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

20366

FORM 10-Q

(Mark One)

X

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

**For the Quarterly Period Ended June 30, 2005**

**OR**

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

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

<u>Commission File Number</u>	<u>Registrant, State of Incorporation, Address of Principal Executive Offices and Telephone Number</u>	<u>I.R.S. Employer Identification No.</u>
1-11299	ENTERGY CORPORATION (a Delaware corporation) 639 Loyola Avenue New Orleans, Louisiana 70113 Telephone (504) 576-4000	72-1229752
1-10764	ENTERGY ARKANSAS, INC. (an Arkansas corporation) 425 West Capitol Avenue, 40th Floor Little Rock, Arkansas 72201 Telephone (501) 377-4000	71-0005900
1-27031	ENTERGY GULF STATES, INC. (a Texas corporation) 350 Pine Street Beaumont, Texas 77701 Telephone (409) 838-6631	74-0662730
1-8474	ENTERGY LOUISIANA, INC. (a Louisiana corporation) 4809 Jefferson Highway Jefferson, Louisiana 70121 Telephone (504) 840-2734	72-0245590
1-31508	ENTERGY MISSISSIPPI, INC. (a Mississippi corporation) 308 East Pearl Street Jackson, Mississippi 39201 Telephone (601) 368-5000	64-0205830
0-5807	ENTERGY NEW ORLEANS, INC. (a Louisiana corporation) 1600 Perdido Street, Building 505 New Orleans, Louisiana 70112 Telephone (504) 670-3674	72-0273040
1-9067	SYSTEM ENERGY RESOURCES, INC. (an Arkansas corporation) Echelon One 1340 Echelon Parkway Jackson, Mississippi 39213 Telephone (601) 368-5000	72-0752777

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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   X   No           

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

	<u>Yes</u>	<u>No</u>
Entergy Corporation	√	
Entergy Arkansas, Inc.		√
Entergy Gulf States, Inc.		√
Entergy Louisiana, Inc.		√
Entergy Mississippi, Inc.		√
Entergy New Orleans, Inc.		√
System Energy Resources, Inc.		√

Common Stock Outstanding

Entergy Corporation

(\$0.01 par value)

Outstanding at July 29, 2005

207,579,330

Entergy Corporation, Entergy Arkansas, Inc., Entergy Gulf States, Inc., Entergy Louisiana, Inc., Entergy Mississippi, Inc., Entergy New Orleans, 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, 2004, and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, filed by the individual registrants with the SEC, and should be read in conjunction therewith.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
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**June 30, 2005**

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## FORWARD-LOOKING INFORMATION

In this filing and from time to time, Entergy makes statements 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. Although Entergy believes that these forward-looking statements and the underlying assumptions are reasonable, it cannot provide assurance that they will prove correct. Except to the extent required by the federal securities laws, Entergy undertakes 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, and there are factors that could cause actual results to differ materially from those expressed or implied in the statements. Some of those factors (in addition to others described elsewhere in this report and in subsequent securities filings) include:

- resolution of pending and future rate cases and negotiations, including various performance-based rate discussions and implementation of new Texas legislation, and other regulatory proceedings, including those related to Entergy's System Agreement and Entergy's utility supply plan
- Entergy's ability to manage its operation and maintenance costs
- the performance of Entergy's generating plants, and particularly the capacity factors at its nuclear generating facilities
- prices for power generated by Entergy's unregulated generating facilities, the ability to hedge, sell power forward or otherwise reduce the market price risk associated with those facilities, including the Non-Utility Nuclear plants, the ability to meet credit support requirements, and the prices and availability of power Entergy must purchase for its utility customers
- Entergy's ability to develop and execute on a point of view regarding prices of electricity, natural gas, and other energy-related commodities
- changes in the financial markets, particularly those affecting the availability of capital and Entergy's ability to refinance existing debt, execute its share repurchase program, and fund investments and acquisitions
- actions of rating agencies, including changes in the ratings of debt and preferred stock, and changes in the rating agencies' ratings criteria
- changes in inflation, interest rates, and foreign currency exchange rates
- Entergy's ability to purchase and sell assets at attractive prices and on other attractive terms
- volatility and changes in markets for electricity, natural gas, uranium, and other energy-related commodities
- changes in utility regulation, including the beginning or end of retail and wholesale competition, the ability to recover net utility assets and other potential stranded costs, the establishment of a regional transmission organization that includes Entergy's utility service territory, and the application of market power criteria by the FERC
- changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown of nuclear generating facilities, particularly those in the northeastern United States
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel storage and disposal
- resolution of pending or future applications for license extensions or modifications of nuclear generating facilities
- changes in law resulting from the new federal energy legislation, including the repeal of PUHCA
- changes in environmental, tax, and other laws, including requirements for reduced emissions of sulfur, nitrogen, carbon, mercury, and other substances
- the economic climate, and particularly growth in Entergy's service territory
- variations in weather and the occurrence of hurricanes and other storms and disasters
- advances in technology
- the potential effects of threatened or actual terrorism and war
- the effects of Entergy's strategies to reduce tax payments
- the effects of litigation and government investigations
- changes in accounting standards, corporate governance, and securities law requirements
- Entergy's ability to attract and retain talented management and directors

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## DEFINITIONS

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

<u>Abbreviation or Acronym</u>	<u>Term</u>
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANO 1 and 2	Units 1 and 2 of Arkansas Nuclear One Steam Electric Generating Station (nuclear), owned by Entergy Arkansas
APSC	Arkansas Public Service Commission
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 or Council	Council of the City of New Orleans, Louisiana
CPI-U	Consumer Price Index - Urban
DOE	United States Department of Energy
domestic utility companies	Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, collectively
EITF	FASB's Emerging Issues Task Force
Energy Commodity Services	Entergy's business segment that includes Entergy-Koch, LP and Entergy's non-nuclear wholesale assets business
Entergy	Entergy Corporation and its direct and indirect subsidiaries
Entergy Corporation	Entergy Corporation, a Delaware corporation
Entergy-Koch	Entergy-Koch, LP, a joint venture equally owned by subsidiaries of Entergy and Koch Industries, Inc.
EPA	United States Environmental Protection Agency
EPDC	Entergy Power Development Corporation, a wholly-owned subsidiary of Entergy Corporation
FASB	Financial Accounting Standards Board
FEMA	Federal Emergency Management Agency
FERC	Federal Energy Regulatory Commission
firm liquidated damages	Transaction that requires receipt or delivery of energy at a specified delivery point (usually at a market hub not associated with a specific asset); if a party fails to deliver or receive energy, the defaulting party must compensate the other party as specified in the contract
FSP	FASB Staff Position
Grand Gulf	Unit No. 1 of Grand Gulf Steam Electric Generating 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
IRS	Internal Revenue Service
ISO	Independent System Operator
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour(s)
LDEQ	Louisiana Department of Environmental Quality
LPSC	Louisiana Public Service Commission
Mcf	One thousand cubic feet of gas
MMBtu	One million British Thermal Units
MPSC	Mississippi Public Service Commission



## DEFINITIONS (Continued)

<u>Abbreviation or Acronym</u>	<u>Term</u>
MW	Megawatt(s), which equals one thousand kilowatt(s)
MWh	Megawatt-hour(s)
Nelson Unit 6	Unit No. 6 (coal) of the Nelson Steam Electric Generating Station, owned 70% by Entergy Gulf States
Net debt ratio	Gross debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents
Net MW in operation	Installed capacity owned or operated
Net revenue	Operating revenue net of fuel, fuel-related, and purchased power expenses; and other regulatory credits
Non-Utility Nuclear	Entergy's business segment that owns and operates five nuclear power plants and sells electric power produced by those plants to wholesale customers
NRC	Nuclear Regulatory Commission
NYPA	New York Power Authority
PPA	Purchased power agreement
production cost	Cost in \$/MMBtu associated with delivering gas, excluding the cost of the gas
PRP	Potentially responsible party (a person or entity that may be responsible for remediation of environmental contamination)
PUCT	Public Utility Commission of Texas
PUHCA	Public Utility Holding Company Act of 1935, as amended
PURPA	Public Utility Regulatory Policies Act of 1978
Ritchie Unit 2	Unit 2 of the R.E. Ritchie Steam Electric Generating Station (gas/oil)
River Bend	River Bend Steam Electric Generating Station (nuclear), owned by Entergy Gulf States
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards as promulgated by the FASB
SMEPA	South Mississippi Electric Power Agency, which owns a 10% interest in Grand Gulf
spark spread	Dollar difference between electricity prices per unit and natural gas prices after assuming a conversion ratio for the number of natural gas units necessary to generate one unit of electricity
System Agreement	Agreement, effective January 1, 1983, as modified, among the domestic utility companies relating to the sharing of generating capacity and other power resources
System Energy	System Energy Resources, Inc.
System Fuels	System Fuels, Inc.
TWh	Terawatt-hour(s), which equals one billion kilowatt-hours
unit-contingent	Transaction under which power is supplied from a specific generation asset; if the specified generation asset is unavailable as a result of forced outage or unanticipated event or circumstance, the seller is not liable to the buyer for any damages resulting from the seller's failure to deliver power
unit-contingent with availability guarantees	Transaction under which power is supplied from a specific generation asset; if the specified generation asset is unavailable as a result of forced outage or unanticipated event or circumstance, the seller is not liable to the buyer for any damages resulting from the seller's failure to deliver power unless the actual availability over a specified period of time is below an availability threshold specified in the contract

## DEFINITIONS (Concluded)

<u>Abbreviation or Acronym</u>	<u>Term</u>
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended and approved by 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
UK	The United Kingdom of Great Britain and Northern Ireland
U.S. Utility	Entergy's business segment that generates, transmits, distributes, and sells electric power, with a small amount of natural gas distribution
Waterford 3	Unit No. 3 (nuclear) of the Waterford Steam Electric Generating 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

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

**Results of Operations**

Entergy's consolidated earnings applicable to common stock for the second quarter and six months ended June 30, 2005 and 2004 were as follows:

<u>Operating Segment</u>	<u>Second Quarter</u>		<u>Six Months Ended</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)			
U.S. Utility	\$211,717	\$194,964	\$302,216	\$310,621
Non-Utility Nuclear	58,277	62,994	136,242	131,828
Parent Company & Other Business				
Segments	16,156	7,224	19,688	29,894
Total	<u>\$286,150</u>	<u>\$265,182</u>	<u>\$458,146</u>	<u>\$472,343</u>

Entergy's income before taxes is discussed below according to the operating segments listed above. See Note 8 to the consolidated financial statements herein for more information concerning Entergy's operating segments and their financial results in 2005 and 2004.

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

**U.S. UTILITY**

The increase in earnings for the U.S. Utility for the second quarter 2005 compared to the second quarter 2004 from \$195.0 million to \$211.7 million was primarily due to higher net revenue partially offset by higher other operation and maintenance expenses and lower other income.

The decrease in earnings for the U.S. Utility for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 from \$310.6 million to \$302.2 million was primarily due to higher other operation and maintenance expenses and higher depreciation and amortization expenses, partially offset by higher net revenue and lower interest expenses.

**Net Revenue**

**Second Quarter 2005 Compared to Second Quarter 2004**

Net revenue, which is Entergy's measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related, and purchased power expenses and 2) other regulatory credits. Following is an analysis of the change in net revenue comparing the second quarter of 2005 to the second quarter of 2004.

	<u>Amount</u>
	(In Millions)
2004 net revenue	\$1,100.6
Price applied to unbilled sales	71.0
Volume/weather	10.8
Other	(1.6)
<b>2005 net revenue</b>	<b><u>\$1,180.8</u></b>

The price applied to unbilled sales variance resulted from an increase in the fuel cost component included in the price applied to unbilled sales. The increase in the fuel cost component is attributable to an increase in the price of natural gas, the nuclear refueling outage at Waterford 3, and the nuclear maintenance outages at River Bend. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates"** in the Form 10-K and Note 1 to the consolidated financial statements in the Form 10-K for further discussion of the accounting for unbilled revenues.

The volume/weather variance is primarily due to an increase in electricity usage totaling 161 GWh in the residential and commercial sectors. Industrial sales volume declined primarily due to the loss to cogeneration, which had been expected, of one large customer.

*Gross operating revenues and fuel and purchased power expenses*

Gross operating revenues increased from \$2.0 billion for the second quarter 2004 to \$2.2 billion for the second quarter 2005. The increase includes an increase in fuel cost recovery revenues of \$81.7 million resulting primarily from increases in the market prices of natural gas and purchased power. As such, this revenue increase is offset by increased fuel and purchased power expenses. The increases in the price applied to unbilled sales and volume/weather variances, discussed above, also contributed to the increase in gross operating revenues.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Net revenue, which is Entergy's measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related, and purchased power expenses and 2) other regulatory credits. Following is an analysis of the change in net revenue comparing the six months ended June 30, 2005 to the six months ended June 30, 2004.

	<u>Amount</u> (In Millions)
2004 net revenue	\$2,025.4
Price applied to unbilled sales	55.5
Deferred fuel cost revisions	15.5
Rate refund provisions	7.5
Volume/weather	(15.8)
Other	2.3
<b>2005 net revenue</b>	<b><u>\$2,090.4</u></b>

The price applied to unbilled sales variance resulted from an increase in the fuel cost component included in the price applied to unbilled sales. The increase in the fuel cost component is attributable to an increase in the price of natural gas, the nuclear refueling outage at Waterford 3, and the nuclear maintenance outages at River Bend. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates"** in the Form 10-K and Note 1 to the consolidated financial statements in the Form 10-K for further discussion of the accounting for unbilled revenues.

The deferred fuel cost revisions variance is due to a revised estimate of fuel costs filed for recovery at Entergy Arkansas in the March 2004 energy cost recovery rider, which reduced net revenue in the first quarter of 2004 by \$11.5 million. The remainder of the variance is due to the 2004 energy cost recovery true-up, made in the first quarter of 2005, which increased net revenue by \$4.0 million.

The rate refund provisions variance is due primarily to accruals recorded in 2004 for potential rate action at Entergy New Orleans and Entergy Gulf States. Included in the current period variance are provisions recorded at Entergy Louisiana in 2005 as a result of LPSC-approved settlements in March 2005 and May 2005. The settlements are discussed in Note 2 to the consolidated financial statements.

The volume/weather variance resulted from decreased usage by residential customers and a decrease in usage during the unbilled sales period. Industrial sales volume was relatively unchanged as the loss to cogeneration, which had been expected, of one large customer was offset by an increase in usage by other customers, primarily in the chemical industry. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates**" in the Form 10-K and Note 1 to the consolidated financial statements in the Form 10-K for further discussion of the accounting for unbilled revenues.

*Gross operating revenues and fuel and purchased power expenses*

Gross operating revenues increased from \$3.8 billion for the six months ended June 30, 2004 to \$4.0 billion for the six months ended June 30, 2005. The increase includes an increase in fuel cost recovery revenues of \$151 million resulting primarily from increases in the market prices of natural gas and purchased power. As such, this revenue increase is offset by increased fuel and purchased power expenses. The increase in the price applied to unbilled sales, discussed above, also contributed to the increase in gross operating revenues.

**Other Income Statement Variances**

Second Quarter 2005 Compared to Second Quarter 2004

Other operation and maintenance expenses increased from \$391.7 million for the second quarter 2004 to \$432.6 million for the second quarter 2005 primarily due to:

- an increase of \$17.9 million in payroll and benefits costs;
- an increase of \$9.1 million in nuclear expenses for contract and material costs associated with maintenance outages and timing of payroll related expenses; and
- an increase of \$5.1 million in estimated loss provisions recorded for the bankruptcy of CashPoint, which managed a network of payment agents for the domestic utility companies.

Other income decreased from \$30.5 million for the second quarter 2004 to \$20.1 million for the second quarter 2005 primarily due to:

- a decrease of \$10.1 million at Entergy Gulf States due to a reduction in 2004 in the loss provision for an environmental clean-up site; and
- a decrease of \$7.1 million at Entergy Louisiana due to the write-off in June 2005 of a portion of the customer care system investment and the related allowance for equity funds used during construction pursuant to an LPSC-approved settlement.

The decrease was partially offset by an increase of \$6.2 million in interest and dividend income primarily due to higher interest on temporary cash investments.

Interest on long-term debt decreased from \$97.6 million for the second quarter 2004 to \$91.2 million for the second quarter 2005 primarily due to the net retirement of \$319 million of long-term debt at the domestic utility companies in 2004. Refer to Note 5 to the consolidated financial statements in the Form 10-K and Note 4 to the consolidated financial statements herein for details of long-term debt.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Other operation and maintenance expenses increased from \$723 million for the six months ended June 30, 2004 to \$798 million for the six months ended June 30, 2005 primarily due to:

- an increase of \$33.3 million in payroll and benefits costs;
- an increase of \$13.2 million in nuclear expenses for contract and material costs associated with maintenance outages and timing of payroll related expenses;

- an increase of \$8.1 million in fossil expenses as a result of additional planned off-peak fossil generation maintenance outages; and
- an increase of \$5.1 million in estimated loss provisions recorded for the bankruptcy of CashPoint, which managed a network of payment agents for the domestic utility companies.

Depreciation and amortization expenses increased from \$385.6 million for the six months ended June 30, 2004 to \$398.4 million for the six months ended June 30, 2005 due primarily to an increase in plant in service.

Other income, which was \$45.4 million for the six months ended June 30, 2005 and \$45.5 million for the six months ended June 30, 2004, includes the following:

- a decrease of \$10.1 million at Entergy Gulf States due to a reduction in 2004 in the loss provision for an environmental clean-up site;
- a decrease of \$7.1 million at Entergy Louisiana due to the write-off in June 2005 of a portion of the customer care system investment and the related allowance for equity funds used during construction pursuant to an LPSC-approved settlement;
- an increase of \$10.6 million in interest and dividend income primarily due to higher interest on temporary cash investments; and
- an increase of \$9.8 million in the allowance for equity funds used during construction as a result of higher construction expenditures.

Interest on long-term debt decreased from \$199.3 million for the six months ended June 30, 2004 to \$184.2 million for the six months ended June 30, 2005 primarily due to the net retirement of \$319 million of long-term debt at the domestic utility companies in 2004. Refer to Note 5 to the consolidated financial statements in the Form 10-K and Note 4 to the consolidated financial statements herein for details of long-term debt.

### NON-UTILITY NUCLEAR

Following are key performance measures for Non-Utility Nuclear for the second quarter and six months ended June 30, 2005 and 2004:

	Second Quarter		Six Months Ended	
	2005	2004	2005	2004
Net MW in operation at June 30	4,105	4,001	4,105	4,001
Generation in GWh for the period	8,156	8,196	16,422	16,882
Capacity factor for the period	90.9%	93.6%	92.1%	96.3%
Average realized price per MWh	\$42.63	\$41.33	\$42.09	\$40.49

#### Second Quarter 2005 Compared to Second Quarter 2004

The decrease in earnings for Non-Utility Nuclear from \$63.0 million to \$58.3 million was primarily due to higher operation and maintenance expenses resulting primarily from increased benefits costs and the effects of lower generation associated with planned and unplanned refueling and maintenance outages. Partially offsetting the decrease was an increase in revenues due to higher contract pricing.

#### Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

The increase in earnings for Non-Utility Nuclear from \$131.8 million to \$136.2 million was primarily due to miscellaneous income of \$15.8 million net-of-tax resulting from a reduction in the decommissioning liability for a plant, as discussed in Note 1 to the consolidated financial statements. Also contributing to the increase in earnings was higher contract pricing. The increase in earnings was partially offset by the effects of lower generation associated with planned and unplanned refueling and maintenance outages and higher operation and maintenance expenses resulting primarily from increased benefits costs.

## **PARENT COMPANY & OTHER BUSINESS SEGMENTS**

### **Second Quarter 2005 Compared to Second Quarter 2004**

The increase in earnings for Parent Company & Other Business Segments from \$7.2 million to \$16.2 million was primarily due to \$14.4 million of tax benefits in 2005 from the American Jobs Creation Act of 2004 and an increase of \$5.5 million from the non-nuclear wholesale assets business primarily due to lower operation and maintenance expenses and proceeds from the sale of SO<sub>2</sub> allowances. The increase was partially offset by a decrease of \$13.9 million due to the absence of earnings from Entergy's investment in Entergy-Koch because of the sale of Entergy-Koch's energy trading and pipeline businesses in the fourth quarter of 2004, as discussed in the Form 10-K.

### **Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

The decrease in earnings for Parent Company & Other Business Segments from \$29.9 million to \$19.7 million was primarily due to a decrease of \$30.1 million due to the absence of earnings from Entergy's investment in Entergy-Koch due to the sale of Entergy-Koch's energy trading and pipeline businesses in the fourth quarter of 2004, as discussed in the Form 10-K. Also contributing to the decrease in earnings was the favorable settlement of a tax issue, which increased earnings by \$11 million in the first quarter of 2004. The decrease was partially offset by \$14.4 million of tax benefits in 2005 from the American Job Creations Act of 2004 and an increase of \$14.1 million from the non-nuclear wholesale assets business primarily due to lower operation and maintenance expenses and proceeds from the sale of SO<sub>2</sub> allowances.

### **Income Taxes**

The effective income tax rates for the second quarters of 2005 and 2004 were 34.8% and 38.0%, respectively. The effective income tax rates for the six months ended June 30, 2005 and 2004 were 34.8% and 36.0%, respectively. The difference in the effective income tax rate for the second quarter and the six months ended June 30, 2005 versus the federal statutory rate of 35.0% is primarily due to tax benefits from the American Jobs Creation Act of 2004 and investment tax credit amortization, partially offset by state income taxes and regulatory plant differences on utility plant items. Also contributing to the difference for the six months ended June 30, 2005 is a downward revision in the estimate of federal income tax expense related to tax depreciation. The difference in the effective income tax rate for the second quarter and the six months ended June 30, 2004 versus the federal statutory rate of 35.0% is primarily due to state income taxes and regulatory plant differences on utility plant items, partially offset by the favorable settlement of a tax audit issue and investment tax credit amortization.

### **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.

The Form 10-K reported that Entergy expected to contribute \$185.9 million in 2005 to its pension plans. Entergy has elected to make additional contributions, and now expects to contribute \$253.3 million to its pension plans in 2005. Entergy contributed \$117.7 million to its pension plans during the six months ended June 30, 2005.

## Capital Structure

Entergy's capitalization is balanced between equity and debt, as shown in the following table. The increase in the debt to capital percentage as of June 30, 2005 is primarily the result of increased debt outstanding due to additional borrowings on Entergy Corporation's revolving credit facility along with a decrease in shareholders' equity, primarily due to repurchases of common stock, both of which are discussed below.

	June 30, 2005	December 31, 2004	June 30, 2004	December 31, 2003
Net debt to net capital	48.7%	45.3%	45.6%	45.9%
Effect of subtracting cash from debt	1.9%	2.1%	1.8%	1.6%
Debt to capital	50.6%	47.4%	47.4%	47.5%

Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable, capital lease obligations, preferred stock with sinking fund, and long-term debt, including the currently maturing portion. Capital consists of debt, common shareholders' equity, and preferred stock without sinking fund. Net capital consists of capital less cash and cash equivalents. Entergy uses the net debt to net capital ratio in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy's financial condition.

In May 2005, Entergy Corporation terminated its two, separate, revolving credit facilities, a \$500 million five-year credit facility and a \$965 million three-year credit facility. At that time Entergy Corporation entered into a \$2 billion, five-year credit facility, which expires in May 2010. As of June 30, 2005, \$635 million in borrowings were outstanding on this facility. Entergy also has the ability to issue letters of credit against the borrowing capacity of the credit facility, and letters of credit totaling \$83.5 million had been issued against this facility at June 30, 2005. The total unused capacity for this facility as of June 30, 2005 was approximately \$1.3 billion. The commitment fee for this facility is currently 0.13% per annum of the unused amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior debt ratings of the domestic utility companies.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans each have 364-day credit facilities available as follows:

Company	Expiration Date	Amount of Facility	Amount Drawn as of June 30, 2005
Entergy Arkansas	April 2006	\$85 million (a)	-
Entergy Louisiana	April 2006	\$85 million (a)	-
Entergy Louisiana	May 2006	\$15 million (b)	-
Entergy Mississippi	May 2006	\$25 million	-
Entergy New Orleans	May 2006	\$15 million (b)	-

- (a) The combined amount borrowed by Entergy Arkansas and Entergy Louisiana under these facilities at any one time cannot exceed \$85 million.
- (b) The combined amount borrowed by Entergy Louisiana and Entergy New Orleans under these facilities at any one time cannot exceed \$15 million.

See Note 4 to the consolidated financial statements for additional discussion of Entergy's short-term credit facilities.

## Capital Expenditure Plans and Other Uses of Capital

See the table in the Form 10-K under "**Liquidity and Capital Resources - Capital Expenditure Plans and Other Uses of Capital**," which sets forth the amounts of Entergy's planned construction and other capital investments by operating segment for 2005 through 2007.



In March 2005, Entergy Mississippi signed an agreement to purchase for \$88 million the Attala power plant, a 480 MW natural gas-fired, combined-cycle generating facility owned by Central Mississippi Generating Company (CMGC). Entergy Mississippi plans to invest approximately \$20 million in facility upgrades at the Attala plant plus \$3 million in other costs, bringing the total capital cost of the project to approximately \$111 million. The Attala plant will be 100 percent owned by Entergy Mississippi, and the acquisition is expected to close in late 2005 or early 2006. The purchase of the plant is contingent upon obtaining necessary approvals from various federal agencies, state permitting agencies, and the MPSC, including MPSC approval of investment cost recovery. In May and June 2005, Entergy Mississippi made filings at the MPSC to commence proceedings for MPSC approval both of the acquisition and of the investment cost recovery for the plant. Entergy Mississippi and CMGC had previously executed a purchased power agreement in July 2004 for 100 percent of the plant's output, and this agreement will expire upon the close of the acquisition or in March 2008, whichever occurs earlier. The planned construction and other capital investments table in the Form 10-K includes the estimated cost of the Attala acquisition as a 2006 capital commitment.

## Cash Flow Activity

As shown in Entergy's Statements of Cash Flows, cash flows for the six months ended June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
	(In Millions)	
Cash and cash equivalents at beginning of period	\$620	\$507
Cash flow provided by (used in):		
Operating activities	767	929
Investing activities	(698)	(484)
Financing activities	(74)	(392)
Effect of exchange rates on cash and cash equivalents	-	(2)
Net increase (decrease) in cash and cash equivalents	<u>(5)</u>	<u>51</u>
Cash and cash equivalents at end of period	<u>\$615</u>	<u>\$558</u>

## Operating Activities

Entergy's cash flow provided by operating activities decreased by \$162 million for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 primarily due a decrease at the U.S. Utility. The U.S. Utility provided \$535 million in cash from operating activities in 2005 compared to providing \$669 million in 2004. The decrease resulted primarily from an increase of \$80 million in pension plan contributions, the \$90 million refund to customers in the Louisiana jurisdiction made as a result of the global settlement, an increase of \$72 million in income tax payments, and changes in the timing of fuel cost recovery compared to the prior period. These increased uses of cash were partially offset by various items, including the timing of receivable collections and vendor payments compared to the prior period. The Non-Utility Nuclear segment also contributed to the decrease. The Non-Utility Nuclear segment provided \$235 million in cash from operating activities in 2005 compared to providing \$265 million in 2004. This decrease was caused primarily by nuclear refueling outage costs, as this business had one more refueling outage in the first half of 2005 than in the first half of 2004.

## Investing Activities

Investing activities used \$698 million of cash for the six months ended June 30, 2005 compared to using \$484 million of cash for the six months ended June 30, 2004 primarily due to the following activity:

- Construction expenditures were \$44 million higher in 2005 than in 2004. The increase is in the U.S. Utility segment, and is primarily due to increases at Entergy Louisiana resulting from an increase in spending on

transmission and nuclear projects and an increase of \$19.8 million in capacity costs that have been deferred and are expected to be recovered over a period greater than twelve months.

- The non-nuclear wholesale assets business received \$22 million in 2004 from the sale of the Crete power plant.
- Entergy Louisiana purchased the Perryville plant in June 2005 for \$162.5 million. See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Liquidity and Capital Resources"** in the Form 10-K for a discussion of this acquisition. In April 2005, the LPSC approved the acquisition and the long-term cost-of-service purchased power agreement under which Entergy Gulf States will purchase 75 percent of the plant's output.
- The non-nuclear wholesale assets business received a return of invested capital of \$34 million in 2005 from the Top Deer wind power joint venture after Top Deer obtained debt financing.
- Entergy made an additional capital contribution of approximately \$73 million to Entergy-Koch in 2004.
- Approximately \$60 million of the cash collateral for a letter of credit that secured the installment obligations owed to NYPA for the acquisition of the FitzPatrick and Indian Point 3 nuclear power plants was released to Entergy in 2004.
- Entergy's net investment in temporary investments decreased by \$188 million during the six months ended June 30, 2005 and decreased by \$208 million during the six months ended June 30, 2004. See Note 9 to the consolidated financial statements for additional discussion regarding these investments.
- The U.S. Utility used \$64 million in 2005 and \$31 million in 2004 for other regulatory investments as a result of fuel cost under-recovery. See Note 1 to the consolidated financial statements in the Form 10-K for discussion of the accounting treatment of these fuel cost under-recoveries.

#### Financing Activities

Financing activities used \$74 million of cash for the six months ended June 30, 2005 compared to using \$392 million of cash for the six months ended June 30, 2004 primarily due to the following activity:

- Net issuances of long-term debt by the U.S. Utility segment provided \$108 million during the six months ended June 30, 2005 compared to retirements of long-term debt net of issuances using \$253 million during the six months ended June 30, 2004. See Note 4 to the consolidated financial statements for the details of long-term debt activity in 2005.
- Entergy Corporation repurchased \$640 million of its common stock during the six months ended June 30, 2005 compared to \$271 million during the six months ended June 30, 2004. See **Part II, Item 2** herein and in the First Quarter 2005 Form 10-Q for details regarding Entergy Corporation's common stock repurchases in 2005.
- Entergy Corporation increased the net borrowings on its credit facility by \$585 million during the six months ended June 30, 2005 compared to \$255 million during the six months ended June 30, 2004. See Note 4 to the consolidated financial statements for a description of the Entergy Corporation credit facility.

#### Significant Factors and Known Trends

See **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Significant Factors and Known Trends"** in the Form 10-K for discussions of rate regulation, federal regulation, market and credit risks, utility restructuring, and nuclear matters. Following are updates to the information provided in the Form 10-K.

#### State and Local Rate Regulation

See the Form 10-K for the chart summarizing material rate proceedings. Following are updates to that chart.

In March 2005, the LPSC approved a settlement proposal to resolve various dockets covering a range of issues for Entergy Gulf States and Entergy Louisiana. The settlement resulted in credits totaling \$76 million for retail electricity customers in Entergy Gulf States' Louisiana service territory and credits totaling \$14 million for retail electricity customers of Entergy Louisiana. The settlement dismissed Entergy Gulf States' fourth, fifth, sixth,

seventh, and eighth annual earnings reviews, Entergy Gulf States' ninth post-merger earnings review and revenue requirement analysis, the continuation of a fuel review for Entergy Gulf States, dockets established to consider issues concerning power purchases for Entergy Gulf States and Entergy Louisiana for the summers of 2001, 2002, 2003, and 2004, all prudence issues associated with decisions made through May 2005 related to the nuclear plant uprates at issue in these cases, and an LPSC docket concerning retail issues arising under the System Agreement. The settlement does not include the System Agreement case at FERC. In addition, Entergy Gulf States agreed not to seek recovery from customers of \$2 million of excess refund amounts associated with the fourth through the eighth annual earnings reviews and Entergy Louisiana agreed to forgo recovery of \$3.5 million of deferred 2003 capacity costs associated with certain power purchase agreements. The credits were issued in connection with April 2005 billings. Entergy Gulf States and Entergy Louisiana had reserved for the approximate refund amounts.

The settlement includes the establishment of a three-year formula rate plan for Entergy Gulf States that, among other provisions, establishes an ROE mid-point of 10.65% for the initial three-year term of the plan and permits Entergy Gulf States to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed range of 9.9% to 11.4% will be allocated 60% to customers and 40% to Entergy Gulf States. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Gulf States. Under the settlement, there was no change to Entergy Gulf States' retail rates at that time.

In June 2005, the Alliance for Affordable Energy and an individual plaintiff filed an appeal in the 19<sup>th</sup> Judicial District Court for the parish of East Baton Rouge, Louisiana. The plaintiffs allege that neither Entergy Gulf States nor the LPSC published notice that a formula rate plan was to be considered as part of the settlement and that the LPSC order should be set aside as null and void and without effect because the Louisiana Constitution requires that notice be published when a utility files a proposed rate schedule that would result in a change in rates. Management believes the plaintiffs' claim is without merit and expects to intervene in the proceeding to oppose the appeal.

In June 2005, Entergy Gulf States made its formula rate plan filing with the LPSC for the test year ending December 31, 2004. The filing shows a net revenue deficiency of \$2.58 million indicating that no refund liability exists. The filing also indicates that a prospective rate increase of \$23.8 million is required in order for Entergy Gulf States to earn the authorized ROE mid-point of 10.65%. Subject to the consideration of comments expected to be filed by the LPSC staff and intervenors in the third quarter 2005, rate changes associated with the formula rate plan are scheduled to take effect with the first billing cycle in October 2005. Any disputed issues will be subject to further investigation by the LPSC, with any resolution of such issues being made effective October 2005.

Regarding Entergy Louisiana's January 2004 rate filing, in March 2005, the LPSC staff and Entergy Louisiana filed a proposed settlement that includes an annual base rate increase of approximately \$18.3 million that was implemented, subject to refund, effective with May 2005 billings. In May 2005, the LPSC approved a modified settlement which, among other things, reduces depreciation and decommissioning expense due to assuming a life extension of Waterford 3 and results in no change in rates. Subsequently, in June 2005, Entergy Louisiana made a revised compliance filing with the LPSC supporting a revised depreciation rate for Waterford 3, which reflects the removal of interim additions, and a rate increase from the purchase of the Perryville power plant, which results in a net \$0.8 million annual rate reduction. Entergy Louisiana reduced rates effective with the first billing cycle in June 2005 and expects to refund excess revenue collected during May 2005, including interest, in the third quarter of 2005.

The May 2005 rate settlement with the LPSC includes the adoption of a three-year formula rate plan for Entergy Louisiana, the terms of which include an ROE mid-point of 10.25% for the initial three-year term of the plan and permit Entergy Louisiana to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed regulatory earnings range of 9.45% to 11.05% will be allocated 60% to customers and 40% to Entergy Louisiana. The initial formula rate plan filing will be in May 2006 based on a 2005 test year with rates effective September 2006. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Louisiana.

In July 2004, Entergy Gulf States filed with the LPSC an application for a change in its rates and charges seeking an increase of \$9.1 million in gas base rates in order to allow Entergy Gulf States an opportunity to earn a fair and reasonable rate of return. In June 2005, the LPSC unanimously approved Entergy Gulf States' proposed settlement that includes a \$5.8 million gas base rate increase effective the first billing cycle of July 2005 and a rate stabilization plan with an ROE mid-point of 10.5%.

Entergy Gulf States filed with the PUCT in July 2005 a request for implementation of an incremental purchased capacity recovery rider, consistent with the recently passed Texas legislation discussed below under "**Utility Restructuring**." The rider requests \$23.1 million annually in incremental revenues on a Texas retail basis which represents the incremental purchased capacity costs, including Entergy Gulf States' obligation to purchase power from Entergy Louisiana's recently acquired Perryville plant, over what is already in Entergy Gulf States' base rates. Entergy Gulf States has reached an agreement with parties with respect to the date upon which cost recovery and cost reconciliation would begin. The parties have agreed that Entergy Gulf States will implement the rider after approval by the PUCT which could be up to 185 days from the date of filing but will reconcile and recover incremental purchased capacity costs incurred beginning September 1, 2005. The September 1, 2005 agreed upon date for the beginning of the cost recovery and cost reconciliation as well as the requested amount and the processes for implementing the rider are subject to PUCT action and approval. If approved by the PUCT, the rider would be subject to semi-annual modifications and reconciliation in conjunction with Entergy Gulf States' fuel reconciliation proceedings. Also see "**Utility Restructuring**" below for discussion of the provisions in the Texas legislation regarding Entergy Gulf States' ability to file a general rate case and for recovery of transition to competition costs.

In May 2005, the MPSC approved a joint stipulation entered into between the Mississippi Public Utilities Staff and Entergy Mississippi regarding Entergy Mississippi's annual formula rate plan filing that provides for no change in rates based on a performance adjusted ROE mid-point of 10.50%, establishing an allowed regulatory earnings range of 9.1% to 11.9%.

In April 2005, Entergy New Orleans made its annual scheduled formula rate plan filings with the City Council. The filings show that a decrease of \$0.2 million in electric revenues is warranted and an increase of \$3.9 million in gas revenues is warranted. The filings triggered the prescribed period for review by the City Council's Advisors and other parties, and rate adjustments, if any, could be implemented as soon as September 2005.

In May 2005, Entergy New Orleans filed with the City Council a request for continuation of the formula rate plan and generation performance-based rate plan for an additional three years. The filing requests a target equity component of the capital structure of 45%, an increase from the current target of 42%.

## **Federal Regulation**

### System Agreement Litigation

On June 1, 2005, the FERC issued a decision in the System Agreement litigation. The domestic utility companies historically have engaged in the coordinated planning, construction, and operation of generating and bulk transmission facilities under the terms of the System Agreement, which has been approved by the FERC. The System Agreement litigation proceedings are described in the Form 10-K.

The FERC decision concluded, among other things, that:

- The System Agreement no longer roughly equalizes production costs among the domestic utility companies.
- In order to reach rough production cost equalization, the FERC will impose a bandwidth remedy allowing for a maximum spread of 22 percent (expressed by the FERC as +/- 11%) between the total annual production costs of the highest cost and lowest cost domestic utility companies.
- When calculating the production costs for this purpose, output from the Vidalia hydroelectric power plant will not reflect the actual Vidalia price for that year but will be priced at that year's average MSS-3 price, reducing the amount of Vidalia costs reflected in the comparison of the domestic utility companies' total production costs.

- The remedy ordered by FERC calls for no refunds and would be effective based on the calendar year 2006 production costs with the first potential reallocation payments, if required, expected to be made in 2007.

The FERC's June 2005 order would reallocate production costs of the domestic utility companies whose relative total production costs expressed as a percentage of Entergy System average production costs are outside an upper or lower bandwidth. This would be accomplished by payments from domestic utility companies whose production costs are below Entergy System average production costs to domestic utility companies whose production costs are above Entergy System average production costs. An assessment of the potential effects of the FERC's June 2005 order requires assumptions regarding the future total production cost of each domestic utility company, which assumptions include the mix of solid fuel and gas-fired generation available to each company and the costs of natural gas and purchased power. Entergy Louisiana and Entergy Gulf States are more dependent upon gas-fired generation than Entergy Arkansas, Entergy Mississippi, or Entergy New Orleans. Of these, Entergy Arkansas is the least dependent upon gas-fired generation. Therefore, increases in natural gas prices likely will increase the amount by which Entergy Arkansas' total production costs are below the average production costs of the domestic utility companies. Considerable uncertainty exists regarding future gas prices. Annual average Henry Hub gas prices have varied significantly over recent years, ranging from \$1.72/mmBtu to \$5.85/mmBtu for the 1995-2004 period, and averaging \$3.43/mmBtu during the ten-year period 1995-2004 and \$4.58/mmBtu during the five-year period 2000-2004. Recent market conditions have resulted in gas prices that have averaged \$5.85/mmBtu for the twelve months ended December 2004. During the 12 month period July 1, 2004 to June 30, 2005 forward gas contracts for each of the next four years based on daily NYMEX close averaged \$6.68/mmBtu (2006), \$6.25/mmBtu (2007), \$5.88/mmBtu (2008) and \$5.58/mmBtu (2009). If the FERC's June 2005 order becomes final and if these gas prices occur as assumed, the following potential annual production cost reallocations among the domestic utility companies could result during the 2007-2010 period:

	Range of Annual Payments or (Receipts)	Average Annual Payment or (Receipt)
	(In Millions)	
Entergy Arkansas	\$143 to \$210	\$166
Entergy Gulf States	(\$134) to (\$87)	(\$113)
Entergy Louisiana	(\$71) to (\$10)	(\$38)
Entergy Mississippi	(\$28) to \$0	(\$11)
Entergy New Orleans	(\$10) to \$0	(\$4)

If natural gas prices deviate by \$1/mmBtu up or down, it is expected that Entergy Arkansas' annual payments will change in the same direction by approximately \$60 to \$70 million.

Various pending motions for rehearing and clarification of the FERC's June 2005 order were filed by parties to the proceeding, including the LPSC, the APSC, the MPSC, and the City Council, and by Entergy Services, Inc., on behalf of the domestic utility companies. Among other things, the LPSC's motion urged the FERC to "clarify" that the FERC's order requires the payments and receipts, to the extent any are required, to be made in 2006 based on production costs incurred in 2004 and 2005. Entergy does not believe that this request for "clarification" is consistent with the FERC order and submitted a response urging the FERC to reject this interpretation and instead find that the annual remedy order by the FERC would be evaluated based on calendar year 2006 production costs, with the first potential payments/receipts, if any were required, made in 2007.

Management believes that any changes in the allocation of production costs resulting from the FERC's June 2005 order and related retail proceedings should result in similar rate changes for retail customers. The timing of recovery of these costs in rates could be the subject of additional proceedings before Entergy's retail regulators. Although the outcome and timing of the FERC and other proceedings cannot be predicted at this time, Entergy does not believe that the ultimate resolution of these proceedings will have a material effect on its financial condition or results of operations.

See the Form 10-K for discussion of the proceeding that the LPSC commenced before itself regarding the System Agreement. As noted above in **"State and Local Rate Regulation,"** the settlement of various issues involving Entergy Gulf States and Entergy Louisiana that was approved by the LPSC has resolved the System Agreement proceeding before the LPSC, which has been dismissed without prejudice.

### Transmission

See the Form 10-K for a discussion of the petition for declaratory order that Entergy filed with the FERC in January 2005 regarding Entergy's Independent Coordinator of Transmission (ICT) proposal. On March 22, 2005, the FERC issued a declaratory order concluding that: (1) because the Southwest Power Pool (SPP) was the only entity identified as potentially being selected as the ICT and because the SPP is already a "public utility" there was no need to rule on the question of whether the functions of the ICT, alone, would serve to make the ICT a "public utility;" (2) Entergy will continue to be the "transmission provider" for transmission service across its system and that "the presence of SPP as the ICT will not change the existing balance of jurisdiction between [the FERC] and Entergy's retail regulators;" and (3) the FERC "is prepared to grant Entergy's proposed transmission pricing proposal on a two-year experimental basis, subject to certain enhancement and monitoring and reporting conditions." The enhancements referred to by the FERC involve more fully specifying the responsibilities and duties of the ICT, including defining the ICT's role in the preparation of various transmission expansion plans and the performance of studies related to the granting of transmission or interconnection service. Before Entergy's ICT proposal can be implemented, however, Entergy is required to submit further filings with the FERC regarding the modifications and clarifications to the ICT proposal.

On April 8, 2005 several intervenors filed an Emergency Request for Clarification and Request for Expedited Commission Action seeking to have the FERC: (1) clarify the ICT's role in administering the Available Flowgate Capacity (AFC) methodology; (2) clarify the ICT's role in developing the transmission base plan; (3) clarify what the FERC meant when it required Entergy to provide firm transmission rights to customers that pay for supplemental transmission upgrades; and (4) clarify and confirm following Entergy's filing that the FERC will assess SPP's status as being independent of Entergy.

On April 21, 2005 Entergy filed a request for clarification or rehearing of the FERC's March 22 declaratory order requesting that the FERC clarify the respective role of Entergy and the ICT in developing the inputs or criteria used to create the base plan and in preparing certain studies regarding system expansion. The request for clarification further requests that the FERC clarify that the initial two-year period will commence with the actual start date of ICT operations. In the event that the FERC denies Entergy's request for clarification, then Entergy will seek rehearing on these issues. However, in its request, Entergy requested that FERC not rule on these issues at this time but, instead, that the FERC wait to evaluate these issues until such time as Entergy has filed the more detailed tariff sheets and protocols in its subsequent filing to implement the ICT. Separately, Entergy submitted a letter advising the FERC that it intended to submit on or about May 27, 2005 the filing to implement the ICT proposal. A joint request for rehearing of the ICT declaratory order was also filed by the City Council, the LPSC, and the MPSC in which the retail regulators expressed their concerns that the findings reached in the declaratory order may result in an expansion of authority of the ICT "that is unnecessary to achieve the [FERC's] goals and is very likely to result in significant increases in the start-up and operational costs of the ICT." The retail regulators request that the FERC not act on their request for rehearing until Entergy has submitted its filing to implement the ICT. The intervenors filed a separate request for rehearing on April 21, 2005 urging the FERC to impose additional conditions on the approval of the ICT and also re-urging the FERC to reject the pricing proposal contained in the ICT proposal.

On May 12, 2005 the FERC issued an order clarifying certain aspects of its March 22 order. In the May 12 order, the FERC indicated that (1) Entergy is to work with the ICT and Entergy's stakeholders to develop procedures by which the ICT will calculate AFCs; (2) Entergy must specifically define the transmission rights that a customer that pays for supplemental upgrades will receive for such payments; (3) the FERC will review the ICT's contract to ensure that the ICT can perform its functions in an independent manner even if SPP is chosen as the ICT; and (4) the initial two-year period will start once the ICT becomes operational.

On May 27, 2005, the domestic utility companies filed the enhanced ICT proposal with the FERC. Entergy believes that the filing is consistent with the FERC guidance received in both the FERC's March 22 and May 12 orders on the ICT. Among other things, the enhanced ICT filing states that the ICT will (1) grant or deny transmission service on the domestic utility companies' transmission system; (2) administer the domestic utility companies' OASIS node for purposes of processing and evaluating transmission service requests and ensuring compliance with the domestic utility companies' obligation to post transmission-related information; (3) develop a base plan for the domestic utility companies' transmission system that will result in the ICT making the determination on whether something should be rolled into the domestic utility companies' transmission rates or directly assigned to the customer requesting or causing an upgrade to be constructed; (4) serve as the reliability coordinator for the Entergy transmission system; and (5) oversee the operation of the weekly procurement process. The enhanced ICT proposal clarifies the rights that customers receive when they fund a supplemental upgrade and also contains a detailed methodology describing the process by which the ICT will evaluate interconnection-related investments already made on the Entergy System for purposes of determining the future allocation of the uncredited portion of these investments.

On June 3, 2005 a group of generators filed with the FERC a request that the FERC schedule a technical conference on the enhanced ICT proposal in order for Entergy to provide additional information on the enhanced ICT proposal. In response, a stakeholder meeting was held in New Orleans on June 30, 2005. Interventions and comments on the filing are due by August 5, 2005.

In addition, as discussed in the Form 10-K, Entergy Louisiana and Entergy Gulf States have filed an application with the LPSC requesting that the LPSC find that the ICT proposal is a prudent and appropriate course of action. An LPSC hearing on the ICT proposal is currently scheduled for August 2005, however certain intervenors have recently requested that the hearing be delayed until mid-September 2005.

#### FERC's Supply Margin Assessment

See the Form 10-K for a discussion of the FERC's supply margin assessment and, in particular, the order issued by the FERC in December 2004 pursuant to Section 206 of the Federal Power Act (FPA). On June 30, 2005, the FERC issued an order addressing Entergy's delivered price test (DPT) analysis. The FERC found that material questions of fact exist that may affect the results of the DPT submitted by Entergy. These issues include, for example, whether the entire Entergy control area is the appropriate relevant geographic market or whether there exist binding transmission constraints such that it is more appropriate to define more than one geographic market within the Entergy control area. Accordingly, the FERC initiated an evidentiary hearing to address the impact of any transmission constraints on the appropriate scope of the relevant market; which information will be required prior to the FERC making a determination on whether Entergy has market power within its control area. On July 22, 2005, Entergy notified the FERC that it was withdrawing its request for market-based rate authority for sales within its control area. Instead, the domestic utility companies and their affiliates will transact at cost-based rates for wholesale sales within the Entergy control area. Entergy indicated that it will file the proposed cost-based rate schedules within 60 days. Additionally, Entergy reserves its right to request market-based rate authority for sales within its control area in the future. The FERC ALJ in the proceeding issued an order that cancelled a pre-hearing conference set for July 26, 2005, set a deadline of August 8, 2005 for objections to Entergy's notice of withdrawal, and stated that if no objections were filed by August 8, 2005 Entergy's withdrawal notice will have disposed of all pending issues in the proceeding. The relinquishment of market-based rates for sales within the Entergy control area is not expected to have a material effect on the financial results of Entergy.

Additionally, on May 5, 2005, the FERC issued an order addressing the remaining prongs in the market-based rate proceeding: transmission market power, barriers to entry/reciprocal dealing, and affiliate abuse. The FERC granted rehearing in part and instituted a proceeding under Section 206 of the FPA to investigate whether Entergy satisfies the FERC's transmission market power and affiliate abuse/reciprocal dealing standards for the granting of market-based rate authority, and established a refund effective date pursuant to the provisions of Section 206, for purposes of the additional issues set for hearing. However, the FERC decided to hold that investigation in abeyance pending the outcomes of the ICT proceeding and the affiliate purchased power agreements proceeding. The

FERC declined to require a hearing on the remaining prong regarding barriers to entry. On June 6, 2005, Entergy sought rehearing of the May 5 Order and that request for rehearing is pending.

### Interconnection Orders

See the Form 10-K for a discussion of the ALJ Initial Decision and FERC order directing Entergy Louisiana to refund, in the form of transmission credits, approximately \$15 million in expenses and tax obligations previously paid by a generator. Entergy's request for rehearing was denied by the FERC.

### Available Flowgate Capacity Proceedings

See the Form 10-K for a discussion of proceedings at the FERC involving Entergy's Available Flowgate Capacity (AFC) methodology. On March 22, 2005, the FERC issued an order contemporaneously with the ICT declaratory order discussed above that holds the AFC hearing in abeyance pending action on Entergy's upcoming ICT filing. The order holding the hearing in abeyance further indicated that it would cancel the hearing when the ICT begins to perform its functions. On April 8, 2005 several intervenors filed Emergency Motions for Interim Relief and Expedited Commission Action requesting that, during the interim period before the implementation of the ICT, the FERC (1) institute an audit process to examine and modify Entergy's current AFC process; and (2) require SPP to become involved in the AFC stakeholder process and order certain modifications to Entergy's stakeholder process. The audit process being proposed by the intervenors would not involve an independent auditor, but instead would be an investigation performed by a representative from the intervenors, Entergy, and possibly SPP. On April 25, 2005, Entergy filed its response to the emergency motion urging the FERC to reject the intervenors' request for the "audit" because the type of investigation proposed by the intervenors would be neither independent nor fair and would only distract from the implementation of the ICT. Instead, Entergy has proposed that the ICT conduct an independent review of the AFC process and procedures as part of its transition to assuming the identified ICT responsibilities, including the calculation of the AFCs. Entergy further indicated that it would welcome SPP's participation in the current stakeholder process. On April 21, 2005, the intervenors filed a separate request for rehearing arguing that the FERC must allow the AFC hearing to proceed in parallel with the establishment of the ICT. See "Transmission" above for further discussion of AFC.

### **Utility Restructuring**

Previous developments and information related to electric industry restructuring are presented in Note 2 to the consolidated financial statements in the Form 10-K. The following are updates to the Form 10-K.

### Retail-Texas

In June 2005, a Texas law was enacted which provides that:

- Entergy Gulf States is authorized by the legislation to proceed with a jurisdictional separation into two vertically integrated utilities, one subject solely to the retail jurisdiction of the LPSC and one subject solely to the retail jurisdiction of the PUCT;
- the portions of all prior PUCT orders requiring Entergy Gulf States to comply with any provisions of Texas law governing transition to retail competition are void;
- Entergy Gulf States must file a plan by January 1, 2006, identifying the power region(s) to be considered for certification and the steps and schedule to achieve certification;
- Entergy Gulf States must file a transition to competition plan no later than January 1, 2007, that would address how Entergy Gulf States intends to mitigate market power and achieve full customer choice, including potential construction of additional transmission facilities, generation auctions, generation capacity divestiture, reinstatement of a customer choice pilot project, establishment of a price to beat, and other measures;
- Entergy Gulf States' rates are subject to cost-of-service regulation until retail customer choice is implemented;



- Entergy Gulf States may not file a general base rate case in Texas before June 30, 2007, with rates effective no earlier than June 30, 2008, but may seek before then the recovery of certain incremental purchased power capacity costs, adjusted for load growth, not in excess of five percent of its annual base rate revenues (as discussed above in "State and Local Regulation," in July 2005 Entergy Gulf States filed a request for implementation of an incremental purchased capacity recovery rider); and
- Entergy Gulf States may recover over a period not to exceed 15 years reasonable and necessary transition to competition costs incurred before the effective date of the legislation and not previously recovered, with appropriate carrying charges.

### Retail-Louisiana

In November 2001, the LPSC decided not to move forward with retail open access for any customers at this time. The LPSC instead directed its staff to hold collaborative group meetings concerning open access from time to time, and to have the LPSC staff monitor developments in neighboring states and to report to the LPSC regarding the progress of retail access developments in those states. In September 2004, in response to a study performed by the Louisiana State University Center for Energy Studies that evaluated a limited industrial-only retail choice program, the LPSC asked the LPSC staff to solicit comments and obtain information from utilities, customers, and other interested parties concerning the potential costs and benefits of a limited choice program, the impact of such a program on other customers, as well as issues such as stranded costs and transmission service. Comments from interested parties were filed with the LPSC in January 2005. A technical conference was held in April 2005 and in May 2005 interested parties filed reply comments to arguments made at the technical conference. Entergy stated that it believes that there is no new information or credible evidence that would justify altering the LPSC's previous conclusion that retail access is not in the public interest.

### **Federal Legislation**

In late July 2005 the U.S. Congress passed broad new energy legislation, the Energy Policy Act of 2005. The legislation contains electricity provisions that, among other things:

- Repeal the Public Utility Holding Company Act of 1935 (PUHCA), effective six months after enactment of the Energy Policy Act. As a registered holding company system, Entergy is subject to PUHCA. Some of the more significant effects of PUHCA are that it limits the operations of a registered holding company system to a single, integrated public utility system; regulates transactions among affiliates within a holding company system; governs the issuance, acquisition, and disposition of securities and assets by registered holding companies and their subsidiaries; limits the entry by registered holding companies and their subsidiaries into businesses other than electric or gas utility businesses; and requires SEC approval for certain utility mergers and acquisitions. Certain consumer protection authorities were transferred to the FERC, including new authority over utility mergers and acquisitions, and to the state or local regulatory commissions.
- Codifies the concept of participant funding, a form of cost allocation for transmission interconnections and upgrades, and allows FERC to apply participant funding in all regions of the country. Participant funding helps ensure that a utility's native load customers only bear the costs that are necessary to provide reliable transmission service to them and not bear costs required by generators who seek to deliver power to other regions.
- Provides financing benefits, including loan guarantees and production tax credits, for new nuclear plant construction, and reauthorizes the Price-Anderson Act, the law that provides an umbrella of insurance protection for the payment of public liability claims in the event of a major nuclear power plant incident.
- Revises current tax law treatment of nuclear decommissioning trust funds by allowing regulated and nonregulated taxpayers to make deductible contributions to fund the entire amount of estimated future decommissioning costs.
- Provides a more rapid tax depreciation schedule for transmission assets to encourage investment.
- Creates mandatory electricity reliability guidelines with enforceable penalties to help ensure that the nation's power transmission grid is kept in good repair and that disruptions in the electricity system are minimized. Entergy already voluntarily complies with National Electricity Reliability Council standards, which are similar.

- Establishes conditions for the elimination of the Public Utility Regulatory Policy Act's (PURPA) mandatory purchase obligation from qualifying facilities.

The President is expected to sign the Energy Policy Act in August 2005. The Energy Power Act requires several rulemakings by the FERC and other government agencies in order to implement its provisions. Therefore, it will be some time before a full assessment of its effect on Entergy and the energy industry can be completed.

## **Market and Credit Risks**

### **Commodity Price Risk**

As discussed in the Form 10-K, some of the agreements to sell the power produced by Entergy's Non-Utility Nuclear power plants and the wholesale supply agreements entered into by Entergy's Competitive Retail business contain provisions that require an Entergy subsidiary to provide collateral to secure its obligations under the agreements. The Entergy subsidiary may be required to provide collateral based upon the difference between the current market and contracted power prices in the regions where the Non-Utility Nuclear and Competitive Retail businesses sell power. The primary form of the collateral to satisfy these requirements would be an Entergy Corporation guaranty. Cash and letters of credit are also acceptable forms of collateral. At June 30, 2005, based on power prices at that time, Entergy had in place as collateral \$922.7 million of Entergy Corporation guarantees, \$81.0 million of which support letters of credit. In the event of a decrease in Entergy Corporation's credit rating to specified levels below investment grade, Entergy may be required to replace Entergy Corporation guarantees with cash or letters of credit under some of the agreements.

### **Central States Compact Claim**

The Low-Level Radioactive Waste Policy Act of 1980 holds each state responsible for disposal of low-level radioactive waste originating in that state, but allows states to participate in regional compacts to fulfill their responsibilities jointly. Arkansas and Louisiana participate in the Central Interstate Low-Level Radioactive Waste Compact (Central States Compact or Compact). Commencing in 1998, Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana made a series of contributions to the Central States Compact to fund the Central States Compact's development of a low-level radioactive waste disposal facility to be located in Boyd County, Nebraska. In December 1998, Nebraska, the host state for the proposed Central States Compact disposal facility, denied the compact's license application for the proposed disposal facility. Several parties, including the commission that governs the compact (the Compact Commission), filed a lawsuit against Nebraska seeking damages resulting from Nebraska's denial of the proposed facility's license. After a trial, the U.S. District Court concluded that Nebraska violated its good faith obligations regarding the proposed waste disposal facility and rendered a judgment against Nebraska in the amount of \$151 million. In August 2004, Nebraska agreed to pay the Compact \$141 million in settlement of the judgment. In July 2005, the Compact Commission decided to distribute a substantial portion of the proceeds from the settlement to the nuclear power generators that had contributed funding for the Boyd County facility, including Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana. On August 1, 2005, Nebraska paid the full amount of the settlement to the Compact, and the Compact distributed from the settlement proceeds \$23.6 million to Entergy Arkansas, \$19.9 million to Entergy Gulf States, and \$18.4 million to Entergy Louisiana. Management is still analyzing the accounting treatment of the receipts, but expects that some portion of the receipts could result in income for Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana.

### **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, unbilled revenue, impairment of long-lived assets, pension and other postretirement benefits, and other contingencies. The following is an update to the information provided in the Form 10-K.

## **Nuclear Decommissioning Costs**

In the first quarter of 2005, Entergy's Non-Utility Nuclear business recorded a reduction of \$26.0 million in its decommissioning cost liability in conjunction with a new decommissioning cost study as a result of revised decommissioning costs and changes in assumptions regarding the timing of when the decommissioning of a plant will begin. The revised estimate resulted in miscellaneous income of \$26.0 million (\$15.8 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost.

In the second quarter of 2005, Entergy Louisiana recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Waterford 3 that reflected an expected life extension for the plant. The revised estimate resulted in a \$153.6 million reduction in its decommissioning liability, along with a \$49.2 million reduction in utility plant and a \$104.4 million reduction in the related regulatory asset.

## **Recently Issued Accounting Pronouncements**

In the first quarter 2005, FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" (FIN 47). FIN 47 requires companies to recognize at fair value a liability for a conditional asset retirement obligation when incurred, which is generally upon an asset's acquisition, construction, development, or through its normal operation. A conditional asset retirement obligation is generally a legal obligation to incur costs to remove an asset or part of an asset, such as an obligation to comply with environmental regulations and requirements. The obligation is conditional because there is currently no legal requirement to retire or remove the facility that the affected asset is a part of. FIN 47 requires that uncertainty about the timing or method of settlement of a conditional asset retirement obligation be factored into the measurement of the liability when sufficient information becomes available. FIN 47 will be effective for Entergy no later than December 31, 2005. Entergy does not believe that the adoption of FIN 47 will be material to its financial position or results of operations because it estimates that any conditional asset retirement obligations required to be recognized under FIN 47 would be offset by a regulatory asset because of the expected recovery of these future costs in rates.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the Three and Six Months Ended June 30, 2005 and 2004  
(Unaudited)

	Three Months Ended		Six Months Ended	
	2005	2004	2005	2004
	(In Thousands, Except Share Data)			
<b>OPERATING REVENUES</b>				
Domestic electric	\$2,124,134	\$1,952,049	\$3,868,516	\$3,653,377
Natural gas	43,660	38,146	130,610	121,962
Competitive businesses	541,725	494,902	1,033,806	961,307
<b>TOTAL</b>	<b>2,709,519</b>	<b>2,485,097</b>	<b>5,032,932</b>	<b>4,736,646</b>
<b>OPERATING EXPENSES</b>				
Operating and Maintenance:				
Fuel, fuel-related expenses, and gas purchased for resale	474,203	488,368	1,054,284	1,038,495
Purchased power	739,786	555,439	1,239,565	1,004,959
Nuclear refueling outage expenses	39,150	39,099	78,960	80,706
Other operation and maintenance	599,575	567,746	1,134,239	1,068,997
Decommissioning	36,525	37,098	73,524	75,446
Taxes other than income taxes	107,465	103,283	210,454	200,585
Depreciation and amortization	213,902	215,640	438,079	426,289
Other regulatory credits - net	(30,697)	(15,888)	(47,462)	(31,977)
<b>TOTAL</b>	<b>2,179,909</b>	<b>1,990,785</b>	<b>4,181,643</b>	<b>3,863,500</b>
<b>OPERATING INCOME</b>	<b>529,610</b>	<b>494,312</b>	<b>851,289</b>	<b>873,146</b>
<b>OTHER INCOME</b>				
Allowance for equity funds used during construction	11,164	8,016	24,049	15,479
Interest and dividend income	34,756	25,823	65,646	54,074
Equity in earnings (loss) of unconsolidated equity affiliate	2,158	20,288	(35)	40,107
Miscellaneous - net	(11,333)	13,571	14,469	18,740
<b>TOTAL</b>	<b>36,745</b>	<b>67,698</b>	<b>104,129</b>	<b>128,400</b>
<b>INTEREST AND OTHER CHARGES</b>				
Interest on long-term debt	109,299	116,211	220,052	235,672
Other interest - net	14,058	13,563	26,222	19,778
Allowance for borrowed funds used during construction	(6,181)	(4,970)	(13,690)	(10,124)
<b>TOTAL</b>	<b>117,176</b>	<b>124,804</b>	<b>232,584</b>	<b>245,326</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>449,179</b>	<b>437,206</b>	<b>722,834</b>	<b>756,220</b>
Income taxes	156,390	166,195	251,425	272,192
<b>CONSOLIDATED NET INCOME</b>	<b>292,789</b>	<b>271,011</b>	<b>471,409</b>	<b>484,028</b>
Preferred dividend requirements and other	6,639	5,829	13,263	11,685
<b>EARNINGS APPLICABLE TO COMMON STOCK</b>	<b>\$286,150</b>	<b>\$265,182</b>	<b>\$458,146</b>	<b>\$472,343</b>
Earnings per average common share:				
Basic	\$1.36	\$1.16	\$2.15	\$2.06
Diluted	\$1.33	\$1.14	\$2.11	\$2.02
Dividends declared per common share	\$0.54	\$0.45	\$1.08	\$0.90
Average number of common shares outstanding:				
Basic	211,134,467	228,714,654	212,622,976	229,489,646
Diluted	215,568,534	232,775,049	217,091,580	234,007,635

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

	2005	2004
	(In Thousands)	
<b>OPERATING ACTIVITIES</b>		
<b>Consolidated net income</b>	\$471,409	\$484,028
<b>Adjustments to reconcile consolidated net income to net cash flow provided by operating activities:</b>		
Reserve for regulatory adjustments	(73,803)	2,407
Other regulatory credits - net	(47,462)	(31,977)
Depreciation, amortization, and decommissioning	511,603	501,735
Deferred income taxes and investment tax credits	95,985	138,574
Equity in earnings (loss) of unconsolidated equity affiliates - net of dividends	35	(13,824)
Changes in working capital:		
Receivables	(129,074)	(184,375)
Fuel inventory	13,246	(22,592)
Accounts payable	(25,284)	33,120
Taxes accrued	74,540	111,393
Interest accrued	(18,118)	(18,811)
Deferred fuel	(97,100)	1,911
Other working capital accounts	(54,588)	23,352
Provision for estimated losses and reserves	10,272	(2,239)
Changes in other regulatory assets	25,234	4,217
Other	10,176	(97,849)
<b>Net cash flow provided by operating activities</b>	<u>767,071</u>	<u>929,070</u>
<b>INVESTING ACTIVITIES</b>		
Construction/capital expenditures	(639,651)	(595,618)
Allowance for equity funds used during construction	24,049	15,479
Nuclear fuel purchases	(184,445)	(100,229)
Proceeds from sale/leaseback of nuclear fuel	125,680	61,694
Proceeds from sale of assets and businesses	-	21,978
Payment for purchase of plant	(162,075)	-
Investment in non-utility properties	-	(8,442)
Decrease (increase) in other investments	63,193	(11,071)
Purchases of other temporary investments	(1,591,025)	(376,100)
Liquidation of other temporary investments	1,778,975	583,600
Decommissioning trust contributions and realized change in trust assets	(48,527)	(44,588)
Other regulatory investments	(63,800)	(30,696)
<b>Net cash flow used in investing activities</b>	<u>(697,626)</u>	<u>(483,993)</u>

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

	<u>2005</u>	<u>2004</u>
	<u>(In Thousands)</u>	
<b>FINANCING ACTIVITIES</b>		
<b>Proceeds from the issuance of:</b>		
Long-term debt	637,215	272,977
Preferred stock	30,000	-
Common stock and treasury stock	89,868	107,840
Retirement of long-term debt	(531,919)	(539,779)
Repurchase of common stock	(639,820)	(271,237)
Redemption of preferred stock	(2,250)	(2,250)
Changes in credit line borrowings - net	584,850	255,000
<b>Dividends paid:</b>		
Common stock	(229,353)	(202,349)
Preferred stock	(13,261)	(11,913)
<b>Net cash flow used in financing activities</b>	<u>(74,670)</u>	<u>(391,711)</u>
<b>Effect of exchange rates on cash and cash equivalents</b>	<u>129</u>	<u>(2,401)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,096)	50,965
<b>Cash and cash equivalents at beginning of period</b>	<u>619,786</u>	<u>507,433</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$614,690</u>	<u>\$558,398</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest - net of amount capitalized	\$250,302	\$259,674
Income taxes	\$83,688	\$25,729

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**  
**June 30, 2005 and December 31, 2004**  
**(Unaudited)**

	2005	2004
	(In Thousands)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Cash	\$104,992	\$79,136
Temporary cash investments - at cost, which approximates market	509,698	540,650
Total cash and cash equivalents	614,690	619,786
Other temporary investments	-	187,950
Notes receivable	2,051	3,092
Accounts receivable:		
Customer	415,382	435,191
Allowance for doubtful accounts	(21,979)	(23,758)
Other	368,400	342,289
Accrued unbilled revenues	597,361	460,039
Total receivables	1,359,164	1,213,761
Deferred fuel costs	223,980	85,911
Accumulated deferred income taxes	8,303	76,899
Fuel inventory - at average cost	114,005	127,251
Materials and supplies - at average cost	579,375	569,407
Deferred nuclear refueling outage costs	159,484	107,782
Prepayments and other	117,862	116,279
<b>TOTAL</b>	<b>3,178,914</b>	<b>3,108,118</b>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investment in affiliates - at equity	168,040	231,779
Decommissioning trust funds	2,543,275	2,453,406
Non-utility property - at cost (less accumulated depreciation)	224,545	219,717
Other	76,158	90,992
<b>TOTAL</b>	<b>3,012,018</b>	<b>2,995,894</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric	29,710,868	29,053,340
Property under capital lease	732,583	738,554
Natural gas	276,874	262,787
Construction work in progress	1,082,681	1,197,551
Nuclear fuel under capital lease	268,193	262,469
Nuclear fuel	339,446	320,813
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>32,410,645</b>	<b>31,835,514</b>
Less - accumulated depreciation and amortization	13,431,269	13,139,883
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>18,979,376</b>	<b>18,695,631</b>
<b>DEFERRED DEBITS AND OTHER ASSETS</b>		
Regulatory assets:		
SFAS 109 regulatory asset - net	737,906	746,413
Other regulatory assets	1,381,259	1,429,261
Long-term receivables	29,884	39,417
Goodwill	377,172	377,172
Other	884,622	918,871
<b>TOTAL</b>	<b>3,410,843</b>	<b>3,511,134</b>
<b>TOTAL ASSETS</b>	<b>\$28,581,151</b>	<b>\$28,310,777</b>

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**  
**June 30, 2005 and December 31, 2004**  
**(Unaudited)**

	2005	2004
	(In Thousands)	
<b>CURRENT LIABILITIES</b>		
Currently maturing long-term debt	\$375,286	\$492,564
Notes payable	43	193
Accounts payable	871,244	896,528
Customer deposits	234,223	222,320
Taxes accrued	237,239	224,011
Nuclear refueling outage costs	6,021	-
Interest accrued	126,360	144,478
Obligations under capital leases	135,262	133,847
Other	260,706	218,442
<b>TOTAL</b>	<b>2,246,384</b>	<b>2,332,383</b>
<b>NON-CURRENT LIABILITIES</b>		
Accumulated deferred income taxes and taxes accrued	5,097,025	5,067,381
Accumulated deferred investment tax credits	389,468	399,228
Obligations under capital leases	170,322	146,060
Other regulatory liabilities	378,485	329,767
Decommissioning and retirement cost liabilities	1,959,346	2,066,277
Transition to competition	79,101	79,101
Regulatory reserves	20,174	103,061
Accumulated provisions	560,478	549,914
Long-term debt	7,843,705	7,016,831
Preferred stock with sinking fund	15,150	17,400
Other	1,475,720	1,541,331
<b>TOTAL</b>	<b>17,988,974</b>	<b>17,316,351</b>
Commitments and Contingencies		
Preferred stock without sinking fund	395,683	365,356
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, authorized 500,000,000 shares; issued 248,174,087 shares in 2005 and in 2004	2,482	2,482
Paid-in capital	4,845,037	4,835,375
Retained earnings	5,212,985	4,984,302
Accumulated other comprehensive loss	(147,007)	(93,453)
Less - treasury stock, at cost (38,226,127 shares in 2005 and 31,345,028 shares in 2004)	1,963,387	1,432,019
<b>TOTAL</b>	<b>7,950,110</b>	<b>8,296,687</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$28,581,151</b>	<b>\$28,310,777</b>

See Notes to Consolidated Financial Statements.



**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS, COMPREHENSIVE INCOME, AND PAID-IN CAPITAL**  
For the Three and Six Months Ended June 30, 2005 and 2004  
(Unaudited)

	Three Months Ended			
	2005		2004	
	(In Thousands)			
<b>RETAINED EARNINGS</b>				
Retained Earnings - Beginning of period	\$5,040,655		\$4,605,907	
Add - Earnings applicable to common stock	286,150	\$286,150	265,182	\$265,182
Deduct:				
Dividends declared on common stock	113,820		102,458	
Capital stock and other expenses	-		295	
Total	<u>113,820</u>		<u>102,753</u>	
Retained Earnings - End of period	<u>\$5,212,985</u>		<u>\$4,768,336</u>	
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Net of Taxes):</b>				
Balance at beginning of period				
Accumulated derivative instrument fair value changes	(\$161,446)		(\$41,997)	
Other accumulated comprehensive income items	44,649		48,490	
Total	<u>(116,797)</u>		<u>6,493</u>	
Net derivative instrument fair value changes arising during the period	(46,621)	(46,621)	(77,544)	(77,544)
Foreign currency translation adjustments	(85)	(85)	693	693
Net unrealized investment gains (losses)	<u>16,496</u>	<u>16,496</u>	<u>(24,843)</u>	<u>(24,843)</u>
Balance at end of period:				
Accumulated derivative instrument fair value changes	(\$208,067)		(\$119,541)	
Other accumulated comprehensive income items	61,060		24,340	
Total	<u>(\$147,007)</u>		<u>(\$95,201)</u>	
Comprehensive Income		<u>\$255,940</u>		<u>\$163,488</u>
<b>PAID-IN CAPITAL</b>				
Paid-in Capital - Beginning of period	\$4,826,797		\$4,792,171	
Add: Common stock issuances related to stock plans	18,240		26,873	
Paid-in Capital - End of period	<u>\$4,845,037</u>		<u>\$4,819,044</u>	

	Six Months Ended			
	2005		2004	
	(In Thousands)			
<b>RETAINED EARNINGS</b>				
Retained Earnings - Beginning of period	\$4,984,302		\$4,502,508	
Add - Earnings applicable to common stock	458,146	\$458,146	472,343	\$472,343
Deduct:				
Dividends declared on common stock	229,448		206,220	
Capital stock and other expenses	15		295	
Total	229,463		206,515	
Retained Earnings - End of period	<u>\$5,212,985</u>		<u>\$4,768,336</u>	
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Net of Taxes):</b>				
Balance at beginning of period				
Accumulated derivative instrument fair value changes	(\$141,411)		(\$25,811)	
Other accumulated comprehensive income items	47,958		18,016	
Total	<u>(93,453)</u>		<u>(7,795)</u>	
Net derivative instrument fair value changes arising during the period	(66,655)	(66,655)	(93,730)	(93,730)
Foreign currency translation adjustments	(129)	(129)	2,401	2,401
Minimum pension liability adjustment	(2,054)	(2,054)	-	-
Net unrealized investment gains	<u>15,284</u>	<u>15,284</u>	<u>3,923</u>	<u>3,923</u>
Balance at end of period:				
Accumulated derivative instrument fair value changes	(\$208,066)		(\$119,541)	
Other accumulated comprehensive income items	61,059		24,340	
Total	<u>(\$147,007)</u>		<u>(\$95,201)</u>	
Comprehensive Income		<u>\$404,592</u>		<u>\$384,937</u>
<b>PAID-IN CAPITAL</b>				
Paid-in Capital - Beginning of period	\$4,835,375		\$4,767,615	
Add: Common stock issuances related to stock plans	9,662		51,429	
Paid-in Capital - End of period	<u>\$4,845,037</u>		<u>\$4,819,044</u>	

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**SELECTED OPERATING RESULTS**  
For the Three and Six Months Ended June 30, 2005 and 2004  
(Unaudited)

Description	Three Months Ended		Increase/ (Decrease)	%
	2005	2004		
	(Dollars In Millions)			
U.S. Utility Electric Operating Revenues:				
Residential	\$607	\$603	\$4	1
Commercial	480	479	1	-
Industrial	560	558	2	-
Governmental	48	48	-	-
Total retail	1,695	1,688	7	-
Sales for resale	105	104	1	1
Other	324	160	164	103
Total	\$2,124	\$1,952	\$172	9

U.S. Utility Billed Electric Energy

Sales (GWh):

Residential	7,005	6,911	94	1
Commercial	6,287	6,220	67	1
Industrial	9,810	9,922	(112)	(1)
Governmental	620	609	11	2
Total retail	23,722	23,662	60	-
Sales for resale	1,938	2,367	(429)	(18)
Total	25,660	26,029	(369)	(1)

Description	Six Months Ended		Increase/ (Decrease)	%
	2005	2004		
	(Dollars In Millions)			
U.S. Utility Electric Operating Revenues:				
Residential	\$1,229	\$1,212	\$17	1
Commercial	942	914	28	3
Industrial	1,116	1,072	44	4
Governmental	93	92	1	1
Total retail	3,380	3,290	90	3
Sales for resale	200	203	(3)	(1)
Other	288	160	128	80
Total	\$3,868	\$3,653	\$215	6

U.S. Utility Billed Electric Energy

Sales (GWh):

Residential	14,575	14,637	(62)	-
Commercial	12,277	12,107	170	1
Industrial	19,406	19,412	(6)	-
Governmental	1,229	1,209	20	2
Total retail	47,487	47,365	122	-
Sales for resale	3,670	4,785	(1,115)	(23)
Total	51,157	52,150	(993)	(2)

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. COMMITMENTS AND CONTINGENCIES**

**Nuclear Insurance**

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

**Nuclear Decommissioning and Other Retirement Costs**

See Note 8 to the consolidated financial statements in the Form 10-K for information on nuclear decommissioning costs. In the first quarter of 2005, Entergy's Non-Utility Nuclear business recorded a reduction of \$26.0 million in its decommissioning cost liability in conjunction with a new decommissioning cost study as a result of revised decommissioning costs and changes in assumptions regarding the timing of when the decommissioning of a plant will begin. The revised estimate resulted in miscellaneous income of \$26.0 million (\$15.8 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost.

In the second quarter of 2005, Entergy Louisiana recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Waterford 3 that reflected an expected life extension for the plant. The revised estimate resulted in a \$153.6 million reduction in its decommissioning liability, along with a \$49.2 million reduction in utility plant and a \$104.4 million reduction in the related regulatory asset.

**Income Taxes**

See Note 8 to the consolidated financial statements in the Form 10-K for information regarding certain material income tax audit matters involving Entergy. Following is an update to that disclosure.

**Mark to Market of Certain Power Contracts**

As discussed in the Form 10-K, in 2001, Entergy Louisiana changed its method of accounting for income tax purposes related to its wholesale electric power contracts. The most significant of these is the contract to purchase power from the Vidalia hydroelectric project. On audit of Entergy Louisiana's 2001 tax return, the IRS made an adjustment reducing the amount of the deduction associated with this method change. The adjustment had no material impact on Entergy Louisiana's earnings and required no additional cash payment of 2001 income tax. The Vidalia contract method change has resulted in cumulative cash flow benefits of approximately \$790 million through June 30, 2005. This benefit is expected to reverse in the years 2005 through 2031. The tax accounting election has had no effect on book income tax expense. The timing of the reversal of this benefit depends on several variables, including the price of power.

**CashPoint Bankruptcy**

See Note 8 to the consolidated financial statements in the Form 10-K for information regarding the bankruptcy of CashPoint, which managed a network of payment agents for the domestic utility companies.

**Harrison County Plant Fire**

On May 13, 2005, an explosion and fire damaged the non-nuclear wholesale assets business's Harrison County power plant. A catastrophic failure and subsequent natural gas escape from a nearby 36-inch interstate pipeline owned and operated by a third party is believed to have caused the damage. Current estimates are that the cost to clean-up the site and reconstruct the damaged portions of the plant could be at least \$50 million and take until

second quarter 2006 to be completed. The plant's property insurer has acknowledged coverage, subject to a \$200 thousand deductible. Entergy does not expect the damage caused to the Harrison County plant to have a material effect on its financial position or results of operations.

### **Employment Litigation**

Entergy Corporation and certain subsidiaries are defendants in numerous lawsuits filed by former employees asserting that they were wrongfully terminated and/or discriminated against on the basis of age, race, sex, or other protected characteristics. The defendant companies deny any liability to the plaintiffs.

## **NOTE 2. RATE AND REGULATORY MATTERS**

### **Retail Rate Proceedings**

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

#### **Filings with the LPSC**

##### **Global Settlement** (Entergy Gulf States and Entergy Louisiana)

In March 2005, the LPSC approved a settlement proposal to resolve various dockets covering a range of issues for Entergy Gulf States and Entergy Louisiana. The settlement resulted in credits totaling \$76 million for retail electricity customers in Entergy Gulf States' Louisiana service territory and credits totaling \$14 million for retail electricity customers of Entergy Louisiana. The settlement dismissed Entergy Gulf States' fourth, fifth, sixth, seventh, and eighth annual earnings reviews, Entergy Gulf States' ninth post-merger earnings review and revenue requirement analysis, the continuation of a fuel review for Entergy Gulf States, dockets established to consider issues concerning power purchases for Entergy Gulf States and Entergy Louisiana for the summers of 2001, 2002, 2003, and 2004, all prudence issues associated with decisions made through May 2005 related to the nuclear plant uprates at issue in these cases, and an LPSC docket concerning retail issues arising under the System Agreement. The settlement does not include the System Agreement case at FERC. In addition, Entergy Gulf States agreed not to seek recovery from customers of \$2 million of excess refund amounts associated with the fourth through the eighth annual earnings reviews and Entergy Louisiana agreed to forgo recovery of \$3.5 million of deferred 2003 capacity costs associated with certain power purchase agreements. The credits were issued in connection with April 2005 billings. Entergy Gulf States and Entergy Louisiana reserved for the approximate refund amounts.

The settlement includes the establishment of a three-year formula rate plan for Entergy Gulf States that, among other provisions, establishes an ROE mid-point of 10.65% for the initial three-year term of the plan and permits Entergy Gulf States to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed range of 9.9% to 11.4% will be allocated 60% to customers and 40% to Entergy Gulf States. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Gulf States. Under the settlement, there was no change to Entergy Gulf States' retail rates at that time.

##### **Retail Rates - Electric**

##### **(Entergy Louisiana)**

See Note 2 to consolidated financial statements in the Form 10-K for discussion of Entergy Louisiana's rate filing with the LPSC requesting a base rate increase. In March 2005, the LPSC staff and Entergy Louisiana filed a proposed settlement that included an annual base rate increase of approximately \$18.3 million which was implemented, subject to refund, effective with May 2005 billings. In May 2005, the LPSC approved a modified

settlement which, among other things, reduces depreciation and decommissioning expense due to assuming a life extension of Waterford 3 and results in no change in rates. Subsequently, in June 2005, Entergy Louisiana made a revised compliance filing with the LPSC supporting a revised depreciation rate for Waterford 3, which reflects the removal of interim additions, and a rate increase from the purchase of the Perryville power plant, which results in a net \$0.8 million annual rate reduction. Entergy Louisiana reduced rates effective with the first billing cycle in June 2005 and expects to refund excess revenue collected during May 2005, including interest, in the third quarter of 2005.

The May 2005 rate settlement includes the adoption of a three-year formula rate plan, the terms of which include an ROE mid-point of 10.25% for the initial three-year term of the plan and permit Entergy Louisiana to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed regulatory earnings range of 9.45% to 11.05% will be allocated 60% to customers and 40% to Entergy Louisiana. The initial formula rate plan filing will be in May 2006 based on a 2005 test year with rates effective September 2006. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Louisiana.

#### (Entergy Gulf States)

In June 2005, Entergy Gulf States made its formula rate plan filing with the LPSC for the test year ending December 31, 2004. The filing shows a net revenue deficiency of \$2.58 million indicating that no refund liability exists. The filing also indicates that a prospective rate increase of \$23.8 million is required in order for Entergy Gulf States to earn the authorized ROE mid-point of 10.65%. Subject to the consideration of comments expected to be filed by the LPSC staff and intervenors in the third quarter 2005, rate changes associated with the formula rate plan are scheduled to take effect with the first billing cycle in October 2005. Any disputed issues will be subject to further investigation by the LPSC, with any resolution of such issues being made effective October 2005.

#### Retail Rates - Gas (Entergy Gulf States)

In July 2004, Entergy Gulf States filed with the LPSC an application for a change in its rates and charges seeking an increase of \$9.1 million in gas base rates in order to allow Entergy Gulf States an opportunity to earn a fair and reasonable rate of return. In June 2005, the LPSC unanimously approved Entergy Gulf States' proposed settlement that includes a \$5.8 million gas base rate increase effective the first billing cycle of July 2005 and a rate stabilization plan with an ROE mid-point of 10.5%.

#### **Filings with the PUCT (Entergy Gulf States)**

Entergy Gulf States filed with the PUCT in July 2005 a request for implementation of an incremental purchased capacity recovery rider, consistent with the recently passed Texas legislation discussed below under **"Electric Industry Restructuring and the Continued Application of SFAS 71."** The rider requests \$23.1 million annually in incremental revenues on a Texas retail basis which represents the incremental purchased capacity costs, including Entergy Gulf States' obligation to purchase power from Entergy Louisiana's recently acquired Perryville plant, over what is already in Entergy Gulf States' base rates. Entergy Gulf States has reached an agreement with parties with respect to the date upon which cost recovery and cost reconciliation would begin. The parties have agreed that Entergy Gulf States will implement the rider after approval by the PUCT which could be up to 185 days from the date of filing but will reconcile and recover incremental purchased capacity costs incurred beginning September 1, 2005. The September 1, 2005 agreed upon date for the beginning of the cost recovery and cost reconciliation as well as the requested amount and the processes for implementing the rider are subject to PUCT action and approval. If approved by the PUCT, the rider would be subject to semi-annual modifications and reconciliation in conjunction with Entergy Gulf States' fuel reconciliation proceedings. Also see **"Electric Industry Restructuring and the Continued Application of SFAS 71"** below for discussion of the provisions in the Texas legislation regarding Entergy Gulf States' ability to file a general rate case and for recovery of transition to competition costs.

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

In April 2005, Entergy New Orleans made its annual scheduled formula rate plan filings with the City Council. The filings show that a decrease of \$0.2 million in electric revenues is warranted and an increase of \$3.9 million in gas revenues is warranted. The filings triggered the prescribed period for review by the City Council's Advisors and other parties, and rate adjustments, if any, could be implemented as soon as September 2005.

In May 2005, Entergy New Orleans filed with the City Council a request for continuation of the formula rate plan and generation performance-based rate plan for an additional three years. The filing requests a target equity component of the capital structure of 45%, an increase from the current target of 42%.

## **Deferred Fuel Costs**

See Note 2 to the consolidated financial statements in the Form 10-K for information regarding fuel proceedings involving the domestic utility companies. The following are updates to the Form 10-K.

In March 2005, Entergy Arkansas filed with the APSC its energy cost recovery rider for the period April 2005 through March 2006. The filed energy cost rate, which accounts for 15 percent of a typical residential customer's bill using 1,000 kWh per month, increased 31 percent primarily attributable to a true-up adjustment for an under-recovery balance of \$11.2 million and a nuclear refueling adjustment resulting from outages scheduled in 2005 at ANO 1 and 2.

In March 2004, Entergy Gulf States filed with the PUCT a fuel reconciliation case covering the period September 2000 through August 2003. Entergy Gulf States is reconciling \$1.43 billion of fuel and purchased power costs on a Texas retail basis. This amount includes \$8.6 million of under-recovered costs that Entergy Gulf States is asking to reconcile and roll into its fuel over/under-recovery balance to be addressed in the next appropriate fuel proceeding. This case involves imputed capacity and River Bend payment issues similar to those decided adversely in a January 2001 proceeding that is now on appeal. On January 31, 2005, the ALJ issued a Proposal for Decision that recommended disallowing \$10.7 million (excluding interest) related to these two issues. In April 2005, the PUCT issued an order reversing in part the ALJ's Proposal for Decision and allowing Entergy Gulf States to recover a part of its request related to the imputed capacity and River Bend payment issues. The PUCT's order reduced the disallowance in the case to \$8.3 million. Both Entergy Gulf States and certain cities served by Entergy Gulf States filed motions for rehearing on these issues which were denied by the PUCT. Entergy Gulf States and certain Cities filed appeals to the Travis County District Court. The appeals are pending. Any disallowance will be netted against Entergy Gulf States' under-recovered costs and will be included in its deferred fuel costs balance.

In January 2001, Entergy Gulf States filed with the PUCT a fuel reconciliation case covering the period from March 1999 through August 2000. Entergy Gulf States was reconciling approximately \$583 million of fuel and purchased power costs. As part of this filing, Entergy Gulf States requested authority to collect \$28 million, plus interest, of under-recovered fuel and purchased power costs. In August 2002, the PUCT reduced Entergy Gulf States' request to approximately \$6.3 million, including interest through July 31, 2002. Approximately \$4.7 million of the total reduction to the requested surcharge relates to nuclear fuel costs that the PUCT deferred ruling on at that time. In October 2002, Entergy Gulf States appealed the PUCT's final order in Texas District Court. In its appeal, Entergy Gulf States is challenging the PUCT's disallowance of approximately \$4.2 million related to imputed capacity costs and its disallowance related to costs for energy delivered from the 30% non-regulated share of River Bend. The case was argued before the Travis County Texas District Court in August 2003 and the Travis County District Court judge affirmed the PUCT's order. In October 2003, Entergy Gulf States appealed this decision to the Court of Appeals. Oral argument before the appellate court occurred in September 2004 and in May 2005, the appellate court affirmed the lower court's decision affirming the PUCT's disallowance. Entergy Gulf States has filed a motion for rehearing with the appellate court in this case.

In August 2000, the LPSC authorized its staff to initiate a proceeding to audit the fuel adjustment clause filings of Entergy Louisiana pursuant to a November 1997 LPSC general order. The time period that is the subject

of the audit is January 1, 2000 through December 31, 2001. In September 2003, the LPSC staff issued its audit report and recommended a disallowance with regard to one item. The issue relates to the alleged failure to uprate Waterford 3 in a timely manner, a claim that also has been raised in the summer 2001, 2002, and 2003 purchased power proceedings. The settlement approved by the LPSC in March 2005, discussed above, resolves the uprate imprudence disallowance and is no longer at issue in this proceeding. Subsequent to the issuance of the audit report, the scope of this docket was expanded to include a review of annual reports on fuel and purchased power transactions with affiliates and a prudence review of transmission planning issues. Also, in July 2005, the LPSC expanded the audit to include the years 2002 through 2004. A procedural schedule has been established and LPSC staff and intervenor testimony is due in November 2005.

In January 2003, the LPSC authorized its staff to initiate a proceeding to audit the fuel adjustment clause filings of Entergy Gulf States and its affiliates pursuant to a November 1997 LPSC general order. The audit will include a review of the reasonableness of charges flowed by Entergy Gulf States through its fuel adjustment clause in Louisiana for the period January 1, 1995 through December 31, 2002. Discovery is underway, but a detailed procedural schedule extending beyond the discovery stage has not yet been established, and the LPSC staff has not yet issued its audit report. In June 2005, the LPSC expanded the audit to include the years through 2004.

In January 2005, the MPSC approved a change in Entergy Mississippi's energy cost recovery rider. Entergy Mississippi's fuel over-recoveries for the third quarter of 2004 of \$21.3 million will be deferred from the first quarter 2005 energy cost recovery rider adjustment calculation. The deferred amount of \$21.3 million plus carrying charges is being refunded through the energy cost recovery rider in the second and third quarters of 2005 at a rate of 45% and 55%, respectively.

As discussed in Note 2 to the consolidated financial statements in the Form 10-K, the City Council passed resolutions implementing a package of measures developed by Entergy New Orleans and the Council Advisors to protect customers from potential gas price spikes during the 2004 - 2005 winter heating season including the deferral of collection of up to \$6.2 million of gas costs associated with a cap on the purchased gas adjustment in November and December 2004 and in the event that the average residential customer's gas bill were to exceed a threshold level. The deferrals of \$1.7 million resulting from these caps will receive accelerated recovery over a seven-month period that began in April 2005.

In November 2004, the City Council directed Entergy New Orleans to confer with the City Council Advisors regarding possible modification of the current gas cost collection mechanism in order to address concerns regarding its fluctuations particularly during the winter heating season. In June 2005, Entergy New Orleans filed a new purchased gas adjustment tariff with the City Council. If approved by the City Council, the tariff would be effective in the fourth quarter of 2005.

### **Fuel Adjustment Clause Litigation**

See Note 2 to the consolidated financial statements in the Form 10-K for a discussion of the complaint filed by a group of ratepayers with the City Council alleging that Entergy New Orleans and certain affiliates engaged in fuel procurement and power purchasing practices and included certain costs in its fuel adjustment charges that could have resulted in its customers being overcharged by more than \$100 million over a period of years. In May 2005, the Civil District Court for the Parish of Orleans affirmed the City Council resolution that resulted in a refund to customers of \$11.3 million, including interest, during the months of June through September 2004, finding no support for the plaintiffs' claim that the refund amount should be higher. In June 2005, the plaintiffs appealed the Civil District Court decision to the Louisiana Fourth Circuit Court of Appeal.

### **Electric Industry Restructuring and the Continued Application of SFAS 71**

Previous developments and information related to electric industry restructuring are presented in Note 2 to the consolidated financial statements in the Form 10-K. The following are updates to the Form 10-K.

## Louisiana

In November 2001, the LPSC decided not to move forward with retail open access for any customers at this time. The LPSC instead directed its staff to hold collaborative group meetings concerning open access from time to time, and to have the LPSC staff monitor developments in neighboring states and to report to the LPSC regarding the progress of retail access developments in those states. In September 2004, in response to a study performed by the Louisiana State University Center for Energy Studies that evaluated a limited industrial-only retail choice program, the LPSC asked the LPSC staff to solicit comments and obtain information from utilities, customers, and other interested parties concerning the potential costs and benefits of a limited choice program, the impact of such a program on other customers, as well as issues such as stranded costs and transmission service. Comments from interested parties were filed with the LPSC in January 2005. A technical conference was held in April 2005 and in May 2005 interested parties filed reply comments to arguments made at the technical conference. Entergy stated that it believes that there is no new information or credible evidence that would justify altering the LPSC's previous conclusion that retail access is not in the public interest.

## Texas

See Note 2 to the consolidated financial statements in the Form 10-K for a discussion of the status of retail open access in Entergy Gulf States' Texas service territory and Entergy Gulf States' independent organization request.

In June 2005, a Texas law was enacted which provides that:

- Entergy Gulf States is authorized by the legislation to proceed with a jurisdictional separation into two vertically integrated utilities, one subject solely to the retail jurisdiction of the LPSC and one subject solely to the retail jurisdiction of the PUCT;
- the portions of all prior PUCT orders requiring Entergy Gulf States to comply with any provisions of Texas law governing transition to retail competition are void;
- Entergy Gulf States must file a plan by January 1, 2006, identifying the power region(s) to be considered for certification and the steps and schedule to achieve certification;
- Entergy Gulf States must file a transition to competition plan no later than January 1, 2007, that would address how Entergy Gulf States intends to mitigate market power and achieve full customer choice, including potential construction of additional transmission facilities, generation auctions, generation capacity divestiture, reinstatement of a customer choice pilot project, establishment of a price to beat, and other measures;
- Entergy Gulf States' rates are subject to cost-of-service regulation until retail customer choice is implemented;
- Entergy Gulf States may not file a general base rate case in Texas before June 30, 2007, with rates effective no earlier than June 30, 2008, but may seek before then the recovery of certain incremental purchased power capacity costs, adjusted for load growth, not in excess of five percent of its annual base rate revenues (as discussed above in "**Filings with the PUCT**," in July 2005 Entergy Gulf States filed a request for implementation of an incremental purchased capacity recovery rider); and
- Entergy Gulf States may recover over a period not to exceed 15 years reasonable and necessary transition to competition costs incurred before the effective date of the legislation and not previously recovered, with appropriate carrying charges.



### NOTE 3. COMMON EQUITY

#### Common Stock

#### Earnings per Share

The following tables present Entergy's basic and diluted earnings per share (EPS) calculations included on the consolidated income statement:

	For the Three Months Ended June 30,			
	2005		2004	
	(In Millions, Except Per Share Data)			
		\$/share		\$/share
Earnings applicable to common stock	\$286.2		\$265.2	
Average number of common shares outstanding - basic	211.1	\$1.36	228.7	\$1.16
Average dilutive effect of:				
Stock Options	4.2	(0.027)	3.6	(0.018)
Equity Awards	-	-	0.3	(0.002)
Deferred Units	0.2	(0.001)	0.2	(0.001)
Average number of common shares outstanding - diluted	215.5	\$1.33	232.8	\$1.14

	For the Six Months Ended June 30,			
	2005		2004	
	(In Millions, Except Per Share Data)			
		\$/share		\$/share
Earnings applicable to common stock	\$458.1		\$472.3	
Average number of common shares outstanding - basic	212.6	\$2.15	229.5	\$2.06
Average dilutive effect of:				
Stock Options	4.3	(0.042)	4.0	(0.035)
Equity Awards	-	-	0.3	(0.003)
Deferred Units	0.2	(0.002)	0.2	(0.002)
Average number of common shares outstanding - diluted	217.1	\$2.11	234.0	\$2.02

Entergy's stock option and other equity compensation plans are discussed in Note 7 to the consolidated financial statements in the Form 10-K.

#### Treasury Stock

For the six months ended June 30, 2005, Entergy Corporation issued 2,266,901 shares of its previously repurchased common stock to satisfy stock option exercises and other stock-based awards and repurchased 9,148,000 shares of common stock for a total purchase price of \$639.8 million.

#### Retained Earnings

On July 29, 2005, Entergy Corporation's Board of Directors declared a common stock dividend of \$0.54 per share, payable on September 1, 2005, to holders of record as of August 12, 2005.

#### NOTE 4. LINES OF CREDIT, RELATED SHORT-TERM BORROWINGS, AND LONG-TERM DEBT

In May 2005, Entergy Corporation terminated its two, separate, revolving credit facilities, a \$500 million five-year credit facility and a \$965 million three-year credit facility. At that time Entergy Corporation entered into a \$2 billion, five-year credit facility, which expires in May 2010. As of June 30, 2005, \$635 million in borrowings were outstanding on this facility. Entergy also has the ability to issue letters of credit against the borrowing capacity of the credit facility, and letters of credit totaling \$83.5 million had been issued against this facility at June 30, 2005. The total unused capacity for this facility as of June 30, 2005 was approximately \$1.3 billion. The commitment fee for this facility is currently 0.13% per annum of the unused amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior debt ratings of the domestic utility companies.

The short-term borrowings of Entergy's subsidiaries are limited to amounts authorized by the SEC. The current limits authorized are effective through November 30, 2007. In addition to borrowing from commercial banks, Entergy's subsidiaries are authorized to borrow from Entergy's money pool. The money pool is an inter-company borrowing arrangement designed to reduce Entergy's subsidiaries' dependence on external short-term borrowings. Borrowings from the money pool and external borrowings combined may not exceed the SEC authorized limits. As of June 30, 2005, Entergy's subsidiaries' aggregate authorized limit was \$1.6 billion and the outstanding borrowings from the money pool were \$365.6 million.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans each have 364-day credit facilities available as follows:

<u>Company</u>	<u>Expiration Date</u>	<u>Amount of Facility</u>	<u>Amount Drawn as of June 30, 2005</u>
Entergy Arkansas	April 2006	\$85 million (a)	-
Entergy Louisiana	April 2006	\$85 million (a)	-
Entergy Louisiana	May 2006	\$15 million (b)	-
Entergy Mississippi	May 2006	\$25 million	-
Entergy New Orleans	May 2006	\$15 million (b)	-

- (a) The combined amount borrowed by Entergy Arkansas and Entergy Louisiana under these facilities at any one time cannot exceed \$85 million.
- (b) The combined amount borrowed by Entergy Louisiana and Entergy New Orleans under these facilities at any one time cannot exceed \$15 million.

The 364-day credit facilities have variable interest rates and the average commitment fee is 0.13%. The \$85 million Entergy Arkansas and Entergy Louisiana credit facilities each require the respective company to maintain total shareholders' equity of at least 25% of its total assets. In July 2005, Entergy New Orleans granted the lender a security interest in its customer accounts receivables to secure its borrowings under its facility. Under the terms of the security agreement, Entergy New Orleans has the option to withdraw the security interest at any time.

The following long-term debt has been issued by Entergy in 2005:

	<u>Issue Date</u>	<u>Amount</u> (In Thousands)
<b><u>U.S. Utility</u></b>		
<b>Mortgage Bonds:</b>		
5.66% Series due February 2025 - Entergy Arkansas	January 2005	\$175,000
6.18% Series due March 2035 - Entergy Gulf States	February 2005	\$85,000
5.70% Series due June 2015 - Entergy Gulf States	May 2005	\$200,000
4.50% Series due June 2010 - Entergy Arkansas	May 2005	\$100,000
4.67% Series due June 2010 - Entergy Louisiana	May 2005	\$55,000
4.98% Series due July 2010 - Entergy New Orleans	June 2005	\$30,000
Issuance after balance sheet date:		
5.12% Series due August 2010 - Entergy Gulf States	July 2005	\$100,000
<b>Other Long-Term Debt:</b>		
5.00% Series due January 2021, Independence County - Arkansas (Entergy Arkansas)	March 2005	\$45,000
Bank term loan due June 2010, avg rate 4.26% (Entergy Corporation)	June 2005	\$60,000

The following long-term debt was retired by Entergy thus far in 2005:

	<u>Retirement Date</u>	<u>Amount</u> (In Thousands)
<b><u>U.S. Utility</u></b>		
<b>Mortgage Bonds:</b>		
7.00% Series due October 2023 - Entergy Arkansas	February 2005	\$175,000
Retirements after balance sheet date:		
6.125% Series due July 2005 - Entergy Arkansas	July 2005	\$100,000
8.125% Series due July 2005 - Entergy New Orleans	July 2005	\$30,000
6.77% Series due August 2005 - Entergy Gulf States	August 2005	\$98,000
<b>Other Long-term Debt:</b>		
Grand Gulf Lease Obligation payment (System Energy)	N/A	\$28,790
8.75% Junior Subordinated Deferrable Interest Debentures due 2046 - Entergy Gulf States	March 2005	\$87,629
6.25% Series due January 2021, Independence County - Arkansas (Entergy Arkansas)	April 2005	\$45,000
9.0% Series due May 2015, West Feliciana Parish - Louisiana (Entergy Gulf States)	May 2005	\$45,000
7.5% Series due May 2015, West Feliciana Parish - Louisiana (Entergy Gulf States)	May 2005	\$41,600
7.7% Series due December 2014, West Feliciana Parish - Louisiana (Entergy Gulf States)	June 2005	\$94,000
Bank term loan due June 2005, avg rate 2.98% (Entergy Corporation)	June 2005	\$60,000

In June 2005, Entergy Louisiana purchased its \$55 million of 4.9% Series St. Charles Parish bonds from the holders, pursuant to a mandatory tender provision, and has not remarketed the bonds at this time.

## NOTE 5. PREFERRED STOCK

In June 2005, Entergy Mississippi issued 1,200,000 shares of \$25 par value 6.25% Series Preferred Stock, all of which are outstanding as of June 30, 2005. The dividends are cumulative and will be payable quarterly beginning November 1, 2005. The preferred stock is redeemable on or after July 1, 2010, at Entergy Mississippi's option, at the call price of \$25 per share. The proceeds from this issuance were used in the third quarter of 2005 to redeem all \$20 million of Entergy Mississippi's \$100 par value 8.36% Series Preferred Stock and all \$10 million of Entergy Mississippi's \$100 par value 7.44% Series Preferred Stock.

## NOTE 6. STOCK-BASED COMPENSATION PLANS

Entergy grants stock options, which are described more fully in Note 7 to the consolidated financial statements in the Form 10-K. Effective January 1, 2003, Entergy prospectively adopted the fair value based method of accounting for stock options prescribed by SFAS 123, "Accounting for Stock-Based Compensation." Prior to 2003, Entergy applied the recognition and measurement principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for those plans. Awards under Entergy's plans vest over three years. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. There is no pro forma effect for the second quarter 2005 and the six months ended June 30, 2005 because all non-vested awards are accounted for at fair value. Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects, for the second quarter 2005 and six months ended June 30, 2005 is \$2.0 million and \$3.8 million, respectively. The following table illustrates the effect on net income and earnings per share for 2004 if Entergy would have historically applied the fair value based method of accounting to stock-based employee compensation.

	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2004</b>
Earnings applicable to common stock	\$265,182	\$472,343
Add: Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects	1,389	2,362
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	4,271	8,126
Pro forma earnings applicable to common stock	<u>\$262,300</u>	<u>\$466,579</u>
Earnings per average common share:		
Basic	\$1.16	\$2.06
Basic - pro forma	\$1.15	\$2.03
Diluted	\$1.14	\$2.02
Diluted - pro forma	\$1.13	\$1.99

## NOTE 7. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS

### Components of Net Pension Cost

Entergy's pension cost, including amounts capitalized, for the second quarters of 2005 and 2004, included the following components:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$21,447	\$18,527
Interest cost on projected benefit obligation	38,632	35,979
Expected return on assets	(39,513)	(38,580)
Amortization of transition asset	(165)	(190)
Amortization of prior service cost	1,362	1,413
Amortization of loss	7,457	4,407
Net pension costs	<u>\$29,220</u>	<u>\$21,556</u>

Entergy's pension cost, including amounts capitalized, for the six months ended June 30, 2005 and 2004, included the following components:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$42,894	\$37,262
Interest cost on projected benefit obligation	77,264	71,994
Expected return on assets	(79,026)	(77,304)
Amortization of transition asset	(330)	(382)
Amortization of prior service cost	2,724	2,826
Amortization of loss	14,914	8,808
Net pension costs	<u>\$58,440</u>	<u>\$43,204</u>

### Components of Net Other Postretirement Benefit Cost

Entergy's other postretirement benefit cost, including amounts capitalized, for the second quarters of 2005 and 2004, included the following components:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$9,400	\$8,145
Interest cost on APBO	14,290	13,436
Expected return on assets	(4,942)	(4,625)
Amortization of transition obligation	175	205
Amortization of prior service cost	(1,979)	(609)
Amortization of loss	7,083	5,474
Net other postretirement benefit cost	<u>\$24,027</u>	<u>\$22,026</u>

Entergy's other postretirement benefit cost, including amounts capitalized, for the six months ended June 30, 2005 and 2004, included the following components:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Service cost - benefits earned during the period	\$18,800	\$17,853
Interest cost on APBO	28,580	27,733
Expected return on assets	(9,884)	(9,327)
Amortization of transition obligation	350	1,447
Amortization of prior service cost	(3,958)	(1,498)
Amortization of loss	14,166	11,427
Net other postretirement benefit cost	<u>\$48,054</u>	<u>\$47,635</u>

### **Employer Contributions**

Entergy previously disclosed in the Form 10-K that it expected to contribute \$185.9 million to its pension plans in 2005. Entergy has elected to make additional contributions of \$67.4 million to the plan for a total of \$253.3 million in 2005. As of June 30, 2005, Entergy contributed \$117.7 million to its pension plans. The July 2005 contribution was \$28.5 million. Therefore, Entergy presently anticipates contributing an additional \$107.1 million to fund its pension plans in 2005.

### **Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act)**

Based on actuarial analysis, the estimated impact of future Medicare subsidies reduced the December 31, 2004 Accumulated Postretirement Benefit Obligation by \$161 million, and reduced the second quarter 2005 and 2004 other postretirement benefit cost by \$6.8 million and \$4.5 million, respectively. It reduced the six months ended June 30, 2005 and June 30, 2004 other postretirement benefit cost by \$13.6 million and \$7 million, respectively. Refer to Note 10 to the consolidated financial statements in the Form 10-K for further discussion.

### **NOTE 8. BUSINESS SEGMENT INFORMATION**

Entergy's reportable segments as of June 30, 2005 are U.S. Utility and Non-Utility Nuclear. "All Other" includes the parent company, Entergy Corporation, and other business activity, including the Energy Commodity Services segment, the Competitive Retail Services business, and earnings on the proceeds of sales of previously-owned businesses. The Energy Commodity Services segment was presented as a reportable segment prior to 2005, but it did not meet the quantitative thresholds for a reportable segment in 2004 and, with the sale of Entergy-Koch's businesses in 2004, management does not expect the Energy Commodity Services segment to meet the quantitative thresholds in the foreseeable future. The 2004 information in the table below has been restated to include the Energy Commodity Services segment in the All Other column.

Entergy's segment financial information for the second quarters of 2005 and 2004 is as follows:

	<u>U. S. Utility</u>	<u>Non-Utility Nuclear*</u>	<u>All Other*</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In Thousands)				
<b>2005</b>					
Operating Revenues	\$2,168,122	\$347,706	\$212,624	(\$18,933)	\$2,709,519
Equity in earnings of unconsolidated equity affiliates	-	-	2,158	-	2,158
Income Taxes (Benefit)	138,136	34,978	(16,724)	-	156,390
Net Income	217,501	58,277	16,984	27	292,789
<b>2004</b>					
Operating Revenues	\$1,990,644	\$338,745	\$173,114	(\$17,406)	\$2,485,097
Equity in earnings of unconsolidated equity affiliates	-	-	20,288	-	20,288
Income Taxes	123,852	40,638	1,705	-	166,195
Net Income	200,793	62,994	7,224	-	271,011

Entergy's segment financial information for the six months ended June 30, 2005 and 2004 is as follows:

	<u>U. S. Utility</u>	<u>Non-Utility Nuclear*</u>	<u>All Other*</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In Thousands)				
<b>2005</b>					
Operating Revenues	\$3,999,922	\$691,281	\$377,722	(\$35,993)	\$5,032,932
Equity in earnings (loss) of unconsolidated equity affiliates	-	-	(35)	-	(35)
Income Taxes (Benefit)	187,185	86,146	(21,906)	-	251,425
Net Income	313,769	136,242	21,444	(46)	471,409
Total Assets	23,099,834	4,733,230	3,260,502	(2,512,415)	28,581,151
<b>2004</b>					
Operating Revenues	\$3,776,162	\$683,593	\$309,667	(\$32,776)	\$4,736,646
Equity in earnings of unconsolidated equity affiliates	-	-	40,107	-	40,107
Income Taxes (Benefit)	196,530	84,333	(8,671)	-	272,192
Net Income	322,306	131,828	29,894	-	484,028
Total Assets	22,578,669	4,402,482	3,370,325	(1,481,908)	28,869,568

Businesses marked with \* are sometimes referred to as the "competitive businesses," with the exception of the parent company, Entergy Corporation. Eliminations are primarily intersegment activity.

## NOTE 9. OTHER TEMPORARY INVESTMENTS

The consolidated balance sheet as of December 31, 2004 reflects a reclassification from cash and cash equivalents to other temporary investments of \$188 million of instruments used in Entergy's cash management program. A corresponding change was made to the consolidated statement of cash flows for the six months ended June 30, 2004 resulting in reductions of \$27 million and \$185 million in the amounts presented as cash and cash equivalents as of June 30, 2004 and December 31, 2003. This reclassification is to present certain highly-liquid auction rate securities as short-term investments rather than as cash equivalents due to the stated tenor of the maturities of these investments. Entergy actively invests its available cash balance in financial instruments, which prior to June 2005 included auction rate securities that have stated maturities of 20 years or more. The auction rate securities provided a high degree of liquidity through features such as 7 and 28 day auctions that allow for the redemption of the securities at their face amount plus earned interest. Because Entergy intended to sell these instruments within one year or less, typically within 28 days of the balance sheet date, they are classified as current assets. As of June 30, 2005, Entergy no longer holds any of these auction rate securities.

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In the opinion of the management of Entergy Corporation, the accompanying unaudited financial statements contain all adjustments (consisting primarily of normal recurring accruals and reclassification of previously reported amounts to conform to current classifications) necessary for a fair statement of the results for the interim periods presented. The business of the U.S. Utility segment, however, is subject to seasonal fluctuations with the peak periods occurring during the third quarter. The results for the interim periods presented should not be used as a basis for estimating results of operations for a full year.



**ENTERGY ARKANSAS, INC.**  
**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS**

**Results of Operations**

**Net Income**

**Second Quarter 2005 Compared to Second Quarter 2004**

Net income increased \$5.0 million primarily due to higher net revenue and other income, partially offset by higher other operation and maintenance expenses and a higher effective income tax rate.

**Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

Net income increased \$17.7 million primarily due to higher net revenue and other income, partially offset by higher other operation and maintenance expenses.

**Net Revenue**

**Second Quarter 2005 Compared to Second Quarter 2004**

Net revenue, which is Entergy Arkansas' measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related, and purchased power expenses and 2) other regulatory credits. Following is an analysis of the change in net revenue comparing the second quarter of 2005 to the second quarter of 2004.

	<u>Amount</u> (In Millions)
2004 net revenue	\$248.2
Volume/weather	8.9
Net wholesale revenue	4.8
Late payment charges	1.8
Other	2.5
<b>2005 net revenue</b>	<b><u>\$266.2</u></b>

The volume/weather variance is primarily due to increased usage during the unbilled sales period and a total increase of 74 GWh in weather-adjusted usage, primarily in the residential and commercial sectors. See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates" in the Form 10-K and Note 1 to the domestic utility companies and System Energy financial statements in the Form 10-K for further discussion of the accounting for unbilled revenues.

The net wholesale revenue variance is primarily due to higher wholesale market prices and improved results related to co-owner contracts.

The late payment charges variance is primarily due to late payment charges which Entergy Arkansas began collecting from customers in July 2004.

*Gross operating revenues and fuel and purchased power expenses*

Gross operating revenues increased primarily due to an increase of \$15.7 million in fuel cost recovery revenues due to an increase in the energy cost recovery rider effective April 2005. The increases in volume/weather, wholesale revenue, and late payment charges, as discussed above, also contributed to the increase.

Fuel and purchased power expenses increased primarily due to an increase in the market price of purchased power and increased deferred fuel expense resulting primarily from higher fuel revenue as a result of an increase in the energy cost recovery rider effective April 2005.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Net revenue, which is Entergy Arkansas' measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related, and purchased power expenses and 2) other regulatory credits. Following is an analysis of the change in net revenue comparing the six months ended June 30, 2005 to the six months ended June 30, 2004.

	<u>Amount</u> (In Millions)
2004 net revenue	\$455.0
Deferred fuel cost revisions	15.5
Net wholesale revenue	11.0
Volume/weather	7.9
Late payment charges	3.6
Other	(3.1)
<b>2005 net revenue</b>	<b><u>\$489.9</u></b>

The deferred fuel cost revisions variance is primarily due to a revised estimate of fuel costs filed for recovery at Entergy Arkansas in the March 2004 energy cost recovery rider, which reduced net revenue in the first quarter of 2004 by \$11.5 million. The remainder of the variance is due to the 2004 energy cost recovery true-up, made in the first quarter of 2005, which increased net revenue by \$4.0 million.

The net wholesale revenue variance is primarily due to higher wholesale market prices and improved results related to co-owner contracts.

The volume/weather variance is primarily due to a total increase of 195 GWh in weather-adjusted usage, primarily in the residential and commercial sectors, and increased usage during the unbilled sales period, partially offset by milder weather in 2005. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Critical Accounting Estimates**" in the Form 10-K and Note 1 to the domestic utility companies and System Energy financial statements in the Form 10-K for further discussion of the accounting for unbilled revenues.

The late payment charges variance is primarily due to late payment charges which Entergy Arkansas began collecting from customers in July 2004.

*Gross operating revenues*

Gross operating revenues increased primarily due to an increase of \$23 million in fuel cost recovery revenues due to an increase in the energy cost recovery rider effective April 2005. The increases in volume/weather, wholesale revenue, and late payment charges, as discussed above, also contributed to the increase.

**Other Income Statement Variances**

Second Quarter 2005 Compared to Second Quarter 2004

Other operation and maintenance expenses increased primarily due to higher payroll and benefits costs.

Other income increased primarily due to:

- an increase of \$1.2 million in interest earned on temporary cash investments and money pool investments;
- an increase of \$1 million in the allowance for equity funds used during construction related to increased construction expenditures for projects including the steam generator and reactor vessel head replacement at ANO 1; and