 on April 30, 2021, and planned shutdown of Palisades on May 31, 2022. For a discussion regarding the planned shutdown of the Pilgrim, Indian Point 2, Indian Point 3, and



Palisades plants, see “**Entergy Wholesale Commodities Exit from the Merchant Power Business**” in the Form 10-K.

- (g) Percent of planned qualified capacity sold to mitigate price uncertainty under physical or financial transactions.
- (h) A contract for the sale of installed capacity and related energy, priced per megawatt-hour sold.
- (i) A contract for the sale of an installed capacity product in a regional market.
- (j) Includes assumptions on converting a portion of the portfolio to contracted with fixed price cost or discount and excludes non-cash revenue from the amortization of the Palisades below-market purchased power agreement, mark-to-market activity, and service revenues.

Entergy estimates that a positive \$10 per MWh change in the annual average energy price in the markets in which the Entergy Wholesale Commodities nuclear business sells power, based on September 30, 2018 market conditions, planned generation volumes, and hedged positions, would have a corresponding effect on pre-tax income of (\$1) million for the remainder of 2018. As of September 30, 2017, a positive \$10 per MWh change would have had a corresponding effect on pre-tax income of \$9 million for the remainder of 2017. A negative \$10 per MWh change in the annual average energy price in the markets based on September 30, 2018 market conditions, planned generation volumes, and hedged positions, would have a corresponding effect on pre-tax income of \$1 million for the remainder of 2018. As of September 30, 2017, a negative \$10 per MWh change would have had a corresponding effect on pre-tax income of (\$9) million for the remainder of 2017.

Some of the agreements to sell the power produced by Entergy Wholesale Commodities’ power plants contain provisions that require an Entergy subsidiary to provide credit support to secure its obligations under the agreements. The Entergy subsidiary is required to provide credit support based upon the difference between the current market prices and contracted power prices in the regions where Entergy Wholesale Commodities sells power. The primary form of credit support to satisfy these requirements is an Entergy Corporation guaranty. Cash and letters of credit are also acceptable forms of credit support. At September 30, 2018, based on power prices at that time, Entergy had liquidity exposure of \$131 million under the guarantees in place supporting Entergy Wholesale Commodities transactions and \$42 million of posted cash collateral. In the event of a decrease in Entergy Corporation’s credit rating to below investment grade, based on power prices as of September 30, 2018, Entergy would have been required to provide approximately \$78 million of additional cash or letters of credit under some of the agreements. As of September 30, 2018, the liquidity exposure associated with Entergy Wholesale Commodities assurance requirements, including return of previously posted collateral from counterparties, would increase by \$307 million for a \$1 per MMBtu increase in gas prices in both the short- and long-term markets.

As of September 30, 2018, substantially all of the credit exposure associated with the planned energy output under contract for Entergy Wholesale Commodities nuclear plants through 2022 is with counterparties or their guarantors that have public investment grade credit ratings.

### **Nuclear Matters**

See “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS – Nuclear Matters**” in the Form 10-K for a discussion of nuclear matters. The following are updates to that discussion.

### **ANO**

See Note 8 to the financial statements in the Form 10-K for discussion of the NRC’s decision in March 2015 to move ANO into the “multiple/repetitive degraded cornerstone column,” or Column 4, of the NRC’s Reactor Oversight Process Action Matrix, and the resulting significant additional NRC inspection activities at the ANO site. In June 2018 the NRC moved ANO 1 and ANO 2 into the “licensee response column,” or Column 1, of the NRC’s Reactor Oversight Process Action Matrix. This action followed NRC inspections to review ANO 1’s and ANO 2’s performance in addressing issues that had previously resulted in classification in Column 4.

## **Grand Gulf**

As discussed in the Form 10-K, in November 2016 the NRC placed Grand Gulf in the “regulatory response column,” or Column 2, of its Reactor Oversight Process Action Matrix. In August 2018 the NRC moved Grand Gulf into Column 1 of the NRC’s Reactor Oversight Process Action Matrix. This action followed NRC inspections to review Grand Gulf’s performance in addressing issues that had previously resulted in classification in Column 2. Based on performance indicator data for the third quarter 2018, Entergy expects that the NRC will announce that Grand Gulf has moved back to Column 2. In August 2018 operators safely performed a reduction in power to address an operational issue with a plant system. As a result of the power reduction, the threshold for one of the NRC’s performance indicators was exceeded, which results in a Column 2 designation under the NRC’s Reactor Oversight Process Action Matrix at least until new performance indicator data is reported in the first quarter 2019.

## **Critical Accounting Estimates**

See “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates**” in the Form 10-K for a discussion of the estimates and judgments necessary in Entergy’s accounting for nuclear decommissioning costs, utility regulatory accounting, unbilled revenue, impairment of long-lived assets and trust fund investments, taxation and uncertain tax positions, qualified pension and other postretirement benefits, and other contingencies.

## **New Accounting Pronouncements**

See Note 1 to the financial statements in the Form 10-K for discussion of new accounting pronouncements. The following are updates to that discussion.

In February 2016 the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The ASU’s core principle is that “a lessee should recognize the assets and liabilities that arise from leases.” The ASU considers that “all leases create an asset and a liability,” and accordingly requires recording the assets and liabilities related to all leases with a term greater than 12 months. In January 2018 the FASB issued ASU No. 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842,” providing entities the option to elect not to evaluate existing land easements that are not currently accounted for under the previous lease standard. In July 2018 the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements,” which is intended to simplify the transition requirements giving entities the option to apply the transition provisions of the new standard at the date of adoption instead of at the earliest comparative period presented and provides a practical expedient for the separation of lease and nonlease components for lessors. Entergy plans to adopt ASU 2016-02 along with the practical expedients provided by ASU 2018-01 and 2018-11 when they become effective for Entergy in the first quarter 2019. Entergy does not expect that ASU 2016-02 will materially affect its results of operations, financial position, or cash flows but it will significantly expand the level of lease related disclosure.

In September 2018 the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service.” The ASU requires entities to capitalize implementation costs associated with cloud computing arrangements classified as hosting arrangements and amortize those costs over the contract term. These costs are required to be capitalized in the same line as prepayments of the costs, and subsequently amortized in the same lines as the hosting service element of the arrangement. ASU 2018-15 is effective for Entergy for the first quarter 2020. Entergy does not expect to early adopt the standard. Entergy expects that it will elect to adopt ASU 2018-15 on a prospective basis, which will affect its statement of financial position by presenting implementation costs for hosting arrangements as prepayments, and net income by amortizing those costs as operation and maintenance expense over the contract term of the arrangement. Entergy is evaluating ASU 2018-15 for other effects on its results of operations, financial position, or cash flows.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(In Thousands, Except Share Data)</b>			
<b>OPERATING REVENUES</b>				
Electric	\$2,697,887	\$2,793,798	\$7,276,374	\$7,056,758
Natural gas	26,352	26,585	112,990	100,011
Competitive businesses	380,080	423,245	1,107,606	1,293,867
<b>TOTAL</b>	<b>3,104,319</b>	<b>3,243,628</b>	<b>8,496,970</b>	<b>8,450,636</b>
<b>OPERATING EXPENSES</b>				
Operation and Maintenance:				
Fuel, fuel-related expenses, and gas purchased for resale	729,269	612,950	1,638,367	1,426,462
Purchased power	439,380	408,140	1,252,437	1,182,404
Nuclear refueling outage expenses	37,937	43,273	116,057	124,126
Other operation and maintenance	854,013	775,001	2,477,699	2,416,825
Asset write-offs, impairments, and related charges	155,215	16,221	297,082	421,584
Decommissioning	93,829	95,392	285,834	310,062
Taxes other than income taxes	161,916	159,474	485,682	469,090
Depreciation and amortization	324,628	354,739	1,022,099	1,052,332
Other regulatory charges (credits)	37,097	19,435	223,416	(59,314)
<b>TOTAL</b>	<b>2,833,284</b>	<b>2,484,625</b>	<b>7,798,673</b>	<b>7,343,571</b>
Gain on sale of assets	—	—	—	16,270
<b>OPERATING INCOME</b>	<b>271,035</b>	<b>759,003</b>	<b>698,297</b>	<b>1,123,335</b>
<b>OTHER INCOME</b>				
Allowance for equity funds used during construction	32,354	24,338	92,367	65,722
Interest and investment income	177,081	58,332	265,086	194,978
Miscellaneous - net	(43,591)	(31,335)	(123,439)	(78,726)
<b>TOTAL</b>	<b>165,844</b>	<b>51,335</b>	<b>234,014</b>	<b>181,974</b>
<b>INTEREST EXPENSE</b>				
Interest expense	195,311	178,391	570,548	522,857
Allowance for borrowed funds used during construction	(15,244)	(11,492)	(43,177)	(31,057)
<b>TOTAL</b>	<b>180,067</b>	<b>166,899</b>	<b>527,371</b>	<b>491,800</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>256,812</b>	<b>643,439</b>	<b>404,940</b>	<b>813,509</b>
Income taxes	(283,006)	241,795	(519,937)	(87,555)
<b>CONSOLIDATED NET INCOME</b>	<b>539,818</b>	<b>401,644</b>	<b>924,877</b>	<b>901,064</b>
Preferred dividend requirements of subsidiaries	3,439	3,446	10,317	10,338
<b>NET INCOME ATTRIBUTABLE TO ENTERGY CORPORATION</b>	<b>\$536,379</b>	<b>\$398,198</b>	<b>\$914,560</b>	<b>\$890,726</b>
Earnings per average common share:				
Basic	\$2.96	\$2.22	\$5.06	\$4.96
Diluted	\$2.92	\$2.21	\$5.01	\$4.94
Basic average number of common shares outstanding	181,002,303	179,563,819	180,845,440	179,458,914
Diluted average number of common shares outstanding	183,664,583	180,464,069	182,692,325	180,163,074

See Notes to Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(In Thousands)</b>			
<b>Net Income</b>	\$539,818	\$401,644	\$924,877	\$901,064
<b>Other comprehensive income (loss)</b>				
Cash flow hedges net unrealized gain (loss) (net of tax expense (benefit) of (\$8,517), \$7,062, (\$480), and \$17,387)	(32,004)	13,213	(1,645)	32,634
Pension and other postretirement liabilities (net of tax expense of \$4,126, \$6,818, \$12,919, and \$19,034)	15,265	12,297	47,404	31,845
Net unrealized investment gain (loss) (net of tax expense (benefit) of (\$825), \$30,644, \$1,708, and \$72,808)	(1,745)	33,395	(37,242)	82,918
Foreign currency translation (net of tax benefit of \$-, \$-, \$-, and \$403)	—	—	—	(748)
Other comprehensive income (loss)	(18,484)	58,905	8,517	146,649
<b>Comprehensive Income</b>	521,334	460,549	933,394	1,047,713
Preferred dividend requirements of subsidiaries	3,439	3,446	10,317	10,338
<b>Comprehensive Income Attributable to Entergy Corporation</b>	<u>\$517,895</u>	<u>\$457,103</u>	<u>\$923,077</u>	<u>\$1,037,375</u>

See Notes to Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Nine Months Ended September 30, 2018 and 2017  
(Unaudited)

	<u>2018</u>	<u>2017</u>
	<u>(In Thousands)</u>	
<b>OPERATING ACTIVITIES</b>		
<b>Consolidated net income</b>	\$924,877	\$901,064
<b>Adjustments to reconcile consolidated net income to net cash flow provided by operating activities:</b>		
Depreciation, amortization, and decommissioning, including nuclear fuel amortization	1,517,344	1,561,565
Deferred income taxes, investment tax credits, and non-current taxes accrued	82,641	(90,607)
Asset write-offs, impairments, and related charges	210,263	241,838
Gain on sale of assets	—	(16,270)
Changes in working capital:		
Receivables	(153,703)	(198,029)
Fuel inventory	49,728	20,746
Accounts payable	79,949	(75,962)
Taxes accrued	43,510	66,895
Interest accrued	(9,398)	(6,111)
Deferred fuel costs	(25,284)	(117,636)
Other working capital accounts	(86,063)	(81,779)
Changes in provisions for estimated losses	28,599	(10,073)
Changes in other regulatory assets	207,135	117,430
Changes in other regulatory liabilities	(413,684)	22,124
Changes in pensions and other postretirement liabilities	(345,526)	(354,297)
Other	(250,884)	(268,147)
<b>Net cash flow provided by operating activities</b>	<u>1,859,504</u>	<u>1,712,751</u>
<b>INVESTING ACTIVITIES</b>		
Construction/capital expenditures	(2,883,047)	(2,622,104)
Allowance for equity funds used during construction	92,829	66,437
Nuclear fuel purchases	(170,819)	(226,054)
Proceeds from sale of assets	12,915	100,000
Insurance proceeds received for property damages	10,523	26,157
Changes in securitization account	(12,985)	(6,494)
Payments to storm reserve escrow account	(4,515)	(1,925)
Receipts from storm reserve escrow account	—	8,836
Increase in other investments	(36,140)	(112,217)
Litigation proceeds for reimbursement of spent nuclear fuel storage costs	—	25,493
Proceeds from nuclear decommissioning trust fund sales	4,177,919	1,902,783
Investment in nuclear decommissioning trust funds	(4,187,161)	(1,988,634)
<b>Net cash flow used in investing activities</b>	<u>(3,000,481)</u>	<u>(2,827,722)</u>

See Notes to Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Nine Months Ended September 30, 2018 and 2017  
(Unaudited)

	<u>2018</u>	<u>2017</u>
	<u>(In Thousands)</u>	
<b>FINANCING ACTIVITIES</b>		
<b>Proceeds from the issuance of:</b>		
Long-term debt	5,604,131	1,222,606
Treasury stock	24,646	15,121
Retirement of long-term debt	(4,181,820)	(1,222,915)
Changes in credit borrowings and commercial paper - net	368,370	937,677
Other	25,540	(337)
<b>Dividends paid:</b>		
Common stock	(482,865)	(468,396)
Preferred stock	(10,317)	(10,338)
<b>Net cash flow provided by financing activities</b>	<u>1,347,685</u>	<u>473,418</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	206,708	(641,553)
<b>Cash and cash equivalents at beginning of period</b>	<u>781,273</u>	<u>1,187,844</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>\$987,981</u></u>	<u><u>\$546,291</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid (received) during the period for:		
Interest - net of amount capitalized	\$558,381	\$507,912
Income taxes	\$18,200	(\$11,883)

See Notes to Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**  
**September 30, 2018 and December 31, 2017**  
**(Unaudited)**

	2018	2017
	(In Thousands)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Cash	\$64,787	\$56,629
Temporary cash investments	923,194	724,644
Total cash and cash equivalents	987,981	781,273
Accounts receivable:		
Customer	789,633	673,347
Allowance for doubtful accounts	(15,589)	(13,587)
Other	166,222	169,377
Accrued unbilled revenues	426,387	383,813
Total accounts receivable	1,366,653	1,212,950
Deferred fuel costs	61,309	95,746
Fuel inventory - at average cost	132,916	182,643
Materials and supplies - at average cost	747,770	723,222
Deferred nuclear refueling outage costs	149,810	133,164
Prepayments and other	248,107	156,333
<b>TOTAL</b>	3,694,546	3,285,331
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investment in affiliates - at equity	198	198
Decommissioning trust funds	7,444,346	7,211,993
Non-utility property - at cost (less accumulated depreciation)	302,784	260,980
Other	436,527	441,862
<b>TOTAL</b>	8,183,855	7,915,033
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Electric	48,362,347	47,287,370
Property under capital lease	620,419	620,544
Natural gas	488,169	453,162
Construction work in progress	2,832,826	1,980,508
Nuclear fuel	846,845	923,200
<b>TOTAL PROPERTY, PLANT, AND EQUIPMENT</b>	53,150,606	51,264,784
Less - accumulated depreciation and amortization	22,057,870	21,600,424
<b>PROPERTY, PLANT, AND EQUIPMENT - NET</b>	31,092,736	29,664,360
<b>DEFERRED DEBITS AND OTHER ASSETS</b>		
Regulatory assets:		
Other regulatory assets (includes securitization property of \$388,391 as of September 30, 2018 and \$485,031 as of December 31, 2017)	4,728,555	4,935,689
Deferred fuel costs	239,446	239,298
Goodwill	377,172	377,172
Accumulated deferred income taxes	21,307	178,204
Other	133,555	112,062
<b>TOTAL</b>	5,500,035	5,842,425
<b>TOTAL ASSETS</b>	\$48,471,172	\$46,707,149

See Notes to Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND EQUITY**  
**September 30, 2018 and December 31, 2017**  
**(Unaudited)**

	2018	2017
	(In Thousands)	
<b>CURRENT LIABILITIES</b>		
Currently maturing long-term debt	\$735,009	\$760,007
Notes payable and commercial paper	1,946,677	1,578,308
Accounts payable	1,392,114	1,452,216
Customer deposits	409,153	401,330
Taxes accrued	258,477	214,967
Interest accrued	178,573	187,972
Deferred fuel costs	86,949	146,522
Obligations under capital leases	1,466	1,502
Pension and other postretirement liabilities	57,471	71,612
Current portion of unprotected excess accumulated deferred income taxes	500,419	—
Other	184,255	221,771
<b>TOTAL</b>	<b>5,750,563</b>	<b>5,036,207</b>
<b>NON-CURRENT LIABILITIES</b>		
Accumulated deferred income taxes and taxes accrued	4,427,744	4,466,503
Accumulated deferred investment tax credits	213,237	219,634
Obligations under capital leases	20,887	22,015
Regulatory liability for income taxes-net	1,802,528	2,900,204
Other regulatory liabilities	1,772,093	1,588,520
Decommissioning and asset retirement cost liabilities	6,555,835	6,185,814
Accumulated provisions	506,959	478,273
Pension and other postretirement liabilities	2,579,270	2,910,654
Long-term debt (includes securitization bonds of \$462,889 as of September 30, 2018 and \$544,921 as of December 31, 2017)	15,780,827	14,315,259
Other	450,746	393,748
<b>TOTAL</b>	<b>34,110,126</b>	<b>33,480,624</b>
Commitments and Contingencies		
Subsidiaries' preferred stock without sinking fund	197,771	197,803
<b>COMMON EQUITY</b>		
Common stock, \$.01 par value, authorized 500,000,000 shares; issued 254,752,788 shares in 2018 and in 2017	2,548	2,548
Paid-in capital	5,441,696	5,433,433
Retained earnings	8,953,611	7,977,702
Accumulated other comprehensive loss	(632,126)	(23,531)
Less - treasury stock, at cost (73,621,473 shares in 2018 and 74,235,135 shares in 2017)	5,353,017	5,397,637
<b>TOTAL</b>	<b>8,412,712</b>	<b>7,992,515</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$48,471,172</b>	<b>\$46,707,149</b>

See Notes to Financial Statements.



**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the Nine Months Ended September 30, 2018 and 2017**  
**(Unaudited)**

	Common Shareholders' Equity						Total
	Subsidiaries' Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance at December 31, 2016	\$—	\$2,548	(\$5,498,584)	\$5,417,245	\$8,195,571	(\$34,971)	\$8,081,809
Consolidated net income (a)	10,338	—	—	—	890,726	—	901,064
Other comprehensive income	—	—	—	—	—	146,649	146,649
Common stock issuances related to stock plans	—	—	36,086	3,363	—	—	39,449
Common stock dividends declared	—	—	—	—	(468,396)	—	(468,396)
Preferred dividend requirements of subsidiaries (a)	(10,338)	—	—	—	—	—	(10,338)
Balance at September 30, 2017	<u>\$—</u>	<u>\$2,548</u>	<u>(\$5,462,498)</u>	<u>\$5,420,608</u>	<u>\$8,617,901</u>	<u>\$111,678</u>	<u>\$8,690,237</u>
Balance at December 31, 2017	\$—	\$2,548	(\$5,397,637)	\$5,433,433	\$7,977,702	(\$23,531)	\$7,992,515
Implementation of accounting standards	—	—	—	—	576,257	(632,617)	(56,360)
Balance at January 1, 2018	<u>\$—</u>	<u>\$2,548</u>	<u>(\$5,397,637)</u>	<u>\$5,433,433</u>	<u>\$8,553,959</u>	<u>(\$656,148)</u>	<u>\$7,936,155</u>
Consolidated net income (a)	10,317	—	—	—	914,560	—	924,877
Other comprehensive income	—	—	—	—	—	8,517	8,517
Common stock issuances related to stock plans	—	—	44,620	8,263	—	—	52,883
Common stock dividends declared	—	—	—	—	(482,865)	—	(482,865)
Preferred dividend requirements of subsidiaries (a)	(10,317)	—	—	—	—	—	(10,317)
Reclassification pursuant to ASU 2018-02	—	—	—	—	(32,043)	15,505	(16,538)
Balance at September 30, 2018	\$—	\$2,548	(\$5,353,017)	\$5,441,696	\$8,953,611	(\$632,126)	\$8,412,712

See Notes to Financial Statements.

(a) Consolidated net income and preferred dividend requirements of subsidiaries for 2018 and 2017 include \$10.3 million and \$10.3 million, respectively, of preferred dividends on subsidiaries' preferred stock without sinking fund that is not presented within equity.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**SELECTED OPERATING RESULTS**  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(Unaudited)

Description	Three Months Ended		Increase/ (Decrease)	%
	2018	2017		
(Dollars in Millions)				
Utility electric operating revenues:				
Residential	\$1,139	\$1,107	\$32	3
Commercial	694	721	(27)	(4)
Industrial	683	721	(38)	(5)
Governmental	61	62	(1)	(2)
Total billed retail	2,577	2,611	(34)	(1)
Sales for resale	76	78	(2)	(3)
Other	45	105	(60)	(57)
Total	\$2,698	\$2,794	(\$96)	(3)
Utility billed electric energy sales (GWh):				
Residential	11,821	10,833	988	9
Commercial	8,726	8,271	455	6
Industrial	12,879	12,503	376	3
Governmental	714	682	32	5
Total retail	34,140	32,289	1,851	6
Sales for resale	2,978	3,387	(409)	(12)
Total	37,118	35,676	1,442	4
Entergy Wholesale Commodities:				
Operating revenues	\$380	\$423	(\$43)	(10)
Billed electric energy sales (GWh)	7,576	8,234	(658)	(8)

Description	Nine Months Ended		Increase/ (Decrease)	%
	2018	2017		
(Dollars in Millions)				
Utility electric operating revenues:				
Residential	\$2,800	\$2,560	\$240	9
Commercial	1,871	1,861	10	1
Industrial	1,905	1,937	(32)	(2)
Governmental	174	172	2	1
Total billed retail	6,750	6,530	220	3
Sales for resale	215	202	13	6
Other	311	325	(14)	(4)
Total	\$7,276	\$7,057	\$219	3
Utility billed electric energy sales (GWh):				
Residential	28,857	25,810	3,047	12
Commercial	22,401	21,595	806	4
Industrial	36,503	35,829	674	2
Governmental	1,934	1,885	49	3
Total retail	89,695	85,119	4,576	5
Sales for resale	8,788	8,255	533	6
Total	98,483	93,374	5,109	5
Entergy Wholesale Commodities:				
Operating revenues	\$1,108	\$1,294	(\$186)	(14)
Billed electric energy sales (GWh)	21,853	22,616	(763)	(3)

## **ENTERGY CORPORATION AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS**

**(Unaudited)**

#### **NOTE 1. COMMITMENTS AND CONTINGENCIES (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

Entergy and the Registrant Subsidiaries are involved in a number of legal, regulatory, and tax proceedings before various courts, regulatory commissions, and governmental agencies in the ordinary course of business. While management is unable to predict with certainty the outcome of such proceedings, management does not believe that the ultimate resolution of these matters will have a material adverse effect on Entergy's results of operations, cash flows, or financial condition, except as otherwise discussed in the Form 10-K or in this report. Entergy discusses regulatory proceedings in Note 2 to the financial statements in the Form 10-K and herein and discusses tax proceedings in Note 3 to the financial statements in the Form 10-K and Note 10 to the financial statements herein.

#### **Vidalia Purchased Power Agreement**

See Note 8 to the financial statements in the Form 10-K for information on Entergy Louisiana's Vidalia purchased power agreement.

#### **ANO Damage, Outage, and NRC Reviews**

See Note 8 to the financial statements in the Form 10-K for a discussion of the ANO stator incident, subsequent NRC reviews, and the deferral of replacement power costs. In June 2018 the NRC moved ANO 1 and ANO 2 into the "licensee response column," or Column 1, of the NRC's Reactor Oversight Process Action Matrix. This action followed NRC inspections to review ANO 1's and ANO 2's performance in addressing issues that had previously resulted in classification in Column 4.

#### **Pilgrim NRC Oversight and Planned Shutdown**

See Note 8 to the financial statements in the Form 10-K for a discussion of the NRC's enhanced inspections of Pilgrim and Entergy's planned shutdown of Pilgrim on May 31, 2019.

#### **Spent Nuclear Fuel Litigation**

See Note 8 to the financial statements in the Form 10-K for information on Entergy's spent nuclear fuel litigation. In September 2018 the DOE submitted an offer of judgment to resolve claims in the second round Entergy Nuclear Generation Company case involving Pilgrim. The \$62 million offer was accepted by Entergy Nuclear Generation Company, and the U.S. Court of Federal Claims issued a judgment in that amount in favor of Entergy Nuclear Generation Company. Entergy received payment from the U.S. Treasury in October 2018.

#### **Nuclear Insurance**

See Note 8 to the financial statements in the Form 10-K for information on nuclear liability and property insurance associated with Entergy's nuclear power plants.

#### **Non-Nuclear Property Insurance**

See Note 8 to the financial statements in the Form 10-K for information on Entergy's non-nuclear property insurance program.

### **Employment and Labor-related Proceedings**

See Note 8 to the financial statements in the Form 10-K for information on Entergy's employment and labor-related proceedings.

### **Asbestos Litigation (Entergy Arkansas, Entergy Louisiana, Entergy New Orleans, and Entergy Texas)**

See Note 8 to the financial statements in the Form 10-K for information regarding asbestos litigation.

## **NOTE 2. RATE AND REGULATORY MATTERS (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

### **Regulatory Assets and Regulatory Liabilities**

See Note 2 to the financial statements in the Form 10-K for information regarding regulatory assets and regulatory liabilities in the Utility business presented on the balance sheets of Entergy and the Registrant Subsidiaries. The following are updates to that discussion.

### **Regulatory activity regarding the Tax Cuts and Jobs Act**

See the "**Other Tax Matters - Tax Cuts and Jobs Act**" section in Note 3 to the financial statements in the Form 10-K for discussion of the effects of the enactment in December 2017 of the Tax Cuts and Jobs Act (the Tax Act), including its effects on Entergy's and the Registrant Subsidiaries' regulatory asset/liability for income taxes.

After assessing the activity described in more detail below regarding the status of the proposals the Registrant Subsidiaries made to their regulators for the return of unprotected excess accumulated deferred income taxes to customers, in 2018, Entergy and each of the Registrant Subsidiaries are reclassifying from the regulatory liability for income taxes to current liabilities the portion of their unprotected excess accumulated deferred income taxes that they expect to return to customers over the next twelve months.

### **Entergy Arkansas**

See the Form 10-K for a discussion of the activity of the APSC and Entergy Arkansas after enactment of the Tax Act in December 2017. The APSC granted Entergy Arkansas's request for clarification regarding the APSC's order issued after enactment of the Tax Act. The APSC stated that its order was not a final determination and that the APSC had made no decision at that time on the appropriate final accounting or ratemaking treatment of the amounts in question. A hearing was held in May 2018 regarding the APSC's inquiries into the effects of the Tax Act, including Entergy Arkansas's proposal to utilize its existing formula rate plan rider for its customers to realize the remaining benefits of the Tax Act. Entergy Arkansas's formula rate plan rider includes a netting adjustment that compares actual annual costs and sales to the projected annual costs and sales used to establish rates. In July 2018 the APSC issued an order agreeing with Entergy Arkansas's proposal to have the effects on current income tax expense flow through Entergy Arkansas's formula rate plan rider and Entergy Arkansas's treatment of protected and unprotected excess accumulated deferred income taxes. The APSC also directed Entergy Arkansas to submit in the tax adjustment rider proceeding, discussed below, the adjustments to all other riders affected by the Tax Act and to include an amendment for a true-up mechanism where a rider affected by the Tax Act does not already contain a true-up mechanism. Entergy Arkansas's compliance tariff filings were accepted by the APSC in October 2018.

Consistent with its previously stated intent to return unprotected excess accumulated deferred income taxes to customers as expeditiously as possible, Entergy Arkansas initiated a tariff proceeding in February 2018 proposing to establish a tax adjustment rider to provide retail customers with certain tax benefits associated with the Tax Act. For the residential customer class, the unprotected excess accumulated deferred income taxes will be returned to

customers over a 21-month period from April 2018 through December 2019. For all other customer classes, the unprotected excess accumulated deferred income taxes will be returned to customers over a nine-month period from April 2018 through December 2018. A true-up provision also was included, with any over- or under-returned unprotected excess accumulated deferred income taxes to be credited or billed to customers during the billing month of January 2020, with any residual amounts of over- or under-returned unprotected excess accumulated deferred income taxes to be flowed through Entergy Arkansas's energy cost recovery rider. In March 2018 the APSC approved the tax adjustment rider effective with the first billing cycle of April 2018.

#### Entergy Louisiana

See the Form 10-K for a discussion of the activity of the LPSC and Entergy Louisiana after enactment of the Tax Act in December 2017. In July 2018 the LPSC issued a proposed rule requiring utilities to adjust rates prospectively to reflect the lower tax rate (either through a formula rate plan or rate case), refund excess tax expense collected since January 1, 2018 until the lower tax rate is reflected in rates (with the refund occurring over one year), and refund excess accumulated deferred income taxes over two years. Entergy Louisiana believes that its formula rate plan settlement, approved in April 2018 and discussed below, addresses fully its obligations regarding the Tax Act and will seek such confirmation in its comments to the proposed rule.

In the formula rate plan settlement approved by the LPSC in April 2018 the parties agreed that Entergy Louisiana will return to customers one-half of its eligible unprotected excess deferred income taxes from May 2018 through December 2018 and return to customers the other half from January 2019 through August 2022. In addition, the parties agreed that in order to flow back to customers certain other tax benefits created by the Tax Act, Entergy Louisiana would establish a regulatory liability effective January 1, 2018 in the amount of \$9.1 million per month to reflect these tax benefits already included in retail rates until new base rates under the formula rate plan are established (September 2018), and this regulatory liability will be returned to customers over the next formula rate plan rate-effective period (September 2018 through August 2019). As of September 30, 2018, Entergy Louisiana has a \$67 million regulatory liability recorded pursuant to this provision of the settlement. The LPSC staff and intervenors in the settlement reserved the right to obtain data from Entergy Louisiana to confirm the determination of excess accumulated deferred income taxes resulting from the Tax Act and analysis thereof as part of the formula rate plan review proceeding for the 2017 test year filing, which, as discussed below, Entergy Louisiana filed in June 2018.

#### Entergy Mississippi

As discussed in the Form 10-K, after enactment of the Tax Act the MPSC ordered utilities, including Entergy Mississippi, that operate under a formula rate plan to file a description by February 26, 2018, of how the Tax Act will be reflected in the formula rate plan under which the utility operates. Entergy Mississippi's plan, as filed with the MPSC on February 26, 2018, included a request to reflect the changes related to the Tax Act in the 2018 formula rate plan filing. Entergy Mississippi filed its 2018 formula rate plan on March 15, 2018 and included a proposal to return all of its unprotected excess accumulated deferred income taxes to customers through rates or in exchange for other assets, or a combination of both, by the end of 2018.

Also, in March 2018 the MPSC issued a subsequent order in its generic tax reform docket ordering utilities, including Entergy Mississippi, to explain the implementation of the utilities tax adjustment clause, or, in the alternative, why the tax adjustment clause is inapplicable; submit an analysis of the ratemaking effects of the Tax Act on current and future revenue requirements for rate schedules that include a gross-up for federal taxes; and make appropriate accounting entries to recognize the removal of excess deferred taxes from the balance of the utility's accumulated deferred income tax account, or, in the alternative, explain why recording such entries is not appropriate. In April 2018, Entergy Mississippi filed its response to the MPSC stating that the tax adjustment clauses in its base rates are properly implemented through its formula rate plan. Entergy Mississippi also provided analysis of the ratemaking effects of the Tax Act.

In June 2018, Entergy Mississippi and the Mississippi Public Utilities Staff entered into and filed a joint stipulation in Entergy Mississippi's formula rate plan filing that addressed Entergy Mississippi's 2018 formula rate plan evaluation report and the ratemaking effects of the Tax Act. Also in June 2018 the MPSC approved the stipulation, which provides for incorporating the reduction of the statutory federal income tax rate through the formula rate plan. Entergy Mississippi's formula rate plan includes a look-back evaluation report filing in March 2019 that will compare actual 2018 results to the allowed return on rate base. The stipulation provides for the flow-back of protected excess accumulated deferred income taxes over approximately 40 years through the formula rate plan. The stipulation also provides for the offset of unprotected excess accumulated deferred income taxes of \$127.2 million against net utility plant and \$2.2 million against other regulatory assets, and the return to customers of the remaining balance of unprotected excess accumulated deferred income taxes as recovery of a portion of fuel oil inventory and customer bill credits over a three-month period from July 2018 through September 2018, with any true-up to be reflected in the November 2018 power management rider submittal. Entergy Mississippi recorded the reduction against net utility plant and other regulatory assets in June 2018. In third quarter 2018, Entergy Mississippi returned unprotected excess accumulated deferred income taxes of \$25.8 million through customer bill credits and \$5.8 million through the sale of fuel oil inventory.

#### Entergy New Orleans

As discussed in the Form 10-K, after enactment of the Tax Act the City Council passed a resolution ordering Entergy New Orleans to, effective January 1, 2018, record regulatory liabilities to account for the Tax Act's effect on Entergy New Orleans's revenue requirement and to make a filing by mid-March 2018 regarding the Tax Act's effects on Entergy New Orleans's operating income and rate base and potential mechanisms for customers to receive benefits of the Tax Act. The City Council's resolution also directed Entergy New Orleans to request that Entergy Services file with the FERC for revisions of the Unit Power Sales Agreement and MSS-4 replacement tariffs to address the return of excess accumulated deferred income taxes. Entergy has submitted filings of this type to the FERC.

In March 2018, Entergy New Orleans filed its response to the resolution stating that the Tax Act reduced income tax expense from what is presently reflected in rates by approximately \$8.2 million annually for electric operations and by approximately \$1.3 million annually for gas operations. In the filing, Entergy New Orleans proposed to return to customers from June 2018 through August 2019 the benefits of the reduction in income tax expense and its unprotected excess accumulated deferred income taxes through a combination of bill credits and investments in energy efficiency programs, grid modernization, and Smart City projects. Entergy New Orleans submitted supplemental information in April 2018 and May 2018. Shortly thereafter, Entergy New Orleans and the City Council's advisors reached an agreement in principle that provides for benefits that will be realized by Entergy New Orleans customers through bill credits starting in July 2018 and offsets to future investments in energy efficiency programs, grid modernization, and Smart City projects, as well as additional benefits related to the filings made at FERC. The agreement in principle was approved by the City Council in June 2018.

#### Entergy Texas

As discussed below, in May 2018, Entergy Texas filed its 2018 base rate case with the PUCT. Entergy Texas's proposed rates and revenues reflect the inclusion of the federal income tax reductions due to the Tax Act. See the discussion below regarding the terms of an unopposed settlement submitted by the parties to the 2018 rate case that, if approved by the PUCT, establishes the amounts and timing of the return of protected and unprotected excess accumulated deferred income taxes to Entergy Texas customers.

#### System Energy

In a filing made with the FERC in March 2018, Entergy proposed revisions to the Unit Power Sales Agreement, among other agreements, to reflect the effects of the Tax Act. In the filing, System Energy proposed to return all of its unprotected excess accumulated deferred income taxes to its customers by the end of 2018. In May 2018 the FERC

accepted System Energy's proposed tax revisions with an effective date of June 1, 2018, subject to refund and the outcome of settlement and hearing procedures. Settlement discussions are ongoing.

### **Fuel and purchased power cost recovery**

#### Entergy Arkansas

##### Energy Cost Recovery Rider

In March 2018, Entergy Arkansas filed its annual redetermination of its energy cost rate pursuant to the energy cost recovery rider, which reflected an increase in the rate from \$0.01547 per kWh to \$0.01882 per kWh. The Arkansas Attorney General filed a response to Entergy Arkansas's annual redetermination filing requesting that the APSC suspend the proposed tariff to investigate the amount of the redetermination or, alternatively, to allow recovery subject to refund. Among the reasons the Attorney General cited for suspension were questions pertaining to how Entergy Arkansas forecasted sales and potential implications of the Tax Act. Entergy Arkansas replied to the Attorney General's filing and stated that, to the extent there are questions pertaining to its load forecasting or the operation of the energy cost recovery rider, those issues exceed the scope of the instant rate redetermination. Entergy Arkansas also stated that potential effects of the Tax Act are appropriately considered in the APSC's separate proceeding looking at potential implications of the new tax law. The APSC general staff filed a reply to the Attorney General's filing and agreed that Entergy Arkansas's filing complied with the terms of the energy cost recovery rider. The redetermined rate became effective with the first billing cycle of April 2018. Subsequently in April 2018 the APSC issued an order declining to suspend Entergy Arkansas's energy cost recovery rider rate and declining to require further investigation at that time of the issues suggested by the Attorney General in the proceeding. Following a period of discovery, the Attorney General filed a supplemental response in October 2018 raising new issues with Entergy Arkansas's March 2018 rate redetermination and asserting that \$45.7 million of the increase should be collected subject to refund pending further investigation. Also in October 2018, Entergy Arkansas filed to dismiss the Attorney General's supplemental response, the APSC general staff filed a motion to strike the Attorney General's filing, and the Attorney General filed its supplemental response disputing Entergy Arkansas and the APSC staff's filing.

#### Entergy Louisiana

In July 2014 the LPSC authorized its staff to initiate an audit of the fuel adjustment clause filings by Entergy Gulf States Louisiana, whose business was combined with Entergy Louisiana in 2015. The audit includes a review of the reasonableness of charges flowed through Entergy Gulf States Louisiana's fuel adjustment clause for the period from 2010 through 2013. Discovery commenced in July 2015. No report of audit has been issued.

In May 2018 the LPSC staff provided notice of audits of Entergy Louisiana's purchased gas adjustment clause filings. The audit includes a review of the reasonableness of charges flowed through Entergy Louisiana's purchased gas adjustment clause for the period from 2016 through 2017. Discovery commenced in September 2018. No report of audit has been issued.

#### Entergy Mississippi

##### Mississippi Attorney General Complaint

As discussed in the Form 10-K the Mississippi Attorney General filed a complaint in state court in December 2008 against Entergy Corporation, Entergy Mississippi, Entergy Services, and Entergy Power alleging, among other things, violations of Mississippi statutes, fraud, and breach of good faith and fair dealing, and requesting an accounting and restitution. The defendants have denied the allegations. In June 2017 the District Court issued a case management order setting a trial date in November 2018. Discovery ended in May 2018. In June 2018, Entergy filed motions for summary judgment, which are currently pending before the District Court. In July 2018 the Attorney General filed briefs opposing the summary judgment.

In September 2018 the District Court held oral arguments on the Entergy companies' motion to strike the Attorney General's jury demand. At the hearing, the Attorney General withdrew his opposition to the Entergy companies' motion to strike the Attorney General's jury demand. Pre-trial and settlement conferences were held in October 2018. In October 2018 the District Court rescheduled the trial to April 2019.

#### Entergy Texas

As discussed in the Form 10-K, in July 2015 certain parties filed briefs in an open PUCT proceeding asserting that Entergy Texas should refund to retail customers an additional \$10.9 million in bandwidth remedy payments Entergy Texas received related to calendar year 2006 production costs. In October 2015 an ALJ issued a proposal for decision recommending that the additional bandwidth remedy payments be refunded to retail customers. In January 2016 the PUCT issued its order affirming the ALJ's recommendation, and Entergy Texas filed a motion for rehearing of the PUCT's decision, which the PUCT denied. In March 2016, Entergy Texas filed a complaint in Federal District Court for the Western District of Texas and a petition in the Travis County (State) District Court appealing the PUCT's decision. The pending appeals did not stay the PUCT's decision, and Entergy Texas refunded to customers the \$10.9 million over a four-month period beginning with the first billing cycle of July 2016. The federal appeal of the PUCT's January 2016 decision was heard in December 2016, and the Federal District Court granted Entergy Texas's requested relief. In January 2017 the PUCT and an intervenor filed petitions for appeal of the Federal District Court ruling to the U.S. Court of Appeals for the Fifth Circuit. Oral argument was held before the Fifth Circuit in February 2018. In April 2018 the Fifth Circuit reversed the decision of the Federal District Court, reinstating the original PUCT decision. In October 2018, Entergy Texas filed a notice of nonsuit in its appeal to the Travis County District Court regarding the PUCT's January 2016 decision.

In December 2017, Entergy Texas filed an application for a fuel refund of approximately \$30.5 million for the months of May 2017 through October 2017. Also in December 2017, the PUCT's ALJ approved the refund on an interim basis. For most customers, the refunds flowed through bills beginning January 2018 and continued through March 2018. The fuel refund was approved by the PUCT in March 2018.

#### **Retail Rate Proceedings**

See Note 2 to the financial statements in the Form 10-K for information regarding retail rate proceedings involving the Utility operating companies. The following are updates to that information.

#### **Filings with the APSC (Entergy Arkansas)**

##### 2018 Formula Rate Plan Filing

In July 2018, Entergy Arkansas filed with the APSC its 2018 formula rate plan filing to set its formula rate for the 2019 calendar year. The filing shows Entergy Arkansas's projected earned return on common equity for the twelve months ended December 31, 2019 test period to be below the formula rate plan bandwidth. Additionally, the filing includes the first netting adjustment under the current formula rate plan for the historical test year 2017, which is a comparison of projected costs and sales approved in the 2016 formula rate plan filing to actual 2017 costs and sales data. The filing includes a projected \$73.4 million revenue deficiency for 2019 and a \$95.6 million revenue deficiency for the 2017 historical test year, for a total revenue requirement of \$169 million for this filing. By operation of the formula rate plan, Entergy Arkansas's recovery of the revenue requirement is subject to a four percent annual revenue constraint. Because Entergy Arkansas's revenue requirement in this filing exceeds the constraint, the resulting increase is limited to four percent of total revenue, which is \$65.4 million. The matter is scheduled for hearing in November 2018, and Entergy Arkansas requested that the APSC issue an order approving the proposed formula rate plan adjustment in December 2018, with the proposed formula rate plan adjustment effective with the first billing cycle of January 2019. In October 2018 the APSC staff and intervening parties filed their errors and objections to Entergy Arkansas's 2018 formula rate plan filing, although no party proposed adjustments that would serve to reduce the requested revenue



requirement below the annual revenue constraint. Entergy Arkansas also filed its rebuttal to the APSC staff and intervenors in October 2018. Later in October 2018 the parties submitted motions, which are pending with the APSC, to approve a partial settlement as to certain factual issues and to brief certain contested legal issues.

Similar to the 2018 filing, the formula rate plan filing that will be made in 2019 to set the formula rates for the 2020 calendar year will include a netting adjustment that will compare projected costs and sales for 2018 that were approved in the 2017 formula rate plan filing to actual 2018 costs and sales data. To the extent that Entergy Arkansas expects this netting adjustment to reflect actual 2018 revenues that are in excess of the actual costs for that year, Entergy Arkansas will record a regulatory provision in the fourth quarter 2018.

#### Internal Restructuring

As discussed in the Form 10-K, in November 2017, Entergy Arkansas filed an application with the APSC seeking authorization to undertake a restructuring that would result in the transfer of substantially all of the assets and operations of Entergy Arkansas to a new entity, which would ultimately be owned by an existing Entergy subsidiary holding company. Entergy Arkansas also filed a notice with the Missouri Public Service Commission in December 2017 out of an abundance of caution, although Entergy Arkansas does not serve any retail customers in Missouri. In April 2018 the Missouri Public Service Commission approved Entergy Arkansas's filing. In July 2018, Entergy Arkansas filed a settlement, reached by all parties in the APSC proceeding, resolving all issues. The APSC approved the settlement agreement and restructuring in August 2018. Entergy expects to realize a permanent tax benefit at closing, and, pursuant to the settlement agreement, Entergy Arkansas will credit retail customers \$39.6 million over six years, beginning in 2019. Entergy Arkansas has also received the required FERC and NRC approvals. The restructuring is anticipated to close on or before December 1, 2018.

#### **Filings with the LPSC (Entergy Louisiana)**

##### Retail Rates - Electric

##### 2016 Formula Rate Plan Filing

As discussed in the Form 10-K, in May 2017, Entergy Louisiana filed its formula rate plan evaluation report for its 2016 calendar year operations. Rates reflecting the adjustments included in the formula rate plan evaluation report were implemented with the first billing cycle of September 2017, subject to refund. In September 2017 the LPSC issued its report indicating that no changes to Entergy Louisiana's original formula rate plan evaluation report were required but reserved for several issues, including Entergy Louisiana's September 2017 update to its formula rate plan evaluation report. In July 2018, Entergy Louisiana and the LPSC staff filed an unopposed joint report setting forth a correction to the annualization calculation, the effect of which was a net \$3.5 million revenue requirement reduction, and indicating that there are no outstanding issues with the 2016 formula rate plan report, the supplemental report, or the interim updates. In September 2018 the LPSC approved the unopposed joint report.

##### Formula Rate Plan Extension Request

In August 2017, Entergy Louisiana filed a request with the LPSC seeking to extend its formula rate plan for three years (2017-2019) with limited modifications of its terms. Those modifications include: a one-time resetting of base rates to the midpoint of the band at Entergy Louisiana's authorized return on equity of 9.95% for the 2017 test year; narrowing of the formula rate plan bandwidth from a total of 160 basis points to 80 basis points; and a forward-looking mechanism that would allow Entergy Louisiana to recover certain transmission-related costs contemporaneously with when those projects begin delivering benefits to customers. Several parties intervened in the proceeding and all parties participated in settlement discussions. In April 2018 the LPSC approved an unopposed joint motion filed by Entergy Louisiana and the LPSC staff that settles the matter. The settlement extends the formula rate plan for three years, providing for rates through at least August 2021. In addition to retaining the major features of the traditional formula rate plan, substantive features of the extended formula rate plan include:

- a mid-point reset of formula rate plan revenues to a 9.95% earned return on common equity for the 2017 test year and for the St. Charles Power Station when it enters commercial operation;
- a 9.8% target earned return on common equity for the 2018 and 2019 test years;
- narrowing of the common equity bandwidth to plus or minus 60 basis points around the target earned return on common equity;
- a cap on potential revenue increase of \$35 million for the 2018 evaluation period, and \$70 million for the cumulative 2018 and 2019 evaluation periods, on formula rate plan cost of service rate increases (the cap excludes rate changes associated with the transmission recovery mechanism described below and rate changes associated with additional capacity);
- a framework for the flow back of certain tax benefits created by the Tax Act to customers, as described in **“Regulatory activity regarding the Tax Cuts and Jobs Act”** above; and
- a transmission recovery mechanism providing for the opportunity to recover certain transmission-related expenditures in excess of \$100 million annually for projects placed in service up to one month prior to rate change outside of sharing that is designed to operate in a manner similar to the additional capacity mechanism.

### 2017 Formula Rate Plan Filing

In June 2018, Entergy Louisiana filed its formula rate plan evaluation report for its 2017 calendar year operations. As stated above under “Formula Rate Plan Extension Request,” for the 2017 test year there will be a mid-point reset of formula rate plan revenues to a 9.95% earned return on common equity for the 2017 test year. As such, base rider formula rate plan revenue is to be adjusted prospectively to increase or decrease the earned return on equity fully to the approved cost of equity of 9.95%. The 2017 test year evaluation report produced an earned return on equity of 8.16%, due in large part to revenue-neutral realignments to other recovery mechanisms. Without these realignments, the evaluation report produces an earned return on equity of 9.88% and a resulting base rider formula rate plan revenue increase of \$4.8 million. Excluding the Tax Act credits provided for by the tax reform adjustment mechanisms, total formula rate plan revenues will further increase by a total of \$98 million as a result of the evaluation report due to adjustments to the additional capacity and MISO cost recovery mechanisms of the formula rate plan, and implementation of the transmission recovery mechanism. In August 2018, Entergy Louisiana filed a supplemental formula rate plan evaluation report to reflect changes from the 2016 test year formula rate plan proceedings, a decrease to the transmission recovery mechanism to reflect lower actual capital additions, and a decrease to evaluation period expenses to reflect the terms of a new power sales agreement. Based on the August 2018 update, Entergy Louisiana would recognize a total decrease in formula rate plan revenue of approximately \$17.6 million. Results of the updated 2017 evaluation report filing were implemented with the September 2018 billing month subject to refund and review by the LPSC staff and intervenors. In accordance with the terms of the formula rate plan, in September 2018 the LPSC staff and intervenors submitted their responses to Entergy Louisiana’s original formula rate plan evaluation report and supplemental compliance updates. The LPSC staff asserted objections/reservations regarding 1) Entergy Louisiana’s proposed rate adjustments associated with the return of excess accumulated deferred income taxes pursuant to the Tax Act and the treatment of accumulated deferred income taxes related to reductions of rate base; 2) Entergy Louisiana’s reservation regarding treatment of a regulatory asset related to certain special orders by the LPSC; and 3) test year expenses billed from Entergy Services to Entergy Louisiana. Intervenors also objected to Entergy Louisiana’s treatment of the regulatory asset related to certain special orders by the LPSC. A procedural schedule has not yet been established to resolve these issues.

Entergy Louisiana also included in its filing a presentation of an initial proposal to combine the legacy Entergy Louisiana and legacy Entergy Gulf States Louisiana residential rates, which combination, if approved, would be accomplished on a revenue-neutral basis intended not to affect the rates of other customer classes.

## Union Power Station and Deactivation or Retirement Decisions for Entergy Louisiana Plants

As discussed in the Form 10-K, as a term of the LPSC-approved settlement authorizing the purchase of Power Blocks 3 and 4 of the Union Power Station, Entergy Louisiana agreed to make a filing with the LPSC to review its decisions to deactivate Ninemile 3 and Willow Glen 2 and 4 and its decision to retire Little Gypsy 1. In January 2016, Entergy Louisiana made its compliance filing with the LPSC. Entergy Louisiana, LPSC staff, and intervenors participated in a technical conference in March 2016 where Entergy Louisiana presented information on its deactivation/retirement decisions for these four units in addition to information on the current deactivation decisions for the ten-year planning horizon. No party contests the prudence of the decision to deactivate Willow Glen 2 and 4 or suggests reactivation of these units; however, issues have been raised related to Entergy Louisiana's decision to give up its transmission service rights in MISO for Willow Glen 2 and 4 rather than placing the units into suspended status for the three-year term permitted by MISO. In March 2018 the LPSC adopted the ALJ's recommended order finding that Entergy Louisiana did not demonstrate that its decision to permanently surrender transmission rights for the mothballed (not retired) Willow Glen 2 and 4 units was reasonable and that Entergy Louisiana should hold customers harmless from increased transmission expenses should those units be reactivated. Because no party or the LPSC suggested that Willow Glen 2 and 4 should be reactivated and because the cost to return those units to service far exceeds the revenue the units were expected to generate in MISO, Entergy Louisiana retired Willow Glen 2 and 4 in March 2018. Entergy Louisiana submitted a compliance filing regarding retirement of Willow Glen 2 and 4, and the LPSC closed the proceeding.

## Retail Rates - Gas

### 2017 Rate Stabilization Plan Filing

In January 2018, Entergy Louisiana filed with the LPSC its gas rate stabilization plan for the test year ended September 30, 2017. The filing of the evaluation report for the test year 2017 reflected an earned return on common equity of 9.06%. This earned return is below the earnings sharing band of the rate stabilization plan and results in a rate increase of \$0.1 million. Due to the enactment of the Tax Act in late-December 2017, Entergy Louisiana did not have adequate time to reflect the effects of this tax legislation in the rate stabilization plan. In April 2018 Entergy Louisiana filed a supplemental evaluation report for the test year ended September 2017, reflecting the effects of the Tax Act, including a proposal to use the unprotected excess accumulated deferred income taxes to offset storm restoration deferred operation and maintenance costs incurred by Entergy Louisiana in connection with the August 2016 flooding disaster in its gas service area. The supplemental filing reflects an earned return on common equity of 10.79%. As-filed rates from the supplemental filing were implemented, subject to refund, with customers receiving a cost reduction of approximately \$0.7 million effective with bills rendered on and after the first billing cycle of May 2018, as well as a \$0.2 million reduction in the gas infrastructure rider effective with bills rendered on and after the first billing cycle of July 2018. The proceeding is currently in its discovery phase. A procedural schedule has not been established.

## **Filings with the MPSC (Entergy Mississippi)**

### Formula Rate Plan

In March 2018, Entergy Mississippi submitted its formula rate plan 2018 test year filing and 2017 look-back filing showing Entergy Mississippi's earned return for the historical 2017 calendar year and projected earned return for the 2018 calendar year, in large part as a result of the lower federal corporate income tax rate effective in 2018, to be within the formula rate plan bandwidth, resulting in no change in rates. In June 2018, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a stipulation that confirmed that Entergy Mississippi's earned returns for both the 2017 look-back filing and 2018 test year were within the respective formula rate plan bandwidths. In June 2018 the MPSC approved the stipulation, which resulted in no change in rates. See **"Regulatory activity regarding the Tax Cuts and Jobs Act"** above for additional discussion regarding the proposed treatment of the effects of the lower federal corporate income tax rate.

Entergy Mississippi's formula rate plan includes a look-back evaluation report filing in March 2019 that will compare actual 2018 results to the performance-adjusted allowed return on rate base. To the extent that Entergy Mississippi expects this look-back evaluation report to show the 2018 earned return on rate base exceeded the formula rate plan performance-adjusted bandwidth, Entergy Mississippi will record a regulatory provision in the fourth quarter 2018.

In October 2018, Entergy Mississippi proposed revisions to its formula rate plan that would provide for a mechanism, the interim capacity rate adjustment mechanism, in the formula rate plan to recover the non-fuel related costs of additional owned capacity acquired by Entergy Mississippi, including the non-fuel annual ownership costs of the Choctaw Generating Station, as well as to allow similar cost recovery treatment for other future capacity additions approved by the MPSC.

#### Internal Restructuring

In March 2018, Entergy Mississippi filed an application with the MPSC seeking authorization to undertake a restructuring that would result in the transfer of substantially all of the assets and operations of Entergy Mississippi to a new entity, which would ultimately be held by an existing Entergy subsidiary holding company. Entergy Mississippi proposed in its application to credit retail customers \$27 million over six years, beginning in 2019, if the restructuring closed on or before December 1, 2018. In September 2018, Entergy Mississippi and the Mississippi Public Utilities Staff entered into and filed a joint stipulation regarding the restructuring filing. In September 2018 the MPSC issued an order accepting the stipulation in its entirety and approving the restructuring and credits to retail customers of \$27 million over six years, consisting of annual payments of \$4.5 million for the years 2019-2024. Entergy Mississippi has also received the required FERC and NRC approvals. Entergy Mississippi expects the restructuring will be consummated on or before December 1, 2018.

It is currently contemplated that Entergy Mississippi would undertake a multi-step restructuring, which would include the following:

- Entergy Mississippi would redeem its outstanding preferred stock, at the aggregate redemption price of approximately \$21.2 million, including call premiums, plus accumulated and unpaid dividends, if any.
- Entergy Mississippi would convert from a Mississippi corporation to a Texas corporation.
- Under the Texas Business Organizations Code (TXBOC), Entergy Mississippi will allocate substantially all of its assets to a new subsidiary, Entergy Mississippi Power and Light, LLC, a Texas limited liability company (Entergy Mississippi Power and Light), and Entergy Mississippi Power and Light will assume substantially all of the liabilities of Entergy Mississippi, in a transaction regarded as a merger under the TXBOC. Entergy Mississippi will remain in existence and hold the membership interests in Entergy Mississippi Power and Light.
- Entergy Mississippi will contribute the membership interests in Entergy Mississippi Power and Light to an affiliate (Entergy Utility Holding Company, LLC, a Texas limited liability company and subsidiary of Entergy Corporation). As a result of the contribution, Entergy Mississippi Power and Light will be a wholly-owned subsidiary of Entergy Utility Holding Company, LLC.
- Entergy Mississippi will change its name to Entergy Utility Enterprises, Inc., and Entergy Mississippi Power and Light will then change its name to Entergy Mississippi, LLC.

Upon the completion of the restructuring, Entergy Mississippi, LLC will hold substantially all of the assets, and will have assumed substantially all of the liabilities, of Entergy Mississippi. Entergy Mississippi may modify or supplement the steps to be taken to effectuate the restructuring.

## **Filings with the City Council (Entergy New Orleans)**

### Energy Smart Programs

As discussed in the Form 10-K, in September 2017, Entergy New Orleans filed a supplemental plan and proposed several options for an interim cost recovery mechanism necessary to recover program costs during the period between when existing funds directed to Energy Smart programs were depleted and when new rates from the then-anticipated 2018 combined rate case (subsequently filed in July 2018), which will include a cost recovery mechanism for Energy Smart funding, take effect (estimated to be August 2019). In December 2017 the City Council approved an energy efficiency cost recovery rider as an interim funding mechanism for Energy Smart, subject to verification that no additional funding sources exist. In June 2018 the City Council also approved a resolution recommending that Entergy New Orleans allocate approximately \$13.5 million of benefits resulting from the Tax Act to Energy Smart. Entergy New Orleans is seeking approval of a permanent and stable source of funding for Energy Smart as part of its base rate case filed in July 2018 and revised in September 2018.

### Base Rate Case

In July 2018, Entergy New Orleans filed its 2018 base rate case with the City Council but withdrew it in August 2018. In September 2018, Entergy New Orleans filed a revised electric and gas base rate case with the City Council. The revised filing requests a 10.5% return on equity for electric operations with opportunity to earn a 10.75% return on equity through a performance adder provision of the electric formula rate plan, and requests a 10.75% return on equity for gas operations. The proposed electric rates in the revised filing reflect a net reduction of \$20.3 million. The reduction in electric rates includes a base rate increase of \$135.2 million, of which \$131.5 million is associated with moving costs currently collected through fuel and riders into base rates, plus a request for an advanced metering surcharge to recover \$7.1 million associated with advanced metering infrastructure, offset by a net decrease of \$31.1 million related to projected fuel and energy efficiency riders. The filing also includes a proposed gas rate decrease of \$142 thousand. Entergy New Orleans's rates reflect the inclusion of federal income tax reductions due to the Tax Act and the provisions of a previously-approved agreement in principle determining how the benefits of the Tax Act would flow. Entergy New Orleans included cost of service studies for electric and gas operations for the twelve months ending December 31, 2017 and the projected twelve months ending December 31, 2018. In addition, Entergy New Orleans included capital additions expected to be placed into service for the period through December 31, 2019. Entergy New Orleans's request for a change in rates is based on the projected twelve months ending December 31, 2018.

The filing's major provisions include: (1) a new electric rate structure, which realigns the revenue requirement associated with capacity and long-term service agreement expense from certain existing riders to base revenue, provides for the recovery of the cost of advanced metering infrastructure, and partially blends rates for Entergy New Orleans's customers residing in Algiers with customers residing in the remainder of Orleans Parish through a three-year phase-in; (2) contemporaneous cost recovery riders for investments in energy efficiency/demand response, incremental changes in capacity/long-term service agreement costs, grid modernization investment, and gas infrastructure replacement investment; and (3) formula rate plans for both electric and gas operations. The procedural schedule calls for an evidentiary hearing to be held in June 2019.

## **Filings with the PUCT (Entergy Texas)**

### 2018 Base Rate Case

In May 2018, Entergy Texas filed a base rate case with the PUCT seeking an increase in base rates and rider rates of approximately \$166 million, of which \$48 million is associated with moving costs currently being collected through riders into base rates such that the total incremental revenue requirement increase is approximately \$118 million. Entergy Texas's proposed rates and revenues reflect the inclusion of federal income tax reductions due to the Tax Act as well as a rider designed to return unprotected excess accumulated deferred income taxes over a period of two years following PUCT approval. The base rate case is based on a 12-month test year ending December 31, 2017.

In addition, Entergy Texas included capital additions placed into service for the period of April 1, 2013 through December 31, 2017, as well as a post-test year adjustment to include capital additions placed in service by June 30, 2018. In October 2018 the parties filed an unopposed settlement resolving all issues in the proceeding, supporting testimony, a proposed order approving the settlement, and a motion for interim rates effective for usage on and after October 17, 2018. The unopposed settlement reflects the following terms: a base rate increase of \$53.2 million (net of costs realigned from riders), a \$25 million refund to reflect the lower federal income tax rate applicable to Entergy Texas from January 25, 2018 through the date new rates are implemented, \$6 million of capitalized skylining tree hazard costs will not be recovered from customers, \$242.5 million of protected excess accumulated deferred income taxes, which includes a tax gross-up, will be returned to customers through base rates under the average rate assumption method over the lives of the associated assets, and \$185.2 million of unprotected excess accumulated deferred income taxes, which includes a tax gross-up, will be returned to customers through a rider. The unprotected excess accumulated deferred income taxes rider will include carrying charges and will be in effect over a period of 12 months for large industrial customers and over a period of four years for other customers. The settlement, if approved by the PUCT, would provide final resolution of all issues in the matter, including those related to the Tax Act. In October 2018 the ALJ granted the unopposed motion for interim rates to be effective for service rendered on or after October 17, 2018. The unopposed settlement is pending consideration by the PUCT.

### **Advanced Metering Infrastructure (AMI) Filings**

#### **Entergy Mississippi**

See the Form 10-K for discussion of the MPSC order finding that Entergy Mississippi's deployment of AMI is in the public interest and granting a certificate of public convenience and necessity. In June 2018, as part of the order approving the joint stipulation between the Mississippi Public Utilities Staff and Entergy Mississippi addressing Entergy Mississippi's 2018 formula rate plan evaluation report and the ratemaking effects of the Tax Act, the MPSC approved the acceleration of the recovery of substantially all of Entergy Mississippi's existing customer meters in anticipation of AMI deployment.

#### **Entergy New Orleans**

As discussed in the Form 10-K, in February 2018 the City Council approved Entergy New Orleans's application seeking a finding that Entergy New Orleans's deployment of advanced electric and gas metering infrastructure is in the public interest. Deployment of the information technology infrastructure began in 2017 and deployment of the communications network is expected to begin in fourth quarter 2018. In April 2018 the City Council adopted a resolution directing Entergy New Orleans to explore the options for accelerating the deployment of AMI. In June 2018 the City Council approved a one year acceleration of AMI in its service area for an incremental \$4.4 million, bringing the total capital spending related to AMI for Entergy New Orleans to \$79.4 million.

### **System Agreement Cost Equalization Proceedings**

As discussed in the Form 10-K, in August 2017 the D.C. Circuit issued a decision denying the LPSC's appeal of the FERC's October 2011 and February 2014 orders, but also granting the request by all parties to the appeal for remand and agency reconsideration on the issue of whether the operating companies should be required to issue refunds for the 20-month period from September 2001 to May 2003. The matter was remanded back to the FERC and, in March 2018, the LPSC filed its brief arguing that the FERC should require the Utility operating companies to issue refunds for the 20-month refund period from September 2001 to May 2003. In May 2018, Entergy filed its brief arguing that the FERC should not require the Utility operating companies to issue refunds for the 20-month refund period from September 2001 to May 2003.

Also as discussed in the Form 10-K, the hearing on the bandwidth calculation for the seven months June 1, 2005 through December 31, 2005 occurred in July 2016. The presiding judge issued an initial decision in November 2016. In May 2018 the FERC issued an order affirming the initial decision and ordered a comprehensive recalculation

of the bandwidth payments/receipts for the seven months June 1, 2005 through December 31, 2005 and a recalculation of the 2006 and 2007 test years as a result of limited revisions. Entergy filed the comprehensive recalculation of the bandwidth payments/receipts for the seven months June 1, 2005 through December 31, 2005 and the 2006 and 2007 test years in July 2018. The filing shows the additional following payments and receipts among the Utility operating companies:

	<b>Payments (Receipts)</b>
	<u>(In Millions)</u>
Entergy Arkansas	(\$4)
Entergy Louisiana	(\$23)
Entergy Mississippi	\$16
Entergy New Orleans	\$5
Entergy Texas	\$6

These payments were made in July 2018.

### **Rough Production Cost Equalization Rates**

#### Consolidated 2011, 2012, 2013, and 2014 Rate Filing Proceedings

As discussed in the Form 10-K, in December 2014 the FERC consolidated the 2011, 2012, 2013, and 2014 rate filings for settlement and hearing procedures. In May 2015, Entergy filed direct testimony in the consolidated rate filings and the LPSC filed direct testimony concerning its complaint proceeding that is consolidated with the rate filings, challenging certain components of the pending bandwidth calculations for prior years. Hearings occurred in November 2015, and the ALJ issued an initial decision in July 2016. In the initial decision, the ALJ generally agreed with Entergy's bandwidth calculations with one exception on the accounting related to the Waterford 3 sale/leaseback. In March 2018 the FERC issued an order affirming the initial decision. In April 2018 the LPSC requested rehearing of the FERC's March 2018 order affirming the ALJ's initial decision. Entergy filed in May 2018 the bandwidth true-up payments and receipts for the 2011-2014 rate filings (table does not net to zero due to rounding):

	<b>Payments (Receipts)</b>
	<u>(In Millions)</u>
Entergy Arkansas	\$3
Entergy Louisiana	\$3
Entergy Mississippi	(\$1)
Entergy New Orleans	\$1
Entergy Texas	(\$5)

These payments were made in May 2018.

#### Utility Operating Company Termination of System Agreement Participation

As discussed in the Form 10-K, Entergy Arkansas and Entergy Mississippi ceased participating in the System Agreement effective December 18, 2013 and November 7, 2015, respectively. Entergy Louisiana, Entergy New Orleans, and Entergy Texas terminated participation in the System Agreement on August 31, 2016, which resulted in the termination of the System Agreement in its entirety pursuant to a settlement agreement approved by the FERC in December 2015.

In December 2013 the FERC set one issue for hearing involving whether and how the benefits associated with settlement with Union Pacific regarding certain coal delivery issues should be allocated among Entergy Arkansas and the other Utility operating companies post-termination of the System Agreement. In December 2014 a FERC ALJ issued an initial decision finding that Entergy Arkansas would realize benefits after December 18, 2013 from the 2008 settlement agreement between Entergy Services, Entergy Arkansas, and Union Pacific, related to certain coal delivery issues. In March 2016 the FERC issued an opinion affirming the December 2014 initial decision with regard to the determination that there were benefits related to the Union Pacific settlement, which were realized post-Entergy Arkansas's December 2013 withdrawal from the System Agreement, that should be shared with the other Utility operating companies utilizing the methodology proposed by the MPSC and trued-up to actual coal volumes purchased. In May 2016, Entergy made a compliance filing that provided the calculation of Union Pacific settlement benefits utilizing the methodology adopted by the initial decision, trued-up for the actual volumes of coal purchased. The payments were made in May 2016. In August 2016 the FERC issued an order accepting Entergy's compliance filing. Also in August 2016 the APSC filed a petition for review of the FERC's March 2016 and August 2016 orders with the U.S. Court of Appeals for the D.C. Circuit. In June 2018 the D.C. Circuit denied the APSC's petition.

### **Interruptible Load Proceedings**

See the Form 10-K for a discussion of the interruptible load proceedings. As discussed in the Form 10-K, the LPSC appealed the April and September 2016 orders to the D.C. Circuit. In March 2018 the D.C. Circuit issued an order denying the LPSC's appeal and affirming the FERC's decision that it would be inequitable to award refunds in the proceeding. In April 2018 the LPSC sought rehearing en banc of the D.C. Circuit's order denying the LPSC's appeal. In May 2018 the D.C. Circuit denied the LPSC's rehearing request. In August 2018 the LPSC filed with the Supreme Court of the United States a petition for a writ of certiorari to review the judgment of the D.C. Circuit.

### **Entergy Arkansas Opportunity Sales Proceeding**

See the Form 10-K for discussion of the Entergy Arkansas opportunity sales proceeding filed with the FERC. In October 2018 the FERC issued an order addressing the ALJ's July 2017 initial decision. The FERC reversed the ALJ's decision to cap the reduction in Entergy Arkansas's payment to account for the increased bandwidth payments that Entergy Arkansas made to the other operating companies. The FERC also reversed the ALJ's decision that Grand Gulf sales from January through September 2000 should be included in the calculation of Entergy Arkansas's payment. The FERC affirmed on other grounds the ALJ's rejection of the LPSC's claim that certain joint account sales should be accounted for as part of the calculation of Entergy Arkansas's payment. The FERC directed Entergy to make a compliance filing by December 17, 2018 providing a final calculation of Entergy Arkansas's payments to the other Utility operating companies pursuant to the findings in the order and explaining how Entergy Arkansas will pay refunds, including the timeline for making those refunds. The FERC's decision effectively establishes the base amount Entergy Arkansas must pay to the other Utility operating companies for the period of 2000-2009 to be approximately \$68 million. Entergy Arkansas will also pay interest on the base amount to the other Utility operating companies, currently estimated to be approximately \$64 million as of September 30, 2018 for an estimated total of \$132 million. This amount is consistent with the liability previously recognized by Entergy Arkansas. The December 2018 compliance filing will include the recipients and final amount of payments owed by Entergy Arkansas, as well as the timing of the payments. Because management currently expects to recover the retail portion of the payments due as a result of this proceeding, Entergy Arkansas previously recognized a regulatory asset with a balance of \$114 million as of September 30, 2018.

### **Complaints Against System Energy**

#### **Return on Equity Complaints**

As discussed in the Form 10-K, in January 2017 the APSC and MPSC filed a complaint with the FERC against System Energy. The complaint seeks a reduction in the return on equity component of the Unit Power Sales Agreement



pursuant to which System Energy sells its Grand Gulf capacity and energy to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. Entergy Arkansas also sells some of its Grand Gulf capacity and energy to Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans under separate agreements. The current return on equity under the Unit Power Sales Agreement is 10.94%, which was established in a rate proceeding that became final in July 2001.

The APSC and MPSC complaint alleges that the return on equity is unjust and unreasonable because current capital market and other considerations indicate that it is excessive. The complaint requests the FERC to institute proceedings to investigate the return on equity and establish a lower return on equity, and also requests that the FERC establish January 23, 2017 as a refund effective date. The complaint includes return on equity analysis that purports to establish that the range of reasonable return on equity for System Energy is between 8.37% and 8.67%. System Energy answered the complaint in February 2017 and disputes that a return on equity of 8.37% to 8.67% is just and reasonable. The LPSC and the City Council intervened in the proceeding expressing support for the complaint. System Energy is recording a provision against revenue for the potential outcome of this proceeding. In September 2017 the FERC established a refund effective date of January 23, 2017, consolidated the return on equity complaint with the proceeding described in Unit Power Sales Agreement below, and directed the parties to engage in settlement proceedings before an ALJ. The parties have been unable to settle the return on equity issue and a FERC hearing judge was assigned in July 2018. The 15-month refund effective date in connection with the APSC/MPSC complaint expired on April 23, 2018.

In April 2018 the LPSC filed a complaint with the FERC against System Energy seeking an additional fifteen-month refund period. The LPSC complaint requests similar relief from the FERC with respect to System Energy's return on equity and also requests the FERC to investigate System Energy's capital structure. The APSC, MPSC, and City Council intervened in the proceeding, filed an answer expressing support for the complaint, and asked the FERC to consolidate this proceeding with the proceeding initiated by the complaint of the APSC and MPSC in January 2017. System Energy answered the LPSC complaint in May 2018 and also filed a motion to dismiss the complaint. In July 2018 the LPSC answered System Energy's motion to dismiss.

In August 2018 the FERC issued an order dismissing the LPSC's request to investigate System Energy's capital structure and setting for hearing System Energy's return on equity, with a refund effective date of April 2018. The portion of the LPSC's complaint dealing with return on equity was subsequently consolidated with the APSC and MPSC complaint for hearing. The consolidated hearing was scheduled for June 2019, but the procedural schedule is currently being held in abeyance. An ALJ ordered the abeyance after the FERC, in a separate proceeding on the return on equity for New England transmission owners, issued an order modifying its standard methodology for determining return on equity. In September 2018, System Energy filed a request for rehearing and the LPSC filed a request for rehearing or reconsideration of the FERC's August 2018 order. The LPSC's request referenced an amended complaint that it filed on the same day raising the same capital structure claim the FERC had earlier dismissed. The FERC docketed the amended complaint in a new proceeding, and System Energy submitted a response to the amended complaint in October 2018.

### **Grand Gulf Sale-leaseback Renewal Complaint**

In May 2018 the LPSC filed a complaint against System Energy and Entergy Services related to System Energy's renewal in 2015 of a sale-leaseback transaction originally entered into in December 1988 for an 11.5% undivided interest in Grand Gulf Unit 1. The complaint alleges that System Energy violated the filed rate and the FERC's ratemaking and accounting requirements when it included in Unit Power Sales Agreement billings the cost of capital additions associated with the sale-leaseback interest, and that System Energy is double-recovering costs by including both the lease payments and the capital additions in Unit Power Sales Agreement billings. The complaint also claims that System Energy was imprudent in entering into the sale-leaseback renewal because the Utility operating companies that purchase Grand Gulf's output from System Energy could have obtained cheaper capacity and energy in the MISO markets. The complaint further alleges that System Energy violated various other reporting and accounting requirements and should have sought prior FERC approval of the lease renewal. The complaint seeks various forms

of relief from the FERC. The complaint seeks refunds for capital addition costs for all years in which they were recorded in allegedly non-formula accounts or, alternatively, the disallowance of the return on equity for the capital additions in those years plus interest. The complaint also asks that the FERC disallow and refund the lease costs of the sale-leaseback renewal on grounds of imprudence, investigate System Energy's treatment of a DOE litigation payment, and impose certain forward-looking procedural protections, including audit rights for retail regulators of the Unit Power Sales Agreement formula rates. The APSC, MPSC, and City Council have intervened in the proceeding.

In June 2018, System Energy and Entergy Services filed a motion to dismiss and answer to the LPSC complaint denying that System Energy's treatment of the sale-leaseback renewal and capital additions violated the terms of the filed rate or any other FERC ratemaking, accounting, or legal requirements or otherwise constituted double recovery. The response also argued that the complaint is inconsistent with a FERC-approved settlement to which the LPSC is a party and that explicitly authorizes System Energy to recover its lease payments. Finally, the response argued that both the capital additions and the sale-leaseback renewal were prudent investments and the LPSC complaint fails to justify any disallowance or refunds. The response asked that the FERC dismiss and reject the LPSC complaint without further action, investigation, or hearing, but also offered to submit formula rate protocols for the Unit Power Sales Agreement similar to the procedures used for reviewing transmission rates under the MISO tariff. In September 2018 the FERC issued an order setting the complaint for hearing and settlement proceedings. The FERC established a refund effective date of May 2018.

### **Unit Power Sales Agreement**

As discussed in the Form 10-K, in August 2017, System Energy submitted to the FERC proposed limited amendments to the Unit Power Sales Agreement to adopt (1) updated rates for use in calculating Grand Gulf plant depreciation and amortization expenses and (2) updated nuclear decommissioning cost annual revenue requirements, both of which are recovered through the Unit Power Sales Agreement rate formula. The proposed amendments would result in lower charges to the Utility operating companies that buy capacity and energy from System Energy under the Unit Power Sales Agreement. The FERC accepted the proposed amendments effective October 1, 2017, and established a refund effective date of October 11, 2017 with respect to the rate decrease. In June 2018, System Energy filed with the FERC an uncontested settlement relating to the updated depreciation rates and nuclear decommissioning cost annual revenue requirements. In August 2018 the FERC issued an order accepting the settlement. In third quarter 2018, System Energy recorded a reduction in depreciation expense of approximately \$26 million, representing the cumulative difference in depreciation expense resulting from the depreciation rates used from October 11, 2017 through September 30, 2018 and the depreciation rates included in the settlement filing accepted by the FERC.

### **Storm Cost Recovery Filings with Retail Regulators**

#### **Entergy Mississippi**

As discussed in the Form 10-K, Entergy Mississippi has approval from the MPSC to collect a storm damage provision of \$1.75 million per month. If Entergy Mississippi's accumulated storm damage provision balance exceeds \$15 million, the collection of the storm damage provision ceases until such time that the accumulated storm damage provision becomes less than \$10 million. As of June 30, 2018, Entergy Mississippi's storm damage provision balance exceeded \$15 million. Accordingly the storm damage provision was reset to zero beginning with August 2018 bills.

**NOTE 3. EQUITY (Entergy Corporation and Entergy Louisiana)**

**Common Stock**

**Earnings per Share**

The following table presents Entergy's basic and diluted earnings per share calculations included on the consolidated income statements:

	For the Three Months Ended September 30,					
	2018			2017		
	(In Millions, Except Per Share Data)					
Basic earnings per share	Income	Shares	\$/share	Income	Shares	\$/share
Net income attributable to Entergy Corporation	\$536.4	181.0	\$2.96	\$398.2	179.6	\$2.22
Average dilutive effect of:						
Stock options		0.4	(0.01)		0.2	—
Other equity plans		0.8	(0.01)		0.7	(0.01)
Equity forwards		1.5	(0.02)		—	—
Diluted earnings per share	\$536.4	183.7	\$2.92	\$398.2	180.5	\$2.21

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 1.1 million for the three months ended September 30, 2018 and approximately 2.5 million for the three months ended September 30, 2017.

	For the Nine Months Ended September 30,					
	2018			2017		
	(In Millions, Except Per Share Data)					
Basic earnings per share	Income	Shares	\$/share	Income	Shares	\$/share
Net income attributable to Entergy Corporation	\$914.6	180.8	\$5.06	\$890.7	179.5	\$4.96
Average dilutive effect of:						
Stock options		0.3	(0.01)		0.2	(0.01)
Other equity plans		0.7	(0.01)		0.5	(0.01)
Equity forwards		0.9	(0.03)		—	—
Diluted earnings per share	\$914.6	182.7	\$5.01	\$890.7	180.2	\$4.94

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 1.1 million for the nine months ended September 30, 2018 and approximately 3.3 million for the nine months ended September 30, 2017.

Entergy's stock options and other equity compensation plans are discussed in Note 5 to the financial statements herein and in Note 12 to the financial statements in the Form 10-K.

Dividends declared per common share were \$0.89 for the three months ended September 30, 2018 and \$0.87 for the three months ended September 30, 2017. Dividends declared per common share were \$2.67 for the nine months ended September 30, 2018 and \$2.61 for the nine months ended September 30, 2017.

**Equity Forward Sale Agreements**

In June 2018, Entergy marketed an equity offering of 15.3 million shares of common stock. In lieu of issuing equity at the time of the offering, Entergy entered into forward sale agreements with various investment banks. No

amounts have or will be recorded on Entergy's balance sheet with respect to the equity offering until settlements of the equity forwards occur. The equity forwards require Entergy to, at its election prior to June 7, 2019, either (i) physically settle the transactions by issuing the total of 15.3 million shares of its common stock to the investment banks in exchange for net proceeds at the then-applicable forward sale price specified by the agreements (initially \$74.45 per share) or (ii) net settle the transactions in whole or in part through the delivery or receipt of cash or shares. The forward sale price is subject to adjustment on a daily basis based on a floating interest rate factor and will decrease by other fixed amounts specified in the agreements.

If Entergy elects physical settlement of the forward sale agreements, it expects to use the net proceeds for general corporate purposes, which may include repayment of commercial paper, outstanding loans under Entergy's revolving credit facility, or other debt.

Until settlement of the equity forwards, earnings per share dilution resulting from the agreements, if any, will be determined under the treasury stock method. Share dilution occurs when the average market price of Entergy's common stock is higher than the average forward sales price. If Entergy had elected to net share settle the forward sale agreements as of September 30, 2018, Entergy would have been required to deliver 1.4 million shares.

### **Treasury Stock**

During the nine months ended September 30, 2018, Entergy Corporation issued 613,662 shares of its previously repurchased common stock to satisfy stock option exercises, vesting of shares of restricted stock, and other stock-based awards. Entergy Corporation did not repurchase any of its common stock during the nine months ended September 30, 2018.

### **Retained Earnings**

On October 26, 2018, Entergy Corporation's Board of Directors declared a common stock dividend of \$0.91 per share, payable on December 3, 2018, to holders of record as of November 8, 2018.

Entergy implemented ASU No. 2016-01 "Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" effective January 1, 2018. The ASU requires investments in equity securities, excluding those accounted for under the equity method or resulting in consolidation of the investee, to be measured at fair value with changes recognized in net income. Entergy implemented this standard using a modified retrospective method, and recorded an adjustment increasing retained earnings and reducing accumulated other comprehensive income by \$633 million as of January 1, 2018 for the cumulative effect of the unrealized gains and losses on investments in equity securities held by the decommissioning trust funds that do not meet the criteria for regulatory accounting treatment. See Note 9 to the financial statements herein for further discussion of effects of the new standard.

Entergy implemented ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" effective January 1, 2018. The ASU requires entities to recognize the income tax consequences of intra-entity asset transfers, other than inventory, at the time the transfer occurs. Entergy implemented this standard using a modified retrospective method, and recorded an adjustment decreasing retained earnings by \$56 million as of January 1, 2018 for the cumulative effect of recording deferred tax assets on previously-recognized intra-entity asset transfers.

Entergy adopted ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," in the first quarter 2018. The ASU allows a one-time reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act that would otherwise be stranded in accumulated other comprehensive income. Entergy's policy for releasing income tax effects from accumulated other comprehensive income for available-for-sale securities is to use the portfolio approach. Entergy elected to reclassify the \$15.5 million

of stranded tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act to retained earnings (\$32 million decrease) or the regulatory liability for income taxes (\$16.5 million increase). Entergy's reclassification only includes the effect of the change in the federal corporate income tax rate on accumulated other comprehensive income.

### **Comprehensive Income**

Accumulated other comprehensive income (loss) is included in the equity section of the balance sheets of Entergy and Entergy Louisiana. The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the three months ended September 30, 2018 by component:

	<b>Cash flow hedges net unrealized gain (loss)</b>	<b>Pension and other postretirement liabilities</b>	<b>Net unrealized investment gain (loss)</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	(In Thousands)			
Beginning balance, July 1, 2018	(\$14,874)	(\$589,926)	(\$8,842)	(\$613,642)
Other comprehensive income (loss) before reclassifications	(40,401)	—	(7,173)	(47,574)
Amounts reclassified from accumulated other comprehensive income (loss)	8,397	15,265	5,428	29,090
Net other comprehensive income (loss) for the period	(32,004)	15,265	(1,745)	(18,484)
Ending balance, September 30, 2018	<u>(\$46,878)</u>	<u>(\$574,661)</u>	<u>(\$10,587)</u>	<u>(\$632,126)</u>

The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the three months ended September 30, 2017 by component:

	<b>Cash flow hedges net unrealized gain (loss)</b>	<b>Pension and other postretirement liabilities</b>	<b>Net unrealized investment gain (loss)</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	(In Thousands)			
Beginning balance, July 1, 2017	\$23,414	(\$449,898)	\$479,257	\$52,773
Other comprehensive income (loss) before reclassifications	27,884	—	35,630	63,514
Amounts reclassified from accumulated other comprehensive income (loss)	(14,671)	12,297	(2,235)	(4,609)
Net other comprehensive income (loss) for the period	13,213	12,297	33,395	58,905
Ending balance, September 30, 2017	<u>\$36,627</u>	<u>(\$437,601)</u>	<u>\$512,652</u>	<u>\$111,678</u>

The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the nine months ended September 30, 2018 by component:

	<b>Cash flow hedges net unrealized gain (loss)</b>	<b>Pension and other postretirement liabilities</b>	<b>Net unrealized investment gain (loss)</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	(In Thousands)			
Ending balance, December 31, 2017	(\$37,477)	(\$531,099)	\$545,045	(\$23,531)
Implementation of accounting standards	—	—	(632,617)	(632,617)
Beginning balance, January 1, 2018	(\$37,477)	(\$531,099)	(\$87,572)	(\$656,148)
Other comprehensive income (loss) before reclassifications	(31,816)	—	(50,958)	(82,774)
Amounts reclassified from accumulated other comprehensive income (loss)	30,171	47,404	13,716	91,291
Net other comprehensive income (loss) for the period	(1,645)	47,404	(37,242)	8,517
Reclassification pursuant to ASU 2018-02	(7,756)	(90,966)	114,227	15,505
Ending balance, September 30, 2018	(\$46,878)	(\$574,661)	(\$10,587)	(\$632,126)

The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the nine months ended September 30, 2017 by component:

	<b>Cash flow hedges net unrealized gain (loss)</b>	<b>Pension and other postretirement liabilities</b>	<b>Net unrealized investment gain (loss)</b>	<b>Foreign currency translation</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	(In Thousands)				
Beginning balance, January 1, 2017	\$3,993	(\$469,446)	\$429,734	\$748	(\$34,971)
Other comprehensive income (loss) before reclassifications	88,550	—	109,372	(748)	197,174
Amounts reclassified from accumulated other comprehensive income (loss)	(55,916)	31,845	(26,454)	—	(50,525)
Net other comprehensive income (loss) for the period	32,634	31,845	82,918	(748)	146,649
Ending balance, September 30, 2017	\$36,627	(\$437,601)	\$512,652	\$—	\$111,678

The following table presents changes in accumulated other comprehensive income (loss) for Entergy Louisiana for the three months ended September 30, 2018 and 2017:

	<b>Pension and Other Postretirement Liabilities</b>	
	<b>2018</b>	<b>2017</b>
	(In Thousands)	
Beginning balance, July 1,	(\$57,451)	(\$49,122)
Amounts reclassified from accumulated other comprehensive income (loss)	(500)	(370)
Net other comprehensive income (loss) for the period	(500)	(370)
Ending balance, September 30,	(\$57,951)	(\$49,492)

The following table presents changes in accumulated other comprehensive income (loss) for Entergy Louisiana for the nine months ended September 30, 2018 and 2017:

	<b>Pension and Other Postretirement Liabilities</b>	
	<b>2018</b>	<b>2017</b>
	(In Thousands)	
Beginning balance, January 1,	(\$46,400)	(\$48,442)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,502)	(1,050)
Net other comprehensive income (loss) for the period	(1,502)	(1,050)
Reclassification pursuant to ASU 2018-02	(10,049)	—
Ending balance, September 30,	(\$57,951)	(\$49,492)

Total reclassifications out of accumulated other comprehensive income (loss) (AOCI) into income for Entergy for the three months ended September 30, 2018 and 2017 are as follows:

	Amounts reclassified from AOCI		Income Statement Location
	2018	2017	
	(In Thousands)		
Cash flow hedges net unrealized gain (loss)			
Power contracts	(\$10,566)	\$22,756	Competitive business operating revenues
Interest rate swaps	(63)	(185)	Miscellaneous - net
Total realized gain (loss) on cash flow hedges	(10,629)	22,571	
	2,232	(7,900)	Income taxes
Total realized gain (loss) on cash flow hedges (net of tax)	(\$8,397)	\$14,671	
Pension and other postretirement liabilities			
Amortization of prior-service credit	\$5,425	\$6,565	(a)
Amortization of loss	(24,740)	(21,480)	(a)
Settlement loss	(76)	(4,200)	(a)
Total amortization	(19,391)	(19,115)	
	4,126	6,818	Income taxes
Total amortization (net of tax)	(\$15,265)	(\$12,297)	
Net unrealized investment gain (loss)			
Realized gain (loss)	(\$8,589)	\$4,382	Interest and investment income
	3,161	(2,147)	Income taxes
Total realized investment gain (loss) (net of tax)	(\$5,428)	\$2,235	
Total reclassifications for the period (net of tax)	(\$29,090)	\$4,609	

- (a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other postretirement cost. See Note 6 to the financial statements herein for additional details.



Total reclassifications out of accumulated other comprehensive income (loss) (AOCI) into income for Entergy for the nine months ended September 30, 2018 and 2017 are as follows:

	<b>Amounts reclassified from AOCI</b>		<b>Income Statement Location</b>
	<b>2018</b>	<b>2017</b>	
	(In Thousands)		
Cash flow hedges net unrealized gain (loss)			
Power contracts	(\$37,913)	\$86,678	Competitive business operating revenues
Interest rate swaps	(278)	(654)	Miscellaneous - net
Total realized gain (loss) on cash flow hedges	(38,191)	86,024	
	8,020	(30,108)	Income taxes
Total realized gain (loss) on cash flow hedges (net of tax)	(\$30,171)	\$55,916	
Pension and other postretirement liabilities			
Amortization of prior-service credit	\$16,278	\$19,691	(a)
Amortization of loss	(74,503)	(64,605)	(a)
Settlement loss	(2,098)	(5,965)	(a)
Total amortization	(60,323)	(50,879)	
	12,919	19,034	Income taxes
Total amortization (net of tax)	(\$47,404)	(\$31,845)	
Net unrealized investment gain (loss)			
Realized gain (loss)	(\$21,703)	\$51,871	Interest and investment income
	7,987	(25,417)	Income taxes
Total realized investment gain (loss) (net of tax)	(\$13,716)	\$26,454	
Total reclassifications for the period (net of tax)	(\$91,291)	\$50,525	

- (a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other postretirement cost. See Note 6 to the financial statements herein for additional details.

Total reclassifications out of accumulated other comprehensive income (loss) (AOCI) into income for Entergy Louisiana for the three months ended September 30, 2018 and 2017 are as follows:

	Amounts reclassified from AOCI		Income Statement Location
	2018	2017	
	(In Thousands)		
Pension and other postretirement liabilities			
Amortization of prior-service credit	\$1,934	\$1,934	(a)
Amortization of loss	(1,257)	(1,332)	(a)
Total amortization	677	602	
	(177)	(232)	Income taxes
Total amortization (net of tax)	500	370	
Total reclassifications for the period (net of tax)	\$500	\$370	

- (a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other postretirement cost. See Note 6 to the financial statements herein for additional details.

Total reclassifications out of accumulated other comprehensive income (loss) (AOCI) into income for Entergy Louisiana for the nine months ended September 30, 2018 and 2017 are as follows:

	Amounts reclassified from AOCI		Income Statement Location
	2018	2017	
	(In Thousands)		
Pension and other postretirement liabilities			
Amortization of prior-service credit	\$5,802	\$5,802	(a)
Amortization of loss	(3,770)	(3,996)	(a)
Total amortization	2,032	1,806	
	(530)	(756)	Income taxes
Total amortization (net of tax)	1,502	1,050	
Total reclassifications for the period (net of tax)	\$1,502	\$1,050	

- (a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other postretirement cost. See Note 6 to the financial statements herein for additional details.

**NOTE 4. REVOLVING CREDIT FACILITIES, LINES OF CREDIT, SHORT-TERM BORROWINGS, AND LONG-TERM DEBT (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

Entergy Corporation has in place a credit facility that has a borrowing capacity of \$3.5 billion and expires in September 2023. The facility includes fronting commitments for the issuance of letters of credit against \$20 million of the total borrowing capacity of the credit facility. The commitment fee is currently 0.225% of the undrawn commitment amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior unsecured debt ratings of Entergy Corporation. The weighted average interest rate for the nine months ended September 30, 2018 was 3.46% on the drawn portion of the facility. Following is a summary of the borrowings outstanding and capacity available under the facility as of September 30, 2018.

<b>Capacity</b>	<b>Borrowings</b>	<b>Letters of Credit</b>	<b>Capacity Available</b>
(In Millions)			
\$3,500	\$630	\$6	\$2,864

Entergy Corporation's credit facility requires Entergy to maintain a consolidated debt ratio, as defined, of 65% or less of its total capitalization. Entergy is in compliance with this covenant. If Entergy fails to meet this ratio, or if Entergy Corporation or one of the Utility operating companies (except Entergy New Orleans) defaults on other indebtedness or is in bankruptcy or insolvency proceedings, an acceleration of the facility maturity date may occur.

Entergy Corporation has a commercial paper program with a Board-approved program limit of up to \$2 billion. At September 30, 2018, Entergy Corporation had approximately \$1,947 million of commercial paper outstanding. The weighted-average interest rate for the nine months ended September 30, 2018 was 2.42%.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each had credit facilities available as of September 30, 2018 as follows:

<b>Company</b>	<b>Expiration Date</b>	<b>Amount of Facility</b>	<b>Interest Rate (a)</b>	<b>Amount Drawn as of September 30, 2018</b>	<b>Letters of Credit Outstanding as of September 30, 2018</b>
Entergy Arkansas	April 2019	\$20 million (b)	3.49%	\$—	\$—
Entergy Arkansas	September 2023	\$150 million (c)	3.49%	\$—	\$—
Entergy Louisiana	September 2023	\$350 million (c)	3.49%	\$—	\$—
Entergy Mississippi	May 2019	\$37.5 million (d)	3.74%	\$—	\$—
Entergy Mississippi	May 2019	\$35 million (d)	3.74%	\$—	\$—
Entergy Mississippi	May 2019	\$10 million (d)	3.74%	\$—	\$—
Entergy New Orleans	November 2018	\$25 million (c)	3.72%	\$—	\$0.8 million
Entergy Texas	September 2023	\$150 million (c)	3.74%	\$—	\$1.3 million

- (a) For credit facilities with no borrowings as of September 30, 2018, the interest rate is the estimated interest rate as of September 30, 2018 that would have been applied to outstanding borrowings under the facility.
- (b) Borrowings under the Entergy Arkansas credit facility may be secured by a security interest in its accounts receivable at Entergy Arkansas's option.
- (c) The credit facility includes fronting commitments for the issuance of letters of credit against a portion of the borrowing capacity of the facility as follows: \$5 million for Entergy Arkansas; \$15 million for Entergy Louisiana; \$10 million for Entergy New Orleans; and \$30 million for Entergy Texas.
- (d) Borrowings under the Entergy Mississippi credit facilities may be secured by a security interest in its accounts receivable at Entergy Mississippi's option.

The commitment fees on the credit facilities range from 0.075% to 0.275% of the undrawn commitment amount. Each of the credit facilities requires the Registrant Subsidiary borrower to maintain a debt ratio, as defined, of 65% or less of its total capitalization. Each Registrant Subsidiary is in compliance with this covenant.

In addition, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each entered into uncommitted standby letter of credit facilities as a means to post collateral to support its obligations to MISO. Following is a summary of the uncommitted standby letter of credit facilities as of September 30, 2018:

<b>Company</b>	<b>Amount of Uncommitted Facility</b>	<b>Letter of Credit Fee</b>	<b>Letters of Credit Issued as of September 30, 2018 (a)</b>
Entergy Arkansas	\$25 million	0.70%	\$1 million
Entergy Louisiana	\$125 million	0.70%	\$22 million
Entergy Mississippi	\$40 million	0.70%	\$11.2 million
Entergy New Orleans	\$15 million	1.00%	\$2.1 million
Entergy Texas	\$50 million	0.70%	\$20 million

- (a) As of September 30, 2018, letters of credit posted with MISO covered financial transmission rights exposure of \$1 million for Entergy Arkansas, \$0.2 million for Entergy Mississippi, and \$3.6 million for Entergy Texas. See Note 8 to the financial statements herein for discussion of financial transmission rights.

The short-term borrowings of the Registrant Subsidiaries are limited to amounts authorized by the FERC. The current FERC-authorized limits are effective through October 31, 2019. In addition to borrowings from commercial banks, these companies may also borrow from the Entergy System money pool and from other internal short-term borrowing arrangements. The money pool and the other internal borrowing arrangements are inter-company borrowing arrangements designed to reduce the Utility subsidiaries' dependence on external short-term borrowings. Borrowings from internal and external short term borrowings combined may not exceed the FERC-authorized limits. The following are the FERC-authorized limits for short-term borrowings and the outstanding short-term borrowings as of September 30, 2018 (aggregating both internal and external short-term borrowings) for the Registrant Subsidiaries:

	<b>Authorized</b>	<b>Borrowings</b>
	(In Millions)	
Entergy Arkansas	\$250	\$—
Entergy Louisiana	\$450	\$—
Entergy Mississippi	\$175	\$34
Entergy New Orleans	\$150	\$—
Entergy Texas	\$200	\$—
System Energy	\$200	\$—

#### **Entergy Nuclear Vermont Yankee Credit Facility**

Entergy Nuclear Vermont Yankee has a credit facility guaranteed by Entergy Corporation with a borrowing capacity of \$145 million that expires in November 2020. Entergy Nuclear Vermont Yankee does not have the ability to issue letters of credit against the credit facility. This facility provides working capital to Entergy Nuclear Vermont Yankee for general business purposes including, without limitation, the decommissioning of Vermont Yankee. The commitment fee is currently 0.20% of the undrawn commitment amount. As of September 30, 2018, \$132 million in cash borrowings were outstanding under the credit facility. The weighted average interest rate for the nine months ended September 30, 2018 was 3.37% on the drawn portion of the facility.

#### **Variable Interest Entities (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, and System Energy)**

See Note 17 to the financial statements in the Form 10-K for a discussion of the consolidation of the nuclear fuel company variable interest entities (VIEs). To finance the acquisition and ownership of nuclear fuel, the nuclear fuel company VIEs have credit facilities and three of the four VIEs also issued commercial paper as of September 30, 2018 as follows:

<b>Company</b>	<b>Expiration Date</b>	<b>Amount of Facility</b>	<b>Weighted Average Interest Rate on Borrowings (a)</b>	<b>Amount Outstanding as of September 30, 2018</b>
(Dollars in Millions)				
Entergy Arkansas VIE	September 2021	\$80	3.18%	\$70.4
Entergy Louisiana River Bend VIE	September 2021	\$105	3.18%	\$34.5
Entergy Louisiana Waterford VIE	September 2021	\$105	3.18%	\$30.5
System Energy VIE	September 2021	\$120	3.18%	\$37.7

- (a) Includes letter of credit fees and bank fronting fees on commercial paper issuances by the nuclear fuel company variable interest entities for Entergy Arkansas, Entergy Louisiana, and System Energy. The nuclear fuel company variable interest entity for Entergy Louisiana River Bend does not issue commercial paper, but borrows directly on its bank credit facility.

The commitment fees on the credit facilities are 0.10% of the undrawn commitment amount for the Entergy Arkansas, Entergy Louisiana, and System Energy VIEs. Each credit facility requires the respective lessee of nuclear fuel (Entergy Arkansas, Entergy Louisiana, or Entergy Corporation as guarantor for System Energy) to maintain a consolidated debt ratio, as defined, of 70% or less of its total capitalization.

The nuclear fuel company variable interest entities had notes payable that are included in debt on the respective balance sheets as of September 30, 2018 as follows:

<b>Company</b>	<b>Description</b>	<b>Amount</b>
Entergy Arkansas VIE	3.65% Series L due July 2021	\$90 million
Entergy Arkansas VIE	3.17% Series M due December 2023	\$40 million
Entergy Louisiana River Bend VIE	3.38% Series R due August 2020	\$70 million
Entergy Louisiana Waterford VIE	3.92% Series H due February 2021	\$40 million
Entergy Louisiana Waterford VIE	3.22% Series I due December 2023	\$20 million
System Energy VIE	3.78% Series I due October 2018	\$85 million
System Energy VIE	3.42% Series J due April 2021	\$100 million

In accordance with regulatory treatment, interest on the nuclear fuel company variable interest entities' credit facilities, commercial paper, and long-term notes payable is reported in fuel expense.

### **Debt Issuances and Retirements**

(Entergy Arkansas)

In May 2018, Entergy Arkansas issued \$250 million of 4.00% Series first mortgage bonds due June 2028. Entergy Arkansas expects to use the proceeds, together with other funds, to redeem \$9.35 million of its 4.72% Series preferred stock, \$7 million of its 4.32% Series preferred stock, and \$15 million of its 4.56% Series preferred stock, and for general corporate purposes.

(Entergy Louisiana)

In March 2018, Entergy Louisiana issued \$750 million of 4.00% collateral trust mortgage bonds due March 2033. Entergy Louisiana used a portion of the proceeds to repay at maturity its \$375 million of 6.0% Series first mortgage bonds due May 2018; to repay borrowings from the money pool; and to repay borrowings under its \$350

million credit facility. The remaining proceeds, together with other funds, are being used to finance the construction of the Lake Charles Power Station and St. Charles Power Station, and for general corporate purposes.

In August 2018, Entergy Louisiana issued \$600 million of 4.20% collateral trust mortgage bonds due September 2048. Entergy Louisiana used a portion of the proceeds to repay at maturity its \$300 million of 6.5% Series first mortgage bonds due September 2018. The remaining proceeds, together with other funds, are being used to finance the construction of the Lake Charles Power Station and St. Charles Power Station, and for general corporate purposes.

(Entergy New Orleans)

In September 2018, Entergy New Orleans issued \$60 million of 4.51% Series first mortgage bonds due September 2033. Entergy New Orleans is using the proceeds for general corporate purposes.

(System Energy)

In March 2018 the System Energy nuclear fuel trust variable interest entity issued \$100 million of 3.42% Series J notes due April 2021. The System Energy nuclear fuel trust variable interest entity used the proceeds to purchase nuclear fuel.

In October 2018 the System Energy nuclear fuel trust variable interest entity paid, at maturity, its \$85 million of 3.78% Series I notes.

### **Fair Value**

The book value and the fair value of long-term debt for Entergy Corporation and the Registrant Subsidiaries as of September 30, 2018 are as follows:

	<b>Book Value of Long-Term Debt</b>	<b>Fair Value of Long-Term Debt (a) (b)</b>
	(In Thousands)	
Entergy	\$16,515,836	\$16,232,180
Entergy Arkansas	\$3,242,282	\$3,031,681
Entergy Louisiana	\$6,761,123	\$6,757,649
Entergy Mississippi	\$1,270,830	\$1,234,124
Entergy New Orleans	\$491,570	\$499,764
Entergy Texas	\$1,527,817	\$1,546,101
System Energy	\$639,455	\$610,485

- (a) The values exclude lease obligations of \$34 million at System Energy and long-term DOE obligations of \$186 million at Entergy Arkansas, and include debt due within one year.
- (b) Fair values are classified as Level 2 in the fair value hierarchy discussed in Note 8 to the financial statements herein.

The book value and the fair value of long-term debt for Entergy Corporation and the Registrant Subsidiaries as of December 31, 2017 were as follows:

	<b>Book Value of Long-Term Debt</b>	<b>Fair Value of Long-Term Debt (a) (b)</b>
	(In Thousands)	
Entergy	\$15,075,266	\$15,367,453
Entergy Arkansas	\$2,952,399	\$2,865,844
Entergy Louisiana	\$6,144,071	\$6,389,774
Entergy Mississippi	\$1,270,122	\$1,285,741
Entergy New Orleans	\$436,870	\$455,968
Entergy Texas	\$1,587,150	\$1,661,902
System Energy	\$551,488	\$529,119

- (a) The values exclude the lease obligations of \$34 million at System Energy and long-term DOE obligations of \$183 million at Entergy Arkansas, and include debt due within one year.
- (b) Fair values are classified as Level 2 in the fair value hierarchy discussed in Note 8 to the financial statements herein.

#### **NOTE 5. STOCK-BASED COMPENSATION (Entergy Corporation)**

Entergy grants stock and stock-based awards, which are described more fully in Note 12 to the financial statements in the Form 10-K. Awards under Entergy's plans generally vest over three years.

##### **Stock Options**

Entergy granted options on 687,400 shares of its common stock under the 2015 Equity Ownership Plan during the first quarter 2018 with a fair value of \$6.99 per option. As of September 30, 2018, there were options on 4,071,301 shares of common stock outstanding with a weighted-average exercise price of \$74.53. The intrinsic value, which has no effect on net income, of the outstanding stock options is calculated by the positive difference between the weighted average exercise price of the stock options granted and Entergy Corporation's common stock price as of September 30, 2018. The aggregate intrinsic value of the stock options outstanding as of September 30, 2018 was \$26.9 million.

The following table includes financial information for outstanding stock options for the three months ended September 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
	(In Millions)	
Compensation expense included in Entergy's net income	\$1.1	\$1.1
Tax benefit recognized in Entergy's net income	\$0.2	\$0.5
Compensation cost capitalized as part of fixed assets and inventory	\$0.1	\$0.2

The following table includes financial information for outstanding stock options for the nine months ended September 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
	(In Millions)	
Compensation expense included in Entergy's net income	\$3.3	\$3.3
Tax benefit recognized in Entergy's net income	\$0.8	\$1.3
Compensation cost capitalized as part of fixed assets and inventory	\$0.5	\$0.6

### Other Equity Awards

In January 2018 the Board approved and Entergy granted 333,850 restricted stock awards and 182,408 long-term incentive awards under the 2015 Equity Ownership Plan. The restricted stock awards were made effective as of January 25, 2018 and were valued at \$78.08 per share, which was the closing price of Entergy's common stock on that date. One-third of the restricted stock awards will vest upon each anniversary of the grant date. In addition, long-term incentive awards were granted in the form of performance units that represent the value of, and are settled with, one share of Entergy Corporation common stock at the end of the three-year performance period, plus dividends accrued during the performance period on the number of performance units earned. For the 2018-2020 performance period, a cumulative utility earnings metric was added to the Long-Term Performance Unit Program to supplement the relative total shareholder return measure that historically has been used in this program with each measure equally weighted. The performance units were granted effective as of January 25, 2018 and half were valued at \$78.08 per share, the closing price of Entergy's common stock on that date; and half were valued at \$86.75 per share based on various factors, primarily market conditions. See Note 12 to the financial statements in the Form 10-K for a description of the Long-Term Performance Unit Program. Shares of restricted stock have the same dividend and voting rights as other common stock, are considered issued and outstanding shares of Entergy upon vesting, and are expensed ratably over the 3-year vesting period. Performance units have the same dividend rights as shares of Entergy common stock, are considered issued and outstanding shares of Entergy upon vesting, and are expensed ratably over the 3-year vesting period.

The following table includes financial information for other outstanding equity awards for the three months ended September 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
	(In Millions)	
Compensation expense included in Entergy's net income	\$8.5	\$7.6
Tax benefit recognized in Entergy's net income	\$2.2	\$3.0
Compensation cost capitalized as part of fixed assets and inventory	\$2.5	\$2.1

The following table includes financial information for other outstanding equity awards for the nine months ended September 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
	(In Millions)	
Compensation expense included in Entergy's net income	\$26.0	\$24.1
Tax benefit recognized in Entergy's net income	\$6.6	\$9.3
Compensation cost capitalized as part of fixed assets and inventory	\$7.3	\$6.3



**NOTE 6. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

Entergy implemented ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" effective January 1, 2018. The ASU requires entities to report the service cost component of defined benefit pension cost and postretirement benefit cost (net benefit cost) in the same line item as other compensation costs arising from services rendered during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations and are presented by Entergy in miscellaneous - net in other income. The amendment regarding the presentation of net benefit cost was required to be applied retrospectively for all periods presented. In addition, the ASU allows only the service cost component of net benefit cost to be eligible for capitalization on a prospective basis. In accordance with the regulatory treatment of net benefit cost of the Registrant Subsidiaries, a regulatory asset/liability will be recorded in other regulatory assets/liabilities for the non-service cost components of net benefit cost that would have been capitalized.

The retroactive presentation changes resulted in decreases in other operation and maintenance expenses and decreases in other income for the three months ended September 30, 2017, with no change in net income, of \$30 million for Entergy. The retroactive presentation changes resulted in decreases in other operation and maintenance expenses and decreases in other income for the nine months ended September 30, 2017, with no change in net income, of \$76 million for Entergy.

The retroactive presentation changes resulted in decreases (increases) in other operation and maintenance expenses and decreases (increases) in other income for the three months ended September 30, 2017 and for the nine months ended September 30, 2017, with no change in net income, of the following for the Registrant Subsidiaries:

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Three months ended September 30, 2017	\$3,515	\$8,585	\$778	\$356	\$43	\$1,521
Nine months ended September 30, 2017	\$9,995	\$20,942	\$1,862	\$794	(\$194)	\$4,778

The retroactive effect of the change for the years ended December 31, 2017, 2016, and 2015 would be decreases in other operation and maintenance expenses and decreases in other income, with no change in net income, of \$101 million, \$71 million, and \$148 million, respectively, for Entergy.

The retroactive effect of the change for the years ended December 31, 2017, 2016, and 2015 would be decreases (increases) in other operation and maintenance expenses and decreases (increases) in other income, with no change in net income, of the following for the Registrant Subsidiaries:

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
For the Year Ended December 31, 2017	\$13,668	\$27,796	\$2,742	\$1,293	\$179	\$6,190
For the Year Ended December 31, 2016	\$13,392	\$26,118	\$2,424	\$1,014	(\$1,054)	\$5,088
For the Year Ended December 31, 2015	\$30,671	\$50,686	\$6,268	\$3,975	\$4,000	\$10,213

### Components of Qualified Net Pension Cost

Entergy's qualified pension cost, including amounts capitalized, for the third quarters of 2018 and 2017, included the following components:

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$38,752	\$33,410
Interest cost on projected benefit obligation	66,854	65,206
Expected return on assets	(110,535)	(102,056)
Amortization of prior service cost	99	65
Amortization of loss	68,526	56,930
Net pension costs	<u>\$63,696</u>	<u>\$53,555</u>

Entergy's qualified pension cost, including amounts capitalized, for the nine months ended September 30, 2018 and 2017, included the following components:

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$116,256	\$100,230
Interest cost on projected benefit obligation	200,562	195,618
Expected return on assets	(331,605)	(306,168)
Amortization of prior service cost	297	195
Amortization of loss	205,578	170,790
Net pension costs	<u>\$191,088</u>	<u>\$160,665</u>

The Registrant Subsidiaries' qualified pension cost, including amounts capitalized, for their employees for the third quarters of 2018 and 2017, included the following components:

<u>2018</u>	<u>Entergy Arkansas</u>	<u>Entergy Louisiana</u>	<u>Entergy Mississippi</u>	<u>Entergy New Orleans</u>	<u>Entergy Texas</u>	<u>System Energy</u>
	(In Thousands)					
Service cost - benefits earned during the period	\$6,189	\$8,446	\$1,822	\$673	\$1,589	\$1,776
Interest cost on projected benefit obligation	13,004	14,940	3,769	1,813	3,348	3,227
Expected return on assets	(21,851)	(24,809)	(6,502)	(2,993)	(6,523)	(4,991)
Amortization of loss	13,412	14,450	3,610	1,954	2,626	3,715
Net pension cost	<u>\$10,754</u>	<u>\$13,027</u>	<u>\$2,699</u>	<u>\$1,447</u>	<u>\$1,040</u>	<u>\$3,727</u>
<u>2017</u>	<u>Entergy Arkansas</u>	<u>Entergy Louisiana</u>	<u>Entergy Mississippi</u>	<u>Entergy New Orleans</u>	<u>Entergy Texas</u>	<u>System Energy</u>
	(In Thousands)					
Service cost - benefits earned during the period	\$5,090	\$6,925	\$1,472	\$625	\$1,364	\$1,536
Interest cost on projected benefit obligation	12,944	14,809	3,732	1,791	3,392	3,091
Expected return on assets	(20,427)	(23,017)	(6,131)	(2,800)	(6,180)	(4,663)
Amortization of loss	11,640	12,354	3,053	1,658	2,310	2,964
Net pension cost	<u>\$9,247</u>	<u>\$11,071</u>	<u>\$2,126</u>	<u>\$1,274</u>	<u>\$886</u>	<u>\$2,928</u>

The Registrant Subsidiaries' qualified pension cost, including amounts capitalized, for their employees for the nine months ended September 30, 2018 and 2017, included the following components:

<b>2018</b>	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Service cost - benefits earned during the period	\$18,567	\$25,338	\$5,466	\$2,019	\$4,767	\$5,328
Interest cost on projects benefit obligation	39,012	44,820	11,307	5,439	10,044	9,681
Expected return on assets	(65,553)	(74,427)	(19,506)	(8,979)	(19,569)	(14,973)
Amortization of loss	40,236	43,350	10,830	5,862	7,878	11,145
Net pension cost	<u>\$32,262</u>	<u>\$39,081</u>	<u>\$8,097</u>	<u>\$4,341</u>	<u>\$3,120</u>	<u>\$11,181</u>
<b>2017</b>	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Service cost - benefits earned during the period	\$15,270	\$20,775	\$4,416	\$1,875	\$4,092	\$4,608
Interest cost on projected benefit obligation	38,832	44,427	11,196	5,373	10,176	9,273
Expected return on assets	(61,281)	(69,051)	(18,393)	(8,400)	(18,540)	(13,989)
Amortization of loss	34,920	37,062	9,159	4,974	6,930	8,892
Net pension cost	<u>\$27,741</u>	<u>\$33,213</u>	<u>\$6,378</u>	<u>\$3,822</u>	<u>\$2,658</u>	<u>\$8,784</u>

#### **Non-Qualified Net Pension Cost**

Entergy recognized \$4.2 million and \$15.8 million in pension cost for its non-qualified pension plans in the third quarters of 2018 and 2017, respectively. Reflected in the pension cost for non-qualified pension plans in the third quarters of 2018 and 2017 were settlement charges of \$212 thousand and \$11.6 million, respectively, related to the payment of lump sum benefits out of the plan. Entergy recognized \$19.7 million and \$28.9 million in pension cost for its non-qualified pension plans for the nine months ended September 30, 2018 and 2017, respectively. Reflected in the pension cost for non-qualified pension plans for the nine months ended September 30, 2018 and 2017 were settlement charges of \$7 million and \$15.5 million, respectively, related to the payment of lump sum benefits out of this plan.

The Registrant Subsidiaries recognized the following pension cost for their employees for their non-qualified pension plans for the third quarters of 2018 and 2017:

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>
	(In Thousands)				
2018	\$114	\$42	\$73	\$20	\$122
2017	\$111	\$46	\$62	\$18	\$124

Reflected in Entergy Arkansas's non-qualified pension costs in the third quarters of 2018 and 2017, were settlement charges of \$7 thousand and \$10 thousand, respectively, related to the payment of lump sum benefits out of the plan.

The Registrant Subsidiaries recognized the following pension cost for their employees for their non-qualified pension plans for the nine months ended September 30, 2018 and 2017:

	<u>Entergy Arkansas</u>	<u>Entergy Louisiana</u>	<u>Entergy Mississippi</u>	<u>Entergy New Orleans</u>	<u>Entergy Texas</u>
	(In Thousands)				
2018	\$369	\$138	\$230	\$62	\$529
2017	\$483	\$141	\$189	\$55	\$377

Reflected in Entergy Arkansas's non-qualified pension costs for the nine months ended September 30, 2018 and 2017, were settlement charges of \$30 thousand and \$173 thousand, respectively, related to the payment of lump sum benefits out of the plan. Reflected in Entergy Texas's non-qualified pension costs for the nine months ended September 30, 2018 were settlement charges of \$139 thousand related to the payment of lump sum benefits out of the plan.

### **Components of Net Other Postretirement Benefit Cost**

Entergy's other postretirement benefit cost, including amounts capitalized, for the third quarters of 2018 and 2017, included the following components:

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$6,782	\$6,729
Interest cost on accumulated postretirement benefit obligation (APBO)	12,681	13,960
Expected return on assets	(10,373)	(9,408)
Amortization of prior service credit	(9,251)	(10,356)
Amortization of loss	3,432	5,476
Net other postretirement benefit cost	<u>\$3,271</u>	<u>\$6,401</u>

Entergy's other postretirement benefit cost, including amounts capitalized, for the nine months ended September 30, 2018 and 2017, included the following components:

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$20,346	\$20,187
Interest cost on accumulated postretirement benefit obligation (APBO)	38,043	41,880
Expected return on assets	(31,119)	(28,224)
Amortization of prior service credit	(27,753)	(31,068)
Amortization of loss	10,296	16,428
Net other postretirement benefit cost	<u>\$9,813</u>	<u>\$19,203</u>

The Registrant Subsidiaries' other postretirement benefit cost, including amounts capitalized, for their employees for the third quarters of 2018 and 2017, included the following components:

<b>2018</b>	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Service cost - benefits earned during the period	\$793	\$1,556	\$321	\$129	\$330	\$306
Interest cost on APBO	1,997	2,789	683	417	939	500
Expected return on assets	(4,342)	—	(1,303)	(1,313)	(2,446)	(783)
Amortization of prior service credit	(1,278)	(1,934)	(456)	(186)	(579)	(378)
Amortization of loss	289	388	377	34	206	233
Net other postretirement benefit cost	<u>(\$2,541)</u>	<u>\$2,799</u>	<u>(\$378)</u>	<u>(\$919)</u>	<u>(\$1,550)</u>	<u>(\$122)</u>
<b>2017</b>	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Service cost - benefits earned during the period	\$863	\$1,593	\$290	\$142	\$372	\$320
Interest cost on APBO	2,255	3,025	690	469	1,124	559
Expected return on assets	(3,959)	—	(1,200)	(1,159)	(2,180)	(717)
Amortization of prior service credit	(1,278)	(1,934)	(456)	(186)	(579)	(378)
Amortization of loss	1,115	465	419	105	826	390
Net other postretirement benefit cost	<u>(\$1,004)</u>	<u>\$3,149</u>	<u>(\$257)</u>	<u>(\$629)</u>	<u>(\$437)</u>	<u>\$174</u>

The Registrant Subsidiaries' other postretirement benefit cost, including amounts capitalized, for their employees for the nine months ended September 30, 2018 and 2017, included the following components:

<b>2018</b>	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>	<b>System Energy</b>
	(In Thousands)					
Service cost - benefits earned during the period	\$2,379	\$4,668	\$963	\$387	\$990	\$918
Interest cost on APBO	5,991	8,367	2,049	1,251	2,817	1,500
Expected return on assets	(13,026)	—	(3,909)	(3,939)	(7,338)	(2,349)
Amortization of prior service credit	(3,834)	(5,802)	(1,368)	(558)	(1,737)	(1,134)
Amortization of loss	867	1,164	1,131	102	618	699
Net other postretirement benefit cost	<u>(\$7,623)</u>	<u>\$8,397</u>	<u>(\$1,134)</u>	<u>(\$2,757)</u>	<u>(\$4,650)</u>	<u>(\$366)</u>

2017	Entergy Arkansas	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	Entergy Texas	System Energy
	(In Thousands)					
Service cost - benefits earned during the period	\$2,589	\$4,779	\$870	\$426	\$1,116	\$960
Interest cost on APBO	6,765	9,075	2,070	1,407	3,372	1,677
Expected return on assets	(11,877)	—	(3,600)	(3,477)	(6,540)	(2,151)
Amortization of prior service credit	(3,834)	(5,802)	(1,368)	(558)	(1,737)	(1,134)
Amortization of loss	3,345	1,395	1,257	315	2,478	1,170
Net other postretirement benefit cost	<u>(\$3,012)</u>	<u>\$9,447</u>	<u>(\$771)</u>	<u>(\$1,887)</u>	<u>(\$1,311)</u>	<u>\$522</u>

**Reclassification out of Accumulated Other Comprehensive Income (Loss)**

Entergy and Entergy Louisiana reclassified the following costs out of accumulated other comprehensive income (loss) (before taxes and including amounts capitalized) for the third quarters of 2018 and 2017:

2018	Qualified Pension Costs	Other Postretirement Costs	Non- Qualified Pension Costs	Total
	(In Thousands)			
<b>Entergy</b>				
Amortization of prior service (cost)/credit	(\$99)	\$5,595	(\$71)	\$5,425
Amortization of loss	(21,958)	(1,932)	(850)	(24,740)
Settlement loss	—	—	(76)	(76)
	<u>(\$22,057)</u>	<u>\$3,663</u>	<u>(\$997)</u>	<u>(\$19,391)</u>
<b>Entergy Louisiana</b>				
Amortization of prior service credit	\$—	\$1,934	\$—	\$1,934
Amortization of loss	(867)	(388)	(2)	(1,257)
	<u>(\$867)</u>	<u>\$1,546</u>	<u>(\$2)</u>	<u>\$677</u>
2017	Qualified Pension Costs	Other Postretirement Costs	Non- Qualified Pension Costs	Total
	(In Thousands)			
<b>Entergy</b>				
Amortization of prior service (cost)/credit	(\$65)	\$6,718	(\$88)	\$6,565
Amortization of loss	(18,451)	(2,202)	(827)	(21,480)
Settlement loss	—	—	(4,200)	(4,200)
	<u>(\$18,516)</u>	<u>\$4,516</u>	<u>(\$5,115)</u>	<u>(\$19,115)</u>
<b>Entergy Louisiana</b>				
Amortization of prior service credit	\$—	\$1,934	\$—	\$1,934
Amortization of loss	(865)	(465)	(2)	(1,332)
	<u>(\$865)</u>	<u>\$1,469</u>	<u>(\$2)</u>	<u>\$602</u>

Entergy and Entergy Louisiana reclassified the following costs out of accumulated other comprehensive income (loss) (before taxes and including amounts capitalized) for the nine months ended September 30, 2018 and 2017:

2018	Qualified Pension Costs	Other Postretirement Costs	Non-Qualified Pension Costs	Total
	(In Thousands)			
<b>Entergy</b>				
Amortization of prior service (cost)/credit	(\$297)	\$16,786	(\$211)	\$16,278
Amortization of loss	(65,870)	(5,801)	(2,832)	(74,503)
Settlement loss	—	—	(2,098)	(2,098)
	<u>(\$66,167)</u>	<u>\$10,985</u>	<u>(\$5,141)</u>	<u>(\$60,323)</u>
<b>Entergy Louisiana</b>				
Amortization of prior service credit	\$—	\$5,802	\$—	\$5,802
Amortization of loss	(2,601)	(1,164)	(5)	(3,770)
	<u>(\$2,601)</u>	<u>\$4,638</u>	<u>(\$5)</u>	<u>\$2,032</u>
2017	Qualified Pension Costs	Other Postretirement Costs	Non-Qualified Pension Costs	Total
	(In Thousands)			
<b>Entergy</b>				
Amortization of prior service (cost)/credit	(\$195)	\$20,152	(\$266)	\$19,691
Amortization of loss	(55,351)	(6,606)	(2,648)	(64,605)
Settlement loss	—	—	(5,965)	(5,965)
	<u>(\$55,546)</u>	<u>\$13,546</u>	<u>(\$8,879)</u>	<u>(\$50,879)</u>
<b>Entergy Louisiana</b>				
Amortization of prior service credit	\$—	\$5,802	\$—	\$5,802
Amortization of loss	(2,594)	(1,395)	(7)	(3,996)
	<u>(\$2,594)</u>	<u>\$4,407</u>	<u>(\$7)</u>	<u>\$1,806</u>

### Employer Contributions

Based on current assumptions, Entergy expects to contribute \$383.5 million to its qualified pension plans in 2018. As of September 30, 2018, Entergy had contributed \$315.6 million to its pension plans. Based on current assumptions, the Registrant Subsidiaries expect to contribute the following to qualified pension plans for their employees in 2018:

	Entergy Arkansas	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	Entergy Texas	System Energy
	(In Thousands)					
Expected 2018 pension contributions	\$64,062	\$71,919	\$14,933	\$7,250	\$10,883	\$13,786
Pension contributions made through September 2018	\$51,982	\$58,363	\$12,203	\$5,938	\$9,323	\$11,152
Remaining estimated pension contributions to be made in 2018	\$12,080	\$13,556	\$2,730	\$1,312	\$1,560	\$2,634

**NOTE 7. BUSINESS SEGMENT INFORMATION (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

**Entergy Corporation**

Entergy's reportable segments as of September 30, 2018 are Utility and Entergy Wholesale Commodities. Utility includes the generation, transmission, distribution, and sale of electric power in portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operation of a small natural gas distribution business. Entergy Wholesale Commodities includes the ownership, operation, and decommissioning of nuclear power plants located in the northern United States and the sale of the electric power produced by its operating plants to wholesale customers. Entergy Wholesale Commodities also provides services to other nuclear power plant owners and owns interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers. "All Other" includes the parent company, Entergy Corporation, and other business activity.

Entergy's segment financial information for the third quarters of 2018 and 2017 is as follows:

	<u>Utility</u>	<u>Entergy Wholesale Commodities</u>	<u>All Other</u>	<u>Eliminations</u>	<u>Entergy</u>
	(In Thousands)				
<b>2018</b>					
Operating revenues	\$2,724,279	\$380,080	\$—	(\$40)	\$3,104,319
Income taxes	(\$137,035)	(\$135,659)	(\$10,312)	\$—	(\$283,006)
Consolidated net income (loss)	\$507,745	\$105,571	(\$41,601)	(\$31,897)	\$539,818
<b>2017</b>					
Operating revenues	\$2,820,421	\$423,245	\$—	(\$38)	\$3,243,628
Income taxes	\$230,647	\$25,563	(\$14,415)	\$—	\$241,795
Consolidated net income (loss)	\$403,733	\$55,765	(\$25,956)	(\$31,898)	\$401,644

Entergy's segment financial information for the nine months ended September 30, 2018 and 2017 is as follows:

	<u>Utility</u>	<u>Entergy Wholesale Commodities</u>	<u>All Other</u>	<u>Eliminations</u>	<u>Entergy</u>
	(In Thousands)				
<b>2018</b>					
Operating revenues	\$7,389,477	\$1,107,606	\$—	(\$113)	\$8,496,970
Income taxes	(\$325,134)	(\$166,882)	(\$27,921)	\$—	(\$519,937)
Consolidated net income (loss)	\$1,104,078	\$31,456	(\$114,962)	(\$95,695)	\$924,877
Total assets as of September 30, 2018	\$44,889,498	\$5,507,013	\$1,274,909	(\$3,200,248)	\$48,471,172
<b>2017</b>					
Operating revenues	\$7,156,865	\$1,293,867	\$—	(\$96)	\$8,450,636
Income taxes	\$459,990	(\$507,719)	(\$39,826)	\$—	(\$87,555)
Consolidated net income (loss)	\$817,738	\$252,455	(\$73,434)	(\$95,695)	\$901,064
Total assets as of December 31, 2017	\$42,978,669	\$5,638,009	\$1,011,612	(\$2,921,141)	\$46,707,149

The Entergy Wholesale Commodities business is sometimes referred to as the "competitive businesses." Eliminations are primarily intersegment activity. Almost all of Entergy's goodwill is related to the Utility segment.



As discussed in Note 13 to the financial statements in the Form 10-K, Entergy management has undertaken a strategy to manage and reduce the risk of the Entergy Wholesale Commodities business, which includes taking actions to reduce the size of the merchant fleet. These decisions and transactions resulted in asset impairments; employee retention and severance expenses and other benefits-related costs; and contracted economic development contributions.

Total restructuring charges for the third quarters of 2018 and 2017 were comprised of the following:

	2018			2017		
	Employee retention and severance expenses and other benefits-related costs	Contracted economic development costs	Total	Employee retention and severance expenses and other benefits-related costs	Contracted economic development costs	Total
	(In Millions)					
Balance as of July 1,	\$143	\$14	\$157	\$36	\$21	\$57
Restructuring costs accrued	43	—	43	23	—	23
Non-cash portion	—	—	—	—	(7)	(7)
Balance as of September 30,	<u>\$186</u>	<u>\$14</u>	<u>\$200</u>	<u>\$59</u>	<u>\$14</u>	<u>\$73</u>

In addition, Entergy incurred \$155 million in the third quarter 2018 and \$16 million in the third quarter 2017 of impairment charges related to nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets. These costs are charged to expense as incurred as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet.

Total restructuring charges for the nine months ended September 30, 2018 and 2017 were comprised of the following:

	2018			2017		
	Employee retention and severance expenses and other benefits-related costs	Contracted economic development costs	Total	Employee retention and severance expenses and other benefits-related costs	Contracted economic development costs	Total
	(In Millions)					
Balance as of January 1,	\$83	\$14	\$97	\$70	\$21	\$91
Restructuring costs accrued	103	—	103	89	—	89
Non-cash portion	—	—	—	—	(7)	(7)
Cash paid out	—	—	—	100	—	100
Balance as of September 30,	<u>\$186</u>	<u>\$14</u>	<u>\$200</u>	<u>\$59</u>	<u>\$14</u>	<u>\$73</u>

In addition, Entergy incurred \$297 million in the nine months ended September 30, 2018 and \$422 million in the nine months ended September 30, 2017 of impairment charges related to nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets.

Going forward, Entergy Wholesale Commodities expects to incur employee retention and severance expenses associated with management's strategy to reduce the size of the Entergy Wholesale Commodities' merchant fleet of approximately \$155 million in 2018, of which \$103 million has been incurred as of September 30, 2018, and a total of approximately \$215 million from 2019 through mid-2022.

### **Registrant Subsidiaries**

Each of the Registrant Subsidiaries has one reportable segment, which is an integrated utility business, except for System Energy, which is an electricity generation business. Each of the Registrant Subsidiaries' operations is managed on an integrated basis by that company because of the substantial effect of cost-based rates and regulatory oversight on the business process, cost structures, and operating results.

## **NOTE 8. RISK MANAGEMENT AND FAIR VALUES (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy)**

### **Market Risk**

In the normal course of business, Entergy is exposed to a number of market risks. Market risk is the potential loss that Entergy may incur as a result of changes in the market or fair value of a particular commodity or instrument. All financial and commodity-related instruments, including derivatives, are subject to market risk including commodity price risk, equity price, and interest rate risk. Entergy uses derivatives primarily to mitigate commodity price risk, particularly power price and fuel price risk.

The Utility has limited exposure to the effects of market risk because it operates primarily under cost-based rate regulation. To the extent approved by their retail regulators, the Utility operating companies use derivative instruments to hedge the exposure to price volatility inherent in their purchased power, fuel, and gas purchased for resale costs that are recovered from customers.

As a wholesale generator, Entergy Wholesale Commodities' core business is selling energy, measured in MWh, to its customers. Entergy Wholesale Commodities enters into forward contracts with its customers and also sells energy and capacity in the day ahead or spot markets. In addition to its forward physical power and gas contracts, Entergy Wholesale Commodities also uses a combination of financial contracts, including swaps, collars, and options, to mitigate commodity price risk. When the market price falls, the combination of instruments is expected to settle in gains that offset lower revenue from generation, which results in a more predictable cash flow.

Entergy's exposure to market risk is determined by a number of factors, including the size, term, composition, and diversification of positions held, as well as market volatility and liquidity. For instruments such as options, the time period during which the option may be exercised and the relationship between the current market price of the underlying instrument and the option's contractual strike or exercise price also affects the level of market risk. A significant factor influencing the overall level of market risk to which Entergy is exposed is its use of hedging techniques to mitigate such risk. Hedging instruments and volumes are chosen based on ability to mitigate risk associated with future energy and capacity prices; however, other considerations are factored into hedge product and volume decisions including corporate liquidity, corporate credit ratings, counterparty credit risk, hedging costs, firm settlement risk, and product availability in the marketplace. Entergy manages market risk by actively monitoring compliance with stated risk management policies as well as monitoring the effectiveness of its hedging policies and strategies. Entergy's risk management policies limit the amount of total net exposure and rolling net exposure during the stated periods. These policies, including related risk limits, are regularly assessed to ensure their appropriateness given Entergy's objectives.

### **Derivatives**

Some derivative instruments are classified as cash flow hedges due to their financial settlement provisions

while others are classified as normal purchase/normal sale transactions due to their physical settlement provisions. Normal purchase/normal sale risk management tools include power purchase and sales agreements, fuel purchase agreements, capacity contracts, and tolling agreements. Financially-settled cash flow hedges can include natural gas and electricity swaps and options and interest rate swaps. Entergy may enter into financially-settled swap and option contracts to manage market risk that may or may not be designated as hedging instruments.

Entergy enters into derivatives to manage natural risks inherent in its physical or financial assets or liabilities. Electricity over-the-counter instruments and futures contracts that financially settle against day-ahead power pool prices are used to manage price exposure for Entergy Wholesale Commodities generation. The maximum length of time over which Entergy Wholesale Commodities is currently hedging the variability in future cash flows with derivatives for forecasted power transactions at September 30, 2018 is approximately 2.5 years. Planned generation currently under contract from Entergy Wholesale Commodities nuclear power plants is 98% for the remainder of 2018, of which approximately 87% is sold under financial derivatives and the remainder under normal purchase/normal sale contracts. Total planned generation for the remainder of 2018 is 6.7 TWh.

Entergy may use standardized master netting agreements to help mitigate the credit risk of derivative instruments. These master agreements facilitate the netting of cash flows associated with a single counterparty and may include collateral requirements. Cash, letters of credit, and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. The collateral agreements require a counterparty to post cash or letters of credit in the event an exposure exceeds an established threshold. The threshold represents an unsecured credit limit, which may be supported by a parental/affiliate guaranty, as determined in accordance with Entergy's credit policy. In addition, collateral agreements allow for termination and liquidation of all positions in the event of a failure or inability to post collateral.

Certain of the agreements to sell the power produced by Entergy Wholesale Commodities power plants contain provisions that require an Entergy subsidiary to provide credit support to secure its obligations depending on the mark-to-market values of the contracts. The primary form of credit support to satisfy these requirements is an Entergy Corporation guarantee. As of September 30, 2018, derivative contracts with seven counterparties were in a liability position (approximately \$68 million total). In addition to the corporate guarantee, \$30 million in cash collateral was required to be posted by the Entergy subsidiary to its counterparties. As of December 31, 2017, derivative contracts with eight counterparties were in a liability position (approximately \$65 million total). In addition to the corporate guarantee, \$1 million in cash collateral was required to be posted by the Entergy subsidiary to its counterparties and \$4 million in cash collateral and \$34 million in letters of credit were required to be posted by its counterparties to the Entergy subsidiary. If the Entergy Corporation credit rating falls below investment grade, Entergy would have to post collateral equal to the estimated outstanding liability under the contract at the applicable date.

Entergy manages fuel price volatility for its Louisiana jurisdictions (Entergy Louisiana and Entergy New Orleans) and Entergy Mississippi through the purchase of short-term natural gas swaps that financially settle against NYMEX futures. These swaps are marked-to-market through fuel expense with offsetting regulatory assets or liabilities. All benefits or costs of the program are recorded in fuel costs. The notional volumes of these swaps are based on a portion of projected annual exposure to gas for electric generation at Entergy Louisiana and Entergy Mississippi and projected winter purchases for gas distribution at Entergy Louisiana and Entergy New Orleans. The total volume of natural gas swaps outstanding as of September 30, 2018 is 13,814,000 MMBtu for Entergy, including 6,300,000 MMBtu for Entergy Louisiana, 6,790,000 MMBtu for Entergy Mississippi, and 724,000 MMBtu for Entergy New Orleans. Credit support for these natural gas swaps is covered by master agreements that do not require collateral based on mark-to-market value, but do carry adequate assurance language that may lead to requests for collateral.

During the second quarter 2018, Entergy participated in the annual financial transmission rights auction process for the MISO planning year of June 1, 2018 through May 31, 2019. Financial transmission rights are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Entergy's customer load. They are not designated as hedging instruments. Entergy initially records financial transmission rights at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each

accounting period prior to settlement. Unrealized gains or losses on financial transmission rights held by Entergy Wholesale Commodities are included in operating revenues. The Utility operating companies recognize regulatory liabilities or assets for unrealized gains or losses on financial transmission rights. The total volume of financial transmission rights outstanding as of September 30, 2018 is 77,520 GWh for Entergy, including 17,557 GWh for Entergy Arkansas, 33,144 GWh for Entergy Louisiana, 10,295 GWh for Entergy Mississippi, 3,758 GWh for Entergy New Orleans, and 12,441 GWh for Entergy Texas. Credit support for financial transmission rights held by the Utility operating companies is covered by cash and/or letters of credit issued by each Utility operating company as required by MISO. Credit support for financial transmission rights held by Entergy Wholesale Commodities is covered by cash. No cash or letters of credit were required to be posted for financial transmission rights exposure for Entergy Wholesale Commodities as of September 30, 2018 and December 31, 2017. Letters of credit posted with MISO covered the financial transmission rights exposure for Entergy Arkansas, Entergy Mississippi, and Entergy Texas as of September 30, 2018 and December 31, 2017, respectively.

The fair values of Entergy's derivative instruments in the consolidated balance sheet as of September 30, 2018 are shown in the table below. Certain investments, including those not designated as hedging instruments, are subject to master netting agreements and are presented in the balance sheet on a net basis in accordance with accounting guidance for derivatives and hedging.

Instrument	Balance Sheet Location	Gross Fair Value (a)	Offsetting Position (b)	Net Fair Value (c) (d)	Business
(In Millions)					
<b>Derivatives designated as hedging instruments</b>					
<u>Assets:</u>					
Electricity swaps and options	Prepayments and other (current portion)	\$10	(\$10)	\$—	Entergy Wholesale Commodities
Electricity swaps and options	Other deferred debits and other assets (non-current portion)	\$10	(\$10)	\$—	Entergy Wholesale Commodities
<u>Liabilities:</u>					
Electricity swaps and options	Other current liabilities (current portion)	\$62	(\$10)	\$52	Entergy Wholesale Commodities
Electricity swaps and options	Other non-current liabilities (non-current portion)	\$24	(\$11)	\$13	Entergy Wholesale Commodities
<b>Derivatives not designated as hedging instruments</b>					
<u>Assets:</u>					
Electricity swaps and options	Prepayments and other (current portion)	\$3	(\$3)	\$—	Entergy Wholesale Commodities
Natural gas swaps	Prepayments and other	\$1	\$—	\$1	Utility
Financial transmission rights	Prepayments and other	\$31	(\$2)	\$29	Utility and Entergy Wholesale Commodities
<u>Liabilities:</u>					
Electricity swaps and options	Other current liabilities (current portion)	\$4	(\$3)	\$1	Entergy Wholesale Commodities
Electricity swaps and options	Other non-current liabilities (non-current portion)	\$1	\$—	\$1	Entergy Wholesale Commodities

The fair values of Entergy's derivative instruments in the consolidated balance sheet as of December 31, 2017 are shown in the table below. Certain investments, including those not designated as hedging instruments, are subject to master netting agreements and are presented in the balance sheet on a net basis in accordance with accounting guidance for derivatives and hedging.

<b>Instrument</b>	<b>Balance Sheet Location</b>	<b>Gross Fair Value (a)</b>	<b>Offsetting Position (b)</b>	<b>Net Fair Value (c) (d)</b>	<b>Business</b>
(In Millions)					
<b>Derivatives designated as hedging instruments</b>					
<b>Assets:</b>					
Electricity swaps and options	Prepayments and other (current portion)	\$19	(\$19)	\$—	Entergy Wholesale Commodities
Electricity swaps and options	Other deferred debits and other assets (non-current portion)	\$19	(\$14)	\$5	Entergy Wholesale Commodities
<b>Liabilities:</b>					
Electricity swaps and options	Other current liabilities (current portion)	\$86	(\$20)	\$66	Entergy Wholesale Commodities
Electricity swaps and options	Other non-current liabilities (non-current portion)	\$17	(\$14)	\$3	Entergy Wholesale Commodities
<b>Derivatives not designated as hedging instruments</b>					
<b>Assets:</b>					
Electricity swaps and options	Prepayments and other (current portion)	\$9	(\$9)	\$—	Entergy Wholesale Commodities
Financial transmission rights	Prepayments and other	\$22	(\$1)	\$21	Utility and Entergy Wholesale Commodities
<b>Liabilities:</b>					
Electricity swaps and options	Other current liabilities (current portion)	\$9	(\$8)	\$1	Entergy Wholesale Commodities
Natural gas swaps	Other current liabilities	\$6	\$—	\$6	Utility

- (a) Represents the gross amounts of recognized assets/liabilities
- (b) Represents the netting of fair value balances with the same counterparty
- (c) Represents the net amounts of assets/liabilities presented on the Entergy Corporation and Subsidiaries' Consolidated Balance Sheet
- (d) Excludes cash collateral in the amount of \$30 million posted as of September 30, 2018 and \$1 million posted and \$4 million held as of December 31, 2017. Also excludes letters of credit in the amount of \$5 million posted as of September 30, 2018 and \$34 million in letters of credit held as of December 31, 2017.

The effects of Entergy's derivative instruments designated as cash flow hedges on the consolidated income statements for the three months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Amount of gain (loss) recognized in other comprehensive income</b>	<b>Income Statement location</b>	<b>Amount of gain (loss) reclassified from accumulated other comprehensive income into income (a)</b>
	(In Millions)		(In Millions)
<b>2018</b>			
Electricity swaps and options	(\$51)	Competitive businesses operating revenues	(\$11)
<b>2017</b>			
Electricity swaps and options	\$43	Competitive businesses operating revenues	\$23

- (a) Before taxes of (\$2) million and \$8 million for the three months ended September 30, 2018 and 2017, respectively

The effects of Entergy's derivative instruments designated as cash flow hedges on the consolidated income statements for the nine months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Amount of gain (loss) recognized in other comprehensive income</b>	<b>Income Statement location</b>	<b>Amount of gain (loss) reclassified from accumulated other comprehensive income into income (a)</b>
	(In Millions)		(In Millions)
<b>2018</b>			
Electricity swaps and options	(\$40)	Competitive businesses operating revenues	(\$38)
<b>2017</b>			
Electricity swaps and options	\$136	Competitive businesses operating revenues	\$87

- (a) Before taxes of (\$8) million and \$30 million for the nine months ended September 30, 2018 and 2017, respectively

At each reporting period, Entergy measures its hedges for ineffectiveness. Any ineffectiveness is recognized in earnings during the period. The ineffective portion of cash flow hedges is recorded in competitive business operating revenues. The change in fair value of Entergy's cash flow hedges due to ineffectiveness during the three months ended September 30, 2018 and 2017 was (\$3.1) million and \$2.4 million, respectively. The change in fair value of Entergy's cash flow hedges due to ineffectiveness during the nine months ended September 30, 2018 and 2017 was (\$5.2) million and \$6.4 million, respectively.

Based on market prices as of September 30, 2018, unrealized gains (losses) recorded in accumulated other comprehensive income on cash flow hedges relating to power sales totaled (\$58) million of net unrealized losses. Approximately (\$47) million is expected to be reclassified from accumulated other comprehensive income to operating revenues in the next twelve months. The actual amount reclassified from accumulated other comprehensive income, however, could vary due to future changes in market prices.

Entergy may effectively liquidate a cash flow hedge instrument by entering into a contract offsetting the original hedge, and then de-designating the original hedge in this situation. Gains or losses accumulated in other comprehensive income prior to de-designation continue to be deferred in other comprehensive income until they are included in income as the original hedged transaction occurs. From the point of de-designation, the gains or losses on the original hedge and the offsetting contract are recorded as assets or liabilities on the balance sheet and offset as they flow through to earnings.

The effects of Entergy's derivative instruments not designated as hedging instruments on the consolidated income statements for the three months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Amount of gain (loss) recognized in accumulated other comprehensive income</b>	<b>Income Statement location</b>	<b>Amount of gain (loss) recorded in the income statement</b>
	(In Millions)		(In Millions)
<b>2018</b>			
Natural gas swaps	\$—	Fuel, fuel-related expenses, and gas purchased for resale (a)	\$—
Financial transmission rights	\$—	Purchased power expense (b)	\$31
Electricity swaps and options	\$—	Competitive business operating revenues (c)	(\$2)
<b>2017</b>			
Natural gas swaps	\$—	Fuel, fuel-related expenses, and gas purchased for resale (a)	(\$3)
Financial transmission rights	\$—	Purchased power expense (b)	\$28
Electricity swaps and options	(\$2)	Competitive business operating revenues (c)	\$—

The effects of Entergy's derivative instruments not designated as hedging instruments on the consolidated income statements for the nine months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Amount of gain (loss) recognized in accumulated other comprehensive income</b>	<b>Income Statement location</b>	<b>Amount of gain (loss) recorded in the income statement</b>
	(In Millions)		(In Millions)
<b>2018</b>			
Natural gas swaps	\$—	Fuel, fuel-related expenses, and gas purchased for resale (a)	\$5
Financial transmission rights	\$—	Purchased power expense (b)	\$104
Electricity swaps and options	\$—	Competitive business operating revenues (c)	\$—
<b>2017</b>			
Natural gas swaps	\$—	Fuel, fuel-related expenses, and gas purchased for resale (a)	(\$20)
Financial transmission rights	\$—	Purchased power expense (b)	\$103
Electricity swaps and options	\$2	Competitive business operating revenues (c)	\$—

- (a) Due to regulatory treatment, the natural gas swaps are marked-to-market through fuel, fuel-related expenses, and gas purchased for resale and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as fuel expenses when the swaps are settled are recovered or refunded through fuel cost recovery mechanisms.
- (b) Due to regulatory treatment, the changes in the estimated fair value of financial transmission rights for the Utility operating companies are recorded through purchased power expense and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as purchased power expense when the financial transmission rights for the Utility operating companies are settled are recovered or refunded through fuel cost recovery mechanisms.
- (c) Amount of gain recognized in accumulated other comprehensive income from electricity swaps and options de-designated as hedged items.



The fair values of the Registrant Subsidiaries' derivative instruments not designated as hedging instruments on their balance sheets as of September 30, 2018 are shown in the table below. Certain investments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with accounting guidance for derivatives and hedging.

<b>Instrument</b>	<b>Balance Sheet Location</b>	<b>Gross Fair Value (a)</b>	<b>Offsetting Position (b)</b>	<b>Net Fair Value (c) (d)</b>	<b>Registrant</b>
(In Millions)					
Assets:					
Natural gas swaps	Prepayments and other	\$1.0	\$—	\$1.0	Entergy Louisiana
Natural gas swaps	Prepayments and other	\$0.4	\$—	\$0.4	Entergy Mississippi
Financial transmission rights	Prepayments and other	\$11.6	(\$0.3)	\$11.3	Entergy Arkansas
Financial transmission rights	Prepayments and other	\$12.2	(\$0.2)	\$12.0	Entergy Louisiana
Financial transmission rights	Prepayments and other	\$3.7	\$—	\$3.7	Entergy Mississippi
Financial transmission rights	Prepayments and other	\$2.1	\$—	\$2.1	Entergy New Orleans
Financial transmission rights	Prepayments and other	\$1.7	(\$1.6)	\$0.1	Entergy Texas

The fair values of the Registrant Subsidiaries' derivative instruments not designated as hedging instruments on their balance sheets as of December 31, 2017 are as follows:

<b>Instrument</b>	<b>Balance Sheet Location</b>	<b>Gross Fair Value (a)</b>	<b>Offsetting Position (b)</b>	<b>Net Fair Value (c) (d)</b>	<b>Registrant</b>
(In Millions)					
Assets:					
Financial transmission rights	Prepayments and other	\$3.2	(\$0.2)	\$3.0	Entergy Arkansas
Financial transmission rights	Prepayments and other	\$11.0	(\$0.8)	\$10.2	Entergy Louisiana
Financial transmission rights	Prepayments and other	\$2.1	\$—	\$2.1	Entergy Mississippi
Financial transmission rights	Prepayments and other	\$2.2	\$—	\$2.2	Entergy New Orleans
Financial transmission rights	Prepayments and other	\$3.6	(\$0.2)	\$3.4	Entergy Texas
Liabilities:					
Natural gas swaps	Other current liabilities	\$5.0	\$—	\$5.0	Entergy Louisiana
Natural gas swaps	Other current liabilities	\$1.2	\$—	\$1.2	Entergy Mississippi
Natural gas swaps	Other current liabilities	\$0.2	\$—	\$0.2	Entergy New Orleans

- (a) Represents the gross amounts of recognized assets/liabilities
- (b) Represents the netting of fair value balances with the same counterparty
- (c) Represents the net amounts of assets/liabilities presented on the Registrant Subsidiaries' balance sheets
- (d) As of September 30, 2018, letters of credit posted with MISO covered financial transmission rights exposure of \$1 million for Entergy Arkansas, \$0.2 million for Entergy Mississippi, and \$3.6 million for Entergy Texas.

As of December 31, 2017, letters of credit posted with MISO covered financial transmission rights exposure of \$0.2 million for Entergy Arkansas, \$0.1 million for Entergy Mississippi, and \$0.05 million for Entergy Texas.

The effects of the Registrant Subsidiaries' derivative instruments not designated as hedging instruments on their income statements for the three months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Income Statement Location</b>	<b>Amount of gain (loss) recorded in the income statement</b>	<b>Registrant</b>
		(In Millions)	
<b>2018</b>			
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$0.7)	(a) Entergy Louisiana
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	\$0.1	(a) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$10.1	(b) Entergy Arkansas
Financial transmission rights	Purchased power expense	\$13.8	(b) Entergy Louisiana
Financial transmission rights	Purchased power expense	\$5.4	(b) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$2.0	(b) Entergy New Orleans
Financial transmission rights	Purchased power expense	(\$0.4)	(b) Entergy Texas
<b>2017</b>			
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$2.6)	(a) Entergy Louisiana
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$0.6)	(a) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$4.2	(b) Entergy Arkansas
Financial transmission rights	Purchased power expense	\$9.4	(b) Entergy Louisiana
Financial transmission rights	Purchased power expense	\$4.7	(b) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$1.9	(b) Entergy New Orleans
Financial transmission rights	Purchased power expense	\$7.0	(b) Entergy Texas

The effects of the Registrant Subsidiaries' derivative instruments not designated as hedging instruments on their income statements for the nine months ended September 30, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>Income Statement Location</b>	<b>Amount of gain (loss) recorded in the income statement</b> (In Millions)	<b>Registrant</b>
<b>2018</b>			
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	\$4.2	(a) Entergy Louisiana
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	\$0.9	(a) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$20.1	(b) Entergy Arkansas
Financial transmission rights	Purchased power expense	\$57.2	(b) Entergy Louisiana
Financial transmission rights	Purchased power expense	\$23.0	(b) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$10.5	(b) Entergy New Orleans
Financial transmission rights	Purchased power expense	(\$5.6)	(b) Entergy Texas
<b>2017</b>			
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$16.3)	(a) Entergy Louisiana
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$3.1)	(a) Entergy Mississippi
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale	(\$0.1)	(a) Entergy New Orleans
Financial transmission rights	Purchased power expense	\$19.3	(b) Entergy Arkansas
Financial transmission rights	Purchased power expense	\$38.9	(b) Entergy Louisiana
Financial transmission rights	Purchased power expense	\$16.3	(b) Entergy Mississippi
Financial transmission rights	Purchased power expense	\$7.7	(b) Entergy New Orleans
Financial transmission rights	Purchased power expense	\$19.2	(b) Entergy Texas

- (a) Due to regulatory treatment, the natural gas swaps are marked-to-market through fuel, fuel-related expenses, and gas purchased for resale and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as fuel expenses when the swaps are settled are recovered or refunded through fuel cost recovery mechanisms.
- (b) Due to regulatory treatment, the changes in the estimated fair value of financial transmission rights for the Utility operating companies are recorded through purchased power expense and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as purchased power expense when the financial transmission rights for the Utility operating companies are settled are recovered or refunded through fuel cost recovery mechanisms.

### **Fair Values**

The estimated fair values of Entergy's financial instruments and derivatives are determined using historical prices, bid prices, market quotes, and financial modeling. Considerable judgment is required in developing the estimates

of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. Gains or losses realized on financial instruments other than those instruments held by the Entergy Wholesale Commodities business are reflected in future rates and therefore do not affect net income. Entergy considers the carrying amounts of most financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments.

Accounting standards define fair value as an exit price, or the price that would be received to sell an asset or the amount that would be paid to transfer a liability in an orderly transaction between knowledgeable market participants at the date of measurement. Entergy and the Registrant Subsidiaries use assumptions or market input data that market participants would use in pricing assets or liabilities at fair value. The inputs can be readily observable, corroborated by market data, or generally unobservable. Entergy and the Registrant Subsidiaries endeavor to use the best available information to determine fair value.

Accounting standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy establishes the highest priority for unadjusted market quotes in an active market for the identical asset or liability and the lowest priority for unobservable inputs.

The three levels of the fair value hierarchy are:

- Level 1 - Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of individually owned common stocks, cash equivalents (temporary cash investments, securitization recovery trust account, and escrow accounts), debt instruments, and gas hedge contracts. Cash equivalents includes all unrestricted highly liquid debt instruments with an original or remaining maturity of three months or less at the date of purchase.
- Level 2 - Level 2 inputs are inputs other than quoted prices included in Level 1 that are, either directly or indirectly, observable for the asset or liability at the measurement date. Assets are valued based on prices derived by independent third parties that use inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Prices are reviewed and can be challenged with the independent parties and/or overridden by Entergy if it is believed such would be more reflective of fair value. Level 2 inputs include the following:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability; or
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 2 consists primarily of individually-owned debt instruments.

- Level 3 - Level 3 inputs are pricing inputs that are generally less observable or unobservable from objective sources. These inputs are used with internally developed methodologies to produce management's best estimate of fair value for the asset or liability. Level 3 consists primarily of financial transmission rights and derivative power contracts used as cash flow hedges of power sales at merchant power plants.

The values for power contract assets or liabilities are based on both observable inputs including public market prices and interest rates, and unobservable inputs such as implied volatilities, unit contingent discounts, expected basis differences, and credit adjusted counterparty interest rates. They are classified as Level 3 assets and liabilities. The valuations of these assets and liabilities are performed by the Business Unit Risk Control group and the Accounting Policy and Entergy Wholesale Commodities Accounting group. The primary functions of the Business Unit Risk

Control group include: gathering, validating and reporting market data, providing market risk analyses and valuations in support of Entergy Wholesale Commodities' commercial transactions, developing and administering protocols for the management of market risks, and implementing and maintaining controls around changes to market data in the energy trading and risk management system. The Business Unit Risk Control group is also responsible for managing the energy trading and risk management system, forecasting revenues, forward positions and analysis. The Accounting Policy and Entergy Wholesale Commodities Accounting group performs functions related to market and counterparty settlements, revenue reporting and analysis and financial accounting. The Business Unit Risk Control group reports to the Vice President and Treasurer while the Accounting Policy and Entergy Wholesale Commodities Accounting group reports to the Chief Accounting Officer.

The amounts reflected as the fair value of electricity swaps are based on the estimated amount that the contracts are in-the-money at the balance sheet date (treated as an asset) or out-of-the-money at the balance sheet date (treated as a liability) and would equal the estimated amount receivable to or payable by Entergy if the contracts were settled at that date. These derivative contracts include cash flow hedges that swap fixed for floating cash flows for sales of the output from the Entergy Wholesale Commodities business. The fair values are based on the mark-to-market comparison between the fixed contract prices and the floating prices determined each period from quoted forward power market prices. The differences between the fixed price in the swap contract and these market-related prices multiplied by the volume specified in the contract and discounted at the counterparties' credit adjusted risk free rate are recorded as derivative contract assets or liabilities. For contracts that have unit contingent terms, a further discount is applied based on the historical relationship between contract and market prices for similar contract terms.

The amounts reflected as the fair values of electricity options are valued based on a Black Scholes model, and are calculated at the end of each month for accounting purposes. Inputs to the valuation include end of day forward market prices for the period when the transactions will settle, implied volatilities based on market volatilities provided by a third party data aggregator, and U.S. Treasury rates for a risk-free return rate. As described further below, prices and implied volatilities are reviewed and can be adjusted if it is determined that there is a better representation of fair value.

On a daily basis, the Business Unit Risk Control group calculates the mark-to-market for electricity swaps and options. The Business Unit Risk Control group also validates forward market prices by comparing them to other sources of forward market prices or to settlement prices of actual market transactions. Significant differences are analyzed and potentially adjusted based on these other sources of forward market prices or settlement prices of actual market transactions. Implied volatilities used to value options are also validated using actual counterparty quotes for Entergy Wholesale Commodities transactions when available and compared with other sources of market implied volatilities. Moreover, on at least a monthly basis, the Office of Corporate Risk Oversight confirms the mark-to-market calculations and prepares price scenarios and credit downgrade scenario analysis. The scenario analysis is communicated to senior management within Entergy and within Entergy Wholesale Commodities. Finally, for all proposed derivative transactions, an analysis is completed to assess the risk of adding the proposed derivative to Entergy Wholesale Commodities' portfolio. In particular, the credit and liquidity effects are calculated for this analysis. This analysis is communicated to senior management within Entergy and Entergy Wholesale Commodities.

The values of financial transmission rights are based on unobservable inputs, including estimates of congestion costs in MISO between applicable generation and load pricing nodes based on the 50th percentile of historical prices. They are classified as Level 3 assets and liabilities. The valuations of these assets and liabilities are performed by the Business Unit Risk Control group. The values are calculated internally and verified against the data published by MISO. Entergy's Accounting Policy and Entergy Wholesale Commodities Accounting group reviews these valuations for reasonableness, with the assistance of others within the organization with knowledge of the various inputs and assumptions used in the valuation. The Business Unit Risk Control groups report to the Vice President and Treasurer. The Accounting Policy and Entergy Wholesale Commodities Accounting group reports to the Chief Accounting Officer.

The following tables set forth, by level within the fair value hierarchy, Entergy's assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017. The assessment of the significance of a particular input to a fair value measurement requires judgment and may affect its placement within the fair value hierarchy levels.

2018	Level 1	Level 2	Level 3	Total
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$923	\$—	\$—	\$923
Decommissioning trust funds (a):				
Equity securities	1,569	—	—	1,569
Debt securities	1,167	1,678	—	2,845
Common trusts (b)				3,030
Securitization recovery trust account	58	—	—	58
Escrow accounts	401	—	—	401
Gas hedge contracts	1	—	—	1
Financial transmission rights	—	—	29	29
	<u>\$4,119</u>	<u>\$1,678</u>	<u>\$29</u>	<u>\$8,856</u>
<b>Liabilities:</b>				
Power contracts	<u>\$—</u>	<u>\$—</u>	<u>\$67</u>	<u>\$67</u>
2017	Level 1	Level 2	Level 3	Total
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$725	\$—	\$—	\$725
Decommissioning trust funds (a):				
Equity securities	526	—	—	526
Debt securities	1,125	1,425	—	2,550
Common trusts (b)				4,136
Power contracts	—	—	5	5
Securitization recovery trust account	45	—	—	45
Escrow accounts	406	—	—	406
Financial transmission rights	—	—	21	21
	<u>\$2,827</u>	<u>\$1,425</u>	<u>\$26</u>	<u>\$8,414</u>
<b>Liabilities:</b>				
Power contracts	\$—	\$—	\$70	\$70
Gas hedge contracts	6	—	—	6
	<u>\$6</u>	<u>\$—</u>	<u>\$70</u>	<u>\$76</u>

- (a) The decommissioning trust funds hold equity and fixed income securities. Equity securities are invested to approximate the returns of major market indices. Fixed income securities are held in various governmental and corporate securities. See Note 9 to the financial statements for additional information on the investment portfolios.
- (b) Common trust funds are not publicly quoted, and are valued by the fund administrators using net asset value as a practical expedient. Accordingly, these funds are not assigned a level in the fair value table. The fund administrator of these investments allows daily trading at the net asset value and trades settle at a later date.

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the three months ended September 30, 2018 and 2017:

	2018		2017	
	Power Contracts	Financial transmission rights	Power Contracts	Financial transmission rights
	(In Millions)			
Balance as of July 1,	(\$25)	\$41	\$38	\$57
Total gains (losses) for the period (a)				
Included in earnings	(4)	—	2	—
Included in other comprehensive income	(51)	—	43	—
Included as a regulatory liability/asset	—	19	—	8
Settlements	13	(31)	(23)	(28)
Balance as of September 30,	<u>(\$67)</u>	<u>\$29</u>	<u>\$60</u>	<u>\$37</u>

- (a) Change in unrealized gains or losses for the period included in earnings for derivatives held at the end of the reporting period is \$1.7 million for the three months ended September 30, 2018 and \$0.4 million for the three months ended September 30, 2017.

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the nine months ended September 30, 2018 and 2017:

	2018		2017	
	Power Contracts	Financial transmission rights	Power Contracts	Financial transmission rights
	(In Millions)			
Balance as of January 1,	(\$65)	\$21	\$5	\$21
Total gains (losses) for the period (a)				
Included in earnings	(5)	(1)	6	1
Included in other comprehensive income	(40)	—	136	—
Included as a regulatory liability/asset	—	67	—	56
Issuances of financial transmission rights	—	46	—	62
Settlements	43	(104)	(87)	(103)
Balance as of September 30,	<u>(\$67)</u>	<u>\$29</u>	<u>\$60</u>	<u>\$37</u>

- (a) Change in unrealized gains or losses for the period included in earnings for derivatives held at the end of the reporting period is \$1.1 million for the nine months ended September 30, 2018 and \$1 million for the nine months ended September 30, 2017.

The following table sets forth a description of the types of transactions classified as Level 3 in the fair value hierarchy and significant unobservable inputs to each which cause that classification as of September 30, 2018:

<b>Transaction Type</b>	<b>Fair Value as of September 30, 2018</b>	<b>Significant Unobservable Inputs</b>	<b>Range from Average %</b>	<b>Effect on Fair Value</b>
	(In Millions)			(In Millions)
Power contracts - electricity swaps	(\$67)	Unit contingent discount	+/- 4% - 4.75%	(\$6) - (\$7)

The following table sets forth an analysis of each of the types of unobservable inputs impacting the fair value of items classified as Level 3 within the fair value hierarchy, and the sensitivity to changes to those inputs:

<b>Significant Unobservable Input</b>	<b>Transaction Type</b>	<b>Position</b>	<b>Change to Input</b>	<b>Effect on Fair Value</b>
Unit contingent discount	Electricity swaps	Sell	Increase (Decrease)	Decrease (Increase)

The following table sets forth, by level within the fair value hierarchy, the Registrant Subsidiaries' assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017. The assessment of the significance of a particular input to a fair value measurement requires judgment and may affect its placement within the fair value hierarchy levels.

#### Entergy Arkansas

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Temporary cash investments	\$208.7	\$—	\$—	\$208.7
Decommissioning trust funds (a):				
Equity securities	2.2	—	—	2.2
Debt securities	111.0	267.5	—	378.5
Common trusts (b)				616.2
Securitization recovery trust account	8.6	—	—	8.6
Financial transmission rights	—	—	11.3	11.3
	<u>\$330.5</u>	<u>\$267.5</u>	<u>\$11.3</u>	<u>\$1,225.5</u>
<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Decommissioning trust funds (a):				
Equity securities	\$11.7	\$—	\$—	\$11.7
Debt securities	115.8	232.4	—	348.2
Common trusts (b)				585.0
Securitization recovery trust account	3.7	—	—	3.7
Escrow accounts	2.4	—	—	2.4
Financial transmission rights	—	—	3.0	3.0
	<u>\$133.6</u>	<u>\$232.4</u>	<u>\$3.0</u>	<u>\$954.0</u>



**Entergy Louisiana**

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$213.2	\$—	\$—	\$213.2
Decommissioning trust funds (a):				
Equity securities	12.9	—	—	12.9
Debt securities	157.9	362.6	—	520.5
Common trusts (b)				861.8
Escrow accounts	288.1	—	—	288.1
Securitization recovery trust account	10.0	—	—	10.0
Gas hedge contracts	1.0	—	—	1.0
Financial transmission rights	—	—	12.0	12.0
	<u>\$683.1</u>	<u>\$362.6</u>	<u>\$12.0</u>	<u>\$1,919.5</u>
<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$30.1	\$—	\$—	\$30.1
Decommissioning trust funds (a):				
Equity securities	15.2	—	—	15.2
Debt securities	143.3	350.5	—	493.8
Common trusts (b)				803.1
Escrow accounts	289.5	—	—	289.5
Securitization recovery trust account	2.0	—	—	2.0
Financial transmission rights	—	—	10.2	10.2
	<u>\$480.1</u>	<u>\$350.5</u>	<u>\$10.2</u>	<u>\$1,643.9</u>
<b>Liabilities:</b>				
Gas hedge contracts	<u>\$5.0</u>	<u>\$—</u>	<u>\$—</u>	<u>\$5.0</u>

**Entergy Mississippi**

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Escrow accounts	\$32.3	\$—	\$—	\$32.3
Gas hedge contracts	0.4	—	—	0.4
Financial transmission rights	—	—	3.7	3.7
	<u>\$32.7</u>	<u>\$—</u>	<u>\$3.7</u>	<u>\$36.4</u>

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Temporary cash investments	\$4.5	\$—	\$—	\$4.5
Escrow accounts	32.0	—	—	32.0
Financial transmission rights	—	—	2.1	2.1
	<u>\$36.5</u>	<u>\$—</u>	<u>\$2.1</u>	<u>\$38.6</u>
<b>Liabilities:</b>				
Gas hedge contracts	<u>\$1.2</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1.2</u>

**Entergy New Orleans**

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Temporary cash investments	\$32.9	\$—	\$—	\$32.9
Securitization recovery trust account	5.6	—	—	5.6
Escrow accounts	80.4	—	—	80.4
Financial transmission rights	—	—	2.1	2.1
	<u>\$118.9</u>	<u>\$—</u>	<u>\$2.1</u>	<u>\$121.0</u>

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Temporary cash investments	\$32.7	\$—	\$—	\$32.7
Securitization recovery trust account	1.5	—	—	1.5
Escrow accounts	81.9	—	—	81.9
Financial transmission rights	—	—	2.2	2.2
	<u>\$116.1</u>	<u>\$—</u>	<u>\$2.2</u>	<u>\$118.3</u>
<b>Liabilities:</b>				
Gas hedge contracts	<u>\$0.2</u>	<u>\$—</u>	<u>\$—</u>	<u>\$0.2</u>

**Entergy Texas**

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
			(In Millions)	
<b>Assets:</b>				
Temporary cash investments	\$19.0	\$—	\$—	\$19.0
Securitization recovery trust account	33.7	—	—	33.7
Financial transmission rights	—	—	0.1	0.1
	<u>\$52.7</u>	<u>\$—</u>	<u>\$0.1</u>	<u>\$52.8</u>

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$115.5	\$—	\$—	\$115.5
Securitization recovery trust account	37.7	—	—	37.7
Financial transmission rights	—	—	3.4	3.4
	<u>\$153.2</u>	<u>\$—</u>	<u>\$3.4</u>	<u>\$156.6</u>

**System Energy**

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$254.4	\$—	\$—	\$254.4
Decommissioning trust funds (a):				
Equity securities	7.4	—	—	7.4
Debt securities	211.1	148.1	—	359.2
Common trusts (b)				585.8
	<u>\$472.9</u>	<u>\$148.1</u>	<u>\$—</u>	<u>\$1,206.8</u>

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(In Millions)		
<b>Assets:</b>				
Temporary cash investments	\$287.1	\$—	\$—	\$287.1
Decommissioning trust funds (a):				
Equity securities	3.1	—	—	3.1
Debt securities	187.2	143.3	—	330.5
Common trusts (b)				572.1
	<u>\$477.4</u>	<u>\$143.3</u>	<u>\$—</u>	<u>\$1,192.8</u>

- (a) The decommissioning trust funds hold equity and fixed income securities. Equity securities are invested to approximate the returns of major market indices. Fixed income securities are held in various governmental and corporate securities. See Note 9 to the financial statements herein for additional information on the investment portfolios.
- (b) Common trust funds are not publicly quoted, and are valued by the fund administrators using net asset value as a practical expedient. Accordingly, these funds are not assigned a level in the fair value table. The fund administrator of these investments allows daily trading at the net asset value and trades settle at a later date.

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the three months ended September 30, 2018.

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>
	(In Millions)				
Balance as of July 1, 2018	\$10.5	\$18.2	\$4.4	\$3.0	\$4.7
Gains included as a regulatory liability/asset	10.9	7.6	4.7	1.1	(5.0)
Settlements	(10.1)	(13.8)	(5.4)	(2.0)	0.4
Balance as of September 30, 2018	<u>\$11.3</u>	<u>\$12.0</u>	<u>\$3.7</u>	<u>\$2.1</u>	<u>\$0.1</u>

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the three months ended September 30, 2017.

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>
	(In Millions)				
Balance as of July 1, 2017	\$8.3	\$28.3	\$9.1	\$5.2	\$5.5
Gains included as a regulatory liability/asset	0.3	(0.1)	1.1	0.2	6.5
Settlements	(4.2)	(9.4)	(4.7)	(1.9)	(7.0)
Balance as of September 30, 2017	<u>\$4.4</u>	<u>\$18.8</u>	<u>\$5.5</u>	<u>\$3.5</u>	<u>\$5.0</u>

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the nine months ended September 30, 2018.

	<b>Entergy Arkansas</b>	<b>Entergy Louisiana</b>	<b>Entergy Mississippi</b>	<b>Entergy New Orleans</b>	<b>Entergy Texas</b>
	(In Millions)				
Balance as of January 1, 2018	\$3.0	\$10.2	\$2.1	\$2.2	\$3.4
Issuances of financial transmission rights	11.8	20.0	4.5	3.7	6.1
Gains included as a regulatory liability/asset	16.6	39.0	20.1	6.7	(15.0)
Settlements	(20.1)	(57.2)	(23.0)	(10.5)	5.6
Balance as of September 30, 2018	<u>\$11.3</u>	<u>\$12.0</u>	<u>\$3.7</u>	<u>\$2.1</u>	<u>\$0.1</u>