

held in "safestore" status for later decommissioning, as permitted by applicable regulations. While the effect of these assumptions cannot be determined with precision, assuming either license extension or use of a "safestore" status can possibly change the present value of these obligations. As discussed in Note 8 to the consolidated financial statements, Entergy recorded revisions in 2004 and 2005 to its estimated decommissioning cost liability for certain of its nuclear power plants to reflect changes in assumptions regarding license renewal. Increases in the probability of decommissioning the plants at a date later than the original license expiration lowered the estimate of the decommissioning cost liability. Future revisions to appropriately reflect changes needed to the estimate of decommissioning costs will affect net income, only to the extent that the estimate of any reduction in the liability exceeds the amount of the undepreciated asset retirement cost at the date of the revision, for unregulated portions of Entergy's business. Any increases in the liability recorded due to such changes are capitalized and depreciated over the asset's remaining economic life in accordance with SFAS 143.

- Spent Fuel Disposal - Federal regulations require the DOE to provide a permanent repository for the storage of spent nuclear fuel, and legislation has been passed by Congress to develop this repository at Yucca Mountain, Nevada. Until this site is available, however, nuclear plant operators must provide for interim spent fuel storage on the nuclear plant site, which can require the construction and maintenance of dry cask storage sites or other facilities. The costs of developing and maintaining these facilities can have a significant effect (as much as 16% of estimated decommissioning costs). Entergy's decommissioning studies include cost estimates for spent fuel storage. However, these estimates could change in the future based on the timing of the opening of the Yucca Mountain facility, the schedule for shipments to that facility when it is opened, or other factors.
- Technology and Regulation - To date, there is limited practical experience in the United States with actual decommissioning of large nuclear facilities. As experience is gained and technology changes, cost estimates could also change. If regulations regarding nuclear decommissioning were to change, this could have a potentially significant effect on cost estimates. The effect of these potential changes is not presently determinable. Entergy's decommissioning cost studies assume current technologies and regulations.

### SFAS 143

Entergy implemented SFAS 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. Nuclear decommissioning costs comprise substantially all of Entergy's asset retirement obligations. The following revisions were made to Entergy's estimated decommissioning cost liabilities in 2004 and 2005.

In the first quarter of 2004, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for ANO 1 and 2 as a result of revised decommissioning costs and changes in assumptions regarding the timing of when the decommissioning of the plants will begin. The revised estimate resulted in a \$107.7 million reduction in its decommissioning liability, along with a \$19.5 million reduction in utility plant and an \$88.2 million reduction in the related regulatory asset.

In the third quarter of 2004, Entergy Gulf States recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for River Bend that reflected an expected life extension for the plant. The revised estimate resulted in a \$116.8 million reduction in decommissioning liability, along with a \$31.3 million reduction in utility plant, a \$40.1 million reduction in the related regulatory asset, and a regulatory liability of \$17.7 million. For the portion of River Bend not subject to cost-based ratemaking, the revised estimate resulted in the elimination of the asset retirement cost that had been recorded at the time of adoption of SFAS 143 with the remainder recorded as miscellaneous income of \$27.7 million (\$17 million net-of-tax).

In the third quarter of 2004, Entergy's Non-Utility Nuclear business recorded a reduction of \$20.3 million in its decommissioning cost liability to reflect changes in assumptions regarding the timing of when the decommissioning of a plant will begin. Entergy considered the assumptions as part of recent studies evaluating the economic effect of the plant in its region. The revised estimate resulted in miscellaneous income of \$20.3 million (\$11.9 million net-of-tax).

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 the decommissioning of a plant. 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 assets.

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.

In the third quarter of 2005, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability for ANO 2 in accordance with the receipt of approval by the NRC of Entergy Arkansas' application for a life extension for the unit. The revised estimate resulted in an \$87.2 million reduction in its decommissioning liability, along with a corresponding reduction in the related regulatory asset.

In the third quarter of 2005, System Energy recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Grand Gulf. The revised estimate resulted in a \$41.4 million reduction in the decommissioning cost liability for Grand Gulf, along with a \$39.7 million reduction in utility plant and a \$1.7 million reduction in the related regulatory asset.

### **Unbilled Revenue**

As discussed in Note 1 to the consolidated financial statements, Entergy records an estimate of the revenues earned for energy delivered since the latest customer billing. Each month the estimated unbilled revenue amounts are recorded as revenue and a receivable, and the prior month's estimate is reversed. The difference between the estimate of the unbilled receivable at the beginning of the period and the end of the period is the amount of unbilled revenue recognized during the period. The estimate recorded is primarily based upon an estimate of customer usage during the unbilled period and the billed price to customers in that month, including fuel price. Therefore, revenue recognized may be affected by the estimated price and usage at the beginning and end of each period and fuel price fluctuations, in addition to changes in certain components of the calculation including changes to estimates such as line loss, which affects the estimate of unbilled customer usage, and assumptions regarding price such as the fuel cost recovery mechanism.

### **Impairment of Long-lived Assets**

Entergy has significant investments in long-lived assets in all of its segments, and Entergy evaluates these assets against the market economics and under the accounting rules for impairment whenever there are indications that impairments may exist. This evaluation involves a significant degree of estimation and uncertainty, and these estimates are particularly important in Entergy's U.S. Utility and Energy Commodity Services segments. In the U.S. Utility segment, portions of River Bend and Grand Gulf are not included in rate base, which could reduce the revenue that would otherwise be recovered for the applicable portions of those units' generation. In the Energy Commodity Services segment, Entergy's investments in merchant generation assets are subject to impairment if adverse market conditions arise.

In order to determine if Entergy should recognize an impairment of a long-lived asset that is to be held and used, accounting standards require that the sum of the expected undiscounted future cash flows from the asset be compared to the asset's carrying value. If the expected undiscounted future cash flows exceed the carrying value, no impairment is recorded; if such cash flows are less than the carrying value, Entergy is required to record an impairment charge to write the asset down to its fair value. If an asset is held for sale, an impairment is required to be recognized if the fair value (less costs to sell) of the asset is less than its carrying value.

These estimates are based on a number of key assumptions, including:

- **Future power and fuel prices** - Electricity and gas prices have been very volatile in recent years, and this volatility is expected to continue. This volatility necessarily increases the imprecision inherent in the long-term forecasts of commodity prices that are a key determinant of estimated future cash flows. There is currently an oversupply of electricity throughout the U.S., including much of Entergy's service territory, and it is necessary to project economic growth and other macroeconomic factors in order to project when this oversupply will cease and prices will rise. Similarly, gas prices have been volatile as a result of recent fluctuations in both supply and demand, and projecting future trends in these prices is difficult.
- **Market value of generation assets** - Valuing assets held for sale requires estimating the current market value of generation assets. While market transactions provide evidence for this valuation, the market for such assets is volatile and the value of individual assets is impacted by factors unique to those assets.
- **Future operating costs** - Entergy assumes relatively minor annual increases in operating costs. Technological or regulatory changes that have a significant impact on operations could cause a significant change in these assumptions.

In the fourth quarter of 2005, Entergy recorded a charge of \$39.8 million (\$25.8 million net-of-tax) as a result of the impairment of the Competitive Retail Services business' information technology systems. Entergy has decided to divest the retail electric portion of the Competitive Retail Services business operating in the ERCOT region of Texas and, in connection with that decision, management evaluated the carrying amount of the Competitive Retail Services business' information technology systems and determined that an impairment provision should be recorded.

In the fourth quarter of 2004, Entergy recorded a charge of approximately \$55 million (\$36 million net-of-tax) as a result of an impairment of the value of the Warren Power plant. Entergy concluded that the value of the plant, which is owned in the non-nuclear wholesale assets business, was impaired. Entergy reached this conclusion based on valuation studies prepared in connection with the Entergy Asset Management stock sale discussed above in "**Results of Operations.**"

### **Qualified Pension and Other Postretirement Benefits**

Entergy sponsors qualified, defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age while still working for Entergy. Entergy's reported costs of providing these benefits, as described in Note 10 to the consolidated financial statements, are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate for the U.S. Utility and Non-Utility Nuclear segments.

#### **Assumptions**

Key actuarial assumptions utilized in determining these costs include:

- Discount rates used in determining the future benefit obligations;
- Projected health care cost trend rates;
- Expected long-term rate of return on plan assets; and
- Rate of increase in future compensation levels.

Entergy reviews these assumptions on an annual basis and adjusts them as necessary. The falling interest rate environment and worse-than-expected performance of the financial equity markets over the past several years have impacted Entergy's funding and reported costs for these benefits. In addition, these trends have caused Entergy to make a number of adjustments to its assumptions.

In selecting an assumed discount rate to calculate benefit obligations, Entergy reviews market yields on high-quality corporate debt and matches these rates with Entergy's projected stream of benefit payments. Based on recent market trends, Entergy reduced its discount rate used to calculate benefit obligations from 6.25% in 2003 to 6.00% in 2004 and to 5.90% in 2005. Entergy reviews actual recent cost trends and projected future trends in establishing health care cost trend rates. Based on this review, Entergy increased its health care cost trend rate assumption used in calculating the December 31, 2005 accumulated postretirement benefit obligation to a 12% increase in health care costs in 2006 gradually decreasing each successive year, until it reaches a 4.5% annual increase in health care costs in 2012 and beyond.

In determining its expected long-term rate of return on plan assets, Entergy reviews past long-term performance, asset allocations, and long-term inflation assumptions. Entergy targets an asset allocation for its pension plan assets of roughly 65% equity securities, 31% fixed-income securities and 4% other investments. The target allocation for Entergy's other postretirement benefit assets is 51% equity securities and 49% fixed-income securities. Based on recent market trends, Entergy reduced its expected long-term rate of return on plan assets used to calculate benefit obligations from 8.75% for 2003 to 8.5% in 2004 and 2005. The assumed rate of increase in future compensation levels used to calculate benefit obligations was 3.25% in 2003, 2004, and 2005.

### Cost Sensitivity

The following chart reflects the sensitivity of qualified pension cost to changes in certain actuarial assumptions (dollars in thousands):

<u>Actuarial Assumption</u>	<u>Change in Assumption</u>	<u>Impact on 2005 Qualified Pension Cost</u> Increase/(Decrease)	<u>Impact on Qualified Projected Benefit Obligation</u>
Discount rate	(0.25%)	\$10,564	\$105,990
Rate of return on plan assets	(0.25%)	\$4,705	-
Rate of increase in compensation	0.25%	\$5,510	\$33,091

The following chart reflects the sensitivity of postretirement benefit cost to changes in certain actuarial assumptions (in thousands):

<u>Actuarial Assumption</u>	<u>Change in Assumption</u>	<u>Impact on 2005 Postretirement Benefit Cost</u> Increase/(Decrease)	<u>Impact on Accumulated Postretirement Benefit Obligation</u>
Health care cost trend	0.25%	\$4,511	\$24,536
Discount rate	(0.25%)	\$3,082	\$29,341

Each fluctuation above assumes that the other components of the calculation are held constant.

### Accounting Mechanisms

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," Entergy utilizes a number of accounting mechanisms that reduce the volatility of reported pension costs. Differences between actuarial assumptions and actual plan results are deferred and are amortized into cost only when the accumulated differences exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees.

Additionally, Entergy accounts for the effect of asset performance on pension expense over a twenty-quarter phase-in period through a "market-related" value of assets calculation. Since the market-related value of assets

recognizes investment gains or losses over a twenty-quarter period, the future value of assets will be impacted as previously deferred gains or losses are recognized. As a result, the losses that the pension plan assets experienced in 2002 may have an adverse impact on pension cost in future years depending on whether the actuarial losses at each measurement date exceed the 10% corridor in accordance with SFAS 87.

### Costs and Funding

In 2005, Entergy's total qualified pension cost was \$118.3 million. Entergy anticipates 2006 qualified pension cost to increase to \$131.6 million due to a decrease in the discount rate (from 6.00% to 5.90%), actual return on plan assets less than 8.5%, and a plan amendment at Non-Utility Nuclear. Pension funding was \$131.8 million for 2005, and under current law, is projected to be \$349 million in 2006. This projection may change pending passage of pension reform legislation. In January 2006, \$109 million was funded. \$107 million of this contribution was originally planned for 2005; however, it was delayed as a result of the Katrina Emergency Tax Relief Act. The rise in pension funding requirements is due to declining interest rates and the phased-in effect of asset underperformance from 2000 to 2002, offset by the Pension Funding Equity Act relief passed in April 2004.

Entergy's qualified pension accumulated benefit obligation at December 31, 2005, 2004, and 2003 exceeded plan assets. As a result, Entergy was required to recognize an additional minimum pension liability as prescribed by SFAS 87. At December 31, 2005, Entergy increased its qualified pension plans' additional minimum pension liability to \$406 million (\$382 million net of related pension assets) from \$244 million (\$218 million net of related pension assets) at December 31, 2004. Other comprehensive income increased to \$15 million at December 31, 2005 from \$6.6 million at December 31, 2004, after reductions for the unrecognized prior service cost, amounts recoverable in rates, and taxes. Net income for 2005, 2004, and 2003 was not affected.

Total postretirement health care and life insurance benefit costs for Entergy in 2005 were \$83.7 million, including \$24.3 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy expects 2006 postretirement health care and life insurance benefit costs to approximate \$94.1 million, including a projected \$27.8 million in savings due to the estimated effect of future Medicare Part D subsidies. The increase in postretirement health care and life insurance benefit costs is due to the decrease in the discount rate (from 6.00% to 5.90%) and an increase in the health care cost trend rate used to calculate benefit obligations.

### Other Contingencies

As a company with multi-state domestic utility operations and a history of international investments, Entergy is subject to a number of federal, state, and international laws and regulations and other factors and conditions in the areas in which it operates, which potentially subject it to environmental, litigation, and other risks. Entergy periodically evaluates its exposure for such risks and records a reserve for those matters which are considered probable and estimable in accordance with generally accepted accounting principles.

### Environmental

Entergy must comply with environmental laws and regulations applicable to the handling and disposal of hazardous waste. Under these various laws and regulations, Entergy could incur substantial costs to restore properties consistent with the various standards. Entergy conducts studies to determine the extent of any required remediation and has recorded reserves based upon its evaluation of the likelihood of loss and expected dollar amount for each issue. Additional sites could be identified which require environmental remediation for which Entergy could be liable. The amounts of environmental reserves recorded can be significantly affected by the following external events or conditions:

- Changes to existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters.

- The identification of additional sites or the filing of other complaints in which Entergy may be asserted to be a potentially responsible party.
- The resolution or progression of existing matters through the court system or resolution by the EPA.

### Litigation

Entergy has been named as defendant in a number of lawsuits involving employment, ratepayer, and injuries and damages issues, among other matters. Entergy periodically reviews the cases in which it has been named as defendant and assesses the likelihood of loss in each case as probable, reasonably estimable, or remote and records reserves for cases which have a probable likelihood of loss and can be estimated. Notes 2 and 8 to the consolidated financial statements include more detail on ratepayer and other lawsuits and management's assessment of the adequacy of reserves recorded for these matters. Given the environment in which Entergy operates, and the unpredictable nature of many of the cases in which Entergy is named as a defendant, however, the ultimate outcome of the litigation Entergy is exposed to has the potential to materially affect the results of operations of Entergy, or its operating company subsidiaries.

### Sales Warranty and Tax Reserves

Entergy's operations, including acquisitions and divestitures, require Entergy to evaluate risks such as the potential tax effects of a transaction, or warranties made in connection with such a transaction. Entergy believes that it has adequately assessed and provided for these types of risks, where applicable. Any reserves recorded for these types of issues, however, could be significantly affected by events such as claims made by third parties under warranties, additional transactions contemplated by Entergy, or completion of reviews of the tax treatment of certain transactions or issues by taxing authorities. Tax reserves not expected to reverse within the next year are reflected as non-current taxes accrued in the financial statements. Entergy does not expect a material adverse effect on earnings from these matters.

### New Accounting Pronouncements

In December 2005, Entergy implemented FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143", (FIN 47), effective as of that date, which required the recognition of additional asset retirement obligations other than nuclear decommissioning which are conditional in nature. The obligations recognized upon implementation represent Entergy's obligation to remove and dispose of asbestos at many of its non-nuclear generating units if and when those units are retired from commercial service and dismantled. For the U.S. Utility business, the implementation of FIN 47 for the rate-regulated business of the domestic utility companies was recorded as regulatory assets, with no resulting effect on Entergy's net income. Entergy recorded these regulatory assets because existing rate mechanisms in each jurisdiction allow for the recovery in rates of the ultimate costs of asbestos removal, either through cost of service or in rate base, from current and future customers. As a result of this treatment, FIN 47 is expected to be earnings neutral to the rate-regulated business of the domestic utility companies. Upon implementation of FIN 47 in December 2005, assets increased by \$28.8 million and liabilities increased by \$30.3 million for the U.S. Utility segment as a result of recording the asset retirement obligations at their fair values of \$30.3 million as determined under FIN 47, increasing utility plant by \$2.7 million, increasing accumulated depreciation by \$1.8 million, and recording the related regulatory assets of \$27.9 million. The implementation of FIN 47 for the portion of Entergy Gulf States not subject to cost-based ratemaking decreased earnings by \$0.9 million net-of-tax.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In Thousands, Except Percentages and Per Share Amounts)				
Operating revenues	\$10,106,247	\$9,685,521	\$9,032,714	\$8,299,052	\$9,620,561
Income from continuing operations before cumulative effect of accounting changes	\$968,552	\$933,090	\$827,797	\$633,627	\$739,062
Earnings per share from continuing operations before cumulative effect of accounting changes					
Basic	\$4.49	\$4.01	\$3.55	\$2.73	\$3.24
Diluted	\$4.40	\$3.93	\$3.48	\$2.68	\$3.18
Dividends declared per share	\$2.16	\$1.89	\$1.60	\$1.34	\$1.28
Return on common equity	11.20%	10.70%	11.21%	7.85%	10.04%
Book value per share, year-end	\$37.31	\$38.25	\$38.02	\$35.24	\$33.78
Total assets	\$30,851,269	\$28,310,777	\$28,527,388	\$27,504,366	\$25,910,311
Long-term obligations (1)	\$9,013,448	\$7,180,291	\$7,497,690	\$7,488,919	\$7,743,298

(1) Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund, and noncurrent capital lease obligations.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Dollars In Millions)				
U.S. Utility Electric Operating Revenues:					
Residential	\$2,912	\$2,842	\$2,683	\$2,440	\$2,613
Commercial	2,041	2,045	1,882	1,673	1,860
Industrial	2,419	2,311	2,082	1,850	2,299
Governmental	141	200	195	179	205
Total retail	7,513	7,398	6,842	6,142	6,977
Sales for resale (1)	656	390	371	330	395
Other (2)	278	145	184	174	(127)
Total	<u>\$8,447</u>	<u>\$7,933</u>	<u>\$7,397</u>	<u>\$6,646</u>	<u>\$7,245</u>
U.S. Utility Billed Electric Energy Sales (GWh):					
Residential	31,569	32,897	32,817	32,581	31,080
Commercial	24,401	26,468	25,863	25,354	24,706
Industrial	37,615	40,293	38,637	41,018	41,577
Governmental	1,568	2,568	2,651	2,678	2,593
Total retail	95,153	102,226	99,968	101,631	99,956
Sales for resale (1)	5,730	8,623	9,248	9,828	8,896
Total	<u>100,883</u>	<u>110,849</u>	<u>109,216</u>	<u>111,459</u>	<u>108,852</u>

(1) Includes sales to Entergy New Orleans, which was deconsolidated in 2005. See Note 16 to the consolidated financial statements.

(2) 2001 includes the effect of a reserve for rate refund at System Energy.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Entergy Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Entergy Corporation and Subsidiaries (the "Corporation") as of December 31, 2005 and 2004, and the related consolidated statements of income; of retained earnings, comprehensive income, and paid-in capital; and of cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Entergy-Koch, LP, the Corporation's investment in which is accounted for by the use of the equity method. The Corporation's equity in earnings of unconsolidated equity affiliates for the year ended December 31, 2003 includes \$180,110,000 for Entergy Koch, LP, which earnings were audited by other auditors whose report (which as to 2003 included an explanatory paragraph concerning a change in accounting for inventory held for trading purposes and energy trading contracts not qualifying as derivatives) has been furnished to us, and our opinion for the year ended December 31, 2003, insofar as it relates to the amount audited by other auditors included for such company, is based solely on the report of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Entergy Corporation and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, in 2003 Entergy Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
March 9, 2006



**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	For the Years Ended December 31,		
	2005	2004	2003
	(In Thousands, Except Share Data)		
<b>OPERATING REVENUES</b>			
Domestic electric	\$8,446,830	\$7,932,577	\$7,397,175
Natural gas	77,660	208,499	186,176
Competitive businesses	1,581,757	1,544,445	1,449,363
<b>TOTAL</b>	<b>10,106,247</b>	<b>9,685,521</b>	<b>9,032,714</b>
<b>OPERATING EXPENSES</b>			
Operating and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	2,176,015	2,488,208	1,987,217
Purchased power	2,521,247	1,701,610	1,579,057
Nuclear refueling outage expenses	162,653	166,072	159,995
Provisions for asset impairments and restructuring charges	-	55,000	(7,743)
Other operation and maintenance	2,122,206	2,268,332	2,423,951
Decommissioning	143,121	149,529	146,100
Taxes other than income taxes	382,521	403,635	402,571
Depreciation and amortization	856,377	893,574	849,771
Other regulatory credits - net	(49,882)	(90,611)	(13,761)
<b>TOTAL</b>	<b>8,314,258</b>	<b>8,035,349</b>	<b>7,527,158</b>
<b>OPERATING INCOME</b>	<b>1,791,989</b>	<b>1,650,172</b>	<b>1,505,556</b>
<b>OTHER INCOME</b>			
Allowance for equity funds used during construction	45,736	39,582	42,710
Interest and dividend income	150,479	109,635	87,334
Equity in earnings (loss) of unconsolidated equity affiliates	985	(78,727)	271,647
Miscellaneous - net	14,251	55,509	(76,376)
<b>TOTAL</b>	<b>211,451</b>	<b>125,999</b>	<b>325,315</b>
<b>INTEREST AND OTHER CHARGES</b>			
Interest on long-term debt	440,334	463,384	485,964
Other interest - net	64,646	40,133	52,868
Allowance for borrowed funds used during construction	(29,376)	(25,741)	(33,191)
<b>TOTAL</b>	<b>475,604</b>	<b>477,776</b>	<b>505,641</b>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES</b>	<b>1,527,836</b>	<b>1,298,395</b>	<b>1,325,230</b>
Income taxes	559,284	365,305	497,433
<b>INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES</b>	<b>968,552</b>	<b>933,090</b>	<b>827,797</b>
<b>LOSS FROM DISCONTINUED OPERATIONS (net of income tax expense (benefit) of (\$24,051) , \$603 , and (\$7,359) , respectively)</b>	<b>(44,794)</b>	<b>(41)</b>	<b>(14,404)</b>
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGES (net of income tax expense of \$89,925)</b>	<b>-</b>	<b>-</b>	<b>137,074</b>
<b>CONSOLIDATED NET INCOME</b>	<b>923,758</b>	<b>933,049</b>	<b>950,467</b>
Preferred dividend requirements and other	25,427	23,525	23,524
<b>EARNINGS APPLICABLE TO COMMON STOCK</b>	<b>\$898,331</b>	<b>\$909,524</b>	<b>\$926,943</b>
Basic earnings (loss) per average common share:			
Continuing operations	\$4.49	\$4.01	\$3.55
Discontinued operations	(\$0.21)	-	(\$0.06)
Cumulative effect of accounting changes	-	-	\$0.60
Basic earnings per average common share	\$4.27	\$4.01	\$4.09
Diluted earnings (loss) per average common share:			
Continuing operations	\$4.40	\$3.93	\$3.48
Discontinued operations	(\$0.21)	-	(\$0.06)
Cumulative effect of accounting changes	-	-	\$0.59
Diluted earnings per average common share	\$4.19	\$3.93	\$4.01
Dividends declared per common share	\$2.16	\$1.89	\$1.60
Basic average number of common shares outstanding	210,141,887	226,863,758	226,804,370
Diluted average number of common shares outstanding	214,441,362	231,193,686	231,146,040

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2005	2004	2003
	(In Thousands)		
<b>OPERATING ACTIVITIES</b>			
Consolidated net income	\$923,758	\$933,049	\$950,467
Adjustments to reconcile consolidated net income to net cash flow provided by operating activities:			
Reserve for regulatory adjustments	(82,033)	33,533	13,090
Other regulatory credits - net	(49,882)	(90,611)	(13,761)
Depreciation, amortization, and decommissioning	1,001,852	1,045,122	996,603
Deferred income taxes and investment tax credits	626,813	275,458	1,189,531
Cumulative effect of accounting changes	-	-	(137,074)
Equity in earnings (loss) of unconsolidated equity affiliates - net of dividends	4,315	608,141	(176,036)
Provisions for asset impairments and restructuring charges	39,767	55,000	(7,743)
Changes in working capital:			
Receivables	(367,351)	(210,419)	(140,612)
Fuel inventory	(83,125)	(16,769)	(14,015)
Accounts payable	303,194	95,306	(60,164)
Taxes accrued	(172,315)	75,055	(882,446)
Interest accrued	15,133	5,269	(35,837)
Deferred fuel	(236,801)	213,627	(33,874)
Other working capital accounts	(45,653)	41,008	16,809
Provision for estimated losses and reserves	(3,704)	(18,041)	196,619
Changes in other regulatory assets	(311,934)	48,626	22,671
Other	(94,226)	(164,035)	121,592
Net cash flow provided by operating activities	1,467,808	2,929,319	2,005,820
<b>INVESTING ACTIVITIES</b>			
Construction/capital expenditures	(1,458,086)	(1,410,610)	(1,568,943)
Allowance for equity funds used during construction	45,736	39,582	42,710
Nuclear fuel purchases	(314,414)	(238,170)	(224,308)
Proceeds from sale/leaseback of nuclear fuel	184,403	109,988	150,135
Proceeds from sale of assets and businesses	-	75,430	25,987
Payment for purchase of plant	(162,075)	-	-
Investment in nonutility properties	-	(6,420)	(71,438)
Decrease in other investments	9,905	383,498	172,187
Purchases of other temporary investments	(1,591,025)	(1,629,500)	(613,464)
Liquidation of other temporary investments	1,778,975	1,676,350	378,664
Proceeds from nuclear decommissioning trust fund sales	944,253	679,466	729,440
Investment in nuclear decommissioning trust funds	(1,039,824)	(769,273)	(820,958)
Other regulatory investments	(390,456)	(53,566)	(156,446)
Other	-	-	(11,496)
Net cash flow used in investing activities	(1,992,608)	(1,143,225)	(1,967,930)

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2005	2004	2003
	(In Thousands)		
<b>FINANCING ACTIVITIES</b>			
<b>Proceeds from the issuance of:</b>			
Long-term debt	4,302,570	3,653,478	4,596,189
Preferred stock	127,995	-	-
Common stock and treasury stock	106,068	170,237	217,521
Retirement of long-term debt	(2,689,206)	(4,022,548)	(5,284,917)
Repurchase of common stock	(878,188)	(1,017,996)	(8,135)
Redemption of preferred stock	(33,719)	(3,450)	(3,450)
Changes in credit line borrowings - net	39,850	(154)	-
<b>Dividends paid:</b>			
Common stock	(453,508)	(427,901)	(362,814)
Preferred stock	(25,472)	(23,525)	(23,524)
<b>Net cash flow provided by (used in) financing activities</b>	<u>496,390</u>	<u>(1,671,859)</u>	<u>(869,130)</u>
<b>Effect of exchange rates on cash and cash equivalents</b>	<u>(602)</u>	<u>(1,882)</u>	<u>3,345</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(29,012)	112,353	(827,895)
<b>Cash and cash equivalents at beginning of period</b>	619,786	507,433	1,335,328
<b>Effect of the deconsolidation of Entergy New Orleans on cash and cash equivalents</b>	<u>(7,954)</u>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$582,820</u>	<u>\$619,786</u>	<u>\$507,433</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for:			
Interest - net of amount capitalized	\$461,345	\$477,768	\$552,017
Income taxes	\$116,072	\$28,241	\$188,709

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**

	December 31,	
	2005	2004
	(In Thousands)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Cash	\$221,773	\$79,136
Temporary cash investments - at cost, which approximates market	361,047	540,650
Total cash and cash equivalents	582,820	619,786
Other temporary investments	-	187,950
Note receivable - Entergy New Orleans DIP loan	90,000	-
Notes receivable	3,227	3,092
Accounts receivable:		
Customer	732,455	435,191
Allowance for doubtful accounts	(30,805)	(23,758)
Other	356,414	342,289
Accrued unbilled revenues	477,570	460,039
Total receivables	1,535,634	1,213,761
Deferred fuel costs	543,927	55,069
Accumulated deferred income taxes	-	76,899
Fuel inventory - at average cost	206,195	127,251
Materials and supplies - at average cost	610,932	569,407
Deferred nuclear refueling outage costs	157,764	107,782
Prepayments and other	325,795	116,279
<b>TOTAL</b>	<b>4,056,294</b>	<b>3,077,276</b>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investment in affiliates - at equity	296,784	231,779
Decommissioning trust funds	2,606,765	2,453,406
Non-utility property - at cost (less accumulated depreciation)	228,833	219,717
Other	81,535	90,992
<b>TOTAL</b>	<b>3,213,917</b>	<b>2,995,894</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric	29,161,027	29,053,340
Property under capital lease	727,565	738,554
Natural gas	86,794	262,787
Construction work in progress	1,524,085	1,197,551
Nuclear fuel under capital lease	271,615	262,469
Nuclear fuel	436,646	320,813
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>32,207,732</b>	<b>31,835,514</b>
Less - accumulated depreciation and amortization	13,010,687	13,139,883
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>19,197,045</b>	<b>18,695,631</b>
<b>DEFERRED DEBITS AND OTHER ASSETS</b>		
Regulatory assets:		
SFAS 109 regulatory asset - net	735,221	746,413
Other regulatory assets	2,133,724	1,429,261
Deferred fuel costs	120,489	30,842
Long-term receivables	25,572	39,417
Goodwill	377,172	377,172
Other	991,835	918,871
<b>TOTAL</b>	<b>4,384,013</b>	<b>3,541,976</b>
<b>TOTAL ASSETS</b>	<b>\$30,851,269</b>	<b>\$28,310,777</b>

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**

	December 31,	
	2005	2004
	(In Thousands)	
<b>CURRENT LIABILITIES</b>		
Currently maturing long-term debt	\$103,517	\$492,564
Notes payable	40,041	193
Accounts payable	1,655,787	896,528
Customer deposits	222,206	222,320
Taxes accrued	188,159	224,011
Accumulated deferred income taxes	143,409	-
Nuclear refueling outage costs	15,548	-
Interest accrued	154,855	144,478
Obligations under capital leases	130,882	133,847
Other	473,510	218,442
<b>TOTAL</b>	<b>3,127,914</b>	<b>2,332,383</b>
<b>NON-CURRENT LIABILITIES</b>		
Accumulated deferred income taxes and taxes accrued	5,279,228	5,067,381
Accumulated deferred investment tax credits	376,550	399,228
Obligations under capital leases	175,005	146,060
Other regulatory liabilities	408,667	329,767
Decommissioning and retirement cost liabilities	1,923,971	2,066,277
Transition to competition	79,101	79,101
Regulatory reserves	18,624	103,061
Accumulated provisions	556,028	549,914
Long-term debt	8,824,493	7,016,831
Preferred stock with sinking fund	13,950	17,400
Other	1,879,017	1,541,331
<b>TOTAL</b>	<b>19,534,634</b>	<b>17,316,351</b>
Commitments and Contingencies		
Preferred stock without sinking fund	445,974	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	4,817,637	4,835,375
Retained earnings	5,428,407	4,984,302
Accumulated other comprehensive loss	(343,819)	(93,453)
Less - treasury stock, at cost (40,644,602 shares in 2005 and 31,345,028 shares in 2004)	2,161,960	1,432,019
<b>TOTAL</b>	<b>7,742,747</b>	<b>8,296,687</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$30,851,269</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 Years Ended December 31,					
	2005		2004		2003	
			(In Thousands)			
<b>RETAINED EARNINGS</b>						
Retained Earnings - Beginning of period	\$4,984,302		\$4,502,508		\$3,938,693	
Add: Earnings applicable to common stock	898,331	\$898,331	909,524	\$909,524	926,943	\$926,943
Deduct:						
Dividends declared on common stock	453,657		427,740		362,941	
Capital stock and other expenses	569		(10)		187	
Total	454,226		427,730		363,128	
Retained Earnings - End of period	<u>\$5,428,407</u>		<u>\$4,984,302</u>		<u>\$4,502,508</u>	
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>						
Balance at beginning of period:						
Accumulated derivative instrument fair value changes	(\$141,411)		(\$25,811)		\$17,313	
Other accumulated comprehensive income (loss) items	47,958		18,016		(39,673)	
Total	<u>(93,453)</u>		<u>(7,795)</u>		<u>(22,360)</u>	
Net derivative instrument fair value changes arising during the period (net of tax (benefit) of (\$159,236), (\$74,082) and (\$27,862))	(251,203)	(251,203)	(115,600)	(115,600)	(43,124)	(43,124)
Foreign currency translation (net of tax expense of \$211, \$659, and \$1,459)	602	602	1,882	1,882	4,169	4,169
Minimum pension liability (net of tax expense (benefit) of (\$9,176), \$1,875, and \$503)	(15,773)	(15,773)	2,762	2,762	1,153	1,153
Net unrealized investment gains (net of tax expense of \$10,573, \$16,599, and \$33,422)	16,008	16,008	25,298	25,298	52,367	52,367
Balance at end of period:						
Accumulated derivative instrument fair value changes	(392,614)		(141,411)		(25,811)	
Other accumulated comprehensive income items	48,795		47,958		18,016	
Total	<u>(\$343,819)</u>		<u>(\$93,453)</u>		<u>(\$7,795)</u>	
Comprehensive Income		<u>\$647,965</u>		<u>\$823,866</u>		<u>\$941,508</u>
<b>PAID-IN CAPITAL</b>						
Paid-in Capital - Beginning of period	\$4,835,375		\$4,767,615		\$4,666,753	
Add (Deduct):						
Issuance of equity units	(39,904)		-		-	
Common stock issuances related to stock plans	22,166		67,760		100,862	
Paid-in Capital - End of period	<u>\$4,817,637</u>		<u>\$4,835,375</u>		<u>\$4,767,615</u>	

See Notes to Consolidated Financial Statements.

**ENTERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its direct and indirect subsidiaries. As required by generally accepted accounting principles, all significant intercompany transactions have been eliminated in the consolidated financial statements. The domestic utility companies and System Energy maintain accounts in accordance with FERC and other regulatory guidelines. Certain previously reported amounts have been reclassified to conform to current classifications, with no effect on net income or shareholders' equity. References to Entergy Louisiana are intended to apply both to Entergy Louisiana Holdings on a consolidated basis and to Entergy Louisiana, LLC.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of Entergy Corporation's consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Adjustments to the reported amounts of assets and liabilities may be necessary in the future to the extent that future estimates or actual results are different from the estimates used.

**Revenues and Fuel Costs**

The domestic utility companies generate, transmit, and distribute electric power primarily to retail customers in Arkansas, Louisiana, including the City of New Orleans, Mississippi, and Texas. Entergy Gulf States distributes gas to retail customers in and around Baton Rouge, Louisiana and Entergy New Orleans distributes gas to retail customers in the City of New Orleans. Entergy's Non-Utility Nuclear and Energy Commodity Services segments derive almost all of their revenue from sales of electric power generated by plants owned by them.

Entergy recognizes revenue from electric power and gas sales when it delivers power or gas to its customers. To the extent that deliveries have occurred but a bill has not been issued, the domestic utility companies accrue an estimate of the revenues for energy delivered since the latest billings. Entergy calculates the estimate based upon several factors including billings through the last billing cycle in a month, actual generation in the month, historical line loss factors, and prices in effect in the domestic utility companies' various jurisdictions. Each month the estimated unbilled revenue amounts are recorded as revenue and a receivable, and the prior month's estimate is reversed. Therefore, changes in price and volume differences resulting from factors such as weather affect the calculation of unbilled revenues from one period to the next, and may result in variability in reported revenues from one period to the next as prior estimates are so recorded and reversed.

The domestic utility companies' rate schedules include either fuel adjustment clauses or fixed fuel factors, which allow either current recovery in billings to customers or deferral of fuel costs until the costs are billed to customers. Because the fuel adjustment clause mechanism allows monthly adjustments to recover fuel costs, Entergy Louisiana, Entergy New Orleans, and the Louisiana portion of Entergy Gulf States include a component of fuel cost recovery in their unbilled revenue calculations. Where the fuel component of revenues is billed based on a pre-determined fuel cost (fixed fuel factor), the fuel factor remains in effect until changed as part of a general rate case, fuel reconciliation, or fixed fuel factor filing. Entergy Mississippi's fuel factor includes an energy cost rider that is adjusted quarterly. As discussed in Note 2 to the consolidated financial statements, the MPSC approved Entergy Mississippi's deferral of the refund of over-recoveries for the third quarter of 2004 that would have been refunded in the first quarter of 2005. The deferred amount plus carrying charges was refunded in the second and third quarters of 2005. In the case of Entergy Arkansas and the Texas portion of Entergy Gulf States, their fuel under-recoveries are treated in the cash flow statements as regulatory investments because those companies are allowed by their regulatory jurisdictions to recover the fuel cost regulatory asset over longer than a twelve-month period, and the companies earn a carrying charge on the under-recovered balances.

System Energy's operating revenues are intended to recover from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans operating expenses and capital costs attributable to Grand Gulf. The capital costs are computed by allowing a return on System Energy's common equity funds allocable to its net investment in Grand Gulf, plus System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf.

### **Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost. For the domestic utility companies and System Energy, the original cost of plant retired or removed, less salvage, is charged to accumulated depreciation. Normal maintenance, repairs, and minor replacement costs are charged to operating expenses. Substantially all of the domestic utility companies' and System Energy's plant is subject to mortgage liens.

Electric plant includes the portions of Grand Gulf and Waterford 3 that have been sold and leased back. For financial reporting purposes, these sale and leaseback arrangements are reflected as financing transactions.

Net property, plant, and equipment (including property under capital lease and associated accumulated amortization) by business segment and functional category, as of December 31, 2005 and 2004, is shown below:

2005	Entergy	U.S. Utility	Non-Utility Nuclear	All Other
	(In Millions)			
Production				
Nuclear	\$7,390	\$5,955	\$1,435	\$-
Other	1,590	1,321	-	269
Transmission	2,394	2,394	-	-
Distribution	4,599	4,599	-	-
Other	992	989	-	3
Construction work in progress	1,524	1,268	232	24
Nuclear fuel (leased and owned)	708	373	335	-
Property, plant, and equipment - net	<u>\$19,197</u>	<u>\$16,899</u>	<u>\$2,002</u>	<u>\$296</u>

2004	Entergy	U.S. Utility	Non-Utility Nuclear	All Other
	(In Millions)			
Production				
Nuclear	\$7,308	\$5,987	\$1,321	\$-
Other	1,533	1,228	-	305
Transmission	2,182	2,182	-	-
Distribution	4,672	4,672	-	-
Other	1,123	1,115	-	8
Construction work in progress	1,198	924	244	30
Nuclear fuel (leased and owned)	583	297	286	-
Asset retirement obligation	97	97	-	-
Property, plant, and equipment - net	<u>\$18,696</u>	<u>\$16,502</u>	<u>\$1,851</u>	<u>\$343</u>



Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation rates on average depreciable property approximated 2.7% in 2005 and 2.8% in 2004 and 2003. Included in these rates are the depreciation rates on average depreciable utility property of 2.6% in 2005, 2.7% in 2004, and 2.8% in 2003 and the depreciation rates on average depreciable non-utility property of 3.2% in 2005, 3.8% in 2004, and 3.3% in 2003.

Non-utility property - at cost (less accumulated depreciation) is reported net of accumulated depreciation of \$162.2 million and \$152.8 million as of December 31, 2005 and 2004, respectively.

### **Jointly-Owned Generating Stations**

Certain Entergy subsidiaries jointly own electric generating facilities with third parties. The investments and expenses associated with these generating stations are recorded by the Entergy subsidiaries to the extent of their respective undivided ownership interests. As of December 31, 2005, the subsidiaries' investment and accumulated depreciation in each of these generating stations were as follows:

Generating Stations		Fuel-Type	Total Megawatt Capability (1)	Ownership	Investment	Accumulated Depreciation (In Millions)
<b>U.S. Utility:</b>						
Grand Gulf	Unit 1	Nuclear	1,270	90.00% (2)	\$3,680	\$1,890
Independence	Units 1 and 2	Coal	1,630	47.90%	\$466	\$260
White Bluff	Units 1 and 2	Coal	1,635	57.00%	\$430	\$277
Roy S. Nelson	Unit 6	Coal	550	70.00%	\$405	\$249
Big Cajun 2	Unit 3	Coal	575	42.00%	\$233	\$134
<b>Energy Commodity Services:</b>						
Harrison County		Gas	550	60.90%	\$179	\$10
Warren		Gas	300	75.00%	\$24	\$9

- (1) "Total Megawatt Capability" is the dependable load carrying capability as demonstrated under actual operating conditions based on the primary fuel (assuming no curtailments) that each station was designed to utilize.
- (2) Includes an 11.5% leasehold interest held by System Energy. System Energy's Grand Gulf lease obligations are discussed in Note 9 to the consolidated financial statements.

### **Nuclear Refueling Outage Costs**

Entergy records nuclear refueling outage costs in accordance with regulatory treatment and the matching principle. These refueling outage expenses are incurred to prepare the units to operate for the next operating cycle without having to be taken off line. Except for the River Bend plant, the costs are deferred during the outage and amortized over the period to the next outage. In accordance with the regulatory treatment of the River Bend plant, River Bend's costs are accrued in advance and included in the cost of service used to establish retail rates. Entergy Gulf States relieves the accrued liability when it incurs costs during the next River Bend outage.

### **Allowance for Funds Used During Construction (AFUDC)**

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction in the U.S. Utility segment. Although AFUDC increases both the plant balance and earnings, it is realized in cash through depreciation provisions included in rates.

## Income Taxes

Entergy Corporation and the majority of its subsidiaries file a United States consolidated federal income tax return. Entergy Louisiana, LLC, formed December 31, 2005, is not a member of the consolidated group and files a separate federal income tax return. Income taxes are allocated to the subsidiaries in proportion to their contribution to consolidated taxable income. In accordance with SFAS 109, "Accounting for Income Taxes," deferred income taxes are recorded for all temporary differences between the book and tax basis of assets and liabilities, and for certain credits available for carryforward.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates in the period in which the tax or rate was enacted.

Investment tax credits are deferred and amortized based upon the average useful life of the related property, in accordance with ratemaking treatment.

## Earnings per Share

The following table presents Entergy's basic and diluted earnings per share (EPS) calculation included on the consolidated income statement:

	For the Years Ended December 31,					
	2005		2004		2003	
	(In Millions, Except Per Share Data)					
	\$/share		\$/share		\$/share	
Income from continuing operations before cumulative effect of accounting changes	\$943.1		\$909.6		\$804.3	
Average number of common shares outstanding - basic	210.1	\$4.49	226.9	\$4.01	226.8	\$3.55
Average dilutive effect of:						
Stock Options (1)	4.0	(0.085)	4.1	(0.071)	4.1	(0.063)
Deferred Units	0.3	(0.006)	0.2	(0.004)	0.2	(0.003)
Average number of common shares outstanding - diluted	214.4	\$4.40	231.2	\$3.93	231.1	\$3.48
Earnings applicable to common stock	\$898.3		\$909.5		\$926.9	
Average number of common shares outstanding - basic	210.1	\$4.27	226.9	\$4.01	226.8	\$4.09
Average dilutive effect of:						
Stock Options (1)	4.0	(0.081)	4.1	(0.071)	4.1	(0.073)
Deferred Units	0.3	(0.005)	0.2	(0.004)	0.2	(0.004)
Average number of common shares outstanding - diluted	214.4	\$4.19	231.2	\$3.93	231.1	\$4.01

- (1) Options to purchase approximately 1,727,579 common stock shares in 2005, 3,319 common stock shares in 2004, and 15,231 common stock shares in 2003 at various prices were outstanding at the end of those years that were not included in the computation of diluted earnings per share because the exercise prices were greater than the common share average market price at the end of each of the years presented.

### **Stock-based Compensation Plans**

Entergy grants stock options to key employees of the Entergy subsidiaries, which is described more fully in Note 7 to the consolidated financial statements. 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." 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 and 2003 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 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 2005 is \$7.8 million. The following table illustrates the effect on net income and earnings per share if Entergy would have historically applied the fair value based method of accounting to stock-based employee compensation.

	<b><u>For the Years Ended December 31,</u></b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b>(In Thousands, Except Per Share Data)</b>	
Earnings applicable to common stock	\$909,524	\$926,943
Add back: Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects	5,141	2,818
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	16,668	24,518
Pro forma earnings applicable to common stock	<u>\$897,997</u>	<u>\$905,243</u>
 Earnings per average common share:		
Basic	\$4.01	\$4.09
Basic - pro forma	\$3.96	\$3.99
 Diluted	\$3.93	\$4.01
Diluted - pro forma	\$3.88	\$3.92

### **Application of SFAS 71**

The domestic utility companies and System Energy currently account for the effects of regulation pursuant to SFAS 71, "Accounting for the Effects of Certain Types of Regulation." This statement applies to the financial statements of a rate-regulated enterprise that meets three criteria. The enterprise must have rates that (i) are approved by a body empowered to set rates that bind customers (its regulator); (ii) are cost-based; and (iii) can be charged to and collected from customers. These criteria may also be applied to separable portions of a utility's business, such as the generation or transmission functions, or to specific classes of customers. If an enterprise meets these criteria, it capitalizes costs that would otherwise be charged to expense if the rate actions of its regulator make it probable that those costs will be recovered in future revenue. Such capitalized costs are reflected as regulatory assets in the accompanying financial statements. A significant majority of Entergy's regulatory assets, net of related regulatory and deferred tax liabilities, earn a return on investment during their recovery periods, or Entergy expects that they will earn a return. SFAS 71 requires that rate-regulated enterprises assess the probability of recovering their regulatory assets. When an enterprise concludes that recovery of a regulatory asset is no longer probable, the regulatory asset must be removed from the entity's balance sheet.

SFAS 101, "Accounting for the Discontinuation of Application of FASB Statement No. 71," specifies how an enterprise that ceases to meet the criteria for application of SFAS 71 for all or part of its operations should report that event in its financial statements. In general, SFAS 101 requires that the enterprise report the discontinuation of

the application of SFAS 71 by eliminating from its balance sheet all regulatory assets and liabilities related to the applicable segment. Additionally, if it is determined that a regulated enterprise is no longer recovering all of its costs and therefore no longer qualifies for SFAS 71 accounting, it is possible that an impairment may exist that could require further write-offs of plant assets.

EITF 97-4: "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements No. 71 and 101" specifies that SFAS 71 should be discontinued at a date no later than when the effects of a transition to competition plan for all or a portion of the entity subject to such plan are reasonably determinable. Additionally, EITF 97-4 promulgates that regulatory assets to be recovered through cash flows derived from another portion of the entity that continues to apply SFAS 71 should not be written off; rather, they should be considered regulatory assets of the segment that will continue to apply SFAS 71.

See Note 2 to the consolidated financial statements for discussion of transition to competition activity in the retail regulatory jurisdictions served by the domestic utility companies. Only Texas has a currently enacted retail open access law, but Entergy believes that significant issues remain to be addressed by regulators, and the enacted law does not provide sufficient detail to reasonably determine the impact on Entergy Gulf States' regulated operations.

### **Cash and Cash Equivalents**

Entergy considers all unrestricted highly liquid debt instruments with an original or remaining maturity of three months or less at date of purchase to be cash equivalents. Investments with original maturities of more than three months are classified as other temporary investments on the balance sheet.

### **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 years ended December 31, 2004 and 2003 resulting in reductions of \$188 million and \$185 million, respectively, in the amounts presented as cash and cash equivalents as of December 31, 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 September 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 December 31, 2005, Entergy no longer holds any of these auction rate securities.

### **Investments**

Entergy applies the provisions of SFAS 115, "Accounting for Investments for Certain Debt and Equity Securities," in accounting for investments in decommissioning trust funds. As a result, Entergy records the decommissioning trust funds at their fair value on the consolidated balance sheet. Because of the ability of the domestic utility companies and System Energy to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, the domestic utility companies and System Energy have recorded an offsetting amount of unrealized gains/(losses) on investment securities in other regulatory liabilities/assets. For the nonregulated portion of River Bend, Entergy Gulf States has recorded an offsetting amount of unrealized gains/(losses) in other deferred credits. Decommissioning trust funds for Pilgrim, Indian Point 2, and Vermont Yankee do not receive regulatory treatment. Accordingly, unrealized gains and losses recorded on the assets in these trust funds are recognized in the accumulated other comprehensive income component of shareholders' equity because these assets are classified as available for sale. See Note 15 to the consolidated financial statements for

details on the decommissioning trust funds. Entergy records an impairment on investments when the fair market value is less than the carrying value of the asset and that condition is considered other than temporary.

### **Equity Method Investees**

Entergy owns investments that are accounted for under the equity method of accounting because Entergy's ownership level results in significant influence, but not control, over the investee and its operations. Entergy records its share of earnings or losses of the investee based on the change during the period in the estimated liquidation value of the investment, assuming that the investee's assets were to be liquidated at book value. In accordance with this method, earnings are allocated to owners or members based on what each partner would receive from its capital account if, hypothetically, liquidation were to occur at the balance sheet date and amounts distributed were based on recorded book values. Entergy discontinues the recognition of losses on equity investments when its share of losses equals or exceeds its carrying amount of investee plus any advances made or commitments to provide additional financial support. See Note 12 to the consolidated financial statements for additional information regarding Entergy's equity method investments.

### **Derivative Financial Instruments and Commodity Derivatives**

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," requires that all derivatives be recognized in the balance sheet, either as assets or liabilities, at fair value, unless they meet the normal purchase, normal sales criteria. The changes in the fair value of recognized derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

Contracts for commodities that will be delivered in quantities expected to be used or sold in the ordinary course of business, including certain purchases and sales of power and fuel, are not classified as derivatives. These contracts are exempted under the normal purchase, normal sales criteria of SFAS 133. Revenues and expenses from these contracts are reported on a gross basis in the appropriate revenue and expense categories as the commodities are received or delivered.

For other contracts for commodities in which Entergy is hedging the variability of cash flows related to a variable-rate asset, liability, or forecasted transactions that qualify as cash flow hedges, the changes in the fair value of such derivative instruments are reported in other comprehensive income. To qualify for hedge accounting, the relationship between the hedging instrument and the hedged item must be documented to include the risk management objective and strategy and, at inception and on an ongoing basis, the effectiveness of the hedge in offsetting the changes in the cash flows of the item being hedged. Gains or losses accumulated in other comprehensive income are reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portions of all hedges are recognized in current-period earnings.

### **Impairment of Long-Lived Assets**

Entergy periodically reviews long-lived assets held in all of its business segments whenever events or changes in circumstances indicate that recoverability of these assets is uncertain. Generally, the determination of recoverability is based on the undiscounted net cash flows expected to result from such operations and assets. Projected net cash flows depend on the future operating costs associated with the assets, the efficiency and availability of the assets and generating units, and the future market and price for energy over the remaining life of the assets. See Note 11 to the consolidated financial statements for a discussion of asset impairments recognized by Entergy in 2005 and 2004.

### **River Bend AFUDC**

The River Bend AFUDC gross-up is a regulatory asset that represents the incremental difference imputed by the LPSC between the AFUDC actually recorded by Entergy Gulf States on a net-of-tax basis during the construction of River Bend and what the AFUDC would have been on a pre-tax basis. The imputed amount was only calculated on that portion of River Bend that the LPSC allowed in rate base and is being amortized over the estimated remaining economic life of River Bend.

### **Transition to Competition Liabilities**

In conjunction with electric utility industry restructuring activity in Texas, regulatory mechanisms were established to mitigate potential stranded costs. Texas restructuring legislation allowed depreciation on transmission and distribution assets to be directed toward generation assets. The liability recorded as a result of this mechanism is classified as "transition to competition" deferred credits on the balance sheet.

### **Reacquired Debt**

The premiums and costs associated with reacquired debt of the domestic utility companies and System Energy (except that portion allocable to the deregulated operations of Entergy Gulf States) are included in regulatory assets and are being amortized over the life of the related new issuances, in accordance with ratemaking treatment.

### **Foreign Currency Translation**

All assets and liabilities of Entergy's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation adjustments are reflected in the comprehensive income component of shareholders' equity. Current exchange rates are used for U.S. dollar disclosures of future obligations denominated in foreign currencies.

### **New Accounting Pronouncements**

SFAS 123R, "Share-Based Payment" was issued in December 2004 and is effective for Entergy in the first quarter of 2006. SFAS 123R requires all employers to account for share-based payments at fair value and also provides guidance on determining the assumptions to estimate fair value. SFAS 123R also provides guidance on how to account for differences in the amounts of deferred taxes initially recorded when the options are recorded as expense and the amount of expense deducted on a company's tax return when the options are actually exercised. Entergy began voluntarily expensing its stock options effective January 1, 2003 in accordance with SFAS 148, "Stock-Based Compensation - Transition and Disclosure." Entergy is in the process of finalizing its evaluation of the reporting and disclosure issues resulting from the adoption of SFAS 123R but does not expect the effect of the adoption of this standard to be material to Entergy's financial position or results of operations.

As discussed in Note 8 to the consolidated financial statements, Entergy adopted FIN 47, "Accounting for Conditional Asset Retirement Obligations" during the fourth quarter of 2005. FIN 47 requires that a liability be recorded currently for costs associated with a legal obligation to perform an asset retirement obligation activity for which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity but for which the obligation to perform the asset retirement activity is unconditional. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.

SFAS 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" and SFAS 153, "Exchanges of Nonmonetary Assets", were issued during the fourth quarter of 2004 and are effective for Entergy in 2006 and 2005, respectively. SFAS 154, "Accounting Changes and Error Corrections" was issued in 2005 and is effective for

Entergy in 2006. Entergy does not expect the impact of the issuance of these standards to be material to its financial position or results of operations.

## NOTE 2. RATE AND REGULATORY MATTERS

### Regulatory Assets

#### Other Regulatory Assets

The domestic utility companies and System Energy are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. In addition to the regulatory assets that are specifically disclosed on the face of the balance sheets, the table below provides detail of "Other regulatory assets" that are included on the balance sheets as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
	(In Millions)	
<b>Asset Retirement Obligation</b> - recovery dependent upon timing of decommissioning (Note 8)	\$271.7	\$380.1
<b>Deferred fuel - non-current</b> - recovered through rate riders when rates are redetermined periodically (Note 2)	6.1	21.9
<b>Depreciation re-direct</b> - recovery begins at start of retail open access (Note 1)	79.1	79.1
<b>DOE Decommissioning and Decontamination Fees</b> - recovered through fuel rates until December 2006 (Note 8)	17.5	25.3
<b>Low-level radwaste</b>	-	19.4
<b>Pension costs</b> (Note 10)	396.1	207.3
<b>Postretirement benefits</b> - recovered through 2012 (Note 10)	16.8	19.1
<b>Provision for storm damages</b> - recovered through cost of service (a)	695.8	124.5
<b>Removal costs</b> - recovered through depreciation rates (Note 8)	140.4	53.2
<b>Deferred capacity</b> - recovery timing will be determined by the LPSC in the formula rate plan filings (Note 2)	93.8	25.4
<b>River Bend AFUDC</b> - recovered through August 2025 (Note 1)	35.6	37.5
<b>Sale-leaseback deferral</b> - recovered through June 2014 (Note 9)	121.4	127.3
<b>Spindletop gas storage facility</b> - recovered through December 2032	40.6	42.3
<b>Unamortized loss on required debt</b> - recovered over term of debt	165.1	169.9
<b>Other</b> - various	53.7	97.0
<b>Total</b>	<u>\$2,133.7</u>	<u>\$1,429.3</u>

- (a) As a result of Hurricane Katrina and Hurricane Rita that hit Entergy's service territory in August and September 2005, Entergy has recorded accruals for the estimated storm restoration costs. Entergy recorded some of these costs as regulatory assets because management believes that recovery of these prudently incurred costs through some form of regulatory mechanism is probable. Entergy is pursuing a broad range of initiatives to recover storm restoration costs. Initiatives include obtaining reimbursement of certain costs covered by insurance, obtaining assistance through federal legislation for Hurricanes Katrina and Rita, and pursuing recovery through existing or new rate mechanisms regulated by the FERC and local regulatory bodies.

In December 2005, Entergy Mississippi filed with the MPSC a Notice of Intent to change rates by implementing a Storm Damage Rider to recover storm damage restoration costs associated with Hurricanes Katrina and Rita totaling approximately \$84 million as of November 30, 2005. The notice proposes recovery of approximately \$14.7 million, including carrying charges, annually over a five-year period. A hearing on this matter is expected in April 2006. Entergy Mississippi plans to make a second filing in late spring of 2006 to recover additional restoration costs associated with the hurricanes incurred after November 30, 2005 and to reflect receipt of insurance and federal aid.

In December 2005, Entergy Gulf States filed with the LPSC for interim recovery of \$141 million of storm costs. The filing proposes implementing an \$18.7 million annual interim surcharge, including carrying charges and subject to refund, effective March 2006 based on a ten-year recovery period. The filing includes provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. Hearings occurred in February 2006. The LPSC ordered that Entergy Gulf States recover \$850,000 per month as interim storm cost recovery. For the period March 2006 to September 2006, Entergy Gulf States' interim storm cost recovery shall be through its fuel adjustment clause, with the total recovery for that time period capped at \$6 million. The mechanism for the fuel adjustment clause recovery is a retention by Entergy Gulf States of 15% of the difference between the February 2006 fuel adjustment clause and the fuel adjustment clause in those successive months in which the fuel adjustment clause is lower than it was in the February 2006 fuel adjustment clause, until the \$6 million cap is reached. Beginning in September 2006, Entergy Gulf States' interim storm cost recovery of \$850,000 per month shall be through base rates. In addition, all excess earnings that Entergy Gulf States may earn under its 2005 formula rate plan, and any ensuing period in which interim relief is being collected, will be used as an offset to any prospective storm restoration recovery.

In December 2005, Entergy Louisiana filed with the LPSC for interim recovery of \$355 million of storm costs. The filing proposes implementing a \$41.8 million annual interim surcharge, including carrying charges and subject to refund, effective March 2006 based on a ten-year recovery period. The filing includes provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. Hearings occurred in February 2006. The LPSC ordered that Entergy Louisiana recover \$2 million per month as interim storm cost recovery. For the period March 2006 to September 2006, Entergy Louisiana's interim storm cost recovery shall be through its fuel adjustment clause, with the total recovery for that time period capped at \$14 million. The mechanism for the fuel adjustment clause recovery is a retention by Entergy Louisiana of 15% of the difference between the February 2006 fuel adjustment clause and the fuel adjustment clause in those successive months in which the fuel adjustment clause is lower than it was in the February 2006 fuel adjustment clause, until the \$14 million cap is reached. Beginning in September 2006, Entergy Louisiana's interim storm cost recovery of \$2 million per month shall be through base rates. In addition, all excess earnings that Entergy Louisiana may earn under its 2005 formula rate plan, and any ensuing period in which interim relief is being collected, will be used as an offset to any prospective storm restoration recovery.

#### Deferred fuel costs

The domestic utility companies are allowed to recover certain fuel and purchased power costs through fuel mechanisms included in electric and gas rates that are recorded as fuel cost recovery revenues. The difference between revenues collected and the current fuel and purchased power costs is recorded as "Deferred fuel costs" on the domestic utility companies' financial statements. The table below shows the amount of deferred fuel costs as of December 31, 2005 and 2004 that Entergy expects to recover or (refund) through the fuel mechanisms of the domestic utility companies, subject to subsequent regulatory review.

	2005	2004
	(In Millions)	
Entergy Arkansas	\$204.2	\$7.4
Entergy Gulf States	\$324.4	\$90.1
Entergy Louisiana	\$21.9	\$8.7
Entergy Mississippi	\$114.0	(\$22.8)
Entergy New Orleans	N/A (a)	\$2.6

(a) Not included due to the deconsolidation of Entergy New Orleans in 2005.



### Entergy Arkansas

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 and Grand Gulf.

In September 2005, Entergy Arkansas filed with the APSC an interim energy cost rate per the energy cost recovery rider that provides for an interim adjustment should the cumulative over- or under-recovery for the energy period exceed 10 percent of the energy costs for that period. As of the end of July 2005, the cumulative under-recovery of fuel and purchased power expenses had exceeded the 10 percent threshold due to increases in purchased power expenditures resulting from higher natural gas prices. The interim rate became effective the first billing cycle in October 2005. In early October 2005, the APSC initiated an investigation into Entergy Arkansas' interim rate. The investigation is focused on Entergy Arkansas' 1) gas contracting, portfolio, and hedging practices; 2) wholesale purchases during the period; 3) management of the coal inventory at its coal generation plants; and 4) response to the contractual failure of the railroads to provide coal deliveries. The APSC established a procedural schedule with testimony from Entergy Arkansas, the APSC Staff, and intervenors culminating in a public hearing in May 2006.

### Entergy Gulf States (Texas)

In the Texas jurisdiction, Entergy Gulf States' rate schedules include a fixed fuel factor to recover fuel and purchased power costs, including carrying charges, not recovered in base rates. Under the current methodology, semi-annual revisions of the fixed fuel factor may be made in March and September based on the market price of natural gas. Entergy Gulf States will likely continue to use this methodology until the start of retail open access, which has been delayed. The amounts collected under Entergy Gulf States' fixed fuel factor and any interim surcharge implemented until the date retail open access commences are subject to fuel reconciliation proceedings before the PUCT. In the Texas jurisdiction, Entergy Gulf States' deferred electric fuel costs are \$203.2 million as of December 31, 2005, which includes the following:

	<u>Amount</u> (In Millions)
Under-recovered fuel costs for the period 8/04 - 7/05 to be recovered through an interim fuel surcharge over a twelve-month period beginning in January 2006	\$46.1
Under-recovered fuel costs for the period 8/05 - 12/05	\$101.0
Items to be addressed as part of unbundling	\$29.0
Other (includes imputed capacity charges)	\$27.1

The PUCT has ordered that the imputed capacity charges be excluded from fuel rates and therefore recovered through base rates. 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 requested \$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 reached an initial agreement with parties that the date upon which cost recovery and cost reconciliation would begin is September 1, 2005. A further non-unanimous settlement was reached with most of the parties that allows for the rider to be implemented effective December 1, 2005 and collect \$18 million annually. The settlement also provides for a fuel reconciliation to be filed by Entergy Gulf States by May 15, 2006 that will resolve the remaining issues in the case with the exception of the amount of purchased power in current base rates and the costs to which load growth is attributed, both of which were settled. The hearing with respect to the non-unanimous settlement, which

was opposed by the Office of Public Utility Counsel, was conducted on October 19, 2005 before the ALJ, who issued a Proposal for Decision supporting the settlement. In December 2005, the PUCT approved the settlement. The amounts collected by the purchased capacity recovery rider are subject to reconciliation.

In September 2005, Entergy Gulf States filed an application with the PUCT to implement a net \$46.1 million interim fuel surcharge, including interest, to collect under-recovered fuel and purchased power expenses incurred from August 2004 through July 2005. The application was approved, and the surcharge will be collected over a twelve-month period beginning in January 2006. On March 1, 2006, Entergy Gulf States filed with the PUCT an application to implement an interim fuel surcharge in connection with the under-recovery of \$97 million including interest of eligible fuel costs for the period August 2005 through January 2006. This surcharge is in addition to the interim surcharge that went into effect in January 2006. Entergy Gulf States has requested that the interim surcharge requested in its March 2006 filing be implemented by June 1, 2006 and remain in effect for twelve months. Amounts collected through the interim fuel surcharges are subject to final reconciliation in a future fuel reconciliation proceeding.

In March 2004, Entergy Gulf States filed with the PUCT a fuel reconciliation case covering the period September 2000 through August 2003 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 asked 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 the January 2001 proceeding, discussed below, which is now on appeal. On January 31, 2005, the ALJ issued a Proposal for Decision that recommends 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 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 the Court denied Entergy Gulf States' appeal. In October 2005, Entergy Gulf States filed a petition for review by the Texas Supreme Court, and in December 2005, the Texas Supreme Court requested that responses be filed to Entergy Gulf States' petition as part of its ongoing consideration of whether to exercise its discretion to grant review of this matter. Those responses and Entergy Gulf States' reply to those responses were filed in January 2006.

#### Entergy Gulf States (Louisiana) and Entergy Louisiana

In Louisiana, Entergy Gulf States and Entergy Louisiana recover electric fuel and purchased power costs for the upcoming month based upon the level of such costs from the prior month. In Louisiana, Entergy Gulf States' purchased gas adjustments include estimates for the billing month adjusted by a surcharge or credit for deferred fuel expense arising from monthly reconciliations of actual fuel costs incurred with fuel cost revenues billed to customers.

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 global settlement approved by the LPSC in March 2005, discussed below in "**Retail Rate Proceedings**," 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 April 2006.

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 November 2005, the LPSC authorized its staff to initiate an expedited proceeding to audit the fuel and power procurement activities of Entergy Louisiana and Entergy Gulf States for the period January 1, 2005 through October 31, 2005.

#### **Entergy Mississippi**

Entergy Mississippi's rate schedules include an energy cost recovery rider which is adjusted quarterly to reflect accumulated over- or under-recoveries from the second prior quarter. 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 were deferred from the first quarter 2005 energy cost recovery rider adjustment calculation. The deferred amount of \$21.3 million plus carrying charges was refunded through the energy cost recovery rider in the second and third quarters of 2005.

In May 2003, Entergy Mississippi filed and the MPSC approved a change in Entergy Mississippi's energy cost recovery rider. Under the MPSC's order, Entergy Mississippi deferred until 2004 the collection of fuel under-recoveries for the first and second quarters of 2003 that would have been collected in the third and fourth quarters of 2003, respectively. The deferred amount of \$77.6 million plus carrying charges was collected through the energy cost recovery rider over a twelve-month period that began in January 2004.

#### **Retail Rate Proceedings**

##### **Filings with the APSC**

##### **Retail Rates**

No significant retail rate proceedings are pending in Arkansas at this time.

## **Filings with the PUCT and Texas Cities**

### Retail Rates

Entergy Gulf States is operating in Texas under a base rate freeze that has remained in effect during the delay in the implementation of retail open access in Entergy Gulf States' Texas service territory. As discussed in "**Electric Industry Restructuring and the Continued Application of SFAS 71**" below, a Texas law was enacted in June 2005 which includes provisions in the Texas legislation regarding Entergy Gulf States' ability to file a general rate case and to file for recovery of transition to competition costs. As authorized by the legislation, in August 2005, Entergy Gulf States filed with the PUCT an application for recovery of its transition to competition costs. Entergy Gulf States requested recovery of \$189 million in transition to competition costs through implementation of a 15-year rider to be effective no later than March 1, 2006. The \$189 million represents transition to competition costs Entergy Gulf States incurred from June 1, 1999 through June 17, 2005 in preparing for competition in its service area, including attendant AFUDC, and all carrying costs projected to be incurred on the transition to competition costs through February 28, 2006. The \$189 million is before any gross-up for taxes or carrying costs over the 15-year recovery period. Entergy Gulf States has reached a unanimous settlement agreement in principle on all issues with the active parties in the transition to competition cost recovery case. The agreement in principle allows Entergy Gulf States to recover \$14.5 million per year in transition to competition costs over a 15-year period. Entergy Gulf States implemented interim rates based on this revenue level on March 1, 2006, subject to refund. Entergy Gulf States expects that the PUCT will consider the formal settlement document, which is currently being developed, in the second quarter 2006.

The Texas law enacted also allowed Entergy Gulf States to file with the PUCT for recovery of certain incremental purchased capacity costs which was implemented effective December 1, 2005. This proceeding is discussed above under "**Deferred Fuel Costs**."

### Recovery of River Bend Costs

In March 1998, the PUCT disallowed recovery of \$1.4 billion of company-wide abeyed River Bend plant costs, which have been held in abeyance since 1988. Entergy Gulf States appealed the PUCT's decision on this matter to the Travis County District Court in Texas. In April 2002, the Travis County District Court issued an order affirming the PUCT's order on remand disallowing recovery of the abeyed plant costs. Entergy Gulf States appealed this ruling to the Third District Court of Appeals. In July 2003, the Third District Court of Appeals unanimously affirmed the judgment of the Travis County District Court. After considering the progress of the proceeding in light of the decision of the Court of Appeals, Entergy Gulf States accrued for the loss that would be associated with a final, non-appealable decision disallowing the abeyed plant costs. The net carrying value of the abeyed plant costs was \$107.7 million at the time of the Court of Appeals decision. Accrual of the \$107.7 million loss was recorded in the second quarter of 2003 as miscellaneous other income (deductions) and reduced net income by \$65.6 million after-tax. In September 2004, the Texas Supreme Court denied Entergy Gulf States' petition for review, and Entergy Gulf States filed a motion for rehearing. In February 2005, the Texas Supreme Court denied the motion for rehearing, and the proceeding is now final.

## **Filings with the LPSC**

### Global Settlement including 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 net income effect of \$48.6 million for Entergy Gulf States and \$8.6 million for Entergy Louisiana was recognized primarily in 2004 when Entergy Gulf States and Entergy Louisiana recorded provisions for the expected outcome of the proceeding. 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. Entergy Gulf States made its initial formula rate plan filing in June 2005, as discussed below. 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.

#### Retail Rates - Electric

##### (Entergy Louisiana)

Entergy Louisiana made a rate filing with the LPSC requesting a base rate increase in January 2004. 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 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 July 2005 and refunded excess revenue collected during May 2005, including interest, in August 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 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%. A revision to the filing was made in September 2005 resulting in a \$37.2 million base rate increase effective with the first billing cycle of October 2005, subject to refund. The base rate increase consists of two components. The first is a base rate increase of approximately \$21.1 million due to the formula rate plan 2004 test year revenue requirement. The second component of the increase is the

recovery of the annual revenue requirement of \$16.1 million associated with the purchase of power from the Perryville generating station, which purchase was approved by the LPSC. A final order from the LPSC is expected by the second quarter of 2006.

#### 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%.

In January 2006, Entergy Gulf States filed with the LPSC its gas rate stabilization plan. The filing showed a revenue deficiency of \$4.1 million based on an ROE mid-point of 10.5%. Approval by the LPSC and implementation are not expected until the second quarter of 2006.

#### **Filings with the MPSC**

##### Formula Rate Plan Filings

Entergy Mississippi made its annual formula rate plan filing with the MPSC in March 2005 based on a 2004 test year. In May 2005, the MPSC approved a joint stipulation entered into between the Mississippi Public Utilities Staff and Entergy Mississippi 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%.

##### Power Management Rider

The MPSC approved the purchase of the Attala power plant in November 2005. In December 2005, the MPSC issued an order approving the investment cost recovery through its power management rider and limited the recovery to a period that begins with the closing date of the purchase and ends the earlier of the date costs are incorporated into base rates or December 31, 2006. The MPSC order also provided that any reserve equalization benefits be credited to the annual ownership costs beginning with the date that Entergy Mississippi begins recovery of the Hurricane Katrina restoration costs or July 1, 2006, whichever is earlier. On December 9, 2005, Entergy Mississippi filed a compliance rider.

#### **Filings with the City Council**

##### Formula Rate Plans

In April 2005, Entergy New Orleans made its annual scheduled formula rate plan filings with the City Council. The filings showed that a decrease of \$0.2 million in electric revenues was warranted and an increase of \$3.9 million in gas revenues was warranted. In addition, in May 2005, Entergy New Orleans filed with the City Council a request for continuation of the formula rate plans and generation performance-based rate plan (G-PBR) for an additional three years. In August 2005, Entergy New Orleans, the City Council advisors, and the intervenors entered into an agreement in principle which provided, among other things, for a reduction in the Customer Care System investment of \$3.2 million and for a reduction in Entergy New Orleans' electric base rates of \$2.5 million and no change in Entergy New Orleans' gas base rates. The agreement provided for the continuation of the electric and gas formula rate plans for two more annual cycles, effective September 1, 2005, with a target equity ratio of 45% as well as a mid-point return on equity (ROE) of 10.75%. The ROE band-width is 100 basis points from the mid-point for electric operations. For gas operations, the ROE band-width is 50 basis points from the mid-point and zero basis points for the 2005 evaluation period. The agreement in principle also includes the continuation and modification of the G-PBR by separating the operation of the G-PBR from the formula rate plan so that the core business' electric rates are not set on a prospective basis by reference to G-PBR earnings. The agreement in principle provided for a

\$4.5 million cap on Entergy New Orleans' share of G-PBR savings. The G-PBR plan, however, has been temporarily suspended due to impacts from Hurricane Katrina. Entergy New Orleans will notify the City Council's advisors and the City Council at such time as it is reasonable to resume the operation of the G-PBR.

In August 2005, prior to Hurricane Katrina, the Council Utility, Cable and Telecommunications Committee voted to recommend to the City Council a resolution approving this agreement in principle. The City Council was to consider this recommendation at its regularly scheduled meeting on September 1, 2005, but this meeting did not occur due to Hurricane Katrina. On August 31, 2005, the chairman of the Council Utility, Cable and Telecommunications Committee issued a letter authorizing Entergy New Orleans to implement the agreement in principle in accordance with the resolution previously considered by this Council committee, and advising Entergy New Orleans that the City Council would consider the ratification of this letter authorization at the first available opportunity. On September 27, 2005, the City Council ratified the August 31, 2005 letter, and deemed the resolution approving the agreement in principle to be effective as of September 1, 2005.

#### Fuel Adjustment Clause Litigation

In April 1999, a group of ratepayers filed a complaint against Entergy New Orleans, Entergy Corporation, Entergy Services, and Entergy Power in state court in Orleans Parish purportedly on behalf of all Entergy New Orleans ratepayers. The plaintiffs seek treble damages for alleged injuries arising from the defendants' alleged violations of Louisiana's antitrust laws in connection with certain costs passed on to ratepayers in Entergy New Orleans' fuel adjustment filings with the City Council. In particular, plaintiffs allege that Entergy New Orleans improperly included certain costs in the calculation of fuel charges and that Entergy New Orleans imprudently purchased high-cost fuel from other Entergy affiliates. Plaintiffs allege that Entergy New Orleans and the other defendant Entergy companies conspired to make these purchases to the detriment of Entergy New Orleans' ratepayers and to the benefit of Entergy's shareholders, in violation of Louisiana's antitrust laws. Plaintiffs also seek to recover interest and attorneys' fees. Entergy filed exceptions to the plaintiffs' allegations, asserting, among other things, that jurisdiction over these issues rests with the City Council and FERC. In March 2004, the plaintiffs supplemented and amended their petition. If necessary, at the appropriate time, Entergy will also raise its defenses to the antitrust claims. The suit in state court has been stayed by stipulation of the parties pending review of the decision by the City Council in the proceeding discussed in the next paragraph.

Plaintiffs also filed a corresponding complaint with the City Council in order to initiate a review by the City Council of the plaintiffs' allegations and to force restitution to ratepayers of all costs they allege were improperly and imprudently included in the fuel adjustment filings. Testimony was filed on behalf of the plaintiffs in this proceeding asserting, among other things, that Entergy New Orleans and other defendants have engaged in fuel procurement and power purchasing practices and included costs in Entergy New Orleans' fuel adjustment that could have resulted in Entergy New Orleans customers being overcharged by more than \$100 million over a period of years. Hearings were held in February and March 2002. In February 2004, the City Council approved a resolution that resulted in a refund to customers of \$11.3 million, including interest, during the months of June through September 2004. The resolution concludes, among other things, that the record does not support an allegation that Entergy New Orleans' actions or inactions, either alone or in concert with Entergy or any of its affiliates, constituted a misrepresentation or a suppression of the truth made in order to obtain an unjust advantage of Entergy New Orleans, or to cause loss, inconvenience or harm to its ratepayers. Management believes that it has adequately provided for the liability associated with this proceeding. The plaintiffs appealed the City Council resolution to the state courts. On May 26, 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 plaintiff's 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. Subsequent to Entergy New Orleans' filing of a bankruptcy petition in the Eastern District of Louisiana, Entergy New Orleans filed a Notice of Stay with the Court of Appeal. The Bankruptcy Court lifted the stay with respect to the plaintiffs' appeal of the Civil District Court decision, but the class action lawsuit remains stayed. In

February 2006, Entergy New Orleans filed a notice removing the class action lawsuit from the Civil District Court to the U.S. District Court for the Eastern District of Louisiana. Additionally, in the Entergy New Orleans bankruptcy proceeding, the named plaintiffs in the Entergy New Orleans fuel clause lawsuit, together with the named plaintiffs in the Entergy New Orleans rate of return lawsuit, filed a Complaint for Declaratory Judgment asking the court to declare that Entergy New Orleans, Entergy Corporation, and Entergy Services are a single business enterprise, and as such, are liable in solido with Entergy New Orleans for any claims asserted in the Entergy New Orleans fuel clause lawsuit and the Entergy New Orleans rate of return lawsuit, and alternatively, that the automatic stay be lifted to permit the movants to pursue the same relief in state court. Answers were due in this adversary proceeding in February 2006, but Entergy New Orleans has requested an extension to answer until March 2006.

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

Although Arkansas and Texas enacted retail open access laws, the retail open access law in Arkansas has now been repealed. Retail open access in Entergy Gulf States' service territory in Texas has been delayed. Entergy believes that significant issues remain to be addressed by Texas regulators, and the enacted law does not provide sufficient detail to allow Entergy Gulf States to reasonably determine the impact on Entergy Gulf States' regulated operations. Entergy therefore continues to apply regulatory accounting principles to the retail operations of all of the domestic utility companies.

#### **Texas**

##### **(Entergy Gulf States)**

As ordered by the PUCT, in January 2003, Entergy Gulf States filed its proposal for an interim solution (retail open access without a FERC-approved RTO), which among other elements, included:

- the recommendation that retail open access in Entergy Gulf States' Texas service territory, including corporate unbundling, occur by January 1, 2004, or else be delayed until at least January 1, 2007. If retail open access is delayed past January 1, 2004, Entergy Gulf States requested authorization to separate into two bundled utilities, one subject to the retail jurisdiction of the PUCT and one subject to the retail jurisdiction of the LPSC.
- the recommendation that Entergy's transmission organization, possibly with the oversight of another entity, will continue to serve as the transmission authority for purposes of retail open access in Entergy Gulf States' service territory.
- the recommendation that the decision points be identified that would require prior to January 1, 2004, the PUCT's determination, based upon objective criteria, whether to proceed with further efforts toward retail open access in Entergy Gulf States' Texas service territory.

After considering the proposal, in an April 2003 order the PUCT set forth a sequence of proceedings and activities designed to initiate an interim solution. These proceedings and activities included initiating a proceeding to certify an independent organization to administer market protocols and ensure nondiscriminatory access to transmission and distribution systems.

In July 2004, the PUCT denied Entergy's application to certify Entergy's transmission organization as an independent organization under Texas law. In its order, the PUCT also ordered: the cessation of efforts to develop an interim solution for retail open access in Entergy Gulf States' Texas service territory, termination of the pilot project in that territory, and a delay in retail open access in that territory until either a FERC-approved RTO is in place or some other independent transmission entity is certified under Texas law. Several parties have appealed the termination of the pilot program aspect of the order, claiming the issue was not properly a part of the proceeding.



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 (as discussed below);
- 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 **"Deferred Fuel Costs,"** 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 (as discussed above in **"Filings with the PUCT and Texas Cities,"** in August 2005, Entergy Gulf States filed with the PUCT an application for recovery of its transition to competition costs).

Entergy Gulf States made the January 2006 filing regarding the identification of power region(s) required by the 2005 legislation, and based on the statutory requirements for the certification of a qualified power region (QPR), previous PUCT rulings, and Entergy Gulf States' geographical location, Entergy Gulf States identified three potential power regions:

1. Electric Reliability Council of Texas (ERCOT) as the power region and Independent Organization (IO);
2. Southwest Power Pool (SPP) as the power region and IO; and
3. the Entergy market as the power region and the Independent Coordinator of Transmission (ICT) as the IO.

Based on previous rulings of the PUCT, and absent reconsideration of those rulings, Entergy Gulf States believes that the third alternative - an ICT operating in Entergy's market area - is not likely to be a viable QPR alternative at this time. Accordingly, while noting this alternative, Entergy Gulf States' filing focuses on the first two alternatives, which are expected to meet the statutory requirements for certification so long as certain key implementation issues can be resolved. Entergy Gulf States' filing enumerated and discussed the corresponding steps and a high-level schedule associated with certifying either of these two power regions.

Entergy Gulf States' filing does not make a recommendation between ERCOT and the SPP as a power region. Rather, the filing discusses the major issues that must be resolved for either of those alternatives to be implemented. In the case of ERCOT, the major issue is the cost and time related to the construction of facilities to interconnect Entergy Gulf States' Texas operations with ERCOT, while addressing the interest of Entergy Gulf States' retail customers and certain wholesale customers in access to generation outside of Texas. With respect to the SPP, the major issue is the development of protocols that would ultimately be necessary to implement retail open access.

Entergy Gulf States recommended that the PUCT open a project for the purpose of involving stakeholders in the selection of the single power region that Entergy Gulf States should request for certification. Entergy Gulf States notes that House Bill 1567 also directs Entergy Gulf States to file a transition to competition filing no later than January 1, 2007. The contents of the January 1, 2007 filing will be affected by the power region selected. Accordingly, Entergy Gulf States recommended that the goal of the project should be to reach consensus on a power region in a timely manner to inform Entergy Gulf States' January 1, 2007 filing.

### NOTE 3. INCOME TAXES

Income tax expenses from continuing operations for 2005, 2004, and 2003 consist of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)		
Current:			
Federal (a)(b)	(\$306,524)	\$67,924	(\$725,319)
Foreign	13,290	(2,231)	8,284
State (a)(b)	<u>(27,212)</u>	<u>38,324</u>	<u>23,316</u>
Total (a)(b)	(320,446)	104,017	(693,719)
Deferred - net	898,384	282,275	1,218,796
Investment tax credit			
adjustments - net	<u>(18,654)</u>	<u>(20,987)</u>	<u>(27,644)</u>
Income tax expense from continuing operations	<u>\$559,284</u>	<u>\$365,305</u>	<u>\$497,433</u>

- (a) The actual cash taxes paid were \$98,072 in 2005, \$28,241 in 2004, and \$188,709 in 2003. Entergy Louisiana's mark-to-market tax accounting election significantly reduced taxes paid in 2002. In 2001, Entergy Louisiana changed its method of accounting for tax purposes related to its wholesale electric power contracts. The most significant of these is the contract to purchase power from the Vidalia project (the contract is discussed in Note 8 to the consolidated financial statements). The new tax accounting method has provided a cumulative cash flow benefit of approximately \$664 million through 2005, which is expected to reverse in the years 2006 through 2031 depending on several variables, including the price of power. The election did not reduce book income tax expense.
- (b) In 2003, the domestic utility companies and System Energy filed, with the IRS, a change in tax accounting method notification for their respective calculations of cost of goods sold. The adjustment implemented a simplified method of allocation of overhead to the production of electricity, which is provided under the IRS capitalization regulations. The cumulative adjustment placing these companies on the new methodology resulted in a \$2.8 billion deduction on Entergy's 2003 income tax return. There was no cash benefit from the method change in 2003. In addition, on a consolidated basis, there was no cash benefit from this method change in 2004 or 2005. The IRS has issued new proposed regulations effective in 2005 that may preclude a significant portion of the benefit of this tax accounting method change. In 2005, the domestic utility companies and System Energy filed a notice with the IRS of a new tax accounting method for their respective calculations of cost of goods sold. This new method is also subject to IRS scrutiny.

Total income taxes from continuing operations differ from the amounts computed by applying the statutory income tax rate to income before taxes. The reasons for the differences for the years 2005, 2004, and 2003 are:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)		
Computed at statutory rate (35%)	\$534,743	\$454,438	\$463,831
Increases (reductions) in tax resulting from:			
State income taxes net of federal income tax effect	44,282	36,149	43,210
Regulatory differences- utility plant items	28,983	41,240	52,446
Amortization of investment tax credits	(18,691)	(20,596)	(24,364)
EAM capital loss	(792)	(86,426)	-
Flow-through/permanent differences	(32,518)	(43,037)	(29,722)
US tax on foreign income	2,798	2,014	7,888
Other -- net	479	(18,477)	(15,856)
Total income taxes from continuing operations	<u>\$559,284</u>	<u>\$365,305</u>	<u>\$497,433</u>
Effective Income Tax Rate	36.6%	28.1%	37.5%

The EAM capital loss is a tax benefit resulting from the sale of preferred stock and less than 1% of the common stock of Entergy Asset Management, an Entergy subsidiary. In December 2004, an Entergy subsidiary sold the stock to a third party for \$29.75 million. The sale resulted in a capital loss for tax purposes of \$370 million, producing a federal and state net tax benefit of \$97 million that Entergy recorded in the fourth quarter of 2004. Entergy has established a contingency provision in its financial statements that management believes will sufficiently cover the risk associated with this issue.

Significant components of net deferred and noncurrent accrued tax liabilities as of December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Deferred and Noncurrent Accrued Tax Liabilities:		
Net regulatory liabilities	(\$954,742)	(\$978,815)
Plant-related basis differences	(5,444,178)	(4,699,803)
Power purchase agreements	(2,422,967)	(972,348)
Nuclear decommissioning	(390,256)	(545,109)
Other	(621,179)	(346,993)
Total	<u>(9,833,322)</u>	<u>(7,543,068)</u>
Deferred Tax Assets:		
Accumulated deferred investment tax credit	125,521	133,979
Capital losses	119,003	134,688
Net operating loss carryforwards	2,788,864	1,201,006
Sale and leaseback	238,557	227,155
Unbilled/deferred revenues	25,455	28,741
Pension-related items	231,154	247,662
Reserve for regulatory adjustments	120,792	131,112
Customer deposits	70,222	107,652
Nuclear decommissioning	168,928	158,796
Other	560,980	225,659
Valuation allowance	(38,791)	(43,864)
Total	<u>4,410,685</u>	<u>2,552,586</u>
Net deferred and noncurrent accrued tax liability	<u><u>(\$5,422,637)</u></u>	<u><u>(\$4,990,482)</u></u>

At December 31, 2005, Entergy had \$268.4 million in net realized federal capital loss carryforwards that will expire as follows: \$104.9 million in 2007, \$0.8 million in 2008, and \$162.7 million in 2009.

At December 31, 2005, Entergy had federal net operating loss carryforwards of \$6.6 billion primarily resulting from changes in tax accounting methods relating to (a) the domestic utility companies calculation of cost of goods sold and (b) Non-Utility Nuclear's 2005 mark-to-market tax accounting election, and losses due to Hurricanes Katrina and Rita. Both tax accounting method changes produce temporary book tax differences, which will reverse in the future. Approximately \$4.0 billion of the net operating loss, attributable to the two tax accounting method changes, is expected to reverse within four years. The timing of the reversal depends on several variables, including the price of power and nuclear plant life extensions. If the federal net operating loss carryforwards are not utilized, they will expire in the years 2023 through 2025. Entergy expects to receive a refund of \$242 million from prior tax years under the special provisions of the Gulf Opportunity Zone Act of 2005 and the Energy Policy Act of 2005 in the second quarter of 2006. The expected refund is reflected as a receivable in the "Prepayments and other" line on the balance sheet as of December 31, 2005.

At December 31, 2005, Entergy had estimated state net operating loss carryforwards of \$8.4 billion, primarily resulting from Entergy Louisiana's mark-to-market tax election, the domestic utility companies' change in method of accounting for tax purposes related to cost of goods sold, and Non-Utility Nuclear's 2005 mark-to-market

tax accounting election, all discussed above. If the state net operating loss carryforwards are not utilized, they will expire in the years 2008 through 2020.

The 2005 and 2004 valuation allowances are provided against UK capital loss and UK net operating loss carryforwards, and certain state net operating loss carryforwards. The UK losses can be utilized against future UK taxable income. For UK tax purposes, these carryforwards do not expire.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was enacted. The Act promotes domestic production and investing activities by providing a number of tax incentives including a temporary incentive to repatriate accumulated foreign earnings, subject to certain limitations, by providing an 85% dividends received deduction for certain repatriated earnings and also providing a tax deduction of up to 9% of qualifying production activities. In 2004, Entergy repatriated \$59.1 million of accumulated foreign earnings, which resulted in approximately \$11.0 million of tax benefit. At December 31, 2005, Entergy had no undistributed earnings from subsidiary companies outside the United States that are being considered for repatriation. In accordance with FSP 109-1, which was issued by the FASB to address the accounting for the impacts of the Act, the allowable production tax credit will be treated as a special deduction in the period in which it is deducted rather than treated as a tax rate change during 2004 which is the period in which the Act was signed into law. The adoption of FSP 109-1 and FSP 109-2, also issued by the FASB to address the accounting for the repatriation provisions of the Act, did not have a material effect on Entergy's financial statements.

### **Income Tax Audits**

Entergy is currently under audit by the IRS with respect to tax returns for tax periods subsequent to 1995 and through 2003, and is subject to audit by the IRS and other taxing authorities for subsequent tax periods. The amount and timing of any tax assessments resulting from these audits are uncertain, and could have a material effect on Entergy's financial position and results of operations. Entergy believes that the contingency provisions established in its financial statements will sufficiently cover the liabilities that are reasonably estimable associated with tax matters. Certain material audit matters as to which management believes there is a reasonable possibility of a future tax payment are discussed below.

### **Depreciable Property Lives**

In October 2005, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy concluded settlement discussions with IRS Appeals related to the 1996 - 1998 audit cycle. The most significant issue settled involved the changes in tax depreciation methods with respect to certain types of depreciable property. Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans partially conceded depreciation associated with assets other than street lighting and intend to pursue the street lighting depreciation in litigation. Entergy Gulf States was not part of the settlement and did not change its accounting method for these certain assets until 1999. The total cash concession related to these deductions for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy is \$56 million plus interest of \$23 million. The effect of a similar settlement by Entergy Gulf States would result in a cash tax exposure of approximately \$25 million plus interest of \$8 million.

Because this issue relates to the timing of when depreciation expense is deducted, the conceded amount for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy, or any future conceded amounts by Entergy Gulf States will be recovered in future periods. Entergy believes that the contingency provision established in its financial statements sufficiently covers the risk associated with this item.

### **Mark to Market of Certain Power Contracts**

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 estimated cumulative cash flow benefits of approximately \$664 million through December 31, 2005. This benefit could reverse in the years 2006 through 2031 depending on several variables, including the price of power. The tax accounting election has had no effect on book income tax expense.

#### NOTE 4. LINES OF CREDIT AND SHORT-TERM BORROWINGS

Entergy Corporation has in place two separate revolving credit facilities, a five-year credit facility and a three-year credit facility. The five-year credit facility, which expires in May 2010, has a borrowing capacity of \$2 billion, of which \$785 million was outstanding as of December 31, 2005. The three-year facility, which expires in December 2008, has the borrowing capacity of \$1.5 billion, none of which was outstanding at December 31, 2005. Entergy also has the ability to issue letters of credit against the total borrowing capacity of both credit facilities, and letters of credit totaling \$239.5 million had been issued against the five-year facility at December 31, 2005. The total unused capacity for these facilities as of December 31, 2005 was approximately \$2.2 billion. The commitment fee for these facilities 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 Corporation's facilities require it to maintain a consolidated debt ratio of 65% or less of its total capitalization. If Entergy fails to meet this ratio, or if Entergy or the domestic utility companies (except Entergy New Orleans) default on other indebtedness or are in bankruptcy or insolvency proceedings, an acceleration of the facilities' maturity dates may occur.

Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi 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 Dec. 31, 2005</u>
Entergy Arkansas	April 2006	\$85 million (a)	-
Entergy Louisiana	April 2006	\$85 million (a)	\$40 million
Entergy Louisiana	May 2006	\$15 million (b)	-
Entergy Mississippi	May 2006	\$25 million	-

- (a) The combined amount borrowed by Entergy Arkansas and Entergy Louisiana under these facilities at any one time cannot exceed \$85 million. Entergy Louisiana granted a security interest in its receivables to secure its \$85 million facility.
- (b) The combined amount borrowed by Entergy Louisiana under its \$15 million facility and by Entergy New Orleans under a \$15 million facility that it has with the same lender cannot exceed \$15 million at any one time. Because Entergy New Orleans' facility is fully drawn, no capacity is currently available on Entergy Louisiana's facility.

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.

After the repeal of PUHCA 1935, effective February 8, 2006, the FERC, under the Federal Power Act, and not the SEC, has jurisdiction over authorizing securities issuances by the domestic utility companies and System Energy (except securities with maturities longer than one year issued by (a) Entergy Arkansas which are subject to the jurisdiction of the APSC and (b) Entergy New Orleans which are currently subject to the jurisdiction of the bankruptcy court). Under PUHCA 2005 and the Federal Power Act, no approvals are necessary for Entergy

Corporation to issue securities. Under a savings provision in PUHCA 2005, each of the domestic utility companies and System Energy may rely on the financing authority in its existing PUHCA 1935 SEC order or orders through December 31, 2007 or until the SEC authority is superseded by FERC authorization. The FERC has issued an order ("FERC Short-Term Order") approving the short-term borrowing limits of the domestic utility companies (except Entergy New Orleans) and System Energy through March 31, 2008. Entergy New Orleans may rely on existing SEC PUHCA 1935 orders for its short-term financing authority, subject to bankruptcy court approval. In addition to borrowings from commercial banks, the FERC Short-Term Order authorized the domestic utility companies (except Entergy New Orleans which is authorized by an SEC PUHCA 1935 order) and System Energy to continue as participants in the Entergy System money pool through February 8, 2007. 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 short-term borrowings combined may not exceed authorized limits. As of December 31, 2005, Entergy's subsidiaries' aggregate money pool and external short-term borrowings authorized limit was \$2.0 billion, the aggregate outstanding borrowing from the money pool was \$379.7 million, and Entergy's subsidiaries' outstanding short-term borrowing from external sources was \$40 million. To the extent that the domestic utility companies and System Energy wish to rely on SEC financing orders under PUHCA 1935, there are capitalization and investment grade ratings conditions that must be satisfied in connection with security issuances, other than money pool borrowings. There is further discussion of commitments for long-term financing arrangements in Note 5 to the consolidated financial statements.

**NOTE 5. LONG - TERM DEBT**

Long-term debt as of December 31, 2005 and 2004 consisted of:

	<b>2005</b>	<b>2004</b>
	(In Thousands)	
<b>Mortgage Bonds:</b>		
6.125% Series due July 2005 - Entergy Arkansas	\$-	\$100,000
8.125% Series due July 2005 - Entergy New Orleans(g)	-	30,000
6.77% Series due August 2005 - Entergy Gulf States	-	98,000
4.875% Series due October 2007 - System Energy	70,000	70,000
4.35% Series due April 2008 - Entergy Mississippi	100,000	100,000
3.6% Series due June 2008 - Entergy Gulf States	325,000	325,000
3.875% Series due August 2008 - Entergy New Orleans (g)	-	30,000
Libor + 0.75% Series due December 2008 - Entergy Gulf States	350,000	-
Libor + 0.40% Series due December 2009 - Entergy Gulf States	225,000	225,000
4.5% Series due June 2010 - Entergy Arkansas	100,000	-
4.67% Series due June 2010 - Entergy Louisiana	55,000	-
5.12% Series due August 2010 - Entergy Gulf States	100,000	-
5.83% Series due November 2010 - Entergy Louisiana	150,000	-
4.65% Series due May 2011 - Entergy Mississippi	80,000	80,000
4.875% Series due November 2011 - Entergy Gulf States	200,000	200,000
6.0% Series due December 2012 - Entergy Gulf States	140,000	140,000
5.15% Series due February 2013 - Entergy Mississippi	100,000	100,000
5.25% Series due August 2013 - Entergy New Orleans (g)	-	70,000
5.09% Series due November 2014 - Entergy Louisiana	115,000	115,000
5.6% Series due December 2014 - Entergy Gulf States	50,000	50,000
5.25% Series due August 2015 - Entergy Gulf States	200,000	200,000
5.70% Series due June 2015 - Entergy Gulf States	200,000	-
5.56% Series due September 2015 - Entergy Louisiana	100,000	-
6.75% Series due October 2017 - Entergy New Orleans (g)	-	25,000
5.4% Series due May 2018 - Entergy Arkansas	150,000	150,000
4.95% Series due June 2018 - Entergy Mississippi	95,000	95,000
5.0% Series due July 2018 - Entergy Arkansas	115,000	115,000
5.5% Series due April 2019 - Entergy Louisiana	100,000	100,000
7.0% Series due October 2023 - Entergy Arkansas	-	175,000
5.6% Series due September 2024 - Entergy New Orleans (g)	-	35,000
5.66% Series due February 2025 - Entergy Arkansas	175,000	-
5.65% Series due September 2029 - Entergy New Orleans (g)	-	40,000
6.7% Series due April 2032 - Entergy Arkansas	100,000	100,000
7.6% Series due April 2032 - Entergy Louisiana	150,000	150,000
6.0% Series due November 2032 - Entergy Arkansas	100,000	100,000
6.0% Series due November 2032 - Entergy Mississippi	75,000	75,000
7.25% Series due December 2032 - Entergy Mississippi	100,000	100,000
5.9% Series due June 2033 - Entergy Arkansas	100,000	100,000
6.20% Series due July 2033 - Entergy Gulf States	240,000	240,000
6.25% Series due April 2034 - Entergy Mississippi	100,000	100,000
6.4% Series due October 2034 - Entergy Louisiana	70,000	70,000
6.38% Series due November 2034 - Entergy Arkansas	60,000	60,000
6.18% Series due March 2035 - Entergy Gulf States	85,000	-
6.30% Series due September 2035 - Entergy Louisiana	100,000	-
Total mortgage bonds	<u>\$4,575,000</u>	<u>\$3,763,000</u>



	<u>2005</u>	<u>2004</u>
	(In Thousands)	
<b>Governmental Bonds (a):</b>		
5.45% Series due 2010, Calcasieu Parish - Louisiana	\$22,095	\$22,095
6.75% Series due 2012, Calcasieu Parish - Louisiana	48,285	48,285
6.7% Series due 2013, Pointe Coupee Parish - Louisiana	17,450	17,450
5.7% Series due 2014, Iberville Parish - Louisiana	21,600	21,600
7.7% Series due 2014, West Feliciana Parish - Louisiana	-	94,000
5.8% Series due 2015, West Feliciana Parish - Louisiana	28,400	28,400
7.0% Series due 2015, West Feliciana Parish - Louisiana	39,000	39,000
7.5% Series due 2015, West Feliciana Parish - Louisiana	-	41,600
9.0% Series due 2015, West Feliciana Parish - Louisiana	-	45,000
5.8% Series due 2016, West Feliciana Parish - Louisiana	20,000	20,000
6.3% Series due 2016, Pope County - Arkansas (f)	19,500	19,500
5.6% Series due 2017, Jefferson County - Arkansas	45,500	45,500
6.3% Series due 2018, Jefferson County - Arkansas (f)	9,200	9,200
6.3% Series due 2020, Pope County - Arkansas	120,000	120,000
6.25% Series due 2021, Independence County - Arkansas	-	45,000
7.5% Series due 2021, St. Charles Parish - Louisiana	-	50,000
5.0% Series due 2021, Independence County - Arkansas	45,000	-
5.875% Series due 2022, Mississippi Business Finance Corp.	216,000	216,000
5.9% Series due 2022, Mississippi Business Finance Corp.	102,975	102,975
7.0% Series due 2022, St. Charles Parish - Louisiana	-	24,000
7.05% Series due 2022, St. Charles Parish - Louisiana	-	20,000
Auction Rate due 2022, Independence County - Mississippi (f)	30,000	30,000
4.6% Series due 2022, Mississippi Business Finance Corp. (f)	16,030	16,030
5.95% Series due 2023, St. Charles Parish - Louisiana (f)	25,000	25,000
6.2% Series due 2023, St. Charles Parish - Louisiana	-	33,000
6.875% Series due 2024, St. Charles Parish - Louisiana	-	20,400
6.375% Series due 2025, St. Charles Parish - Louisiana	-	16,770
6.2% Series due 2026, Claiborne County - Mississippi	90,000	90,000
5.05% Series due 2028, Pope County - Arkansas (b)	-	47,000
6.6% Series due 2028, West Feliciana Parish - Louisiana	40,000	40,000
Auction Rate due 2030, St. Charles Parish - Louisiana (f)	60,000	60,000
4.9% Series due 2030, St. Charles Parish - Louisiana (e)	-	55,000
<b>Total governmental bonds</b>	<u>1,016,035</u>	<u>1,462,805</u>
<b>Other Long-Term Debt:</b>		
Note Payable to NYPA, non-interest bearing, 4.8% implicit rate	\$373,186	\$445,605
5 year Bank Credit Facility (Entergy Corporation and Subsidiaries, Note 4)	785,000	-
3 year Bank Credit Facility (Entergy Corporation and Subsidiaries, Note 4)	-	50,000
Bank term loan, Entergy Corporation, avg rate 2.98%, due 2010	60,000	60,000
Bank term loan, Entergy Corporation, avg rate 3.08%, due 2008	35,000	35,000
6.17% Notes due March 2008, Entergy Corporation	72,000	72,000
6.23% Notes due March 2008, Entergy Corporation	15,000	15,000
6.13% Notes due September 2008, Entergy Corporation	150,000	150,000

	2005	2004
	(In Thousands)	
<b>Other Long-Term Debt (continued):</b>		
7.75% Notes due December 2009, Entergy Corporation	267,000	267,000
6.58% Notes due May 2010, Entergy Corporation	75,000	75,000
6.9% Notes due November 2010, Entergy Corporation	140,000	140,000
7.625% Notes initially due February 2011, Entergy Corporation (h)	500,000	-
7.06% Notes due March 2011, Entergy Corporation	86,000	86,000
Long-term DOE Obligation (c)	161,048	156,332
Waterford 3 Lease Obligation		
7.45% (Entergy Corporation and Subsidiaries, Note 9)	247,725	247,725
Grand Gulf Lease Obligation		
5.02% (Entergy Corporation and Subsidiaries, Note 9)	364,806	397,119
Unamortized Premium and Discount - Net	(6,886)	(10,277)
8.75% Junior Subordinated Deferrable Interest Debentures		
Due 2046 - Entergy Gulf States	-	87,629
Other	12,096	9,457
<b>Total Long-Term Debt</b>	<b>8,928,010</b>	<b>7,509,395</b>
Less Amount Due Within One Year	103,517	492,564
<b>Long-Term Debt Excluding Amount Due Within One Year</b>	<b>\$8,824,493</b>	<b>\$7,016,831</b>

Fair Value of Long-Term Debt (d)	\$8,009,388	\$6,614,211
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- (a) Consists of pollution control revenue bonds and environmental revenue bonds.
- (b) The bonds had a mandatory tender date of September 1, 2005. Entergy Arkansas purchased the bonds from the holders, pursuant to the mandatory tender provision, and has not remarketed the bonds at this time.
- (c) Pursuant to the Nuclear Waste Policy Act of 1982, Entergy's nuclear owner/licensee subsidiaries have contracts with the DOE for spent nuclear fuel disposal service. The contracts include a one-time fee for generation prior to April 7, 1983. Entergy Arkansas is the only Entergy company that generated electric power with nuclear fuel prior to that date and includes the one-time fee, plus accrued interest, in long-term debt.
- (d) The fair value excludes lease obligations and long-term DOE obligations, and includes debt due within one year. It is determined using bid prices reported by dealer markets and by nationally recognized investment banking firms.
- (e) The bonds had a mandatory tender date of June 1, 2005. Entergy Louisiana purchased the bonds from the holders, pursuant to the mandatory tender provision, and has not remarketed the bonds at this time.
- (f) The bonds are secured by a series of collateral first mortgage bonds.
- (g) Because of the Entergy New Orleans bankruptcy filing, Entergy deconsolidated Entergy New Orleans and reports its financial position and results under the equity method of accounting retroactive to January 1, 2005.
- (h) In December 2005, Entergy Corporation sold 10 million equity units with a stated amount of \$50 each. An equity unit consists of (1) a note, initially due February 2011 and initially bearing interest at an annual rate of 5.75%, and (2) a purchase contract that obligates the holder of the equity unit to purchase for \$50 between 0.5705 and 0.7074 shares of Entergy Corporation common stock on or before February 17, 2009. Entergy will pay the holders quarterly contract adjustment payments of 1.875% per year on the stated amount of \$50 per equity unit. Under the terms of the purchase contracts, Entergy Corporation will issue between 5,705,000 and 7,074,000 shares of common stock in the settlement of the purchase contracts (subject to adjustment under certain circumstances).

The annual long-term debt maturities (excluding lease obligations) for debt outstanding as of December 31, 2005, for the next five years are as follows:

	<u>Amount</u> (In Thousands)
2006	\$80,528
2007	\$149,539
2008	\$1,066,625
2009	\$512,584
2010	\$923,667

In November 2000, Entergy's Non-Utility Nuclear business purchased the FitzPatrick and Indian Point 3 power plants in a seller-financed transaction. Entergy issued notes to NYPA with seven annual installments of approximately \$108 million commencing one year from the date of the closing, and eight annual installments of \$20 million commencing eight years from the date of the closing. These notes do not have a stated interest rate, but have an implicit interest rate of 4.8%. In accordance with the purchase agreement with NYPA, the purchase of Indian Point 2 in 2001 resulted in Entergy's Non-Utility Nuclear business becoming liable to NYPA for an additional \$10 million per year for 10 years, beginning in September 2003. This liability was recorded upon the purchase of Indian Point 2 in September 2001, and is included in the note payable to NYPA balance above. In July 2003, a payment of \$102 million was made prior to maturity on the note payable to NYPA. Under a provision in a letter of credit supporting these notes, if certain of the domestic utility companies or System Energy were to default on other indebtedness, Entergy could be required to post collateral to support the letter of credit.

Non-Utility Nuclear's purchase of the Fitzpatrick and Indian Point 3 plants from NYPA included value sharing agreements with NYPA. Under the value sharing agreements, to the extent that the average annual price of the energy sales from each of the two plants exceeds specified strike prices, the Non-Utility Nuclear business will pay 50% of the amount exceeding the strike prices to NYPA. These payments, if required, will be recorded as adjustments to the purchase price of the plants. The annual energy sales subject to the value sharing agreements are limited to the lesser of actual generation or generation assuming an 85% capacity factor based on the plants' capacities at the time of the purchase. The value sharing agreements are effective through 2014. The strike prices for Fitzpatrick range from \$37.51/MWh in 2005 increasing by approximately 3.5% each year to \$51.30/MWh in 2014, and the strike prices for Indian Point 3 range from \$42.26/MWh in 2005 increasing by approximately 3.5% each year to \$57.77/MWh in 2014.

Covenants in the Entergy Corporation notes require it to maintain a consolidated debt ratio of 65% or less of its total capitalization. If Entergy's debt ratio exceeds this limit, or if Entergy or certain of the domestic utility companies default on other indebtedness or are in bankruptcy or insolvency proceedings, an acceleration of the notes' maturity dates may occur.

The long-term securities issuances of Entergy Mississippi and System Energy are limited to amounts authorized by the SEC under PUHCA 1935. After the repeal of PUHCA 1935 on February 8, 2006, the FERC, under the Federal Power Act, has jurisdiction over the securities issuances of these companies. Under a savings provision in the PUHCA 1935 repeal legislation, these companies can rely on the authority of their existing SEC orders until each obtains new orders from the FERC. The SEC PUHCA 1935 financing order of Entergy Mississippi limits securities issuances unless certain capitalization and investment grade ratings conditions are met. Entergy Gulf States and Entergy Louisiana, LLC have received FERC long-term financing orders that do not have such conditions. The long-term securities issuances of Entergy Arkansas are limited to amounts authorized by the APSC.

Capital Funds Agreement

Pursuant to an agreement with certain creditors, Entergy Corporation has agreed to supply System Energy with sufficient capital to:

- maintain System Energy's equity capital at a minimum of 35% of its total capitalization (excluding short-term debt);
- permit the continued commercial operation of Grand Gulf;
- pay in full all System Energy indebtedness for borrowed money when due; and
- enable System Energy to make payments on specific System Energy debt, under supplements to the agreement assigning System Energy's rights in the agreement as security for the specific debt.

**NOTE 6. PREFERRED STOCK**

The number of shares authorized and outstanding and dollar value of preferred stock and minority interest for Entergy Corporation subsidiaries as of December 31, 2005 and 2004 are presented below. Only the Entergy Gulf States series "with sinking fund" contain mandatory redemption requirements. All other series of the U.S. Utility are redeemable at Entergy's option.

	<b>Shares Authorized</b>		<b>Shares Outstanding</b>			
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(Dollars in Thousands)</b>					
<b><u>Entergy Corporation</u></b>						
<b>U.S. Utility:</b>						
<b>Preferred Stock without sinking fund:</b>						
Entergy Arkansas, 4.32%-7.88% Series	1,613,500	1,613,500	1,613,500	1,613,500	\$116,350	\$116,350
Entergy Gulf States, 4.20%-7.56% Series	473,268	473,268	473,268	473,268	47,327	47,327
Entergy Louisiana Holdings, 4.16%-8.00% Series	2,115,000	2,115,000	2,115,000	2,115,000	100,500	100,500
Entergy Louisiana, LLC 6.95% Series	1,000,000	-	1,000,000	-	100,000	-
Entergy Mississippi, 4.36%-6.25% Series	1,403,807	503,807	1,403,807	503,807	50,381	50,381
Entergy New Orleans, 4.36%-5.56% Series (a)	-	197,798	-	197,798	-	19,780
<b>Total U. S. Utility Preferred Stock without sinking fund</b>	<b>6,605,575</b>	<b>4,903,373</b>	<b>6,605,575</b>	<b>4,903,373</b>	<b>414,558</b>	<b>334,338</b>
<b>Energy Commodity Services:</b>						
<b>Preferred Stock without sinking fund:</b>						
Entergy Asset Management, 11.50% rate	1,000,000	1,000,000	297,376	297,376	29,738	29,738
Other	-	-	-	-	1,678	1,280
<b>Total Preferred Stock without sinking fund</b>	<b>7,605,575</b>	<b>5,903,373</b>	<b>6,902,951</b>	<b>5,200,749</b>	<b>\$445,974</b>	<b>\$365,356</b>
<b>U.S. Utility:</b>						
<b>Preferred Stock with sinking fund:</b>						
Entergy Gulf States, Adjustable Rate 7.0% (b)	139,500	174,000	139,500	174,000	\$13,950	\$17,400
<b>Total Preferred Stock with sinking fund</b>	<b>139,500</b>	<b>174,000</b>	<b>139,500</b>	<b>174,000</b>	<b>\$13,950</b>	<b>\$17,400</b>
<b>Fair Value of Preferred Stock with sinking fund (c)</b>					<b>\$13,950</b>	<b>\$15,286</b>

- (a) Because of the Entergy New Orleans bankruptcy filing, Entergy deconsolidated Entergy New Orleans and reports its financial position and results under the equity method of accounting retroactive to January 1, 2005.
- (b) Represents weighted-average annualized rate for 2005 and 2004.
- (c) Fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. There is additional disclosure of fair value of financial instruments in Note 14 to the consolidated financial statements.

All outstanding preferred stock is cumulative.

Entergy Gulf States' preferred stock with sinking fund retirements were 34,500 shares in 2005, 2004, and 2003. Entergy Gulf States has annual sinking fund requirements of \$3.45 million through 2008 for its preferred stock outstanding.

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 December 31, 2005. The dividends are cumulative and 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.

In December 2005, Entergy Louisiana, LLC issued 1,000,000 shares of \$100 par value 6.95% Series Preferred Stock, all of which are outstanding as of December 31, 2005. The dividends are cumulative and payable quarterly beginning March 15, 2006. The preferred stock is redeemable on or after December 31, 2010, at Entergy Louisiana's option, at the call price of \$100 per share. The proceeds from the issuance will be used to repay short-term borrowings.

In 2004, Entergy realized a pre-tax gain of \$0.9 million upon the sale to a third party of preferred shares, and less than 1% of the common shares, of Entergy Asset Management, an Entergy subsidiary. See Note 3 to the consolidated financial statements for a discussion of the tax benefit realized on the sale. Entergy Asset Management's stockholders' agreement provides that at any time during the 180-day period prior to December 31, 2007 or each subsequent December 31 thereafter, either Entergy Asset Management or the preferred shareholders may request that the preferred dividend rate be reset. If Entergy Asset Management and the preferred shareholders are unable to agree on a dividend reset rate, a preferred shareholder can request that its shares be sold to a third party. If Entergy Asset Management is unable to sell the preferred shares within 75 days, the preferred shareholder has the right to take control of the Entergy Asset Management board of directors for the purpose of liquidating the assets of Entergy Asset Management in order to repay the preferred shares and any accrued dividends.

**NOTE 7. COMMON EQUITY**

**Common Stock**

**Treasury Stock**

Treasury stock activity for Entergy for 2005 and 2004 is as follows:

	<b>2005</b>		<b>2004</b>	
	<b>Treasury Shares</b>	<b>Cost</b>	<b>Treasury Shares</b>	<b>Cost</b>
		(In Thousands)		(In Thousands)
Beginning Balance, January 1	31,345,028	\$1,432,019	19,276,445	\$561,152
Repurchases	12,280,500	878,188	16,631,800	1,017,996
Issuances:				
Employee Stock-Based Compensation Plans	(2,965,006)	(147,888)	(4,555,897)	(146,877)
Directors' Plan	(15,920)	(359)	(7,320)	(252)
Ending Balance, December 31	<u>40,644,602</u>	<u>\$2,161,960</u>	<u>31,345,028</u>	<u>\$1,432,019</u>

Entergy Corporation reissues treasury shares to meet the requirements of the Stock Plan for Outside Directors (Directors' Plan), the Equity Ownership Plan of Entergy Corporation and Subsidiaries (Equity Ownership Plan), the Equity Awards Plan of Entergy Corporation and Subsidiaries, and certain other stock benefit plans. The Directors' Plan awards to non-employee directors a portion of their compensation in the form of a fixed number of shares of Entergy Corporation common stock.

**Equity Compensation Plan Information**

Entergy grants stock options, equity awards, and incentive awards to key employees of the Entergy subsidiaries under the Equity Ownership Plan which is a shareholder-approved stock-based compensation plan.

**Stock Options**

Stock options are granted at exercise prices not less than market value on the date of grant. The majority of options granted in 2005, 2004, and 2003 will become exercisable in equal amounts on each of the first three anniversaries of the date of grant. Unless they are forfeited previously under the terms of the grant, options expire ten years after the date of the grant if they are not exercised. Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects, for 2005 is \$7.8 million. There was no effect on net income in 2004 or 2003.

Entergy determines the fair value of the stock option grants made in 2005, 2004, and 2003 by considering factors such as lack of marketability, stock retention requirements, and regulatory restrictions on exercisability. The fair value valuations comply with SFAS 123R, "Share-Based Payment," which was issued in December 2004 and is effective in the first quarter 2006. The stock option weighted-average assumptions used in determining the fair values were as follows:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Stock price volatility	18.8%	23.1%	26.3%
Expected term in years	3	6.3	6.2
Risk-free interest rate	3.6%	3.2%	3.3%
Dividend yield	3.1%	3.3%	3.3%
Dividend payment	\$2.16	\$1.80	\$1.40

Stock option transactions are summarized as follows:

	2005		2004		2003	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Beginning-of-year balance	12,310,077	\$41.88	15,429,383	\$38.64	19,943,114	\$35.85
Options granted	1,835,218	\$69.37	1,898,098	\$58.63	2,936,236	\$44.98
Options exercised	(3,135,396)	\$40.11	(4,541,053)	\$38.07	(6,927,000)	\$33.12
Options forfeited/expired	(154,440)	\$59.16	(476,351)	\$39.94	(522,967)	\$40.98
End-of-year balance	<u>10,855,459</u>	\$46.80	<u>12,310,077</u>	\$41.88	<u>15,429,383</u>	\$38.64
Options exercisable at year-end	7,397,622	\$40.21	7,162,884	\$37.25	6,153,043	\$34.82
Weighted-average fair value of options at time of grant	\$8.17		\$7.76		\$6.86	

The following table summarizes information about stock options outstanding as of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	As of 12/31/2005	Weighted-Avg. Remaining Contractual Life-Yrs.	Weighted- Avg. Exercise Price	Number Exercisable at 12/31/2005	Weighted- Avg. Exercise Price
\$23 - \$33.99	1,274,410	4.1	\$25.98	1,274,410	\$25.98
\$34 - \$44.99	5,940,768	6.1	\$41.12	5,260,842	\$40.69
\$45 - \$55.99	211,394	4.6	\$49.39	207,360	\$49.43
\$56 - \$66.99	1,688,091	8.1	\$58.63	532,714	\$58.69
\$67 - \$78.99	<u>1,740,796</u>	8.9	\$69.64	<u>122,296</u>	\$71.92
\$23 - \$78.99	<u>10,855,459</u>	6.6	\$46.80	<u>7,397,622</u>	\$40.21

#### Equity Awards and Incentive Awards

Entergy grants most of the equity awards and incentive awards earned under its stock benefit plans in the form of performance units, which are equal to the cash value of shares of Entergy Corporation common stock at the time of payment. In addition to the potential for equivalent share appreciation or depreciation, performance units will earn the cash equivalent of the dividends paid during the performance period applicable to each plan. The costs of equity and incentive awards, given either as company stock or performance units, are charged to income over the period of the grant or restricted period, as appropriate. In 2005, 2004, and 2003, \$36 million, \$47 million, and \$45 million, respectively, was charged to compensation expense.

### **Retained Earnings and Dividend Restrictions**

Provisions within the articles of incorporation or pertinent indentures and various other agreements relating to the long-term debt and preferred stock of certain of Entergy Corporation's subsidiaries restrict the payment of cash dividends or other distributions on their common and preferred stock. As of December 31, 2005, Entergy Arkansas and Entergy Mississippi had restricted retained earnings unavailable for distribution to Entergy Corporation of \$396.4 million and \$68.5 million, respectively. Entergy Corporation received dividend payments from subsidiaries totaling \$424 million in 2005, \$825 million in 2004, and \$425 million in 2003.

### **NOTE 8. COMMITMENTS AND CONTINGENCIES**

Entergy is involved in a number of legal, tax, and regulatory proceedings before various courts, regulatory commissions, and governmental agencies in the ordinary course of its business. While management is unable to predict the outcome of such proceedings, management does not believe that the ultimate resolution of these matters will have a material adverse effect on Entergy's results of operations, cash flows, or financial condition.

#### **Entergy New Orleans Bankruptcy**

See Note 16 to the consolidated financial statements for information on the Entergy New Orleans bankruptcy proceeding.

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

Entergy Louisiana has an agreement extending through the year 2031 to purchase energy generated by a hydroelectric facility known as the Vidalia project. Entergy Louisiana made payments under the contract of approximately \$115.1 million in 2005, \$147.7 million in 2004, and \$112.6 million in 2003. If the maximum percentage (94%) of the energy is made available to Entergy Louisiana, current production projections would require estimated payments of approximately \$130.4 million in 2006, and a total of \$3.4 billion for the years 2006 through 2031. Entergy Louisiana currently recovers the costs of the purchased energy through its fuel adjustment clause. In an LPSC-approved settlement related to tax benefits from the tax treatment of the Vidalia contract, Entergy Louisiana agreed to credit rates by \$11 million each year for up to ten years, beginning in October 2002. The provisions of the settlement also provide that the LPSC shall not recognize or use Entergy Louisiana's use of the cash benefits from the tax treatment in setting any of Entergy Louisiana's rates. Therefore, to the extent Entergy Louisiana's use of the proceeds would ordinarily have reduced its rate base, no change in rate base shall be reflected for ratemaking purposes.

#### **Nuclear Insurance**

##### **Third Party Liability Insurance**

The Price-Anderson Act provides insurance for the public in the event of a nuclear power plant accident. The costs of this insurance are borne by the nuclear power industry. Originally passed by Congress in 1957 and most recently amended in 2005, the Price-Anderson Act requires nuclear power plants to show evidence of financial protection in the event of a nuclear accident. This protection must consist of two levels:

1. The primary level is private insurance underwritten by American Nuclear Insurers and provides liability insurance coverage of \$300 million. If this amount is not sufficient to cover claims arising from the accident, the second level, Secondary Financial Protection, applies. An industry-wide aggregate limitation of \$300 million exists for domestically-sponsored terrorist acts. There is no aggregate limitation for foreign-sponsored terrorist acts.



2. Within the Secondary Financial Protection level, each nuclear plant must pay a retrospective premium, equal to its proportionate share of the loss in excess of the primary level, up to a maximum of \$100.6 million per reactor per incident. This consists of a \$95.8 million maximum retrospective premium plus a five percent surcharge that may be applied, if needed, at a rate that is presently set at \$15 million per year per nuclear power reactor. There are no domestically- or foreign-sponsored terrorism limitations.

Currently, 104 nuclear reactors are participating in the Secondary Financial Protection program - 103 operating reactors and one under construction. The product of the maximum retrospective premium assessment to the nuclear power industry and the number of nuclear power reactors provides over \$10 billion in insurance coverage to compensate the public in the event of a nuclear power reactor accident.

Entergy owns and operates ten of the nuclear power reactors, and owns the shutdown Indian Point 1 reactor (10% of Grand Gulf is owned by a non-affiliated company which would share on a pro-rata basis in any retrospective premium assessment under the Price-Anderson Act).

An additional but temporary contingent liability exists for all nuclear power reactor owners because of a previous Nuclear Worker Tort (long-term bodily injury caused by exposure to nuclear radiation while employed at a nuclear power plant) insurance program that was in place from 1988 to 1998. The maximum premium assessment exposure to each reactor is \$3 million and will only be applied if such claims exceed the program's accumulated reserve funds. This contingent premium assessment feature will expire with the Nuclear Worker Tort program's expiration, which is scheduled for 2008.

### Property Insurance

Entergy's nuclear owner/licensee subsidiaries are members of certain mutual insurance companies that provide property damage coverage, including decontamination and premature decommissioning expense, to the members' nuclear generating plants. These programs are underwritten by Nuclear Electric Insurance Limited (NEIL). As of December 31, 2005, Entergy was insured against such losses per the following structures:

#### U.S. Utility Plants (ANO 1 and 2, Grand Gulf, River Bend, and Waterford 3)

- Primary Layer (per plant) - \$500 million per occurrence
- Excess Layer (per plant) - \$100 million per occurrence
- Blanket Layer (shared among the U.S. Utility plants) - \$1.0 billion per occurrence
- Total limit - \$1.6 billion per occurrence
- Deductibles:
  - \$5.0 million per occurrence - Turbine/generator damage
  - \$5.0 million per occurrence - Other than turbine/generator damage

Note: ANO 1 and 2 share in the Primary Layer with one policy in common.

#### Non-Utility Nuclear Plants (Indian Point 2 and 3, FitzPatrick, Pilgrim, and Vermont Yankee)

- Primary Layer (per plant) - \$500 million per occurrence
- Blanket Layer (shared among all plants) - \$615 million per occurrence
- Total limit - \$1.115 billion per occurrence
- Deductibles:
  - \$2.5 million per occurrence - Turbine/generator damage
  - \$2.5 million per occurrence - Other than turbine/generator damage

Note: Indian Point 2 and 3 share in the Primary Layer with one policy in common.

In addition, the Non-Utility Nuclear plants are also covered under NEIL's Accidental Outage Coverage program. This coverage provides certain fixed indemnities in the event of an unplanned outage that results from a

covered NEIL property damage loss, subject to a deductible. The following summarizes this coverage as of December 31, 2005:

Indian Point 2 and 3

- \$4.5 million weekly indemnity
- \$490 million maximum indemnity
- Deductible: 12 week waiting period

FitzPatrick and Pilgrim (each plant has an individual policy with the noted parameters)

- \$4.0 million weekly indemnity
- \$490 million maximum indemnity
- Deductible: 12 week waiting period

Vermont Yankee

- \$4.0 million weekly indemnity
- \$435 million maximum indemnity
- Deductible: 12 week waiting period

Entergy's U.S. Utility nuclear plants have significantly less or no accidental outage coverage. Under the property damage and accidental outage insurance programs, Entergy nuclear plants could be subject to assessments should losses exceed the accumulated funds available from NEIL. As of December 31, 2005, the maximum amounts of such possible assessments per occurrence were \$52.5 million for the U.S. Utility plants and \$66.7 million for the Non-Utility Nuclear plants.

Entergy maintains property insurance for its nuclear units in excess of the NRC's minimum requirement of \$1.06 billion per site for nuclear power plant licensees. NRC regulations provide that the proceeds of this insurance must be used, first, to render the reactor safe and stable, and second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors.

In the event that one or more acts of domestically-sponsored terrorism causes property damage under one or more or all nuclear insurance policies issued by NEIL (including, but not limited to, those described above) within 12 months from the date the first property damage occurs, the maximum recovery under all such nuclear insurance policies shall be an aggregate of \$3.24 billion plus the additional amounts recovered for such losses from reinsurance, indemnity, and any other sources applicable to such losses. There is no aggregate limit involving one or more acts of foreign-sponsored terrorism.

**Non-Nuclear Property Insurance**

Entergy's non-nuclear property insurance program provides coverage up to \$400 million on an Entergy system-wide basis, subject to a \$20 million per occurrence self-insured retention, for all risks coverage for direct physical loss or damage, including boiler and machinery breakdown. Covered property generally includes power plants, substations, facilities, inventories, and gas distribution-related properties. Excluded property generally includes above-ground transmission and distribution lines, poles, and towers. The primary property program (excess of the deductible) is placed through Oil Insurance Limited (\$250 million layer) with the excess program (\$150 million layer) placed on a quota share basis through underwriters at Lloyds (50%) and Hartford Steam Boiler Inspection and Insurance Company (50%). There is an aggregation limit of \$1 billion for all parties insured by OIL for any one occurrence. Coverage is in place for Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy Gulf States, and Entergy New Orleans.

In addition to the OIL program, Entergy has purchased additional coverage for some of its non-regulated, non-generation assets through Zurich American. This policy serves to buy-down the \$20 million deductible and is