

placed on a scheduled location basis. The applicable deductibles are \$100,000 or \$250,000 as per the schedule provided to underwriters.

### **Nuclear Decommissioning and Other Retirement Costs**

SFAS 143, "Accounting for Asset Retirement Obligations," which was implemented effective January 1, 2003, requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. For Entergy, these asset retirement obligations consist of its liability for decommissioning its nuclear power plants.

These liabilities are recorded at their fair values (which are the present values of the estimated future cash outflows) in the period in which they are incurred, with an accompanying addition to the recorded cost of the long-lived asset. The asset retirement obligation is accreted each year through a charge to expense, to reflect the time value of money for this present value obligation. The amounts added to the carrying amounts of the long-lived assets will be depreciated over the useful lives of the assets.

In accordance with ratemaking treatment and as required by SFAS 71, the depreciation provisions for the domestic utility companies and System Energy include a component for removal costs that are not asset retirement obligations under SFAS 143. In accordance with regulatory accounting principles, Entergy has recorded a regulatory asset for certain of its domestic utility companies and System Energy of \$162.9 million as of December 31, 2005 and \$86.9 million as of December 31, 2004 to reflect an estimate of incurred but uncollected removal costs previously recorded as a component of accumulated depreciation. The decommissioning and retirement cost liability for certain of the domestic utility companies and System Energy includes a regulatory liability of \$22.8 million as of December 31, 2005 and \$34.6 million as of December 31, 2004 representing an estimate of collected but not yet incurred removal costs.

The cumulative decommissioning and retirement cost liabilities and expenses recorded in 2005 by Entergy were as follows:

	<b><u>Liabilities as of December 31, 2004</u></b>	<b><u>Accretion</u></b>	<b><u>Implementation of FIN 47</u></b>	<b><u>Change in Cash Flow Estimate</u></b>	<b><u>Spending</u></b>	<b><u>Liabilities as of December 31, 2005</u></b>
	(In Millions)					
U.S. Utility	\$1,328.0	\$88.2	\$27.8	(\$282.2)	-	\$1,161.8
Non-Utility						
Nuclear	\$738.3	\$59.2	\$0.9	(\$26.0)	(\$10.3)	\$762.1

In addition, an insignificant amount of removal costs associated with non-nuclear power plants are also included in the decommissioning line item on the balance sheet. Entergy periodically reviews and updates estimated decommissioning costs. The actual decommissioning costs may vary from the estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment. During 2004 and 2005, Entergy updated decommissioning cost studies for ANO 1 and 2, River Bend, Grand Gulf, Waterford, and a non-utility plant.

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 \$166.4 million reduction in decommissioning liability, along with a \$31.3 million reduction in utility plant, a \$49.6 million reduction in non-utility property, 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 other 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 decommissioning liability to reflect changes in assumptions regarding the timing of when 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), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost recorded at the time of adoption of SFAS 143.

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.

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 primarily 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 in regulatory assets, with no resulting effect on Entergy's net income. Entergy recorded these regulatory assets because existing rate mechanisms in each jurisdiction allow 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 was 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 portions of Entergy Gulf States not subject to cost-based

ratemaking decreased earnings by \$0.9 million net-of-tax. If Entergy had applied FIN 47 during prior periods, the following impacts would have resulted:

	December 31, 2004	December 31, 2003
Asset retirement obligations actually recorded	\$2,066,277	\$2,215,490
Pro forma effect of FIN 47	\$29,399	\$27,708
Asset retirement obligations - pro forma	\$2,095,676	\$2,243,198

The impact on net income for each of the years ended December 31, 2004 and 2003 would have been immaterial.

For the Indian Point 3 and FitzPatrick plants purchased in 2000, NYPA retained the decommissioning trusts and the decommissioning liability. NYPA and Entergy executed decommissioning agreements, which specify their decommissioning obligations. NYPA has the right to require Entergy to assume the decommissioning liability provided that it assigns the corresponding decommissioning trust, up to a specified level, to Entergy. If the decommissioning liability is retained by NYPA, Entergy will perform the decommissioning of the plants at a price equal to the lesser of a pre-specified level or the amount in the decommissioning trusts. Entergy believes that the amounts available to it under either scenario are sufficient to cover the future decommissioning costs without any additional contributions to the trusts.

Entergy maintains decommissioning trust funds that are committed to meeting the costs of decommissioning the nuclear power plants. The fair values of the decommissioning trust funds and asset retirement obligation-related regulatory assets of Entergy as of December 31, 2005 are as follows:

	Decommissioning Trust	Regulatory Asset
	(In Millions)	
U.S. Utility	\$1,136.0	\$271.7
Non-Utility Nuclear	\$1,470.8	-

The Energy Policy Act of 1992 contains a provision that assesses domestic nuclear utilities with fees for the decontamination and decommissioning (D&D) of the DOE's past uranium enrichment operations. Annual assessments in 2005 were \$4.5 million for Entergy Arkansas, \$1.1 million for Entergy Gulf States, \$1.7 million for Entergy Louisiana, and \$1.9 million for System Energy. The Energy Policy Act calls for cessation of annual D&D assessments not later than October 24, 2007. At December 31, 2005, one year of assessments was remaining. D&D fees are included in other current liabilities and other non-current liabilities and, as of December 31, 2005, recorded liabilities were \$4.5 million for Entergy Arkansas, \$1.1 million for Entergy Gulf States, \$1.7 million for Entergy Louisiana, and \$1.7 million for System Energy. Regulatory assets in the financial statements offset these liabilities, with the exception of Entergy Gulf States' 30% non-regulated portion. These assessments are recovered through rates in the same manner as fuel costs.

### **CashPoint Bankruptcy**

In 2003 the domestic utility companies entered an agreement with CashPoint Network Services (CashPoint) under which CashPoint was to manage a network of payment agents through which Entergy's utility customers could pay their bills. The payment agent system allows customers to pay their bills at various commercial or governmental locations, rather than sending payments by mail. Approximately one-third of Entergy's utility customers use payment agents.

On April 19, 2004, CashPoint failed to pay funds due to the domestic utility companies that had been collected through payment agents. The domestic utility companies then obtained a temporary restraining order from the Civil District Court for the Parish of Orleans, State of Louisiana, enjoining CashPoint from distributing funds belonging to Entergy, except by paying those funds to Entergy. On April 22, 2004, a petition for involuntary Chapter 7 bankruptcy was filed against CashPoint by other creditors in the United States Bankruptcy Court for the Southern District of New York. In response to these events, the domestic utility companies expanded an existing contract with another company to manage all of their payment agents. The domestic utility companies filed proofs of claim in the CashPoint bankruptcy proceeding in September 2004. Although Entergy cannot precisely determine at this time the amount that CashPoint owes to the domestic utility companies that may not be repaid, it has accrued an estimate of loss based on current information. If no cash is repaid to the domestic utility companies, an event Entergy does not believe is likely, the current estimate of maximum exposure to loss is approximately \$25 million.

### **Harrison County Plant Fire**

On May 13, 2005, an explosion and fire damaged the non-nuclear wholesale assets business' Harrison County power plant. A catastrophic failure and subsequent natural gas escape from a nearby 36-inch interstate pipeline owned and operated by a third party is believed to have caused the damage. Current estimates are that the cost to clean-up the site and reconstruct the damaged portions of the plant will be approximately \$52 million and take until the second quarter 2006 to be completed. The plant's property insurer has acknowledged coverage, subject to a \$200 thousand deductible. Entergy owns approximately 61% of this facility. Entergy does not expect the damage caused to the Harrison County plant to have a material effect on its financial position or results of operations.

### **Employment Litigation**

Entergy Corporation and certain subsidiaries are defendants in numerous lawsuits filed by former employees asserting that they were wrongfully terminated and/or discriminated against on the basis of age, race, sex, and/or other protected characteristics. Entergy Corporation and these subsidiaries are vigorously defending these suits and deny any liability to the plaintiffs. Nevertheless, no assurance can be given as to the outcome of these cases.

## **NOTE 9. LEASES**

### **General**

As of December 31, 2005, Entergy had capital leases and non-cancelable operating leases for equipment, buildings, vehicles, and fuel storage facilities (excluding nuclear fuel leases and the Grand Gulf and Waterford 3 sale and leaseback transactions) with minimum lease payments as follows:

<u>Year</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
	<u>(In Thousands)</u>	
2006	\$94,533	\$5,747
2007	77,026	3,495
2008	63,081	1,307
2009	51,692	237
2010	36,695	237
Years thereafter	196,312	2,331
Minimum lease payments	519,339	13,354
Less: Amount representing interest	-	3,403
Present value of net minimum lease payments	<u>\$519,339</u>	<u>\$9,951</u>

Total rental expenses for all leases (excluding nuclear fuel leases and the Grand Gulf and Waterford 3 sale and leaseback transactions) amounted to \$71.2 million in 2005, \$81.3 million in 2004, and \$84.3 million in 2003.

### **Nuclear Fuel Leases**

As of December 31, 2005, arrangements to lease nuclear fuel existed in an aggregate amount up to \$150 million for Entergy Arkansas, \$105 million for Entergy Gulf States, \$80 million for Entergy Louisiana, and \$110 million for System Energy. As of December 31, 2005, the unrecovered cost base of nuclear fuel leases amounted to approximately \$92.2 million for Entergy Arkansas, \$55.2 million for Entergy Gulf States, \$58.5 million for Entergy Louisiana, and \$87.5 million for System Energy. The lessors finance the acquisition and ownership of nuclear fuel through loans made under revolving credit agreements, the issuance of commercial paper, and the issuance of intermediate-term notes. The credit agreements for Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy each have a termination date of October 30, 2006. The termination dates may be extended from time to time with the consent of the lenders. The intermediate-term notes issued pursuant to these fuel lease arrangements have varying maturities through February 15, 2009. It is expected that additional financing under the leases will be arranged as needed to acquire additional fuel, to pay interest, and to pay maturing debt. However, if such additional financing cannot be arranged, the lessee in each case must repurchase sufficient nuclear fuel to allow the lessor to meet its obligations in accordance with the fuel lease.

Lease payments are based on nuclear fuel use. The total nuclear fuel lease payments (principal and interest) as well as the separate interest component charged to operations by the domestic utility companies and System Energy were \$135.8 million (including interest of \$12.9 million) in 2005, \$146.6 million (including interest of \$12.8 million) in 2004, and \$142.0 million (including interest of \$11.8 million) in 2003.

### **Sale and Leaseback Transactions**

#### **Waterford 3 Lease Obligations**

In 1989, Entergy Louisiana sold and leased back 9.3% of its interest in Waterford 3 for the aggregate sum of \$353.6 million. The lease has an approximate term of 28 years. The lessors financed the sale-leaseback through the issuance of Waterford 3 Secured Lease Obligation Bonds. The lease payments made by Entergy Louisiana are sufficient to service the debt.

In 1994, Entergy Louisiana did not exercise its option to repurchase the 9.3% interest in Waterford 3. As a result, Entergy Louisiana issued \$208.2 million of non-interest bearing first mortgage bonds as collateral for the equity portion of certain amounts payable under the lease.

In 1997, the lessors refinanced the outstanding bonds used to finance the purchase of Waterford 3 at lower interest rates, which reduced the annual lease payments.

Upon the occurrence of certain events, Entergy Louisiana may be obligated to assume the outstanding bonds used to finance the purchase of the unit and to pay an amount sufficient to withdraw from the lease transaction. Such events include lease events of default, events of loss, deemed loss events, or certain adverse "Financial Events." "Financial Events" include, among other things, failure by Entergy Louisiana, following the expiration of any applicable grace or cure period, to maintain (i) total equity capital (including preferred stock) at least equal to 30% of adjusted capitalization, or (ii) a fixed charge coverage ratio of at least 1.50 computed on a rolling 12 month basis.

As of December 31, 2005, Entergy Louisiana's total equity capital (including preferred stock) was 49.51% of adjusted capitalization and its fixed charge coverage ratio for 2005 was 3.69.

As of December 31, 2005 Entergy Louisiana had future minimum lease payments (reflecting an overall implicit rate of 7.45%) in connection with the Waterford 3 sale and leaseback transactions, which are recorded as long-term debt, as follows:

	<u>Amount</u> (In Thousands)
2006	\$18,261
2007	18,754
2008	22,606
2009	32,452
2010	35,138
Years thereafter	<u>298,924</u>
Total	426,135
Less: Amount representing interest	<u>178,410</u>
Present value of net minimum lease payments	<u>\$247,725</u>

### Grand Gulf Lease Obligations

In December 1988, System Energy sold 11.5% of its undivided ownership interest in Grand Gulf for the aggregate sum of \$500 million. Subsequently, System Energy leased back its interest in the unit for a term of 26-1/2 years. System Energy has the option of terminating the lease and repurchasing the 11.5% interest in the unit at certain intervals during the lease. Furthermore, at the end of the lease term, System Energy has the option of renewing the lease or repurchasing the 11.5% interest in Grand Gulf.

In May 2004, System Energy caused the Grand Gulf lessors to refinance the outstanding bonds that they had issued to finance the purchase of their undivided interest in Grand Gulf. The refinancing is at a lower interest rate, and System Energy's lease payments have been reduced to reflect the lower interest costs.

System Energy is required to report the sale-leaseback as a financing transaction in its financial statements. For financial reporting purposes, System Energy expenses the interest portion of the lease obligation and the plant depreciation. However, operating revenues include the recovery of the lease payments because the transactions are accounted for as a sale and leaseback for ratemaking purposes. Consistent with a recommendation contained in a FERC audit report, System Energy recorded as a net regulatory asset the difference between the recovery of the lease payments and the amounts expensed for interest and depreciation and is recording this difference as a regulatory asset or liability on an ongoing basis, resulting in a zero net balance at the end of the lease term. The amount of this net regulatory asset was \$63.1 million and \$73.7 million as of December 31, 2005 and 2004, respectively.

As of December 31, 2005 System Energy had future minimum lease payments (reflecting an implicit rate of 5.02%), which are recorded as long-term debt as follows:

	<u>Amount</u> (In Thousands)
2006	\$46,019
2007	46,552
2008	47,128
2009	47,760
2010	48,569
Years thereafter	<u>253,833</u>
Total	489,861
Less: Amount representing interest	<u>125,055</u>
Present value of net minimum lease payments	<u>\$364,806</u>

**NOTE 10. RETIREMENT, OTHER POSTRETIREMENT BENEFITS, AND DEFINED CONTRIBUTION PLANS**

**Qualified Pension Plans**

Entergy has seven qualified pension plans covering substantially all of its employees: "Entergy Corporation Retirement Plan for Non-Bargaining Employees," "Entergy Corporation Retirement Plan for Bargaining Employees," "Entergy Corporation Retirement Plan II for Non-Bargaining Employees," "Entergy Corporation Retirement Plan II for Bargaining Employees," "Entergy Corporation Retirement Plan III," "Entergy Corporation Retirement Plan IV for Non-Bargaining Employees," and "Entergy Corporation Retirement Plan IV for Bargaining Employees." Except for the Entergy Corporation Retirement Plan III, the pension plans are noncontributory and provide pension benefits that are based on employees' credited service and compensation during the final years before retirement. The Entergy Corporation Retirement Plan III includes a mandatory employee contribution of 3% of earnings during the first 10 years of plan participation, and allows voluntary contributions from 1% to 10% of earnings for a limited group of employees. Entergy Corporation and its subsidiaries fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plans include common and preferred stocks, fixed-income securities, interest in a money market fund, and insurance contracts. As of December 31, 2005 and 2004, Entergy recognized an additional minimum pension liability for the excess of the accumulated benefit obligation over the fair market value of plan assets. In accordance with SFAS 87, an offsetting intangible asset, up to the amount of any unrecognized prior service cost, was also recorded, with the remaining offset to the liability recorded as a regulatory asset reflective of the recovery mechanism for pension costs in the U.S. Utility's jurisdictions or to other comprehensive income for Entergy's non-regulated business. Entergy's domestic utility companies' and System Energy's pension costs are recovered from customers as a component of cost of service in each of its jurisdictions. Entergy uses a December 31 measurement date for its pension plans. As a result of the Entergy New Orleans bankruptcy filing, Entergy has discontinued the consolidation of Entergy New Orleans retroactive to January 1, 2005, and is reporting Entergy New Orleans' results under the equity method of accounting.

**Components of Qualified Net Pension Cost**

Total 2005, 2004, and 2003 qualified pension costs of Entergy Corporation and its subsidiaries, including amounts capitalized, included the following components:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)		
Service cost - benefits earned during the period	\$82,520	\$76,946	\$70,337
Interest cost on projected benefit obligation	155,477	148,092	134,403
Expected return on assets	(159,544)	(153,584)	(155,460)
Amortization of transition asset	(662)	(763)	(763)
Amortization of prior service cost	4,863	5,143	5,886
Recognized net loss	35,604	21,687	6,399
Curtailment loss	-	-	14,864
Special termination benefits	-	-	32,006
Net pension costs	<u>\$118,258</u>	<u>\$97,521</u>	<u>\$107,672</u>

**Qualified Pension Obligations, Plan Assets, Funded Status, Amounts Not Yet Recognized and Recognized in the Balance Sheet as of December 31, 2005 and 2004:**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In Thousands)</b>	
<b>Change in Projected Benefit Obligation (PBO)</b>		
Balance at beginning of year	\$2,555,086	\$2,349,565
Service cost	82,520	76,946
Interest cost	155,477	148,092
Amendments	6,467	3,709
Actuarial loss	211,194	171,146
Employee contributions	1,032	1,212
Benefits paid	(117,768)	(117,234)
Balance at end of year	<u>\$2,894,008</u>	<u>\$2,633,436</u>
<b>Change in Plan Assets</b>		
Fair value of assets at beginning of year	\$1,841,929	\$1,744,975
Actual return on plan assets	137,885	170,964
Employer contributions	131,801	72,825
Employee contributions	1,032	1,212
Benefits paid	(117,768)	(117,234)
Fair value of assets at end of year	<u>\$1,994,879</u>	<u>\$1,872,742</u>
<b>Funded status</b>	<u>(\$899,129)</u>	<u>(\$760,694)</u>
<b>Amounts not yet recognized in the balance sheet</b>		
Unrecognized transition asset	-	(662)
Unrecognized prior service cost	29,393	29,053
Unrecognized net loss	713,285	542,391
<b>Accrued pension cost recognized in the balance sheet</b>	<u>(\$156,451)</u>	<u>(\$189,912)</u>
<b>Amounts recognized in the balance sheet</b>		
Accrued pension cost	(\$156,451)	(\$189,912)
Additional minimum pension liability	(406,463)	(244,280)
Intangible asset	24,159	26,167
Accumulated other comprehensive income (before taxes)	24,243	10,781
Regulatory asset	358,061	207,332
<b>Net amount recognized</b>	<u>(\$156,451)</u>	<u>(\$189,912)</u>



### **Other Postretirement Benefits**

Entergy also currently provides health care and life insurance benefits for retired employees. Substantially all domestic employees may become eligible for these benefits if they reach retirement age while still working for Entergy. Entergy uses a December 31 measurement date for its postretirement benefit plans.

Effective January 1, 1993, Entergy adopted SFAS 106, which required a change from a cash method to an accrual method of accounting for postretirement benefits other than pensions. At January 1, 1993, the actuarially determined accumulated postretirement benefit obligation (APBO) earned by retirees and active employees was estimated to be approximately \$241.4 million for Entergy (other than Entergy Gulf States) and \$128 million for Entergy Gulf States. Such obligations are being amortized over a 20-year period that began in 1993. For the most part, the domestic utility companies and System Energy recover SFAS 106 costs from customers and are required to fund postretirement benefits collected in rates to an external trust.

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

Total 2005, 2004, and 2003 other postretirement benefit costs of Entergy Corporation and its subsidiaries, including amounts capitalized and deferred, included the following components:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)		
Service cost - benefits earned			
during the period	\$37,310	\$30,947	\$37,799
Interest cost on APBO	51,883	53,801	52,746
Expected return on assets	(17,402)	(18,825)	(15,810)
Amortization of transition obligation	3,368	9,429	15,193
Amortization of prior service cost	(13,738)	(5,222)	(925)
Recognized net (gain)/loss	22,295	15,546	12,369
Curtailment loss	-	-	57,958
Special termination benefits	-	-	5,444
Net other postretirement benefit cost	<u>\$83,716</u>	<u>\$85,676</u>	<u>\$164,774</u>

**Other Postretirement Benefit Obligations, Plan Assets, Funded Status, and Amounts Not Yet Recognized and Recognized in the Balance Sheet as of December 31, 2005 and 2004:**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In Thousands)</b>	
<b>Change in APBO</b>		
Balance at beginning of year	\$928,217	\$941,803
Service cost	37,310	30,947
Interest cost	51,883	53,801
Actuarial loss	98,041	73,890
Benefits paid	(60,031)	(66,456)
Plan amendments	(64,200)	(60,231)
Plan participant contributions	6,749	9,312
Balance at end of year	<u>\$997,969</u>	<u>\$983,066</u>
<b>Change in Plan Assets</b>		
Fair value of assets at beginning of year	\$214,005	\$227,446
Actual return on plan assets	15,003	15,550
Employer contributions	58,790	63,399
Plan participant contributions	6,749	9,312
Benefits paid	(60,031)	(66,455)
Fair value of assets at end of year	<u>\$234,516</u>	<u>\$249,252</u>
<b>Funded status</b>	<u>(\$763,453)</u>	<u>(\$733,814)</u>
<b>Amounts not yet recognized in the balance sheet</b>		
Unrecognized transition obligation	15,176	5,594
Unrecognized prior service cost	(66,105)	(39,560)
Unrecognized net loss	403,252	391,940
<b>Accrued other postretirement benefit cost recognized in the balance sheet</b>	<u>(\$411,130)</u>	<u>(\$375,840)</u>

**Qualified Pension and Other Postretirement Plans' Assets**

Entergy's qualified pension and postretirement plans weighted-average asset allocations by asset category at December 31, 2005 and 2004 are as follows:

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Domestic Equity Securities	45%	46%	37%	38%
International Equity Securities	21%	21%	15%	14%
Fixed-Income Securities	32%	31%	47%	47%
Other	2%	2%	1%	1%

Entergy's trust asset investment strategy is to invest the assets in a manner whereby long-term earnings on the assets (plus cash contributions) provide adequate funding for retiree benefit payments. The mix of assets is based on an optimization study that identifies asset allocation targets in order to achieve the maximum return for an acceptable level of risk, while minimizing the expected contributions and pension and postretirement expense.

In the optimization study, Entergy formulates assumptions (or hires a consultant to provide such analysis) about characteristics, such as expected asset class investment returns, volatility (risk), and correlation coefficients among the various asset classes. The future market assumptions used in the optimization study are determined by examining historical market characteristics of the various asset classes, and making adjustments to reflect future conditions expected to prevail over the study period.

The optimization analysis utilized in Entergy's latest study produced the following approved asset class target allocations.

	<u>Pension</u>	<u>Postretirement</u>
Domestic Equity Securities	45%	37%
International Equity Securities	20%	14%
Fixed-Income Securities	31%	49%
Other (Cash and GACs)	4%	0%

These allocation percentages combined with each asset class' expected investment return produced an aggregate return expectation for the five years following the study of 7.6% for pension assets, 5.4% for taxable postretirement assets, and 7.2% for non-taxable postretirement assets. These returns are not inconsistent with Entergy's disclosed expected pre-tax return on assets of 8.50% over the life of the respective liabilities.

Since precise allocation targets are inefficient to manage security investments, the following ranges were established to produce an acceptable economically efficient plan to manage to targets:

	<u>Pension</u>	<u>Postretirement</u>
Domestic Equity Securities	45% to 55%	32% to 42%
International Equity Securities	15% to 25%	9% to 19%
Fixed-Income Securities	25% to 35%	44% to 54%
Other	0% to 10%	0% to 5%

#### **Accumulated Pension Benefit Obligation**

The accumulated benefit obligation for Entergy's qualified pension plans was \$2.5 billion and \$2.3 billion at December 31, 2005 and 2004, respectively.

### Estimated Future Benefit Payments

Based upon the assumptions used to measure Entergy's qualified pension and postretirement benefit obligation at December 31, 2005, and including pension and postretirement benefits attributable to estimated future employee service, Entergy expects that benefits to be paid over the next ten years will be as follows:

Year(s)	<u>Estimated Future Benefits Payments</u>		<u>Estimated Future Medicare</u>
	<u>Pension</u>	<u>Postretirement</u>	<u>Subsidy Receipts</u>
	(In Thousands)		
2006	\$118,291	\$58,936	\$4,241
2007	\$120,343	\$63,280	\$4,928
2008	\$123,592	\$66,551	\$5,618
2009	\$128,281	\$69,397	\$6,249
2010	\$134,532	\$72,545	\$6,810
2011 - 2015	\$840,503	\$405,161	\$45,328

### Contributions

Entergy expects to contribute \$349 million (excluding about \$1 million in employee contributions) to its qualified pension plans in 2006. \$107 million of this contribution was originally planned for 2005, however it was delayed as a result of the Katrina Emergency Tax Relief Act. Entergy expects to contribute \$60 million to other postretirement plans in 2006.

### Additional Information

The change in the qualified pension plans' minimum pension liability included in other comprehensive income and regulatory assets was as follows for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Increase/(decrease) in the minimum pension liability included in:		
Other comprehensive income (before taxes)	\$13,462	(\$4,578)
Regulatory assets	\$150,729	\$73,311

### Actuarial Assumptions

The assumed health care cost trend rate used in measuring the APBO of Entergy was 12% for 2006, gradually decreasing each successive year until it reaches 4.5% in 2012 and beyond. The assumed health care cost trend rate used in measuring the Net Other Postretirement Benefit Cost of Entergy was 10% for 2005, gradually decreasing each successive year until it reaches 4.5% in 2011 and beyond. A one percentage point change in the assumed health care cost trend rate for 2005 would have the following effects:

2005	<u>1 Percentage Point Increase</u>		<u>1 Percentage Point Decrease</u>	
	<u>Impact on the</u>	<u>Impact on the</u>	<u>Impact on the</u>	<u>Impact on the</u>
	<u>APBO</u>	<u>sum of service</u>	<u>APBO</u>	<u>sum of service</u>
		<u>costs and</u>		<u>costs and</u>
		<u>interest cost</u>		<u>interest cost</u>
	<u>Increase (Decrease)</u>			
	(In Thousands)			
Entergy Corporation	\$101,814	\$12,727	(\$92,042)	(\$10,998)

The significant actuarial assumptions used in determining the pension PBO and the SFAS 106 APBO as of December 31, 2005, 2004, and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Weighted-average discount rate:			
Pension	5.90%	6.00%	6.25%
Other postretirement	5.90%	6.00%	6.71%
Weighted-average rate of increase in future compensation levels	3.25%	3.25%	3.25%

The significant actuarial assumptions used in determining the net periodic pension and other postretirement benefit costs for 2005, 2004, and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Weighted-average discount rate:			
Pension	6.00%	6.25%	6.75%
Other postretirement	6.00%	6.71%	6.75%
Weighted-average rate of increase in future compensation levels	3.25%	3.25%	3.25%
Expected long-term rate of return on plan assets:			
Taxable assets	5.50%	5.50%	5.50%
Non-taxable assets	8.50%	8.75%	8.75%

Entergy's remaining pension transition assets are being amortized over the greater of the remaining service period of active participants or 15 years which ended in 2005, and its SFAS 106 transition obligations are being amortized over 20 years ending in 2012.

#### **Voluntary Severance Program**

As part of an initiative to achieve productivity improvements with a goal of reducing costs, primarily in the Non-Utility Nuclear and U.S. Utility businesses, in the second half of 2003 Entergy offered a voluntary severance program to employees in various departments. Approximately 1,100 employees, including 650 employees in nuclear operations from the Non-Utility Nuclear and U.S. Utility businesses, accepted the offers. As a result of this program, in the fourth quarter 2003 Entergy recorded additional pension and postretirement costs (including amounts capitalized) of \$110.3 million for special termination benefits and plan curtailment charges. These amounts are included in the net pension cost and net postretirement benefit cost for the year ended December 31, 2003.

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

In December 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 into law. The Act introduces a prescription drug benefit cost under Medicare (Part D), starting in 2006, as well as federal subsidy to employers who provide a retiree prescription drug benefit that is at least actuarially equivalent to Medicare Part D.

The actuarially estimated effect of future Medicare subsidies reduced the December 31, 2005 and 2004 Accumulated Postretirement Benefit Obligation by \$176 million and \$161 million, respectively, and reduced the 2005 and 2004 other postretirement benefit cost by \$24.3 million and \$23.3 million, respectively.

### **Non-Qualified Pension Plans**

Entergy also sponsors non-qualified, non-contributory defined benefit pension plans that provide benefits to certain executives. Entergy recognized net periodic pension cost of \$16.4 million in 2005, \$16.4 million in 2004, and \$14.5 million in 2003. The projected benefit obligation was \$142 million and \$141 million as of December 31, 2005 and 2004, respectively. There are \$0.4 million in plan assets for a pre-merger Entergy Gulf States plan. The accumulated benefit obligation was \$133 million and \$130 million as of December 31, 2005 and 2004, respectively. As of December 31, 2005, Entergy's additional minimum pension liability for the non-qualified pension plans was \$63.1 million. This liability was offset by a \$13.6 million intangible asset, \$38.1 million regulatory asset, and a \$11.4 million charge to accumulated other comprehensive income before taxes.

### **Defined Contribution Plans**

Entergy sponsors the Savings Plan of Entergy Corporation and Subsidiaries (System Savings Plan). The System Savings Plan is a defined contribution plan covering eligible employees of Entergy and its subsidiaries. The employing Entergy subsidiary makes matching contributions for all non-bargaining and certain bargaining employees to the System Savings Plan in an amount equal to 70% of the participants' basic contributions, up to 6% of their eligible earnings per pay period. The 70% match is allocated to investments as directed by the employee.

Through January 31, 2004, the System Savings Plan provided that the employing Entergy subsidiary make matching contributions in the following manner for all non-bargaining and certain bargaining employees. The employing Entergy subsidiary continues to make matching contributions in the following manner for all other bargaining employees who don't receive the 70% matching contribution discussed above. The System Savings Plan provides that the employing Entergy subsidiary make matching contributions:

- in an amount equal to 75% of the participants' basic contributions, up to 6% of their eligible earnings per pay period, in shares of Entergy Corporation common stock if the employees direct their company-matching contribution to the purchase of Entergy Corporation's common stock; or
- in an amount equal to 50% of the participants' basic contributions, up to 6% of their eligible earnings per pay period, if the employees direct their company-matching contribution to other investment funds.

Entergy also sponsors the Savings Plan of Entergy Corporation and Subsidiaries II (established in 2001), Savings Plan of Entergy Corporation and Subsidiaries IV (established in 2002), and the Savings Plan of Entergy Corporation and Subsidiaries V (established in 2002) to which matching contributions are also made. The plans are defined contribution plans that cover eligible employees, as defined by each plan, of Entergy and its subsidiaries. Effective December 31, 2005, employees participating in the Savings Plan of Entergy Corporation and Subsidiaries V (Savings Plan V) were transferred into the System Savings Plan when Savings Plan V was merged into the System Savings Plan.

Entergy's subsidiaries' contributions to defined contribution plans collectively were \$33.8 million in 2005, \$32.9 million in 2004, and \$31.5 million in 2003. The majority of the contributions were to the System Savings Plan.

**NOTE 11. BUSINESS SEGMENT INFORMATION**

Entergy's reportable segments as of December 31, 2005 are U.S. Utility and Non-Utility Nuclear. U.S. Utility generates, transmits, distributes, and sells electric power in portions of Arkansas, Louisiana, Mississippi, and Texas, and provides natural gas utility service in portions of Louisiana. Non-Utility Nuclear owns and operates five nuclear power plants and is primarily focused on selling electric power produced by those plants to wholesale customers. "All Other" includes the parent company, Entergy Corporation, and other business activity, including the Energy Commodity Services segment, the Competitive Retail Services business, and earnings on the proceeds of sales of previously-owned businesses. The Energy Commodity Services segment was presented as a reportable segment prior to 2005, but it did not meet the quantitative thresholds for a reportable segment in 2005 and 2004, and with the sale of Entergy-Koch's businesses in 2004, management does not expect the Energy Commodity Services segment to meet the quantitative thresholds in the foreseeable future. The 2004 and 2003 information in the tables below has been restated to include the Energy Commodity Services segment in the All Other column. As a result of the Entergy New Orleans bankruptcy filing, Entergy has discontinued the consolidation of Entergy New Orleans retroactive to January 1, 2005, and is reporting Entergy New Orleans results under the equity method of accounting in the U.S. Utility segment.

Entergy's segment financial information is as follows:

<u>2005</u>	<u>U. S. Utility</u>	<u>Non-Utility Nuclear*</u>	<u>All Other*</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In Thousands)				
Operating revenues	\$8,526,943	\$1,421,547	\$237,735	(\$79,978)	\$10,106,247
Deprec., amort. & decomm.	\$867,755	\$117,752	\$13,991	\$-	\$999,498
Interest and dividend income	\$75,748	\$66,836	\$78,185	(\$70,290)	\$150,479
Equity in earnings of unconsolidated equity affiliates	\$765	\$-	\$220	\$-	\$985
Interest and other charges	\$364,665	\$50,874	\$130,302	(\$70,237)	\$475,604
Income taxes (benefits)	\$405,662	\$163,865	(\$10,243)	\$-	\$559,284
Loss from discontinued operations	\$-	\$-	(\$44,794)	\$-	(\$44,794)
Net income (loss)	\$681,767	\$282,622	(\$40,544)	(\$87)	\$923,758
Preferred dividend requirements	\$22,007	\$-	\$3,475	(\$55)	\$25,427
Earnings (loss) applicable to common stock	\$659,760	\$282,622	(\$44,019)	(\$32)	\$898,331
Total assets	\$25,242,432	\$4,887,572	\$3,477,169	(\$2,755,904)	\$30,851,269
Investment in affiliates - at equity	\$150,135	\$-	\$428,006	(\$281,357)	\$296,784
Cash paid for long-lived asset additions	\$1,285,012	\$160,899	\$11,230	\$945	\$1,458,086

<u>2004</u>	<u>U. S. Utility</u>	<u>Non-Utility Nuclear*</u>	<u>All Other*</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In Thousands)				
Operating revenues	\$8,142,808	\$1,341,852	\$265,051	(\$64,190)	\$9,685,521
Deprec., amort. & decomm.	\$915,667	\$106,408	\$21,028	\$-	\$1,043,103
Interest and dividend income	\$40,831	\$63,569	\$60,430	(\$55,195)	\$109,635
Equity in loss of unconsolidated equity affiliates	\$-	\$-	(\$78,727)	\$-	(\$78,727)
Interest and other charges	\$383,032	\$53,657	\$96,229	(\$55,142)	\$477,776
Income taxes (benefits)	\$406,864	\$142,620	(\$184,179)	\$-	\$365,305
Loss from discontinued operations	\$-	\$-	(\$41)	\$-	(\$41)
Net income	\$666,691	\$245,029	\$21,384	(\$55)	\$933,049
Preferred dividend requirements	\$23,283	\$-	\$297	(\$55)	\$23,525
Earnings applicable to common stock	\$643,408	\$245,029	\$21,087	\$-	\$909,524
Total assets	\$22,937,237	\$4,531,604	\$2,423,194	(\$1,581,258)	\$28,310,777
Investment in affiliates - at equity	\$207	\$-	\$512,571	(\$280,999)	\$231,779
Cash paid for long-lived asset additions	\$1,152,167	\$242,822	\$15,626	(\$5)	\$1,410,610

<u>2003</u>	<u>U. S. Utility</u>	<u>Non-Utility Nuclear*</u>	<u>All Other*</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In Thousands)				
Operating revenues	\$7,584,857	\$1,274,983	\$210,910	(\$38,036)	\$9,032,714
Deprec., amort. & decomm.	\$890,092	\$87,825	\$17,954	\$-	\$995,871
Interest and dividend income	\$43,035	\$36,874	\$45,651	(\$38,226)	\$87,334
Equity in earnings (loss) of unconsolidated equity affiliates	(\$3)	\$-	\$271,650	\$-	\$271,647
Interest and other charges	\$419,111	\$34,460	\$90,295	(\$38,225)	\$505,641
Income taxes	\$341,044	\$88,619	\$67,770	\$-	\$497,433
Loss from discontinued operations	\$-	\$-	(\$14,404)	\$-	(\$14,404)
Cumulative effect of accounting change	(\$21,333)	\$154,512	\$3,895	\$-	\$137,074
Net income	\$492,574	\$300,799	\$157,094	\$-	\$950,467
Preferred dividend requirements	\$23,524	\$-	\$-	\$-	\$23,524
Earnings applicable to common stock	\$469,050	\$300,799	\$157,094	\$-	\$926,943
Total assets	\$22,402,314	\$4,171,777	\$3,572,824	(\$1,619,527)	\$28,527,388
Investment in affiliates - at equity	\$211	\$-	\$1,081,462	(\$28,345)	\$1,053,328
Cash paid for long-lived asset additions	\$1,233,208	\$281,377	\$54,358	\$-	\$1,568,943

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



In the fourth quarter of 2005, Entergy decided to divest the retail electric portion of the Competitive Retail Services business operating in the ERCOT region of Texas. Due to this planned divestiture, activity from this business is reported as discontinued operations in the Consolidated Statements of Income. In connection with the planned sale, an impairment reserve of \$39.8 million (\$25.8 million net-of-tax) was recorded for the remaining net book value of the Competitive Retail Services business' information technology systems.

Revenues and pre-tax income (loss) related to the Competitive Retail Services business' discontinued operations were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)		
Operating revenues	\$654,333	\$438,203	\$162,206
Pre-tax income (loss)	(\$68,845)	\$562	(\$21,763)

Assets and liabilities related to the Competitive Retail Services business' discontinued operations were as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	(In Thousands)	
Current assets	\$89,579	\$85,572
Other property and investments	15,095	5,061
Property, plant and equipment – net	19,587	27,867
Deferred debits and other assets	20,903	15,263
Total assets	<u>\$145,164</u>	<u>\$133,763</u>
Current liabilities	\$26,036	\$32,552
Non-current liabilities	35,884	6,298
Equity	83,244	94,913
Total liabilities and equity	<u>\$145,164</u>	<u>\$133,763</u>

Also, 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 sale of preferred stock in a subsidiary in the non-nuclear wholesale assets business.

### **Geographic Areas**

For the years ended December 31, 2005, 2004, and 2003, Entergy derived less than 1% of its revenue from outside of the United States.

As of December 31, 2005 and 2004, Entergy had almost no long-lived assets located outside of the United States.

**NOTE 12. EQUITY METHOD INVESTMENTS**

As of December 31, 2005, Entergy owns investments in the following companies that it accounts for under the equity method of accounting:

<u>Company</u>	<u>Ownership</u>	<u>Description</u>
Entergy New Orleans, Inc.	100% ownership of common stock	A regulated public utility company that generates, transmits, distributes, and sells electric power to retail and wholesale customers. As a result of Entergy New Orleans' bankruptcy filing in September 2005, Entergy deconsolidated Entergy New Orleans and reflects Entergy New Orleans' financial results under the equity method of accounting retroactive to January 1, 2005. See Note 16 for further discussion of the bankruptcy proceeding.
Entergy-Koch, LP	50% partnership interest	Engaged in two major businesses: energy commodity marketing and trading through Entergy-Koch Trading, and gas transportation and storage through Gulf South Pipeline. Entergy-Koch sold both of these businesses in the fourth quarter of 2004, and Entergy-Koch is no longer an operating entity.
RS Cogen LLC	50% member interest	Co-generation project that produces power and steam on an industrial and merchant basis in the Lake Charles, Louisiana area.
Top Deer	50% member interest	Wind-powered electric generation joint venture.

Following is a reconciliation of Entergy's investments in equity affiliates:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		(In Thousands)	
Beginning of year	\$231,779	\$1,053,328	\$824,209
Deconsolidation of Entergy New Orleans, effective January 1, 2005	154,462	-	-
Additional investments	-	157,020	4,668
Income (loss) from the investments	985	(78,727)	271,647
Other income	-	6,232	45,583
Distributions received	(80,901)	(888,260)	(105,142)
Dispositions and other adjustments	(9,541)	(17,814)	12,363
End of year	<u>\$296,784</u>	<u>\$231,779</u>	<u>\$1,053,328</u>

The following is a summary of combined financial information reported by Entergy's equity method investees:

	2005	2004	2003
	(In Thousands)		
<b>Income Statement Items</b>			
Operating revenues	\$721,410	\$270,177	\$585,404
Operating income	\$9,526	(\$111,535)	\$207,301
Net income	\$1,592	\$739,858 (1)	\$172,595
<b>Balance Sheet Items</b>			
Current assets	\$415,586	\$540,386	
Noncurrent assets	\$1,498,465	\$418,038	
Current liabilities	\$544,030	\$180,009	
Noncurrent liabilities	\$999,346	\$463,899	

- (1) Includes gains recorded by Entergy-Koch on the sales of its energy trading and pipeline businesses.

#### **Related-party transactions and guarantees**

See Note 16 to the consolidated financial statements for a discussion of the Entergy New Orleans bankruptcy proceedings and activity between Entergy and Entergy New Orleans.

During 2004 and 2003, Entergy procured various services from Entergy-Koch consisting primarily of pipeline transportation services for natural gas and risk management services for electricity and natural gas. The total cost of such services in 2004 and 2003 was approximately \$9.5 million and \$15.9 million, respectively. There were no related party transactions between Entergy-Koch and Entergy in 2005. Entergy Louisiana and Entergy New Orleans entered into purchase power agreements with RS Cogen, and purchased a total of \$61.2 million, \$43.6 million, and \$26.0 million of capacity and energy from RS Cogen in 2005, 2004, and 2003, respectively. Entergy's operating transactions with its other equity method investees were not material in 2005, 2004, or 2003.

In the purchase agreements for its energy trading and the pipeline business sales, Entergy-Koch agreed to indemnify the respective purchasers for certain potential losses relating to any breaches of the sellers' representations, warranties, and obligations under each of the purchase agreements. Entergy Corporation has guaranteed up to 50% of Entergy-Koch's indemnification obligations to the purchasers. Entergy does not expect any material claims under these indemnification obligations, but to the extent that any are asserted and paid, the gain that Entergy expects to record in 2006 may be reduced.

During the fourth quarter of 2004, an Entergy subsidiary purchased from a commercial bank holder \$16.3 million of RS Cogen subordinated indebtedness, due October 2017, bearing interest at LIBOR plus 4.50%. The debt was purchased at a discount of approximately \$2.4 million that was to be amortized over the remaining life of the debt. In June 2005, 100% of the \$16.0 million balance of the subordinated indebtedness was sold to a lending institution for 100.75% of par.

## NOTE 13. ACQUISITIONS AND DISPOSITIONS

### Asset Acquisitions

In June 2005, Entergy Louisiana purchased the 718 MW Perryville power plant located in northeast Louisiana for \$162 million from a subsidiary of Cleco Corporation. Entergy received the plant, materials and supplies, SO<sub>2</sub> emission allowances, and related real estate. The LPSC approved the acquisition and the long-term cost-of-service purchased power agreement under which Entergy Gulf States will purchase 75 percent of the plant's output.

### Asset Dispositions

#### **Entergy-Koch Businesses**

In the fourth quarter of 2004, Entergy-Koch sold its energy trading and pipeline businesses to third parties. The sales came after a review of strategic alternatives for enhancing the value of Entergy-Koch, LP. Entergy received \$862 million of cash distributions in 2004 from Entergy-Koch after the business sales, and Entergy ultimately expects to receive total net cash distributions exceeding \$1 billion, comprised of the after-tax cash from the distributions of the sales proceeds and the eventual liquidation of Entergy-Koch. Entergy currently expects the net cash distributions that it will receive will exceed its equity investment in Entergy-Koch, and expects to record a \$60 million net-of-tax gain when it receives the remaining cash distributions, which it expects will occur in 2006.

#### **Other**

In January 2004, Entergy sold its 50% interest in the Crete project, which is a 320MW power plant located in Illinois, and realized an insignificant gain on the sale.

In the fourth quarter of 2004, Entergy sold undivided interests in the Warren Power and the Harrison County plants at a price that approximated book value.

## NOTE 14. RISK MANAGEMENT AND FAIR VALUES

### Market and Commodity Risks

In the normal course of business, Entergy is exposed to a number of market and commodity risks. Market risk is the potential loss that Entergy may incur as a result of changes in the market or fair value of a particular instrument or commodity. All financial and commodity-related instruments, including derivatives, are subject to market risk. Entergy is subject to a number of commodity and market risks, including:

<u>Type of Risk</u>	<u>Primary Affected Segments</u>
Power price risk	U.S. Utility, Non-Utility Nuclear, Energy Commodity Services
Fuel price risk	U.S. Utility, Non-Utility Nuclear, Energy Commodity Services
Foreign currency exchange rate risk	U.S. Utility, Non-Utility Nuclear, Energy Commodity Services
Equity price and interest rate risk - investments	U.S. Utility, Non-Utility Nuclear

Entergy manages these risks through both contractual arrangements and derivatives. Contractual risk management tools include long-term power and fuel purchase agreements, capacity contracts, and tolling agreements. Entergy also uses a variety of commodity and financial derivatives, including natural gas and electricity futures, forwards, swaps, and options; foreign currency forwards; and interest rate swaps as a part of its overall risk

management strategy. Except for the energy trading activities conducted through December 2004 by Entergy-Koch, Entergy enters into derivatives only to manage natural risks inherent in its physical or financial assets or liabilities.

Entergy's exposure to market risk is determined by a number of factors, including the size, term, composition, and diversification of positions held, as well as market volatility and liquidity. For instruments such as options, the time period during which the option may be exercised and the relationship between the current market price of the underlying instrument and the option's contractual strike or exercise price also affects the level of market risk. A significant factor influencing the overall level of market risk to which Entergy is exposed is its use of hedging techniques to mitigate such risk. Entergy manages market risk by actively monitoring compliance with stated risk management policies as well as monitoring the effectiveness of its hedging policies and strategies. Entergy's risk management policies limit the amount of total net exposure and rolling net exposure during the stated periods. These policies, including related risk limits, are regularly assessed to ensure their appropriateness given Entergy's objectives.

### **Hedging Derivatives**

Entergy classifies substantially all of the following types of derivative instruments held by its consolidated businesses as cash flow hedges:

<u>Instrument</u>	<u>Business Segment</u>
Natural gas and electricity futures and forwards	Non-Utility Nuclear, Energy Commodity Services, Competitive Retail Services
Foreign currency forwards	U.S. Utility, Non-Utility Nuclear

Cash flow hedges with net unrealized losses of approximately \$391 million at December 31, 2005 are scheduled to mature during 2006. Net losses totaling approximately \$218 million were realized during 2005 on the maturity of cash flow hedges. Unrealized gains or losses result from hedging power output at the Non-Utility Nuclear power stations and foreign currency hedges related to Euro-denominated nuclear fuel acquisitions. The related gains or losses from hedging power are included in revenues when realized. The realized gains or losses from foreign currency transactions are included in the cost of capitalized fuel. The maximum length of time over which Entergy is currently hedging the variability in future cash flows for forecasted transactions at December 31, 2005 is approximately three years. The ineffective portion of the change in the value of Entergy's cash flow hedges during 2005, 2004, and 2003 was insignificant.

### **Fair Values**

#### Financial Instruments

The estimated fair value of Entergy's financial instruments is determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. The estimated fair value of derivative financial instruments is based on market quotes. Considerable judgment is required in developing some of the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. In addition, gains or losses realized on financial instruments held by regulated businesses may be reflected in future rates and therefore do not necessarily accrue to the benefit or detriment of stockholders.

Entergy considers the carrying amounts of most of its financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. Additional information regarding financial instruments and their fair values is included in Notes 5 and 6 to the consolidated financial statements.

**NOTE 15. DECOMMISSIONING TRUST FUNDS**

Entergy holds debt and equity securities, classified as available-for-sale, in nuclear decommissioning trust accounts. The securities held at December 31, 2005 and 2004 are summarized as follows:

	<b>Fair Value</b>	<b>Total Unrealized Gains (In Millions)</b>	<b>Total Unrealized Losses</b>
<b>2005</b>			
Equity	\$1,502	\$280	\$12
Debt Securities	1,105	20	10
<b>Total</b>	<b>\$2,607</b>	<b>\$300</b>	<b>\$22</b>
<b>2004</b>			
Equity	\$995	\$166	\$17
Debt Securities	1,457	33	6
<b>Total</b>	<b>\$2,452</b>	<b>\$199</b>	<b>\$23</b>

The fair value and gross unrealized losses of available-for-sale equity and debt securities, summarized by investment type and length of time that the securities have been in a continuous loss position, are as follows at December 31, 2005:

	<b>Equity Securities</b>		<b>Debt Securities</b>	
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>
	<b>(In Millions)</b>			
Less than 12 months	\$27	\$1	\$425	\$6
More than 12 months	104	11	116	4
<b>Total</b>	<b>\$131</b>	<b>\$12</b>	<b>\$541</b>	<b>\$10</b>

Entergy evaluates these unrealized gains and losses at the end of each period to determine whether an other than temporary impairment has occurred. This analysis considers the length of time that a security has been in a loss position, the current performance of that security, and whether decommissioning costs are recovered in rates. Due to the regulatory treatment of decommissioning collections and trust fund earnings, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy record regulatory assets or liabilities for unrealized gains and losses on trust investments. For the unregulated portion of River Bend, Entergy Gulf States has recorded an offsetting amount of unrealized gains or losses in other deferred credits. No significant impairments were recorded in 2005 and 2004 as a result of these evaluations.

The fair value of debt securities, summarized by contractual maturities, at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
	(In Millions)	
less than 1 year	\$80	\$134
1 year - 5 years	357	592
5 years - 10 years	382	425
10 years - 15 years	116	158
15 years - 20 years	73	60
20 years+	97	88
<b>Total</b>	<u>\$1,105</u>	<u>\$1,457</u>

During the year ended December 31, 2005, the proceeds from the dispositions of securities amounted to \$50 million with gross gains of \$0.7 million and gross losses of \$2.3 million, which were reclassified out of other comprehensive income into earnings during the period. During the year ended December 31, 2004, the proceeds from the dispositions of securities amounted to \$37 million with gross gains of \$0.7 million and gross losses of \$0.7 million, which were reclassified out of other comprehensive income into earnings during the period.

#### **NOTE 16. ENTERGY NEW ORLEANS BANKRUPTCY PROCEEDING**

Because of the effects of Hurricane Katrina, on September 23, 2005, Entergy New Orleans filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of Louisiana seeking reorganization relief under the provisions of Chapter 11 of the United States Bankruptcy Code (Case No. 05-17697). Entergy New Orleans continues to operate its business as a debtor-in-possession under the jurisdiction of the bankruptcy court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the bankruptcy court.

In September 2005, Entergy New Orleans, as borrower, and Entergy Corporation, as lender, entered into the Debtor-in-Possession (DIP) credit agreement, a debtor in possession credit facility to provide funding to Entergy New Orleans during its business restoration efforts. On December 9, 2005, the bankruptcy court issued its final order approving the DIP credit agreement, including the priority and lien status of the indebtedness under the agreement. The credit facility provides for up to \$200 million in loans. The facility enables Entergy New Orleans to request funding from Entergy Corporation, but the decision to lend money is at the sole discretion of Entergy Corporation. As of December 31, 2005, Entergy New Orleans had outstanding borrowings of \$90 million under the DIP credit agreement.

Entergy owns 100 percent of the common stock of Entergy New Orleans, has continued to supply general and administrative services, and has provided debtor-in-possession financing to Entergy New Orleans. Uncertainties surrounding the nature, timing, and specifics of the bankruptcy proceedings, however, have caused Entergy to deconsolidate Entergy New Orleans and reflect Entergy New Orleans' financial results under the equity method of accounting retroactive to January 1, 2005. Because Entergy owns all of the common stock of Entergy New Orleans, this change will not affect the amount of net income Entergy records resulting from Entergy New Orleans' operations for any current or prior period, but will result in Entergy New Orleans' net income for 2005 being presented as "Equity in earnings (loss) of unconsolidated equity affiliates" rather than its results being included in each individual income statement line item, as is the case for periods prior to 2005. Entergy reviewed the carrying value of its investment in Entergy New Orleans to determine if an impairment had occurred as a result of the storm, the flood, the power outages, restoration costs and changes in customer load. Entergy determined that as of December 31, 2005, no impairment had occurred because management believes that recovery is probable. Entergy will continue to assess the carrying value of its investment in Entergy New Orleans as developments occur in Entergy New Orleans' recovery efforts.

Entergy's results of operations for 2005 include \$207.2 million in operating revenues, primarily from sales of power by Entergy consolidated subsidiaries to Entergy New Orleans, and \$117.5 million in purchased power, primarily from purchases of power by Entergy consolidated subsidiaries from Entergy New Orleans. As stated above, however, because Entergy owns all of the common stock of Entergy New Orleans, the deconsolidation of Entergy New Orleans does not affect the amount of net income Entergy records resulting from Entergy New Orleans' operations.

**NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)**

Operating results for the four quarters of 2005 and 2004 were:

	<u>Operating Revenues (a)</u>	<u>Operating Income (b)</u> (In Thousands)	<u>Net Income</u>
2005:			
First Quarter	\$2,110,182	\$311,008	\$178,620
Second Quarter	\$2,445,389	\$515,573	\$292,789
Third Quarter	\$2,898,259	\$654,339	\$356,388
Fourth Quarter	\$2,652,417	\$311,069	\$95,961
2004:			
First Quarter	\$2,169,983	\$379,020	\$213,016
Second Quarter	\$2,379,668	\$491,267	\$271,011
Third Quarter	\$2,832,642	\$570,316	\$288,047
Fourth Quarter	\$2,303,228	\$209,569	\$160,975

- (a) Operating revenues are lower by \$102,461 in the first quarter 2005 and \$110,597 in the second quarter 2005 due to the deconsolidation of Entergy New Orleans retroactive to January 1, 2005. Operating revenues are lower by \$110,771 in the first quarter 2005, \$153,533 in the second quarter 2005, \$231,472 in the third quarter 2005, \$81,566 in the first quarter 2004, \$105,429 in the second quarter 2004, and \$130,939 in the third quarter 2004 due to the treatment of a portion of the Competitive Retail Services business as a discontinued operation.
- (b) Operating income is lower by \$12,521 in the first quarter 2005 and \$17,934 in the second quarter 2005 due to the deconsolidation of Entergy New Orleans retroactive to January 1, 2005. Operating income is lower (higher) by (\$1,850) in the first quarter 2005, (\$3,897) in the second quarter 2005, (\$10,502) in the third quarter 2005, (\$186) in the first quarter 2004, \$3,045 in the second quarter 2004, and \$1,156 in the third quarter 2004 due to the treatment of a portion of the Competitive Retail Services business as a discontinued operation.

**Earnings per Average Common Share**

	<u>2005</u>		<u>2004</u>	
	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
First Quarter	\$0.80	\$0.79	\$0.90	\$0.88
Second Quarter	\$1.36	\$1.33	\$1.16	\$1.14
Third Quarter	\$1.68	\$1.65	\$1.24	\$1.22
Fourth Quarter	\$0.43	\$0.42	\$0.71	\$0.69



## **ENTERGY'S BUSINESS (continued from page 3)**

### **U.S. Utility**

The U.S. Utility is Entergy's largest business segment, with five wholly-owned domestic retail electric utility subsidiaries: Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. These companies generate, transmit, distribute and sell electric power to retail and wholesale customers in Arkansas, Louisiana, Mississippi, and Texas. Entergy Gulf States and Entergy New Orleans also provide natural gas utility services to customers in and around Baton Rouge, Louisiana, and New Orleans, Louisiana, respectively. Also included in the U.S. Utility is System Energy, a wholly-owned subsidiary of Entergy Corporation that owns or leases 90 percent of Grand Gulf. System Energy sells its power and capacity from Grand Gulf at wholesale to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans.

These utility subsidiaries are each regulated by state utility commissions, and in the case of Entergy New Orleans, the City Council. System Energy is regulated by FERC as all of its transactions are at the wholesale level. The U.S. Utility continues to operate as a monopoly as efforts toward deregulation have been delayed, abandoned, or not initiated in its service territories. The overall generation portfolio of the U.S. Utility, which relies heavily on natural gas and nuclear generation, is consistent with Entergy's strong support for the environment.

The U.S. Utility is focused on providing highly reliable and cost effective electricity and gas service while working in an environment that provides the highest level of safety for its employees. Since 1998, the U.S. Utility has significantly improved key customer service, reliability, and safety metrics and continues to actively pursue additional improvements.

### **Entergy Louisiana Corporate Restructuring**

Effective December 31, 2005, Entergy Louisiana, LLC, a limited liability company organized under the laws of the State of Texas as part of a restructuring involving a Texas statutory merger-by-division, succeeded to all of the regulated utility operations of Entergy Louisiana, Inc. Entergy Louisiana, LLC was allocated substantially all of the property and other assets of Entergy Louisiana, Inc., including all assets used to provide retail and wholesale electric service to Entergy Louisiana, Inc.'s customers. Entergy Louisiana, LLC also assumed substantially all of the liabilities of Entergy Louisiana, Inc., including all of its debt securities and leases but excluding the outstanding preferred stock of Entergy Louisiana, Inc.

As the operator of Entergy Louisiana, Inc.'s retail utility operations, Entergy Louisiana, LLC is subject to the jurisdiction of the LPSC over electric service, rates and charges to the same extent that the LPSC possessed jurisdiction over Entergy Louisiana, Inc.'s retail utility operations. The restructuring is intended to reduce corporate franchise taxes. The restructuring implements a recommendation from the LPSC staff and is expected to result in a decrease in Entergy Louisiana, LLC's rates to its Louisiana retail customers.

On December 31, 2005, and immediately prior to the formation of Entergy Louisiana, LLC, Entergy Louisiana, Inc. changed its state of incorporation from Louisiana to Texas and its name to Entergy Louisiana Holdings, Inc. Upon the effectiveness of the statutory merger-by-division on December 31, 2005, Entergy Louisiana, LLC was organized and Entergy Louisiana Holdings held all of Entergy Louisiana, LLC's common membership interests. All of the common membership interests of Entergy Louisiana, LLC continue to be held by Entergy Louisiana Holdings and all of the common stock of Entergy Louisiana Holdings continues to be held by Entergy Corporation. As part of the merger-by-division, Entergy Louisiana Holdings succeeded to Entergy Louisiana, Inc.'s rights and obligations with respect to Entergy Louisiana, Inc.'s outstanding preferred stock, which has an aggregate par value of approximately \$100 million. Within three to nine months of the effective date of the merger-by-division, however, Entergy Louisiana Holdings expects to redeem or repurchase and retire the Entergy Louisiana, Inc. preferred stock then outstanding and thereafter amend its charter to eliminate authority to issue preferred stock.

Entergy Louisiana Holdings also holds all of the common membership interests in Entergy Louisiana Properties, LLC, a Texas limited liability company that, as part of the restructuring, was organized and allocated the

Entergy Louisiana, Inc. assets not allocated to Entergy Louisiana, LLC. The assets allocated to Entergy Louisiana Properties were two tracts of undeveloped real estate, known as the St. Rosalie and Wilton Plant sites, and Entergy Louisiana, Inc.'s equity ownership interest in and a long-term note receivable from System Fuels, Inc., a company also owned by Entergy Arkansas, Entergy Mississippi, and Entergy New Orleans, which implements and maintains certain programs for the purchase, delivery and storage of fuel supplies for Entergy's utility subsidiaries. Entergy Louisiana Properties also assumed any obligations and liabilities relating to these assets. The book value of the assets allocated to Entergy Louisiana Properties is approximately \$33 million.

After the restructuring and merger-by-division the financial statements of Entergy Louisiana Holdings will be on a consolidated basis including Entergy Louisiana, LLC and Entergy Louisiana Properties and will carry forward the retained earnings of Entergy Louisiana, Inc. at December 31, 2005. As result of the merger-by-division and related accounting, the balance sheet of Entergy Louisiana, LLC will not carry forward the retained earnings of Entergy Louisiana, Inc. at December 31, 2005. The Federal Power Act restricts the ability of a public utility to pay dividends out of capital. As a result of its restructuring and the related accounting, Entergy Louisiana, LLC applied to the FERC for a declaratory order to pay dividends on its common and preferred membership interests from the following sources: (1) the amount of Entergy Louisiana, Inc.'s retained earnings immediately prior to its restructuring on December 31, 2005; (2) an amount in excess of the amount in (1) over a transition period not expected to last more than 3 years so long as Entergy Louisiana, LLC's proprietary capital ratio is, and will remain, above 30%; and (3) the amount of Entergy Louisiana, LLC's retained earnings after the restructuring. The FERC granted the declaratory order on January 23, 2006. Dividends paid by Entergy Louisiana, LLC on its common membership interests to Entergy Louisiana Holdings may, in turn, be paid by Entergy Louisiana Holdings to its common and preferred stockholders without the need for FERC approval. As a wholly-owned subsidiary, Entergy Louisiana Holdings dividends its earnings to Entergy Corporation, as the common stockholder, on a percentage determined monthly.

Entergy Louisiana, LLC will not join in the filing of Entergy's consolidated federal income tax return, although it will be consolidated for financial reporting purposes. Entergy Louisiana, LLC will file a separate federal income tax return, will pay federal income taxes on a stand-alone basis, and will not be a party to the Entergy System's intercompany tax allocation agreement. Entergy Louisiana, LLC may make elections for tax proposes that may differ from those made by the Entergy consolidated tax group, which may result in Entergy Louisiana, LLC having more exposure to tax liability than it would have had, had it been included in the Entergy consolidated tax return, thereby adversely affecting Entergy Louisiana, LLC's financial condition. Entergy Louisiana Holdings will continue as a party to the Entergy System's intercompany tax allocation agreement.

After the merger-by-division, Entergy Louisiana, LLC issued \$100 million of its preferred membership interests, which grant the holders thereof the power to vote together, as a single class, with Entergy Corporation as the holder of the common membership interests. The preferred membership interests have approximately 23% of the total voting power. Since Entergy Corporation, indirectly through Entergy Louisiana Holdings, owns all of the common membership interests in Entergy Louisiana, LLC, Entergy Corporation will be able to elect the entire board of directors of Entergy Louisiana, LLC, except in certain circumstances when distributions on Entergy Louisiana, LLC's preferred membership interests are in arrears.

### **Hurricane Katrina and Hurricane Rita**

The temporary power outages associated with Hurricanes Katrina and Rita in the affected service territory caused Entergy Louisiana's and Entergy New Orleans' sales volume to be lower than normal from September 2005 through December 2005. The number of customers as of December 31, 2005 compared to December 31, 2004 decreased by 44,000 at Entergy Louisiana and by 20,000 and 15,000 for electric and gas, respectively, at Entergy New Orleans. The customer figures below include customers who are able to accept service but have not yet returned to their homes. Restoration for many of the customers who are unable to accept service will follow major repairs or reconstruction of customer facilities, and will be contingent on validation by local authorities of habitability and electrical safety of customers' structures.

## Customers

As of December 31, 2005, Entergy's domestic utility companies provided retail electric and gas service to customers in Arkansas, Louisiana, Mississippi, and Texas, as follows (in the case of Entergy Louisiana and Entergy New Orleans, due to the effect of Hurricane Katrina, the number represents customers who are able to accept service, but have not necessarily returned to their homes) :

	Area Served	Electric Customers		Gas Customers	
		(In Thousands)	(%)	(In Thousands)	(%)
Entergy Arkansas	Portions of Arkansas	675	26%		
Entergy Gulf States	Portions of Texas and Louisiana	740	28%	89	41%
Entergy Louisiana	Portions of Louisiana	618	24%		
Entergy Mississippi	Portions of Mississippi	427	16%		
Entergy New Orleans	City of New Orleans*	169	6%	130	59%
Total customers		2,629	100%	219	100%

\* Excludes the Algiers area of the city, where Entergy Louisiana provides electric service.

## Electric Energy Sales

The electric energy sales of Entergy's domestic utility companies are subject to seasonal fluctuations, with the peak sales period normally occurring during the third quarter of each year. On July 25, Entergy reached a 2005 peak demand of 21,391 MW, compared to the 2004 peak of 21,174 MW recorded on July 15 of that year. Selected electric energy sales data is shown in the table below:

### Selected 2005 Electric Energy Sales Data

	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi (In GWh)	Entergy New Orleans	System Energy	Entergy (a)(b)
Sales to retail customers	21,005	33,918	26,889	13,341	4,712	-	95,153
Sales for resale:							
Affiliates	4,555	3,213	2,451	516	1,705	9,070	-
Others	4,103	2,804	109	420	336	-	5,730
Total	29,663	39,935	29,449	14,277	6,753	9,070	100,883
Average use per residential customer (kWh)	13,399	15,643	15,852	14,833	10,600	-	14,659

(a) Includes the effect of intercompany eliminations.

(b) Because of the Entergy New Orleans bankruptcy filing, Entergy deconsolidated Entergy New Orleans; therefore, Entergy New Orleans electric sales are excluded.

The following table illustrates the domestic utility companies' 2005 combined electric sales volume as a percentage of total electric sales volume, and 2005 combined electric revenues as a percentage of total 2005 electric revenue, each by customer class.

<u>Customer Class</u>	<u>% of Sales Volume</u>	<u>% of Revenue</u>
Residential	31.3	34.5
Commercial	24.2	24.1
Industrial (a)	37.3	28.6
Governmental	1.5	1.7
Wholesale	5.7	11.1

(a) Major industrial customers are in the chemical, petroleum refining, and paper industries.

See "Selected Financial Data" for each of the domestic utility companies for the detail of their sales by customer class for 2003, 2004, and 2005.

#### Selected 2005 Natural Gas Sales Data

Entergy New Orleans and Entergy Gulf States provide both electric power and natural gas to retail customers. Entergy New Orleans and Entergy Gulf States sold 12,329,794 and 6,717,077 Mcf, respectively, of natural gas to retail customers in 2005. In 2005, 98% of Entergy Gulf States' operating revenue was derived from the electric utility business, and only 2% from the natural gas distribution business. For Entergy New Orleans, 80% of operating revenue was derived from the electric utility business and 20% from the natural gas distribution business in 2005. Following is data concerning Entergy New Orleans' 2005 retail operating revenue sources.

<u>Entergy New Orleans</u>	<u>Electric Operating Revenue</u>	<u>Natural Gas Revenue</u>
Residential	39%	47%
Commercial	38%	21%
Industrial	8%	15%
Governmental/Municipal	15%	17%

#### **Retail Rate Regulation**

General (Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

The retail regulatory philosophy has shifted in some jurisdictions from traditional, cost-of-service regulation to include performance-based rate elements. Performance-based rate plans are designed to encourage efficiencies and productivity while permitting utilities and their customers to share in the benefits. Entergy Louisiana, the Louisiana jurisdiction of Entergy Gulf States, Entergy Mississippi, and Entergy New Orleans have implemented performance-based formula rate plans.

Following is a summary of the status of retail open access in the domestic utility companies' retail service territories.

<u>Jurisdiction</u>	<u>Status of Retail Open Access</u>
Arkansas	Retail open access was repealed in February 2003.
Texas	In December 2005, Entergy Gulf States made a filing identifying three potential power region(s) to be considered for certification and the steps and schedule to achieve certification. The Texas law enacted in 2005 requires Entergy Gulf States to also file a transition to competition plan by January 1, 2007 addressing how Entergy Gulf States intends to mitigate market power and achieve full customer choice which will be affected by the power region selected.
Louisiana	The LPSC has deferred pursuing retail open access, pending developments at the federal level and in other states. In response to a study submitted to the LPSC that was funded by a group of large industrial customers, the LPSC recently has solicited comments regarding a limited retail access program. A technical conference was held in April 2005.
Mississippi	The MPSC has recommended not pursuing open access at this time.
New Orleans	The Council has taken no action on Entergy New Orleans' proposal filed in 1997.

#### Retail Rates

Each domestic utility operating subsidiary participates in retail rate proceedings on a consistent basis. The status of material retail rate proceedings is described in Note 2 to the domestic utility companies and System Energy financial statements. The domestic utility companies' retail rate mechanisms are discussed below.

#### *Entergy Arkansas*

##### Fuel Recovery

Entergy Arkansas' rate schedules include an energy cost recovery rider to recover fuel and purchased energy costs in monthly bills. The rider utilizes prior calendar year energy costs and projected energy sales for the twelve-month period commencing on April 1 of each year to develop an energy cost rate, which is redetermined annually and includes a true-up adjustment reflecting the over-recovery or under-recovery, including carrying charges, of the energy cost for the prior calendar year. Entergy Arkansas' 2005 filing is discussed in Note 2 to the domestic utility companies and System Energy financial statements.

In accordance with provisions in the energy cost recovery rider tariff for an interim rate request dependent upon the level of over- or under-recovery, Entergy Arkansas filed a request with the APSC for an interim rate increase in September 2005 which became effective with October 2005 billings.

#### *Entergy Gulf States*

##### Louisiana Jurisdiction - Formula Rate Plan

In March 2005, the LPSC approved a settlement that includes the establishment of a three-year formula rate plan for Entergy Gulf States that, among other provisions, establishes an ROE mid-point of 10.65% for the initial three-year term of the plan and permits Entergy Gulf States to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed range of 9.9% to 11.4% will be allocated 60% to customers and 40% to Entergy Gulf States. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the

LPSC and Entergy Gulf States. Entergy Gulf States made its first formula rate plan filing in June 2005 for the test year ending December 31, 2004 which is discussed in Note 2 to the domestic utility companies and System Energy financial statements.

#### Louisiana Jurisdiction - Retail Base Rates

In June 2005, the LPSC approved a \$5.8 million gas base rate increase effective the first billing cycle of July 2005 and a rate stabilization plan for gas 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 is not expected until the second quarter of 2006.

#### Louisiana Jurisdiction - Fuel Recovery

Entergy Gulf States' Louisiana electric rates include a fuel adjustment clause designed to recover the cost of fuel and purchased power costs. The fuel adjustment clause contains a surcharge or credit for deferred fuel expense and related carrying charges arising from the monthly reconciliation of actual fuel costs incurred with fuel cost revenues billed to customers. The LPSC approved the deferral of \$15.1 million and \$11.5 million of fuel and purchased power costs for June 2005 and July 2005, respectively, to reduce the effect on customers of increasing natural gas prices.

Entergy Gulf States' Louisiana gas rates include a purchased gas adjustment clause based on estimated gas costs for the billing month adjusted by a surcharge or credit for deferred fuel expense arising from the monthly reconciliation of actual fuel costs incurred with fuel cost revenues billed to customers.

#### Louisiana Jurisdiction – Storm Cost Recovery

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.

#### Texas Jurisdiction - Retail Base 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. In June 2005, a Texas law was enacted that provides that Entergy Gulf States may not file a general base rate case in Texas before June 30, 2007, but may seek before then recovery of certain incremental purchased power capacity costs and may recover reasonable and necessary transition to competition costs. In July 2005, Entergy Gulf States filed with the PUCT a request for implementation of an incremental purchased capacity rider. An \$18 million annual rider was made effective December 1, 2005 but is subject to reconciliation. Discussion of the recently passed Texas legislation is in Note 2 to the domestic utility companies and System Energy financial statements.

As authorized by the Texas 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.

#### Texas Jurisdiction - Fuel Recovery

Entergy Gulf States' Texas 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 retail open access begins in Texas. To the extent actual costs vary from the fixed fuel factor, refunds or surcharges are required or permitted. The amounts collected under the fixed fuel factor through the start of retail open access are subject to fuel reconciliation proceedings before the PUCT. The PUCT fuel cost reviews that were resolved during the past year or are currently pending are discussed in Note 2 to the domestic utility companies and System Energy financial statements.

#### *Entergy Louisiana*

##### Formula Rate Plan

In May 2005, the LPSC approved a rate settlement that 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.

##### Fuel Recovery

Entergy Louisiana's rate schedules include a fuel adjustment clause designed to recover the cost of fuel and purchased power costs. The fuel adjustment clause contains a surcharge or credit for deferred fuel expense and related carrying charges arising from the monthly reconciliation of actual fuel costs incurred with fuel cost revenues billed to customers. The LPSC approved the deferral of \$27.2 million of fuel and purchased power costs for May 2005 to reduce the effect on customers of increasing natural gas prices.

In September 2002, Entergy Louisiana settled a proceeding that concerned a contract entered into by Entergy Louisiana to purchase, through 2031, energy generated by a hydroelectric facility known as the Vidalia project. In the settlement, the LPSC approved Entergy Louisiana's proposed treatment of the regulatory impact of a tax accounting election related to that project. In general, the settlement permits Entergy Louisiana to keep a portion of the tax benefit in exchange for bearing the risk associated with sustaining the tax treatment. The LPSC settlement divided the term of the Vidalia contract into two segments: 2002-2012 and 2013-2031. During the first eight years of the 2002-2012 segment, Entergy Louisiana agreed to credit rates by flowing through its fuel adjustment calculation \$11 million each year, beginning monthly in October 2002. Entergy Louisiana must credit rates in this way and by this amount even if Entergy Louisiana is unable to sustain the tax deduction. Entergy

Louisiana also must credit rates by \$11 million each year for an additional two years unless either the tax accounting method elected is retroactively repealed or the Internal Revenue Service denies the entire deduction related to the tax accounting method. Entergy Louisiana agreed to credit ratepayers additional amounts unless the tax accounting election is not sustained, if it is challenged. During the years 2013-2031, Entergy Louisiana and its ratepayers would share the remaining benefits of this tax accounting election. Note 8 to the domestic utility companies and System Energy financial statements contains further discussion of the obligations related to the Vidalia project.

#### Storm Cost 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.

#### *Entergy Mississippi*

##### Performance-Based Formula Rate Plan

Entergy Mississippi is operating under a December 2002 MPSC order whereby Entergy Mississippi files a performance-based formula rate plan annually on or before March 15. The formula rate plan compares the prior year's annual earned rate of return to, and adjusts it against, a benchmark rate of return. The benchmark rate of return is calculated under a separate formula within the formula rate plan. The formula rate plan allows for periodic small prospective adjustments in rates, up to an amount that would produce a change in Entergy Mississippi's overall revenue of almost 2%, based on a comparison of actual earned returns to benchmark returns and upon certain performance factors. 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 provided 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%.

##### Fuel Recovery

Entergy Mississippi's rate schedules include energy cost recovery riders to recover fuel and purchased energy costs. The rider utilizes projected energy costs filed quarterly by Entergy Mississippi to develop an energy cost rate. The energy cost rate is redetermined each calendar quarter and includes a true-up adjustment reflecting the over-recovery or under-recovery of the energy cost as of the second quarter preceding the redetermination.

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 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.



### 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.

### Storm Cost Recovery

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 annually over a five-year period, including carrying charges. 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.

### *Entergy New Orleans*

#### Formula Rate Plans

In May 2003, the City Council approved the implementation of formula rate plans for electric and gas service that would be evaluated annually for two cycles of operation, unless extended by the City Council on or before September 1, 2005. Entergy New Orleans made its annual scheduled formula rate plan filing with the City Council in April 2005 which is discussed in Note 2 to the domestic utility companies and System Energy financial statements. In May 2005, Entergy New Orleans made a filing at the City Council seeking approval of the continued implementation of the gas and electric formula rate plans. The City Council approved an agreement in principle which provides, among other things, 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% (an increase from the original target of 42%) as well as a mid-point return on equity of 10.75%. The ROE band-width is 100 basis points from the mid-point for electric operations (allowed earnings range of 9.75% to 11.75%). For gas operations, the ROE band-width is 50 basis points from the mid-point (allowed earnings range of 10.25% to 11.25%) and zero basis points from the mid-point for the 2005 evaluation period. The electric and gas formula rate plans are scheduled to be filed no later than May 1, 2006.

The agreement in principle also called for the continuation and modification of Entergy New Orleans' Generation-Performance Based Rate (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. Under the revised G-PBR, the customer retains 100% of the first \$20 million of additional savings, 90% of the next \$30 million of additional savings (up to \$50 million), 95% of the next \$30 million of additional savings (up to \$80 million), and 100% of additional savings over \$80 million. The agreement in principle provides for a \$4.5 million cap on Entergy New Orleans' share of G-PBR savings. The G-PBR plan, however, has been temporarily suspended effective with the September 2005 operational month 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.

#### Fuel Recovery

Entergy New Orleans' electric rate schedules include a fuel adjustment tariff designed to reflect no more than targeted fuel and purchased power costs, adjusted by a surcharge or credit for deferred fuel expense arising from the monthly reconciliation of actual fuel and purchased power costs incurred with fuel cost revenues billed to customers, including carrying charges. The adjustment also includes the difference between non-fuel Grand Gulf costs paid by Entergy New Orleans and the estimate of such costs, which are included in base rates, as provided in

Entergy New Orleans' Grand Gulf rate settlements. Entergy New Orleans' gas rate schedules include an adjustment to reflect estimated gas costs for the billing month, adjusted by a surcharge or credit similar to that included in the electric fuel adjustment clause, including carrying charges. In June and November 2004, the City Council passed resolutions implementing a package of measures developed by Entergy New Orleans and the Council Advisors to protect customers from potential gas price spikes during the 2004 - 2005 winter heating season. These measures included: maintaining Entergy New Orleans' financial hedging plan for its purchase of wholesale gas, and deferral of collection of up to \$6.2 million of gas costs associated with a cap on the purchased gas adjustment in November and December 2004 in the event that the average residential customer's gas bill were to exceed a threshold level. The deferrals resulting from these caps were recovered over a seven-month period that began in April 2005.

In October 2005, the City Council approved modification of the current gas cost collection mechanism effective November 2005 in order to address concerns regarding its fluctuations particularly during the winter heating season. The modifications are intended to minimize fluctuations in gas rates during the winter months.

### Franchises

Entergy Arkansas holds exclusive franchises to provide electric service in approximately 307 incorporated cities and towns in Arkansas. These franchises are unlimited in duration and continue unless the municipalities purchase the utility property. In Arkansas, franchises are considered to be contracts and, therefore, are terminable upon breach of the terms of the franchise.

In Louisiana, Entergy Gulf States holds non-exclusive franchises, permits, or certificates of convenience and necessity to provide electric service in approximately 55 incorporated municipalities and the unincorporated areas of approximately 19 parishes, and to provide gas service in the City of Baton Rouge and the unincorporated areas of two parishes. In Texas, Entergy Gulf States holds a certificate of convenience and necessity from the PUCT to provide electric service to areas within approximately 24 counties in eastern Texas, and holds non-exclusive franchises to provide electric service in approximately 65 incorporated municipalities. Entergy Gulf States typically is granted 50-year franchises in Texas. Most of Entergy Gulf States' Louisiana franchises have a term of 60 years. Entergy Gulf States' current electric franchises will expire during 2007 - 2045 in Texas and during 2015 - 2046 in Louisiana.

Entergy Louisiana holds non-exclusive franchises to provide electric service in approximately 116 incorporated Louisiana municipalities. Most of these franchises have 25-year terms. Entergy Louisiana also supplies electric service in approximately 353 unincorporated communities, all of which are located in the 46 Louisiana parishes in which it holds non-exclusive franchises.

Entergy Mississippi has received from the MPSC certificates of public convenience and necessity to provide electric service to areas within 45 counties, including a number of municipalities, in western Mississippi. Under Mississippi statutory law, such certificates are exclusive. Entergy Mississippi may continue to serve in such municipalities upon payment of a statutory franchise fee, regardless of whether an original municipal franchise is still in existence.

Entergy New Orleans provides electric and gas service in the City of New Orleans pursuant to city ordinances (except electric service in Algiers, which is provided by Entergy Louisiana). These ordinances contain a continuing option for the City of New Orleans to purchase Entergy New Orleans' electric and gas utility properties.

The business of System Energy is limited to wholesale power sales. It has no distribution franchises.

## Property and Other Generation Resources

### Generating Stations

The total capability of the generating stations owned and leased by the domestic utility companies and System Energy as of December 31, 2005, is indicated below:

<u>Company</u>	<u>Owned and Leased Capability MW(1)</u>				
	<u>Total</u>	<u>Gas/Oil</u>	<u>Nuclear</u>	<u>Coal</u>	<u>Hydro</u>
Entergy Arkansas	4,704	1,601	1,843	1,190	70
Entergy Gulf States	6,494	4,890	977	627	-
Entergy Louisiana	6,149	4,992	1,157	-	-
Entergy Mississippi	2,883	2,467	-	416	-
Entergy New Orleans (2)	876	876	-	-	-
System Energy	1,143	-	1,143	-	-
<b>Total</b>	<b>22,249</b>	<b>14,826</b>	<b>5,120</b>	<b>2,233</b>	<b>70</b>

- (1) "Owned and Leased 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) Entergy New Orleans' Gas/Oil generating capability sustained damage due to Hurricane Katrina and repairs are expected to be completed as needed to serve load.

The Entergy System's load and capacity projections are reviewed periodically to assess the need and timing for additional generating capacity and interconnections. These reviews consider existing and projected demand, the availability and price of power, the location of new loads, and economy. Peak load in the U.S. Utility service territory is typically around 22,000 MW, with minimum load typically around 9,000 MW. Allowing for an adequate reserve margin, Entergy has been short approximately 3,000 MW during the summer peak load period. In addition to its net short position at summer peak, Entergy considers its generation in three categories: (1) baseload (e.g. coal, nuclear, or other solid fuel generation); (2) load-following (e.g. combined cycle gas-fired); and (3) peaking. The relative supply and demand for these categories of generation vary by region of the Entergy System. For example, the north end of the Entergy System has more baseload coal and nuclear generation than regional demand requires, but is short load-following or intermediate generation. In the south end of the Entergy System, load would be more effectively served if gas-fired intermediate resources already in place were supplemented with additional solid fuel baseload generation.

In the past, the Entergy System covered its short position at summer peak almost entirely with purchases from the spot market. In the fall of 2002, Entergy began a process of issuing requests for proposal (RFP) to procure supply-side resources from sources other than the spot market to meet the unique regional needs of the domestic utility companies. The first RFP sought resources to provide summer 2003 and longer-term resources through a broad range of wholesale power products, including short-term (less than one year), limited-term (1 to 3 years), and long-term contractual products and asset acquisitions. A detailed process that included the involvement of an independent monitor was developed to evaluate submitted bids. The following table illustrates the results of the RFP process for short-term, limited-term, and long-term resources acquired since the Fall 2002 RFP. All of the contracts which were awarded through this process and signed were with non-affiliates, with the exception of the contract covering 185 MW to 206 MW from RS Cogen.

<b>RFP</b>	<b>Short-term 3rd party</b>	<b>Limited-term affiliate</b>	<b>Limited-term 3rd party</b>	<b>Long-term affiliate</b>	<b>Long-term 3rd party</b>	<b>Total</b>
Fall 2002	0 MW	185-206 MW (a)	231 MW	101-121 MW (b)	718 MW	1,235-1,276 MW
January 2003 supplemental	222 MW	n/a	n/a	n/a	n/a	222 MW
Spring 2003	n/a	0 MW	381 MW	(c)	0 MW	381 MW
Fall 2003	n/a	0 MW	390 MW	n/a	n/a	390 MW
Fall 2004	n/a	n/a	1,250 MW	n/a	n/a	1,250 MW
Total	222 MW	185-206 MW	2,252 MW	101-121 MW	718 MW	3,478 - 3,519 MW

- (a) Includes a conditional option to increase the capacity up to the upper bound of the range.
- (b) The contracted capacity will increase from 101 MW to 121 MW in 2010.
- (c) This table does not reflect (i) the River Bend 30% life-of-unit power purchase agreements totaling approximately 300 MW between Entergy Gulf States and Entergy Louisiana, and between Entergy Gulf States and Entergy New Orleans related to Entergy Gulf States' unregulated portion of the River Bend nuclear station, which portion was formerly owned by Cajun Electric Power Cooperative, Inc. or (ii) the Entergy Arkansas wholesale base load capacity life-of-unit power purchase agreements totaling approximately 220 MW between Entergy Arkansas and Entergy Louisiana and between Entergy Arkansas and Entergy New Orleans related to the sale of a portion of Entergy Arkansas' coal and nuclear base load resources (which were not included in retail rates) to Entergy Louisiana and Entergy New Orleans executed in 2003; or (iii) the 12 month agreements between Entergy Arkansas and Entergy Gulf States and between Entergy Arkansas and Entergy Mississippi relating to the sale of a portion of Entergy Arkansas' coal and nuclear base load resources (which were not included in retail rates) to Entergy Gulf States and Entergy Mississippi executed in 2005, which agreements currently are pending for approval by the FERC. These resources were identified outside of the formal RFP process but were submitted as formal proposals in response to the Spring 2003 RFP, which confirmed the economic merits of these resources.

The purchase of the Perryville plant was completed during June 2005 for approximately \$162.5 million. Entergy Louisiana owns 100% of the 718 MW plant and will retain 25% of the output for Entergy Louisiana customers, selling 75% to Entergy Gulf States under Service Schedule MSS-4 of the Entergy System Agreement.

In addition, Entergy Gulf States entered into a 485 MW contract for capacity and energy from Calpine Energy Services, L.P.'s and Carville Energy Center, LLC's Carville Energy Center. This contract, which has a one-year delivery term beginning in July 2005, was the result of bilateral negotiations conducted at the direction of the LPSC. Also, Entergy Louisiana entered into a 179 MW contract for capacity and energy from Occidental Chemical Corporation's Taft Cogeneration Facility, which was also the result of bilateral negotiations conducted at the direction of the LPSC. This contract has a three-year delivery term beginning in July 2005.

Entergy Mississippi entered into an agreement in March 2005 to acquire the Attala generating facilities from Central Mississippi Generating Company (CMG) for \$88 million. Attala is a gas-fired power generating facility located near Kosciusko, Mississippi with nominal capacity of 480 MW. Entergy Mississippi closed on the purchase of the plant in January 2006.

In addition to the resources already identified, the Entergy System preferentially allocated to Entergy Gulf States and Entergy Louisiana 800 MW of annual block energy purchases as a part of its Summer 2005 resource plan. Block energy products help the Entergy System and the domestic utility companies meet several of the objectives outlined in its planning principles. Block purchases allow the companies to meet their need for baseload resources, while matching resources with demand and helping to provide price stability. In addition, block energy

purchases also provide a means by which individual operating companies can move their total production costs closer to the Entergy System average.

As part of the ongoing needs assessment and RFP process mentioned above, Entergy Services issued an RFP for long-term resources in January 2006. Entergy Services currently intends to seek to acquire up to approximately 1,000 MW of long-term solid fuel resources and up to approximately 1,000 MW of long-term CCGT resources through economically and operationally attractive proposals in the 2006 long-term RFP. It currently is anticipated that the long-term resources will include life-of-unit proposals for existing facilities and projects that may be developed or completed in the future. Entergy Services identified a self-build option to be located at Entergy Louisiana's Little Gypsy facility in this RFP, and Entergy competitive affiliates are also allowed to submit proposals.

In addition to the purchases from non-affiliates shown above, Entergy Arkansas, Entergy Gulf States in Louisiana, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans made filings with their respective retail regulators seeking approval to enter into transactions with affiliates as shown in the following table:

Company	Proposed Transactions	Status of Approval in Retail Jurisdiction
Entergy Arkansas	<ol style="list-style-type: none"> <li>1) Entered into a life-of-resources PPA to sell approximately 110 MW of capacity both to Entergy Louisiana and to Entergy New Orleans not included in Entergy Arkansas' retail rate base, consisting of a portion of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> <li>2) Entered into one-year PPAs with both Entergy Gulf States and Entergy Mississippi to sell approximately 97 MW and 59 MW, respectively, of capacity not included in Entergy Arkansas' retail rate base, consisting of a portion of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> </ol>	<p>In May 2003, the APSC found the PPAs in 1) involving Entergy Arkansas to be in the public interest.</p> <p>FERC approved the PPAs in 2) which went into effect in February 2006.</p>
Entergy Gulf States	<ol style="list-style-type: none"> <li>1) Entered into a one-year PPA with Entergy Arkansas to purchase approximately 97 MW of capacity not included in Entergy Arkansas' retail rate base, consisting of a portion of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> </ol>	<p>The LPSC and FERC approved the PPA with Entergy Arkansas. The PPA went into effect in February 2006.</p>

Entergy Louisiana	<ol style="list-style-type: none"> <li>1) Purchased a 140 MW to 156 MW capacity purchase call option from RS Cogen for June 2003 through April 2006.</li> <li>2) Entered a life-of-unit PPA to purchase approximately 51MW (increasing to 61 MW in 2010) of output from Entergy Power's share of Independence 2.</li> <li>3) Entered a life-of-unit PPA with Entergy Gulf States to purchase two-thirds of the output of the 30% of River Bend formerly owned by Cajun (approximately 200 MW).</li> <li>4) Entered a life-of-resources PPA with Entergy Arkansas to purchase approximately 110 MW of capacity not included in Entergy Arkansas' retail rate base, consisting of a portion of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> </ol>	<p>The LPSC found contracts 1) and 2) to be prudent and authorized Entergy Louisiana to execute these contracts. In December 2005, the LPSC approved the life-of-unit PPAs for proposals 3) and 4). Entergy Louisiana is seeking clarification for the pricing of one of the resources included in contract 4). The outcome of the life-of-resources PPAs is still pending FERC approval, although the FERC ALJ issued a decision generally recommending that the contracts be approved.</p>
Entergy Mississippi	<ol style="list-style-type: none"> <li>1) Entered into a one-year PPA with Entergy Arkansas to purchase approximately 59 MW of capacity not included in Entergy Arkansas' retail rate base, consisting of a portions of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> </ol>	<p>The MPSC and the FERC approved the PPA with Entergy Arkansas. The PPA went into effect in February 2006.</p>
Entergy New Orleans	<ol style="list-style-type: none"> <li>1) Purchased a 45 MW to 50 MW capacity purchase call option from RS Cogen for June 2003 through April 2006.</li> <li>2) Entered a life-of-unit PPA to purchase approximately 50 MW (increasing to 60 MW in 2010) of output from Entergy Power's share of Independence 2.</li> <li>3) Entered a life-of-unit PPA with Entergy Gulf States to purchase one-third of the output of the 30% of River Bend formerly owned by Cajun (approximately 100 MW).</li> <li>4) Entered a life-of-resources PPA with Entergy Arkansas to purchase approximately 110 MW of capacity not included in Entergy Arkansas' retail rate base, consisting of a portion of the output from ANO, White Bluff, Independence, and Entergy Arkansas' share of Grand Gulf.</li> <li>5) As approved by the City Council, entered into short-term PPAs with Entergy Gulf States and Entergy Louisiana to sell, on an interim basis and subject to recall, the capacity and energy output under contracts 1) through 4) on a short-term basis as a result of the loss of load caused by Hurricane Katrina. To date, 175 MW of this capacity has been recalled by Entergy New Orleans.</li> </ol>	<p>In May 2003, in connection with a settlement relating to Entergy New Orleans' cost-of-service study and revenue requirement, the City Council authorized Entergy New Orleans to enter into contracts for the proposed transactions described in 1) through 4).</p>

- 6) Entered into a transaction pursuant to Service Schedule MSS-4 of the Entergy System Agreement to purchase a portion of the capacity and energy being acquired by Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy Mississippi from a third party; this contract expires on May 31, 2006.

Entergy also filed with the FERC the affiliate agreements described above. For the agreements other than the PPAs between Entergy Arkansas and Entergy Gulf States and Entergy Mississippi, in May 2003, the FERC accepted the agreements for filing, subject to refund, with the contracts becoming effective on June 1, 2003. The FERC also established a hearing process to review the justness and reasonableness of the agreements. Several parties intervened or filed protests regarding the request-for-proposals process and the agreements filed with the FERC. After hearings were held, the FERC ALJ issued an initial decision generally recommending approval of the PPAs. The matter is still pending before the FERC.

#### Interconnections

The Entergy System's generating units are interconnected by a transmission system operating at various voltages up to 500 kV. These generating units consist primarily of steam-electric production facilities and are centrally dispatched and operated. Entergy's domestic utility companies are interconnected with many neighboring utilities. In addition, the domestic utility companies are members of the Southeastern Electric Reliability Council (SERC). The primary purpose of SERC is to ensure the reliability and adequacy of the electric bulk power supply in the southeast region of the United States. SERC is a member of the North American Electric Reliability Council.

#### Gas Property

As of December 31, 2005, Entergy New Orleans distributed and transported natural gas for distribution solely within New Orleans, Louisiana, through a total of 33 miles of gas transmission pipeline, 1,498 miles of gas distribution pipeline, and 1,027 miles of gas service pipeline from the distribution mains to the customers. As of December 31, 2005, the gas properties of Entergy Gulf States, which are located in and around Baton Rouge, Louisiana, were not material to Entergy Gulf States' financial position.

#### Titles

Entergy's generating stations are generally located on properties owned in fee simple. Most of the substations and transmission and distribution lines are constructed on private property or public rights-of-way pursuant to easements, servitudes, or appropriate franchises. Some substation properties are owned in fee simple. The domestic utility companies generally have the right of eminent domain, whereby they may perfect title to, or secure easements or servitudes on, private property for their utility operations.

Substantially all of the physical properties and assets owned by Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy are subject to the liens of mortgages securing the mortgage bonds of such company. The Lewis Creek generating station is owned by GSG&T, Inc., a subsidiary of Entergy Gulf States, and is not subject to the lien of the Entergy Gulf States mortgage securing its first mortgage bonds. Lewis Creek is leased to and operated by Entergy Gulf States.

## Fuel Supply

The sources of generation and average fuel cost per kWh for the domestic utility companies and System Energy for the years 2003-2005 were:

Year	Natural Gas		Fuel Oil		Nuclear		Coal		Purchased Power	
	% of Gen	Cents Per kWh	% of Gen	Cents Per kWh	% of Gen	Cents Per kWh	% of Gen	Cents Per kWh	% of Gen	Cents Per kWh
2005	18	9.81	3	7.09	33	.49	12	1.57	34	6.33
2004	15	7.31	4	5.02	35	.49	13	1.39	33	4.51
2003	17	6.53	2	5.04	35	.48	12	1.26	34	4.24

Actual 2005 and projected 2006 sources of generation for the domestic utility companies and System Energy, including certain power purchases from affiliates under life of unit power purchase agreements, are:

	Natural Gas		Fuel Oil		Nuclear		Coal		Purchased Power	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Entergy										
Arkansas (a)	1%	1%	-	-	43%	51%	22%	23%	34%	25%
Entergy										
Gulf States	21%	21%	1%	1%	18%	16%	10%	12%	50%	50%
Entergy										
Louisiana	25%	19%	4%	4%	26%	41%	-	2%	45%	34%
Entergy										
Mississippi	9%	31%	10%	19%	-	2%	16%	21%	65%	27%
Entergy										
New Orleans	22%	10%	-	-	8%	37%	2%	14%	68%	39%
System Energy	-	-	-	-	100%(b)	100%(b)	-	-	-	-
U.S. Utility (a)	18%	15%	3%	3%	33%	36%	12%	12%	34%	34%

- (a) Hydroelectric power provided less than 1% of Entergy Arkansas' generation in 2005 and is expected to provide approximately 1% of its generation in 2006.
- (b) Capacity and energy from System Energy's interest in Grand Gulf was historically allocated as follows: Entergy Arkansas - 36%; Entergy Louisiana - 14%; Entergy Mississippi - 33%; and Entergy New Orleans - 17%. Pursuant to purchased power agreements, some that are the subject of a pending proceeding at the FERC, Entergy Arkansas is selling a portion of its owned capacity and energy from Grand Gulf to Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans.

## Natural Gas

The domestic utility companies have long-term firm and short-term interruptible gas contracts. Long-term firm contracts for power plants comprise less than 15% of the domestic utility companies' total requirements but can be called upon, if necessary, to satisfy a significant percentage of the utility companies' needs. Short-term contracts and spot-market purchases satisfy additional gas requirements. Entergy Gulf States owns a gas storage facility that provides reliable and flexible natural gas service to certain generating stations.

Entergy Louisiana has a long-term natural gas supply contract, which expires in 2012, in which Entergy Louisiana agreed to purchase natural gas in annual amounts equal to approximately one-third of its projected annual



fuel requirements for certain generating units. Annual demand charges associated with this contract are estimated to be \$7.2 million. Such charges aggregate \$50 million for the years 2006 through 2012.

Many factors, including wellhead deliverability, storage and pipeline capacity, and demand requirements of end users, influence the availability and price of natural gas supplies for power plants. Demand is tied to weather conditions as well as to the prices of other energy sources. Natural gas supplies were significantly disrupted in 2005 due to Hurricanes Katrina and Rita (at one point up to 70% of the normal level of Gulf of Mexico production was unavailable), and disruptions are expected to continue into 2006. Nevertheless, Entergy's supplies of natural gas are expected to be adequate in 2006. However, pursuant to federal and state regulations, gas supplies to power plants may be interrupted during periods of shortage. To the extent natural gas supplies are disrupted or natural gas prices significantly increase, the domestic utility companies will use alternate fuels, such as oil, or rely to a larger extent on coal, nuclear generation, and purchased power.

### Coal

Entergy Arkansas has a long-term contract for low-sulfur Powder River Basin (PRB) coal which expires in 2011, and is expected to provide for approximately 90% of Independence's expected coal requirements for 2006. Entergy Arkansas has entered into three medium term (three-year) contracts for approximately 67% of White Bluff's coal supply needs. These contracts are staggered in term so that one is renewed every year. Entergy Arkansas has an additional 16% of its 2006 coal requirement committed in a one-year contract. Additional coal requirements for both Independence and White Bluff are satisfied by spot market or over-the-counter purchases. Entergy Arkansas has a long-term railroad transportation contract for the delivery of coal to both White Bluff and Independence that expires in 2011. A second carrier currently delivers a portion of White Bluff's coal requirements under a long-term transportation agreement that expires on December 31, 2006.

Entergy Gulf States has a long-term contract for the supply of low-sulfur PRB coal for Nelson Unit 6. This contract will expire during the summer of 2007. Entergy Gulf States has executed two transportation requirements contracts with railroads to deliver coal to Nelson Unit 6 through 2007. The operator of Big Cajun 2, Unit 3, Louisiana Generating, LLC, has advised Entergy Gulf States that it has coal supply and transportation contracts that should provide an adequate supply of coal for the operation of Big Cajun 2, Unit 3 for the foreseeable future.

Both the Entergy Arkansas and Entergy Gulf States coal plants were originally designed for and have exclusively burned low-sulfur coal. While both Entergy Arkansas and Entergy Gulf States have adequately arranged for the supply of low-sulfur PRB coal, the railroads servicing these coal plants are currently not performing at expected levels due to various issues including but not limited to capacity constraints across their systems. As a result of these railroad issues, Entergy Arkansas and Entergy Gulf States may not be able to deliver all the low-sulfur PRB coal required for maximum plant utilization by means of the existing agreements. Entergy Arkansas and Entergy Gulf States plan to test alternative coals in addition to low-sulfur PRB coal in an effort to increase delivery options and to cover portions of the potential shortfall in low-sulfur PRB coal deliveries.

### Nuclear Fuel

The nuclear fuel cycle consists of the following:

- mining and milling of uranium ore to produce a concentrate;
- conversion of the concentrate to uranium hexafluoride gas;
- enrichment of the hexafluoride gas;
- fabrication of nuclear fuel assemblies for use in fueling nuclear reactors; and
- disposal of spent fuel.

System Fuels, a company owned by Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, is responsible for contracts to acquire nuclear material to be used in fueling Entergy's utility nuclear units, except for River Bend. System Fuels also maintains inventories of such materials during the various stages of processing. The domestic utility companies purchase enriched uranium hexafluoride from System Fuels,

but contract separately for the fabrication of their own nuclear fuel. The requirements for River Bend are met pursuant to contracts made by Entergy Gulf States.

Based upon currently planned fuel cycles, Entergy's nuclear units have contracts and inventory that provide adequate materials and services. Existing contracts for uranium concentrate, conversion of the concentrate to uranium hexafluoride, and enrichment of the uranium hexafluoride will provide a significant percentage of these materials and services over the next several years. Uranium market supply became much tighter in recent years. Costs and risks of obtaining supplies have increased for nuclear fuel users. It will be necessary for Entergy to enter into additional arrangements to acquire nuclear fuel in the future. It is not possible to predict the ultimate cost or availability of such arrangements.

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy each have made arrangements to lease nuclear fuel and related equipment and services. The lessors finance the acquisition and ownership of nuclear fuel through credit agreements and the issuance of notes. These arrangements are subject to periodic renewal. See Note 9 to the domestic utility companies and System Energy financial statements for a discussion of nuclear fuel leases.

#### Natural Gas Purchased for Resale

Entergy New Orleans has several suppliers of natural gas. Its system is interconnected with three interstate and three intrastate pipelines. Entergy New Orleans' primary suppliers currently are Atmos Energy and Bridgeline Gas Marketing. Entergy New Orleans has a "no-notice" service gas purchase contract with Atmos Energy which guarantees Entergy New Orleans gas delivery at specific delivery points and at any volume within the minimum and maximum set forth in the contract amounts. The Atmos Energy gas supply is transported to Entergy New Orleans pursuant to a transportation service agreement with Gulf South Pipeline Co. This service is subject to FERC-approved rates. Entergy New Orleans has firm contracts with its two intrastate suppliers and also makes interruptible spot market purchases. In recent years, natural gas deliveries to Entergy New Orleans have been subject primarily to weather-related curtailments. However, Entergy New Orleans experienced no such curtailments in 2005.

As a result of the implementation of FERC-mandated interstate pipeline restructuring in 1993, curtailments of interstate gas supply could occur if Entergy New Orleans' suppliers failed to perform their obligations to deliver gas under their supply agreements. Gulf South Pipeline Co. could curtail transportation capacity only in the event of pipeline system constraints. Because of the impact of Hurricanes Katrina and Rita on natural gas supply as well as other factors, Entergy New Orleans may have additional difficulty in sourcing natural gas.

Entergy Gulf States purchases natural gas for resale under a firm contract from Enbridge Marketing (U.S.) Inc. (formerly Mid Louisiana Gas Company) entered into September 2002 for a five-year period. The contract will continue annually at the end of the term unless prior notice is given by Entergy Gulf States.

#### **Federal Regulation**

State or local regulatory authorities, as described above, regulate the retail rates of Entergy's domestic utility companies. FERC regulates wholesale rates (including intrasystem sales pursuant to the System Agreement) and interstate transmission of electricity, as well as rates for System Energy's sales of capacity and energy from Grand Gulf to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans pursuant to the Unit Power Sales Agreement.

System Agreement (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

The domestic utility companies historically have engaged in the coordinated planning, construction, and operation of generating and bulk transmission facilities under the terms of the System Agreement, which is a rate schedule that has been approved by the FERC. Under the terms of the System Agreement, generating capacity and other power resources are jointly operated by the domestic utility companies. The System Agreement provides,

among other things, that parties having generating reserves greater than their load requirements (long companies) shall receive payments from those parties having deficiencies in generating reserves (short companies). Such payments are at amounts sufficient to cover certain of the long companies' costs for intermediate and peaking oil/gas-fired generation, including operating expenses, fixed charges on debt, dividend requirements on preferred stock, and a fair rate of return on common equity investment. Under the System Agreement, these charges are based on costs associated with the long companies' steam electric generating units fueled by oil or gas and having an annual average heat rate above 10,000 Btu/kWh. In addition, for all energy exchanged among the domestic utility companies under the System Agreement, the companies purchasing exchange energy are required to pay the cost of fuel consumed in generating such energy plus a charge to cover other associated costs.

See "System Agreement Proceedings" in the "**Significant Factors and Known Trends**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis for discussion of the proceeding at FERC involving the System Agreement and of other related proceedings.

#### Transmission

See "Independent Coordinator of Transmission" in the "**Significant Factors and Known Trends**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

#### Market-based Rate Authority

See "Market-based Rate Authority" in the "**Significant Factors and Known Trends**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

#### Interconnection Orders

See "Interconnection Orders" in the "**Significant Factors and Known Trends**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

#### Available Flowgate Capacity Proceeding

See "Available Flowgate Capacity Proceeding" in the "**Significant Factors and Known Trends**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

#### FERC Audits

In August 2002, the FERC initiated audits and reviews of Entergy's compliance with Order Nos. 888 and 889 and Entergy's open access transmission tariff. In March 2004, a separate audit was started concerning Entergy's administration of the Generator Operating Limits (GOL) processes. Entergy responded to numerous FERC data requests and the FERC Staff members interviewed several employees. In December 2004, the FERC issued the GOL audit report in which it identified certain input and modeling errors in the implementation of the GOL process (which process was replaced in April 2004 with the available flowgate capacity process). The report recommends that Entergy implement additional quality control and assurance procedures surrounding the processes for granting short-term transmission service. Separately, the FERC investigation staff has provided to Entergy its preliminary findings in a non-public draft report identifying certain areas of concern related to Entergy's compliance with provisions of its open access transmission tariff. Entergy has submitted a comprehensive response and rebuttal to the specific concerns identified by the investigation staff but, at this point, believes that it has complied with the provisions of its open access transmission tariff. The draft report is not a final report and may be modified by the FERC staff based on Entergy's responses or otherwise. In addition, Entergy has the ability to appeal the final reports to the full FERC.

The FERC is currently reviewing certain wholesale sales and purchases involving EPMC that occurred during the 1998-2001 time period. EPMC was an Entergy subsidiary engaged in non-regulated wholesale marketing and trading activities prior to the formation of Entergy-Koch. Entergy is working with the FERC investigation staff to provide information regarding these transactions.

See "Available Flowgate Capacity Proceeding" in the "Significant Factors and Known Trends" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis for a discussion concerning the potential loss of certain available flowgate capacity data. Following Entergy's notice to the FERC of the potential loss of certain available flowgate capacity data, the FERC investigation staff initiated a non-public investigation of the domestic utility companies' compliance with the FERC's record retention requirements. Entergy is providing information to the FERC staff concerning its record retention policies and practices. Additionally, Entergy recently notified the FERC investigation staff of a failure to timely post to Entergy's OASIS site certain curtailment and schedule information. A separate, non-public investigation was initiated to review this issue and Entergy is working with the FERC staff to respond to their questions.

#### Other Customer-Initiated Proceedings at FERC

In September 2004, East Texas Electric Cooperative (ETEC), filed a complaint at the FERC against Entergy Arkansas relating to a contract dispute over the pricing of substitute energy at the Independence co-owned coal unit. In October 2004 Arkansas Electric Cooperative (AECC) filed a similar complaint at the FERC against Entergy Arkansas, addressing the same issue with respect to Independence and another co-owned coal unit, White Bluff Electric Station. Entergy Arkansas filed answers to these complaints in October 2004 and November 2004. FERC consolidated the cases, ordered a hearing in the consolidated proceeding, and established refund effective dates. The main issue in the case relates to the consequences under the governing contracts when the dispatch of the coal units is constrained due to system operating conditions. On August 24, 2005, Entergy Arkansas and ETEC filed a settlement at FERC that resolved all issues in dispute between ETEC and Entergy Arkansas. As part of the settlement, ETEC filed to dismiss its complaint. Entergy Arkansas believes that the AECC contracts in dispute recognize the effects of dispatch constraints on the co-owned units and require all of the co-owners, including AECC, to bear the burden of the reduced output. A FERC ALJ issued an Initial Decision in January 2006 denying AECC's complaint.

On February 17, 2005, ExxonMobil Chemical Company and ExxonMobil Refining & Supply Company (ExxonMobil) filed a complaint with FERC against Entergy Services and the domestic utility companies. The complaint alleges that the Entergy defendants have violated Entergy's open access transmission tariff, as well as its interconnection and operating agreement with ExxonMobil, by not allowing ExxonMobil to net its station power needs at its industrial complex in Baton Rouge, Louisiana. ExxonMobil also alleges that the Entergy defendants have been charging rates that are not on file with the FERC and that the Entergy defendants' monthly facilities charge is contrary to the FERC's current interconnection pricing policy. ExxonMobil states that such violations have resulted in monetary losses to it in excess of \$5 million. Entergy believes that it has complied with the provisions of its open access transmission tariff and the provisions of the interconnection and operating agreement. On April 18, 2005, the FERC (1) rejected as unfounded ExxonMobil's allegation concerning the netting of its station power needs; and (2) set for hearing the question of whether the facility upgrades and related charges are subject to FERC jurisdiction and, if so, when they became subject to FERC jurisdiction, whether the monthly facility charge violated FERC pricing policy, and whether any refunds are appropriate. The FERC then held the hearing in abeyance in order to provide the parties an opportunity to settle their dispute before hearing procedures commence. Settlement discussions with the assistance of a FERC Settlement Judge are underway.

On January 24, 2005 Cottonwood Energy Company, L.P., an independent generator, filed with the FERC a rate schedule for reactive power that proposes to impose on Entergy Gulf States a rate for reactive supply service allegedly supplied by Cottonwood's electric generating facility. Cottonwood has proposed a fixed monthly charge (\$3.4 million annually), which according to Cottonwood represents its revenue requirement for reactive power service. Entergy believes that independent generators should only be compensated for reactive power to the extent that they have an affirmative and continual obligation to provide reactive power support beyond their power factor range when directed to do so by the transmission provider, and is opposing Cottonwood's rate schedule. On March 23, 2005, the FERC accepted Cottonwood's proposed reactive power rate schedule for filing effective on February 1, 2005, subject to refund, and established hearing and settlement judge procedures. A hearing in this proceeding originally scheduled for January 2006 has been held in abeyance, pending settlement discussions. A similar filing was made by Union Power Partners in May 2005 requesting \$4.15 million annually. On July 15, 2005, the FERC

accepted Union Power Partners' proposed reactive power rate schedule for filing, effective May 18, 2005, subject to refund and established hearing and settlement judge procedures.

During August and September 2005, three additional generators filed similar requests seeking to charge the domestic utility companies' customers a total of approximately \$8 million. On September 2, 2005, the domestic utility companies filed a Petition for Declaratory Order with the FERC seeking confirmation that if the domestic utility companies do not seek compensation from wholesale transmission customers for reactive power service provided by their owned generating facilities, then the domestic utility companies are not required to compensate non-affiliated generators for maintaining reactive power within specified limits. Concurrent with their Petition for Declaratory Order, the domestic utility companies filed modifications to their transmission tariff proposing to eliminate any charge for reactive power supplied by the domestic utility companies' owned units. On October 14, 2005, the FERC issued an order granting Entergy's Petition for Declaratory Order and accepting the proposed changes to the transmission tariff, effective November 1, 2005. Accordingly, following November 1, 2005, the domestic utility companies' customers should not be required to compensate third party generators for reactive power supplied within the specified limits. The FERC accepted the three additional generators' proposed rate schedules for filing but noted that the proposed rate schedules would no longer be effective after October 31, 2005, consistent with its ruling on the Petition for Declaratory Order. On November 1, 2005, the domestic utility companies filed two complaints with the FERC requesting that the FERC issue similar orders prohibiting Cottonwood and Union Power Partners from charging for reactive power supplied within the specified limits after October 31, 2005.

Entergy and Union Power Partners have filed with the FERC a proposed settlement for reactive power charges for the period May 18, 2005 through October 31, 2005. Entergy is currently engaged in settlement discussions with the other four generators.

#### System Energy and Related Agreements

System Energy recovers costs related to its interest in Grand Gulf through rates charged to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans for capacity and energy under the Unit Power Sales Agreement (described below). In December 1995, System Energy commenced a rate proceeding at the FERC. In July 2001, the rate proceeding became final, with the FERC approving a prospective 10.94% return on equity. The FERC's decision also affected other aspects of System Energy's charges to the domestic utility companies that it supplies with power. In 1998, the FERC approved requests by Entergy Arkansas and Entergy Mississippi to accelerate a portion of their Grand Gulf purchased power obligations. Entergy Arkansas' and Entergy Mississippi's acceleration of Grand Gulf purchased power obligations ceased effective July 2001 and July 2003, respectively, as approved by FERC.

#### *Unit Power Sales Agreement*

The Unit Power Sales Agreement allocates capacity, energy, and the related costs from System Energy's 90% ownership and leasehold interests in Grand Gulf to Entergy Arkansas (36%), Entergy Louisiana (14%), Entergy Mississippi (33%), and Entergy New Orleans (17%). Each of these companies is obligated to make payments to System Energy for its entitlement of capacity and energy on a full cost-of-service basis regardless of the quantity of energy delivered, so long as Grand Gulf remains in commercial operation. Payments under the Unit Power Sales Agreement are System Energy's only source of operating revenue. The financial condition of System Energy depends upon the continued commercial operation of Grand Gulf and the receipt of such payments. Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans generally recover payments made under the Unit Power Sales Agreement through rates charged to their customers.

In the case of Entergy Arkansas and Entergy Louisiana, payments are also recovered through sales of electricity from their respective retained shares of Grand Gulf. Under a settlement agreement entered into with the APSC in 1985 and amended in 1988, Entergy Arkansas retains 22% of its 36% share of Grand Gulf-related costs and recovers the remaining 78% of its share in rates. In the event that Entergy Arkansas is not able to sell its retained share to third parties, it may sell such energy to its retail customers at a price equal to its avoided cost, which is currently less than Entergy Arkansas' cost from its retained share. Entergy Arkansas has life-of-resources

purchased power agreements with Entergy Louisiana and Entergy New Orleans pending regulatory approvals that sell a portion of the output of Entergy Arkansas' retained share of Grand Gulf to those companies. In a series of LPSC orders, court decisions, and agreements from late 1985 to mid-1988, Entergy Louisiana was granted rate relief with respect to costs associated with Entergy Louisiana's share of capacity and energy from Grand Gulf, subject to certain terms and conditions. Entergy Louisiana retains and does not recover from retail ratepayers 18% of its 14% share of the costs of Grand Gulf capacity and energy and recovers the remaining 82% of its share in rates. Entergy Louisiana is allowed to recover through the fuel adjustment clause 4.6 cents per kWh for the energy related to its retained portion of these costs. Alternatively, Entergy Louisiana may sell such energy to non-affiliated parties at prices above the fuel adjustment clause recovery amount, subject to the LPSC's approval.

#### *Availability Agreement*

The Availability Agreement among System Energy and Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans was entered into in 1974 in connection with the financing by System Energy of Grand Gulf. The Availability Agreement provides that System Energy make available to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans all capacity and energy available from System Energy's share of Grand Gulf.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans also agreed severally to pay System Energy monthly for the right to receive capacity and energy from Grand Gulf in amounts that (when added to any amounts received by System Energy under the Unit Power Sales Agreement) would at least equal System Energy's total operating expenses for Grand Gulf (including depreciation at a specified rate) and interest charges. The September 1989 write-off of System Energy's investment in Grand Gulf 2, amounting to approximately \$900 million, is being amortized for Availability Agreement purposes over 27 years.

The allocation percentages under the Availability Agreement are fixed as follows: Entergy Arkansas - 17.1%; Entergy Louisiana - 26.9%; Entergy Mississippi - 31.3%; and Entergy New Orleans - 24.7%. The allocation percentages under the Availability Agreement would remain in effect and would govern payments made under such agreement in the event of a shortfall of funds available to System Energy from other sources, including payments under the Unit Power Sales Agreement.

System Energy has assigned its rights to payments and advances from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans under the Availability Agreement as security for its first mortgage bonds and reimbursement obligations to certain banks providing letters of credit in connection with the equity funding of the sale and leaseback transactions described in Note 9 to the financial statements under "**Sale and Leaseback Transactions - Grand Gulf Lease Obligations.**" In these assignments, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans further agreed that, in the event they were prohibited by governmental action from making payments under the Availability Agreement (for example, if FERC reduced or disallowed such payments as constituting excessive rates), they would then make subordinated advances to System Energy in the same amounts and at the same times as the prohibited payments. System Energy would not be allowed to repay these subordinated advances so long as it remained in default under the related indebtedness or in other similar circumstances.

Each of the assignment agreements relating to the Availability Agreement provides that Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans will make payments directly to System Energy. However, if there is an event of default, those payments must be made directly to the holders of indebtedness that are the beneficiaries of such assignment agreements. The payments must be made pro rata according to the amount of the respective obligations secured.

The obligations of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans to make payments under the Availability Agreement are subject to the receipt and continued effectiveness of all necessary regulatory approvals. Sales of capacity and energy under the Availability Agreement would require that the Availability Agreement be submitted to FERC for approval with respect to the terms of such sale. No such filing with FERC has been made because sales of capacity and energy from Grand Gulf are being made pursuant to the Unit Power Sales Agreement. If, for any reason, sales of capacity and energy are made in the future pursuant to

the Availability Agreement, the jurisdictional portions of the Availability Agreement would be submitted to FERC for approval.

Since commercial operation of Grand Gulf began, payments under the Unit Power Sales Agreement to System Energy have exceeded the amounts payable under the Availability Agreement. Therefore, no payments under the Availability Agreement have ever been required. If Entergy Arkansas or Entergy Mississippi fails to make its Unit Power Sales Agreement payments, and System Energy is unable to obtain funds from other sources, Entergy Louisiana and Entergy New Orleans could become subject to claims or demands by System Energy or its creditors for payments or advances under the Availability Agreement (or the assignments thereof) equal to the difference between their required Unit Power Sales Agreement payments and their required Availability Agreement payments because their Availability Agreement obligations exceed their Unit Power Sales Agreement obligations.

The Availability Agreement may be terminated, amended, or modified by mutual agreement of the parties thereto, without further consent of any assignees or other creditors.

#### *Capital Funds Agreement*

System Energy and Entergy Corporation have entered into the Capital Funds Agreement, whereby Entergy Corporation has agreed to supply System Energy with sufficient capital to (i) maintain System Energy's equity capital at an amount equal to a minimum of 35% of its total capitalization (excluding short-term debt) and (ii) permit the continued commercial operation of Grand Gulf and pay in full all indebtedness for borrowed money of System Energy when due.

Entergy Corporation has entered into various supplements to the Capital Funds Agreement. System Energy has assigned its rights under such supplements as security for its first mortgage bonds and for reimbursement obligations to certain banks providing letters of credit in connection with the equity funding of the sale and leaseback transactions described in Note 9 to the consolidated financial statements under "**Sale and Leaseback Transactions - Grand Gulf Lease Obligations**." Each such supplement provides that permitted indebtedness for borrowed money incurred by System Energy in connection with the financing of Grand Gulf may be secured by System Energy's rights under the Capital Funds Agreement on a pro rata basis (except for the Specific Payments, as defined below). In addition, in the supplements to the Capital Funds Agreement relating to the specific indebtedness being secured, Entergy Corporation has agreed to make cash capital contributions directly to System Energy sufficient to enable System Energy to make payments when due on such indebtedness (Specific Payments). However, if there is an event of default, Entergy Corporation must make those payments directly to the holders of indebtedness benefiting from the supplemental agreements. The payments (other than the Specific Payments) must be made pro rata according to the amount of the respective obligations benefiting from the supplemental agreements.

The Capital Funds Agreement may be terminated, amended, or modified by mutual agreement of the parties thereto, upon obtaining the consent, if required, of those holders of System Energy's indebtedness then outstanding who have received the assignments of the Capital Funds Agreement.

#### *Service Companies*

Entergy Services, a corporation wholly-owned by Entergy Corporation, provides management, administrative, accounting, legal, engineering, and other services primarily to the domestic utility companies. Entergy Operations is also wholly-owned by Entergy Corporation and provides nuclear management, operations and maintenance services under contract for ANO, River Bend, Waterford 3, and Grand Gulf, subject to the owner oversight of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy, respectively. Entergy Services and Entergy Operations provide their services to the domestic utility companies and System Energy on an "at cost" basis, pursuant to service agreements that were approved by the SEC under PUHCA 1935.

### Earnings Ratios of Domestic Utility Companies and System Energy

The domestic utility companies' and System Energy's ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred dividends pursuant to Item 503 of SEC Regulation S-K are as follows:

	Ratios of Earnings to Fixed Charges				
	Years Ended December 31,				
	2005	2004	2003	2002	2001
Entergy Arkansas	3.75	3.37	3.17	2.79	3.29
Entergy Gulf States	3.34	3.04	1.51	2.49	2.36
Entergy Louisiana Holdings	3.50	3.60	3.93	3.14	2.76
Entergy Louisiana, LLC	3.50	3.60	3.93	3.14	2.76
Entergy Mississippi	3.16	3.41	3.06	2.48	2.14
Entergy New Orleans	1.22	3.60	1.73	(a)	(b)
System Energy	3.85	3.95	3.66	3.25	2.12

	Ratios of Earnings to Combined Fixed Charges and Preferred Dividends				
	Years Ended December 31,				
	2005	2004	2003	2002	2001
Entergy Arkansas	3.34	2.98	2.79	2.53	2.99
Entergy Gulf States	3.18	2.90	1.45	2.40	2.21
Entergy Louisiana Holdings	3.09	3.16	3.46	2.86	2.51
Entergy Mississippi	2.83	3.07	2.77	2.27	1.96
Entergy New Orleans	1.12	3.31	1.59	(a)	(b)

- (a) For Entergy New Orleans, earnings for the twelve months ended December 31, 2002 were not adequate to cover fixed charges and combined fixed charges and preferred dividends by \$0.7 million and \$3.4 million, respectively.
- (b) For Entergy New Orleans, earnings for the twelve months ended December 31, 2001 were not adequate to cover fixed charges and combined fixed charges and preferred dividends by \$6.6 million and \$9.5 million, respectively.

### Non-Utility Nuclear

Entergy's Non-Utility Nuclear business owns and operates five nuclear power plants and is primarily focused on selling electric power produced by those plants to wholesale customers. This business also provides operations and management services to nuclear power plants owned by other utilities in the United States. Operations and management services, including decommissioning services, are provided through Entergy's wholly-owned subsidiary, Entergy Nuclear, Inc.



## Property

### Generating Stations

Entergy's Non-Utility Nuclear business owns the following nuclear power plants:

Power Plant	Acquired	Location	Maximum Capacity	Reactor Type	License Expiration Date
Pilgrim	July 1999	Plymouth, MA	688 MW	Boiling Water Reactor	2012
FitzPatrick	Nov. 2000	Oswego, NY	838 MW	Boiling Water Reactor	2014
Indian Point 3	Nov. 2000	Buchanan, NY	1,041 MW	Pressurized Water Reactor	2015
Indian Point 2	Sept. 2001	Buchanan, NY	1,028 MW	Pressurized Water Reactor	2013
Vermont Yankee	July 2002	Vernon, VT	510 MW	Boiling Water Reactor	2012

Non-Utility Nuclear added 47 MW of capacity in 2005 through an uprate at Indian Point 3. In March 2006 the NRC approved a planned 95 MW uprate at Vermont Yankee that Non-Utility Nuclear intends to implement in 2006.

### Interconnections

The Pilgrim and Vermont Yankee plants are dispatched as a part of Independent System Operator (ISO) New England and the FitzPatrick and Indian Point plants are dispatched by the New York Independent System Operator (NYISO). The primary purpose of ISO New England is to direct the operations of the major generation and transmission facilities in the New England region and the primary purpose of NYISO is to direct the operations of the major generation and transmission facilities in New York state.

## Energy and Capacity Sales

Entergy's Non-Utility Nuclear business has entered into power purchase agreements (PPAs) with creditworthy counterparties to sell the energy produced by its power plants at prices established in the PPAs. Entergy continues to pursue opportunities to extend the existing PPAs and to enter into new PPAs with other parties. Following is a summary of the amount of the Non-Utility Nuclear business' output that is currently sold forward under physical or financial contracts:

	2006	2007	2008	2009	2010
<b>Non-Utility Nuclear:</b>					
Percent of planned generation sold forward:					
Unit-contingent	34%	32%	25%	19%	12%
Unit-contingent with availability guarantees	53%	47%	32%	13%	5%
Firm liquidated damages	4%	2%	0%	0%	0%
Total	91%	81%	57%	32%	17%
Planned generation (TWh)	35	34	34	35	34
Average contracted price per MWh	\$41	\$45	\$49	\$54	\$45

The Vermont Yankee acquisition included a 10-year PPA under which the former owners will buy the power produced by the plant, which is through the expiration in 2012 of the current operating license for the plant. The PPA includes an adjustment clause under which the prices specified in the PPA will be adjusted downward monthly, beginning in November 2005, if power market prices drop below PPA prices.

A sale of power on a unit contingent basis coupled with an availability guarantee provides for the payment to the power purchaser of contract damages, if incurred, in the event the seller fails to deliver power as a result of the failure of the specified generation unit to generate power at or above a specified availability threshold. All of

Entergy's outstanding availability guarantees provide for dollar limits on Entergy's maximum liability under such guarantees.

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.

Non-Utility Nuclear's purchase of the Vermont Yankee plant included a value sharing agreement providing for payments to the seller in the event that the plant's operating license is extended beyond its original expiration in 2012. Under the value sharing agreement, to the extent that the average annual price of the energy sales from the plant exceeds the specified strike price of \$61/MWh on the plant's original capacity of 510 MW, the Non-Utility Nuclear business will pay 50% of the amount exceeding the strike prices to Vermont Public Service. These payments, if required, will be recorded as adjustments to the purchase price of the plants. The value sharing would begin in 2012 and extend into 2022.

Some of the agreements to sell the power produced by Entergy's Non-Utility Nuclear power plants and the wholesale supply agreements entered into by Entergy's Competitive Retail business contain provisions that require an Entergy subsidiary to provide collateral to secure its obligations under the agreements. The Entergy subsidiary may be required to provide collateral based upon the difference between the current market and contracted power prices in the regions where the Non-Utility Nuclear and Competitive Retail businesses sell power. The primary form of the collateral to satisfy these requirements would be an Entergy Corporation guaranty. Cash and letters of credit are also acceptable forms of collateral. At December 31, 2005, based on power prices at that time, Entergy had in place as collateral \$1,630 million of Entergy Corporation guarantees for wholesale transactions, \$237 million of which support letters of credit. The assurance requirement associated with Non-Utility Nuclear is estimated to increase by an amount up to \$400 million if gas prices increase \$1 per MMBtu in both the short- and long-term markets. In the event of a decrease in Entergy Corporation's credit rating to below investment grade, Entergy may be required to replace Entergy Corporation guarantees with cash or letters of credit under some of the agreements.

In addition to selling the power produced by its plants, the Non-Utility Nuclear business sells installed capacity to load-serving distribution companies in order for those companies to meet requirements placed on them by the ISO in their area. Following is a summary of the amount of the Non-Utility Nuclear business' installed capacity that is currently sold forward, and the blended amount of the Non-Utility Nuclear business' planned generation output and installed capacity that is currently sold forward:

	2006	2007	2008	2009	2010
<b>Non-Utility Nuclear:</b>					
Percent of capacity sold forward:					
Bundled capacity and energy contracts	12%	12%	12%	12%	12%
Capacity contracts	77%	46%	36%	24%	3%
Total	89%	58%	48%	36%	15%
Planned net MW in operation	4,184	4,200	4,200	4,200	4,200
Average capacity contract price per kW per month	\$1.0	\$1.1	\$1.1	\$1.0	\$0.9
<u>Blended Capacity and Energy (based on revenues)</u>					
% of planned generation and capacity sold forward	82%	71%	47%	27%	12%
Average contract revenue per MWh	\$42	\$46	\$50	\$55	\$46

As of December 31, 2005, approximately 96% of Non-Utility Nuclear's counterparty exposure from energy and capacity contracts is with counterparties with investment grade credit ratings.