

## Formula Rate Plan

In September 2009, Entergy Mississippi filed with the MPSC proposed modifications to its formula rate plan rider. In March 2010 the MPSC issued an order: (1) providing the opportunity for a reset of Entergy Mississippi's return on common equity to a point within the formula rate plan bandwidth and eliminating the 50/50 sharing that had been in the plan, (2) modifying the performance measurement process, and (3) replacing the revenue change limit of two percent of revenues, which was subject to a \$14.5 million revenue adjustment cap, with a limit of four percent of revenues, although any adjustment above two percent requires a hearing before the MPSC. The MPSC did not approve Entergy Mississippi's request to use a projected test year for its annual scheduled formula rate plan filing and, therefore, Entergy Mississippi will continue to use a historical test year for its annual evaluation reports under the plan.

In March 2009, Entergy Mississippi made with the MPSC its annual scheduled formula rate plan filing for the 2008 test year. The filing reported a \$27.0 million revenue deficiency and an earned return on common equity of 7.41%. Entergy Mississippi requested a \$14.5 million increase in annual electric revenues, which is the maximum increase allowed under the terms of the formula rate plan. The MPSC issued an order on June 30, 2009, finding that Entergy Mississippi's earned return was sufficiently below the lower bandwidth limit set by the formula rate plan to require a \$14.5 million increase in annual revenues, effective for bills rendered on or after June 30, 2009.

In March 2010, Entergy Mississippi submitted its 2009 test year filing, its first annual filing under the new formula rate plan rider. In June 2010 the MPSC approved a joint stipulation between Entergy Mississippi and the Mississippi Public Utilities Staff that provides for no change in rates, but does provide for the deferral as a regulatory asset of \$3.9 million of legal expenses associated with certain litigation involving the Mississippi Attorney General, as well as ongoing legal expenses in that litigation until the litigation is resolved.

In March 2011, Entergy Mississippi submitted its formula rate plan 2010 test year filing. The filing shows an earned return on common equity of 10.65% for the test year, which is within the earnings bandwidth and results in no change in rates. In November 2011 the MPSC approved a joint stipulation between Entergy Mississippi and the Mississippi Public Utilities Staff that provides for no change in rates.

## Fuel and Purchased Power Cost Recovery

Entergy Mississippi's rate schedules include an energy cost recovery rider that is adjusted quarterly to reflect accumulated over- or under-recoveries from the second prior quarter. Entergy Mississippi's fuel cost recoveries are subject to annual audits conducted pursuant to the authority of the MPSC.

In July 2008 the MPSC began a proceeding to investigate the fuel procurement practices and fuel adjustment schedules of the Mississippi utility companies, including Entergy Mississippi. The MPSC stated that the goal of the proceeding is fact-finding so that the MPSC may decide whether to amend the current fuel cost recovery process. Hearings were held in July and August 2008. Further proceedings have not been scheduled.

## Mississippi Attorney General Complaint

The Mississippi attorney general filed a complaint in state court in December 2008 against Entergy Corporation, Entergy Mississippi, Entergy Services, and Entergy Power alleging, among other things, violations of Mississippi statutes, fraud, and breach of good faith and fair dealing, and requesting an accounting and restitution. The litigation is wide ranging and relates to tariffs and procedures under which Entergy Mississippi purchases power not generated in Mississippi to meet electricity demand. Entergy believes the complaint is unfounded. On December 29, 2008, the defendant Entergy companies filed to remove the attorney general's suit to U.S. District Court (the forum that Entergy believes is appropriate to resolve the types of federal issues raised in the suit), where it is currently pending, and additionally answered the complaint and filed a counter-claim for relief based upon the Mississippi Public Utilities Act and the Federal Power Act. The Mississippi attorney general has filed a pleading seeking to remand the matter to state court. In May 2009, the defendant Entergy companies filed a motion for judgment on the pleadings asserting grounds of federal preemption, the exclusive jurisdiction of the MPSC, and factual errors in the attorney general's complaint.

In July 2011, the attorney general requested a status conference regarding its motion to remand. The court granted the attorney general's request for a status conference, which was held in September 2011. Consistent with the court's instructions, both parties submitted letters to the court in September 2011 providing updates on the facts of the case and the law, and the court has now taken the parties' arguments under advisement.

### **Federal Regulation**

See "Independent Coordinator of Transmission", "System Agreement", "Entergy's Proposal to Join the MISO RTO", "Notice to SERC Reliability Corporation Regarding Reliability Standards and FERC Investigation", and "U.S. Department of Justice Investigation" in the "Rate, Cost-recovery, and Other Regulation – Federal Regulation" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of these topics.

### **Critical Accounting Estimates**

The preparation of Entergy Mississippi's financial statements in conformity with generally accepted accounting principles requires management to apply appropriate accounting policies and to make estimates and judgments that can have a significant effect on reported financial position, results of operations, and cash flows. Management has identified the following accounting policies and estimates as critical because they are based on assumptions and measurements that involve a high degree of uncertainty, and there is the potential for future changes in the assumptions and measurements that could produce estimates that would have a material impact on the presentation of Entergy Mississippi's financial position or results of operations.

#### **Unbilled Revenue**

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

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

Entergy sponsors qualified defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age and meet certain eligibility requirements while still working for Entergy. Entergy's reported costs of providing these benefits, as described in Note 11 to the financial statements, are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. See the "Critical Accounting Estimates" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis for further discussion. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate.

### Cost Sensitivity

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

| <u>Actuarial Assumption</u>      | <u>Change in Assumption</u> | <u>Impact on 2011 Qualified Pension Cost Increase/(Decrease)</u> | <u>Impact on Projected Qualified Benefit Obligation</u> |
|----------------------------------|-----------------------------|--|---|
| Discount rate                    | (0.25%)                     | \$829  | \$10,541  |
| Rate of return on plan assets    | (0.25%)                     | \$593  | -   |
| Rate of increase in compensation | 0.25%                       | \$346  | \$1,929   |

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

| <u>Actuarial Assumption</u> | <u>Change in Assumption</u> | <u>Impact on 2011 Postretirement Benefit Cost Increase/(Decrease)</u> | <u>Impact on Accumulated Postretirement Benefit Obligation</u> |
|-----------------------------|-----------------------------|---|--|
| Health care cost trend      | 0.25%                       | \$447   | \$2,776  |
| Discount rate               | (0.25%)                     | \$318   | \$3,342  |

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

### Costs and Funding

Total qualified pension cost for Entergy Mississippi in 2011 was \$7.7 million. Entergy Mississippi anticipates 2012 qualified pension cost to be \$12.3 million. Entergy Mississippi contributed \$29.2 million to its qualified pension plans in 2011 and anticipates that it will contribute approximately \$8.4 million in 2012 although the required pension contributions will not be known with more certainty until the January 1, 2012 valuations are completed by April 1, 2012.

Total postretirement health care and life insurance benefit costs for Entergy Mississippi in 2011 were \$5.5 million, including \$2 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy Mississippi expects 2012 postretirement health care and life insurance benefit costs to approximate \$6.4 million, including \$1.8 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy Mississippi expects to contribute approximately \$5.5 million to its other postretirement plans in 2012.

### Federal Healthcare Legislation

See the "**Qualified Pension and Other Postretirement Benefits - Federal Healthcare Legislation**" in the "**Critical Accounting Estimates**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of Federal Healthcare Legislation.

### New Accounting Pronouncements

See "**New Accounting Pronouncements**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Entergy Mississippi, Inc.  
Jackson, Mississippi

We have audited the accompanying balance sheets of Entergy Mississippi, Inc. (the "Company") as of December 31, 2011 and 2010, and the related income statements, statements of cash flows, and statements of changes in common equity (pages 338 through 342 and applicable items in pages 53 through 194) for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Entergy Mississippi, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
February 27, 2012

**ENTERGY MISSISSIPPI, INC.**  
**INCOME STATEMENTS**

|  | For the Years Ended December 31, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2011                             | 2010             | 2009             |
|  | (In Thousands)                   |                  |                  |
| <b>OPERATING REVENUES</b>                                    |                                  |                  |                  |
| Electric   | \$1,266,470                      | \$1,232,922      | \$1,180,107      |
| <b>OPERATING EXPENSES</b>                                    |                                  |                  |                  |
| Operation and Maintenance:                                   |                                  |                  |                  |
| Fuel, fuel-related expenses, and<br>gas purchased for resale | 363,025                          | 277,806          | 340,804          |
| Purchased power  | 339,061                          | 383,769          | 359,664          |
| Other operation and maintenance                              | 210,657                          | 217,354          | 217,452          |
| Taxes other than income taxes                                | 69,759                           | 66,841           | 63,381           |
| Depreciation and amortization                                | 93,119                           | 89,875           | 86,872           |
| Other regulatory charges (credits) - net                     | 9,460                            | 16,001           | (57,056)         |
| <b>TOTAL</b>   | <b>1,085,081</b>                 | <b>1,051,646</b> | <b>1,011,117</b> |
| <b>OPERATING INCOME</b>                                      | <b>181,389</b>                   | <b>181,276</b>   | <b>168,990</b>   |
| <b>OTHER INCOME</b>  |                                  |                  |                  |
| Allowance for equity funds used during construction          | 7,755                            | 6,655            | 2,964            |
| Interest and investment income                               | 249                              | 416              | 863              |
| Miscellaneous - net  | (3,904)                          | (804)            | (564)            |
| <b>TOTAL</b>   | <b>4,100</b>                     | <b>6,267</b>     | <b>3,263</b>     |
| <b>INTEREST EXPENSE</b>                                      |                                  |                  |                  |
| Interest expense   | 52,273                           | 55,774           | 51,282           |
| Allowance for borrowed funds used during construction        | (4,314)                          | (3,719)          | (1,791)          |
| <b>TOTAL</b>   | <b>47,959</b>                    | <b>52,055</b>    | <b>49,491</b>    |
| <b>INCOME BEFORE INCOME TAXES</b>                            | <b>137,530</b>                   | <b>135,488</b>   | <b>122,762</b>   |
| Income taxes   | 28,801                           | 50,111           | 43,395           |
| <b>NET INCOME</b>  | <b>108,729</b>                   | <b>85,377</b>    | <b>79,367</b>    |
| Preferred dividend requirements and other                    | 2,828                            | 2,828            | 2,828            |
| <b>EARNINGS APPLICABLE TO<br/>COMMON STOCK</b>               | <b>\$105,901</b>                 | <b>\$82,549</b>  | <b>\$76,539</b>  |

See Notes to Financial Statements.

**ENTERGY MISSISSIPPI, INC.**  
**STATEMENTS OF CASH FLOWS**

|  | For the Years Ended December 31, |           |           |
|--|----------------------------------|-----------|-----------|
|  | 2011                             | 2010      | 2009      |
|  | (In Thousands)                   |           |           |
| <b>OPERATING ACTIVITIES</b>  |                                  |           |           |
| Net income   | \$108,729                        | \$85,377  | \$79,367  |
| Adjustments to reconcile net income to net cash flow provided by operating activities: |                                  |           |           |
| Depreciation and amortization  | 93,119                           | 89,875    | 86,872    |
| Deferred income taxes, investment tax credits, and non-current taxes accrued           | (3,443)                          | 48,744    | 15,923    |
| Changes in assets and liabilities:   |                                  |           |           |
| Receivables  | 5,488                            | (42,790)  | 41,247    |
| Fuel inventory   | (35,621)                         | (1,003)   | 3,413     |
| Accounts payable   | (7,059)                          | 1,906     | 3,511     |
| Taxes accrued  | 13,535                           | (12,817)  | 1,779     |
| Interest accrued   | 456                              | 1,915     | 2,066     |
| Deferred fuel costs  | 18,998                           | (76,064)  | 77,932    |
| Other working capital accounts   | (27,480)                         | 46,101    | (37,373)  |
| Provisions for estimated losses  | (1,177)                          | (1,937)   | 4,446     |
| Other regulatory assets  | (83,399)                         | (5,780)   | (43,807)  |
| Pension and other postretirement liabilities   | 39,183                           | (6,525)   | (6,786)   |
| Other assets and liabilities   | (21,733)                         | (6,895)   | (6,572)   |
| Net cash flow provided by operating activities   | 99,596                           | 120,107   | 222,018   |
| <b>INVESTING ACTIVITIES</b>  |                                  |           |           |
| Construction expenditures  | (165,998)                        | (223,787) | (130,907) |
| Allowance for equity funds used during construction                                    | 7,755                            | 6,655     | 2,964     |
| Proceeds from sale of assets   | 868                              | 3,951     | -         |
| Change in money pool receivable - net  | -                                | 31,435    | (31,435)  |
| Changes in other investments - net   | 18                               | 7,615     | -         |
| Payment to storm reserve escrow account  | -                                | -         | (175)     |
| Investments in affiliates  | 5,527                            | -         | -         |
| Other  | -                                | 35        | 80        |
| Net cash flow used in investing activities   | (151,830)                        | (174,096) | (159,473) |
| <b>FINANCING ACTIVITIES</b>  |                                  |           |           |
| Proceeds from the issuance of long-term debt   | 268,418                          | 76,727    | 147,996   |
| Retirement of long-term debt   | (180,000)                        | (100,000) | -         |
| Change in money pool payable - net   | (31,256)                         | 33,255    | (66,044)  |
| Dividends paid:  |                                  |           |           |
| Common stock   | (3,300)                          | (43,400)  | (51,300)  |
| Preferred stock  | (2,828)                          | (2,828)   | (2,828)   |
| Net cash flow provided by (used in) financing activities                               | 51,034                           | (36,246)  | 27,824    |
| Net increase (decrease) in cash and cash equivalents                                   | (1,200)                          | (90,235)  | 90,369    |
| Cash and cash equivalents at beginning of period                                       | 1,216                            | 91,451    | 1,082     |
| Cash and cash equivalents at end of period   | \$16                             | \$1,216   | \$91,451  |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                      |                                  |           |           |
| Cash paid during the period for:   |                                  |           |           |
| Interest - net of amount capitalized   | \$49,192                         | \$51,250  | \$47,007  |
| Income taxes   | \$22,094                         | \$16,401  | \$23,478  |

See Notes to Financial Statements.

**ENTERGY MISSISSIPPI, INC.**  
**BALANCE SHEETS**  
**ASSETS**

|  | December 31,       |                    |
|--|--------------------|--------------------|
|  | 2011               | 2010               |
|  | (In Thousands)     |                    |
| <b>CURRENT ASSETS</b>  |                    |                    |
| Cash and cash equivalents:                                     |                    |                    |
| Cash   | \$7                | \$1,207            |
| Temporary cash investments                                     | 9                  | 9                  |
| Total cash and cash equivalents                                | <u>16</u>          | <u>1,216</u>       |
| Accounts receivable:   |                    |                    |
| Customer   | 51,026             | 58,204             |
| Allowance for doubtful accounts                                | (756)              | (985)              |
| Associated companies   | 51,329             | 52,946             |
| Other  | 13,924             | 7,500              |
| Accrued unbilled revenues                                      | 38,368             | 41,714             |
| Total accounts receivable                                      | <u>153,891</u>     | <u>159,379</u>     |
| Deferred fuel costs  | -                  | 3,157              |
| Accumulated deferred income taxes                              | 11,694             | 19,308             |
| Fuel inventory - at average cost                               | 42,499             | 6,878              |
| Materials and supplies - at average cost                       | 35,716             | 34,499             |
| Prepayments and other  | 4,666              | 4,902              |
| <b>TOTAL</b>   | <u>248,482</u>     | <u>229,339</u>     |
| <b>OTHER PROPERTY AND INVESTMENTS</b>                          |                    |                    |
| Non-utility property - at cost (less accumulated depreciation) | 4,725              | 4,753              |
| Storm reserve escrow account                                   | 31,844             | 31,862             |
| <b>TOTAL</b>   | <u>36,569</u>      | <u>36,615</u>      |
| <b>UTILITY PLANT</b>   |                    |                    |
| Electric   | 3,274,031          | 3,174,148          |
| Property under capital lease                                   | 10,721             | 13,197             |
| Construction work in progress                                  | 105,083            | 147,169            |
| <b>TOTAL UTILITY PLANT</b>                                     | <u>3,389,835</u>   | <u>3,334,514</u>   |
| Less - accumulated depreciation and amortization               | 1,210,092          | 1,166,463          |
| <b>UTILITY PLANT - NET</b>                                     | <u>2,179,743</u>   | <u>2,168,051</u>   |
| <b>DEFERRED DEBITS AND OTHER ASSETS</b>                        |                    |                    |
| Regulatory assets:   |                    |                    |
| Regulatory asset for income taxes - net                        | 65,196             | 63,533             |
| Other regulatory assets  | 393,387            | 253,231            |
| Other  | 20,017             | 22,009             |
| <b>TOTAL</b>   | <u>478,600</u>     | <u>338,773</u>     |
| <b>TOTAL ASSETS</b>  | <u>\$2,943,394</u> | <u>\$2,772,778</u> |

See Notes to Financial Statements.



**ENTERGY MISSISSIPPI, INC.**  
**BALANCE SHEETS**  
**LIABILITIES AND EQUITY**

|  | December 31,       |                    |
|--|--------------------|--------------------|
|  | 2011               | 2010               |
|  | (In Thousands)     |                    |
| <b>CURRENT LIABILITIES</b>   |                    |                    |
| Currently maturing long-term debt  | \$-                | \$80,000           |
| Accounts payable:  |                    |                    |
| Associated companies   | 46,311             | 75,128             |
| Other  | 41,489             | 53,417             |
| Customer deposits  | 68,610             | 65,873             |
| Taxes accrued  | 45,536             | 32,001             |
| Interest accrued   | 21,550             | 21,094             |
| Deferred fuel costs  | 15,841             | -                  |
| System agreement cost equalization   | -                  | 36,650             |
| Other  | 17,474             | 9,895              |
| <b>TOTAL</b>   | <b>256,811</b>     | <b>374,058</b>     |
| <b>NON-CURRENT LIABILITIES</b>   |                    |                    |
| Accumulated deferred income taxes and taxes accrued  | 672,129            | 680,467            |
| Accumulated deferred investment tax credits  | 6,372              | 6,541              |
| Obligations under capital lease  | 8,112              | 10,747             |
| Other regulatory liabilities   | -                  | 262                |
| Asset retirement cost liabilities  | 5,697              | 5,375              |
| Accumulated provisions   | 38,289             | 39,466             |
| Pension and other postretirement liabilities   | 144,088            | 104,912            |
| Long-term debt   | 920,439            | 745,378            |
| Other  | 5,370              | 22,086             |
| <b>TOTAL</b>   | <b>1,800,496</b>   | <b>1,615,234</b>   |
| Commitments and Contingencies  |                    |                    |
| Preferred stock without sinking fund   | 50,381             | 50,381             |
| <b>COMMON EQUITY</b>   |                    |                    |
| Common stock, no par value, authorized 12,000,000 shares; issued and outstanding 8,666,357 shares in 2011 and 2010 | 199,326            | 199,326            |
| Capital stock expense and other  | (690)              | (690)              |
| Retained earnings  | 637,070            | 534,469            |
| <b>TOTAL</b>   | <b>835,706</b>     | <b>733,105</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <b>\$2,943,394</b> | <b>\$2,772,778</b> |

See Notes to Financial Statements.

**ENTERGY MISSISSIPPI, INC.**  
**STATEMENTS OF CHANGES IN COMMON EQUITY**  
**For the Years Ended December 31, 2011, 2010, and 2009**

|                              | Common Equity   |                                       |                      |           |
|------------------------------|-----------------|---------------------------------------|----------------------|-----------|
|                              | Common<br>Stock | Capital Stock<br>Expense and<br>Other | Retained<br>Earnings | Total     |
|                              | (In Thousands)  |                                       |                      |           |
| Balance at December 31, 2008 | \$199,326       | (\$690)                               | \$470,081            | \$668,717 |
| Net income                   | -               | -                                     | 79,367               | 79,367    |
| Common stock dividends       | -               | -                                     | (51,300)             | (51,300)  |
| Preferred stock dividends    | -               | -                                     | (2,828)              | (2,828)   |
| Balance at December 31, 2009 | \$199,326       | (\$690)                               | \$495,320            | \$693,956 |
| Net income                   | -               | -                                     | 85,377               | 85,377    |
| Common stock dividends       | -               | -                                     | (43,400)             | (43,400)  |
| Preferred stock dividends    | -               | -                                     | (2,828)              | (2,828)   |
| Balance at December 31, 2010 | \$199,326       | (\$690)                               | \$534,469            | \$733,105 |
| Net income                   | -               | -                                     | 108,729              | 108,729   |
| Common stock dividends       | -               | -                                     | (3,300)              | (3,300)   |
| Preferred stock dividends    | -               | -                                     | (2,828)              | (2,828)   |
| Balance at December 31, 2011 | \$199,326       | (\$690)                               | \$637,070            | \$835,706 |

See Notes to Financial Statements.

**ENTERGY MISSISSIPPI, INC.**  
**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**

|                           | <u>2011</u>    | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|----------------|-------------|-------------|-------------|-------------|
|                           | (In Thousands) |             |             |             |             |
| Operating revenues        | \$1,266,470    | \$1,232,922 | \$1,180,107 | \$1,464,699 | \$1,374,011 |
| Net Income                | \$108,729      | \$85,377    | \$79,367    | \$61,264    | \$72,853    |
| Total assets              | \$2,943,394    | \$2,772,778 | \$2,689,933 | \$2,533,746 | \$2,389,355 |
| Long-term obligations (1) | \$978,932      | \$806,506   | \$900,634   | \$752,129   | \$753,453   |

(1) Includes long-term debt (excluding currently maturing debt), noncurrent capital lease obligations, and preferred stock without sinking fund.

|                                     | <u>2011</u>           | <u>2010</u>    | <u>2009</u>    | <u>2008</u>    | <u>2007</u>    |
|-------------------------------------|-----------------------|----------------|----------------|----------------|----------------|
|                                     | (Dollars In Millions) |                |                |                |                |
| Electric Operating Revenues:        |                       |                |                |                |                |
| Residential                         | \$490                 | \$509          | \$467          | \$556          | \$500          |
| Commercial                          | 401                   | 406            | 395            | 482            | 428            |
| Industrial                          | 146                   | 145            | 147            | 199            | 185            |
| Governmental                        | 37                    | 38             | 37             | 44             | 40             |
| Total retail                        | <u>1,074</u>          | <u>1,098</u>   | <u>1,046</u>   | <u>1,281</u>   | <u>1,153</u>   |
| Sales for resale:                   |                       |                |                |                |                |
| Associated companies                | 104                   | 55             | 52             | 96             | 140            |
| Non-associated companies            | 27                    | 33             | 28             | 36             | 33             |
| Other                               | 61                    | 47             | 54             | 52             | 48             |
| Total                               | <u>\$1,266</u>        | <u>\$1,233</u> | <u>\$1,180</u> | <u>\$1,465</u> | <u>\$1,374</u> |
| Billed Electric Energy Sales (GWh): |                       |                |                |                |                |
| Residential                         | 5,848                 | 6,077          | 5,358          | 5,354          | 5,474          |
| Commercial                          | 4,985                 | 5,000          | 4,756          | 4,841          | 4,872          |
| Industrial                          | 2,326                 | 2,250          | 2,178          | 2,565          | 2,771          |
| Governmental                        | 415                   | 416            | 405            | 411            | 421            |
| Total retail                        | <u>13,574</u>         | <u>13,743</u>  | <u>12,697</u>  | <u>13,171</u>  | <u>13,538</u>  |
| Sales for resale:                   |                       |                |                |                |                |
| Associated companies                | 431                   | 268            | 198            | 534            | 1,025          |
| Non-associated companies            | 332                   | 402            | 330            | 401            | 468            |
| Total                               | <u>14,337</u>         | <u>14,413</u>  | <u>13,225</u>  | <u>14,106</u>  | <u>15,031</u>  |

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

**Plan to Spin Off the Utility's Transmission Business**

See the "**Plan to Spin Off the Utility's Transmission Business**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of this matter, including the planned retirement of debt and preferred securities.

**Results of Operations**

**Net Income**

**2011 Compared to 2010**

Net income increased \$4.9 million primarily due to lower other operation and maintenance expenses, lower taxes other than income taxes, a lower effective income tax rate, and lower interest expense, partially offset by lower net revenue.

**2010 Compared to 2009**

Net income remained relatively unchanged, increasing \$0.6 million, primarily due to higher net revenue and lower interest expense, almost entirely offset by higher other operation and maintenance expenses, higher taxes other than income taxes, lower other income, and higher depreciation and amortization expenses.

**Net Revenue**

**2011 Compared to 2010**

Net revenue consists of operating revenues net of: 1) fuel, fuel-related expenses, and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory charges (credits). Following is an analysis of the change in net revenue comparing 2011 to 2010.

|                         | <b>Amount</b>        |
|-------------------------|----------------------|
|                         | <b>(In Millions)</b> |
| 2010 net revenue        | \$272.9              |
| Retail electric price   | (16.9)               |
| Net gas revenue         | (9.1)                |
| Gas cost recovery asset | (3.0)                |
| Volume/weather          | 5.4                  |
| Other                   | (2.3)                |
| <b>2011 net revenue</b> | <b>\$247.0</b>       |

The retail electric price variance is primarily due to formula rate plan decreases effective October 2010 and October 2011. See Note 2 to the financial statements for a discussion of the formula rate plan filing.

The net gas revenue variance is primarily due to milder weather in 2011 compared to 2010.

The gas cost recovery asset variance is primarily due to the recognition in 2010 of a \$3 million gas operations regulatory asset associated with the settlement of Entergy New Orleans's electric and gas formula rate plan case and the amortization of that asset. See Note 2 to the financial statements for additional discussion of the formula rate plan settlement.

The volume/weather variance is primarily due to an increase in electricity usage in the residential and commercial sectors due in part to a 4% increase in the average number of residential customers and a 3% increase in the average number of commercial customers, partially offset by the effect of less favorable weather on residential sales.

#### *Gross operating revenues*

Gross operating revenues decreased primarily due to:

- a decrease of \$16.2 million in electric fuel cost recovery revenues due to lower fuel rates;
- a decrease of \$15.4 million in gross gas revenues primarily due to lower fuel cost recovery revenues as a result of lower fuel rates and the effect of milder weather; and
- formula rate plan decreases effective October 2010 and October 2011, as discussed above.

The decrease was partially offset by an increase in gross wholesale revenue due to increased sales to affiliated customers and more favorable volume/weather, as discussed above.

#### 2010 Compared to 2009

Net revenue consists of operating revenues net of: 1) fuel, fuel-related expenses, and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory charges (credits). Following is an analysis of the change in net revenue comparing 2010 to 2009.

|                                     | <u>Amount</u><br>(In Millions) |
|-------------------------------------|--------------------------------|
| 2009 net revenue                    | \$243.0                        |
| Volume/weather                      | 17.0                           |
| Net gas revenue                     | 14.2                           |
| Effect of 2009 rate case settlement | (6.6)                          |
| Other                               | 5.3                            |
| <b>2010 net revenue</b>             | <b><u>\$272.9</u></b>          |

The volume/weather variance is primarily due to an increase of 348 GWh, or 7%, in billed retail electricity usage primarily due to more favorable weather compared to last year.

The net gas revenue variance is primarily due to more favorable weather compared to last year, along with the recognition of a gas regulatory asset associated with the settlement of Entergy New Orleans's electric and gas formula rate plans. See Note 2 to the financial statements for further discussion of the formula rate plan settlement.

The effect of 2009 rate case settlement variance results from the April 2009 settlement of Entergy New Orleans's rate case, and includes the effects of realigning non-fuel costs associated with the operation of Grand Gulf from the fuel adjustment clause to electric base rates effective June 2009. See Note 2 to the financial statements for further discussion of the rate case settlement.

#### **Other Income Statement Variances**

#### 2011 Compared to 2010

Other operation and maintenance expenses decreased primarily due to the deferral in 2011 of \$13.4 million of 2010 Michoud plant maintenance costs pursuant to the settlement of Entergy New Orleans's 2010 test year formula rate plan filing approved by the City Council in September 2011 and a decrease of \$8.0 million in fossil-fueled generation expenses due to higher plant outage costs in 2010 due to a greater scope of work at the Michoud plant. See Note 2 to the financial statements for more discussion of the 2010 test year formula rate plan filing.

Taxes other than income taxes decreased primarily due to a decrease in local franchise taxes resulting from lower electric and gas retail revenues as compared with the same period in 2010.

Interest expense decreased primarily due to the repayment in May 2010 of the notes payable issued to affiliates as part of Entergy New Orleans's plan of reorganization and the repayment, at maturity, of \$30 million of 4.98% Series first mortgage bonds in July 2010.

#### 2010 Compared to 2009

Other operation and maintenance expenses increased primarily due to:

- an increase of \$15.1 million in fossil expenses due to higher outage expenses compared to prior year;
- an increase of \$2.2 million in distribution expenses primarily due to increases in vegetation maintenance, overhead and underground inspections, and substation maintenance and repairs; and
- an increase of \$1.9 million in compensation and benefits costs, resulting from decreasing discount rates, the amortization of benefit trust asset losses, and an increase in the accrual for incentive-based compensation. See Note 11 to the financial statements for further discussion of benefits costs.

Taxes other than income taxes increased primarily due to an increase in ad valorem taxes as a result of higher millage rates and an increase in local franchise taxes resulting from higher electric and gas retail revenues as compared with the same period in 2009.

Depreciation and amortization expenses increased primarily due to an increase in plant in service.

Other income decreased primarily due to carrying costs on Hurricane Gustav and Hurricane Ike storm restoration costs recorded in 2009.

Interest expense decreased primarily due to a decrease in the interest rate on notes payable issued to affiliates as part of Entergy New Orleans's plan of reorganization, in addition to the repayment of those notes in May 2010 and the repayment, at maturity, of \$30 million of 4.98% Series first mortgage bonds in July 2010.

#### Income Taxes

The effective income tax rates for 2011, 2010, and 2009 were 30.6%, 34.8%, and 33.5%, respectively. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 35% to the effective income tax rates.

#### Hurricane Katrina

In August 2005, Hurricane Katrina caused catastrophic damage to Entergy New Orleans's service territory. Entergy pursued a broad range of initiatives to recover storm restoration and business continuity costs, including obtaining assistance through federal legislation for damage caused by Hurricane Katrina.

#### **Community Development Block Grant (CDBG)**

In December 2005, the U.S. Congress passed the Katrina Relief Bill, a hurricane aid package that included CDBG funding that allowed state and local leaders to fund individual recovery priorities. In March 2007, the City Council certified that Entergy New Orleans incurred \$205 million in storm-related costs through December 2006 that are eligible for CDBG funding under the state action plan, and certified Entergy New Orleans's estimated costs of \$465 million for its gas system rebuild (which is discussed below). Entergy New Orleans received \$180.8 million of CDBG funds in 2007 and \$19.2 million in 2010.

#### **Gas System Rebuild**

In addition to the Hurricane Katrina storm restoration costs that Entergy New Orleans incurred, Entergy New Orleans expects that over a longer term rebuilding of the gas system in New Orleans will be necessary due to

the massive salt water intrusion into the system caused by the flooding in New Orleans. The salt water intrusion is expected to shorten the life of the gas system, making it necessary to rebuild portions of that system over time, earlier than otherwise would be expected, with the project extending many years into the future. Entergy New Orleans received insurance proceeds for a portion of the estimated future construction expenditures associated with rebuilding its gas system, and the October 2006 City Council resolution approving the settlement of Entergy New Orleans's rate and storm-cost recovery filings requires Entergy New Orleans to record those proceeds in a designated sub-account of other deferred credits until the proceeds are spent on the rebuild project. This other deferred credit is shown as "Gas system rebuild insurance proceeds" on Entergy New Orleans's balance sheet.

### **Bankruptcy Proceedings**

As a result of the effects of Hurricane Katrina and the effect of extensive flooding that resulted from levee breaks in and around the New Orleans area, on September 23, 2005, Entergy New Orleans filed a voluntary petition in bankruptcy court seeking reorganization relief under Chapter 11 of the U.S. Bankruptcy Code. On May 7, 2007, the bankruptcy judge entered an order confirming Entergy New Orleans's plan of reorganization. With the receipt of CDBG funds, and the agreement on insurance recovery with one of its excess insurers, Entergy New Orleans waived the conditions precedent in its plan of reorganization, and the plan became effective on May 8, 2007. Included in the terms in the plan of reorganization Entergy New Orleans issued notes to affiliates. Entergy New Orleans repaid, at maturity in May 2010, these notes that represented affiliate prepetition accounts payable (approximately \$74 million, including interest), including its indebtedness to the Entergy System money pool.

### **Liquidity and Capital Resources**

#### **Cash Flow**

Cash flows for the years ended December 31, 2011, 2010, and 2009 were as follows:

|  | <u>2011</u>     | <u>2010</u>      | <u>2009</u>      |
|--|-----------------|------------------|------------------|
|  |                 | (In Thousands)   |                  |
| Cash and cash equivalents at beginning of period     | \$54,986        | \$191,191        | \$137,444        |
| Cash flow provided by (used in):                     |                 |                  |                  |
| Operating activities                                 | 44,927          | 48,965           | 148,556          |
| Investing activities                                 | (46,019)        | (31,561)         | (59,848)         |
| Financing activities                                 | (44,060)        | (153,609)        | (34,961)         |
| Net increase (decrease) in cash and cash equivalents | <u>(45,152)</u> | <u>(136,205)</u> | <u>53,747</u>    |
| Cash and cash equivalents at end of period           | <u>\$9,834</u>  | <u>\$54,986</u>  | <u>\$191,191</u> |

#### **Operating Activities**

Net cash flow provided by operating activities was relatively flat in 2011 as the receipt of \$19.2 million of Community Development Block Grant funds in 2010 related to Hurricane Katrina costs was offset by a decrease of \$28.8 million in income tax payments in 2011. The decrease in income tax payments is in accordance with the Entergy Corporation and Subsidiary Companies Intercompany Income Tax Allocation Agreement. The decrease results from lower 2010 taxable income from what was estimated due to revised bonus depreciation deduction and additional repair expenses for tax purposes associated with the tax accounting method change filed in 2010.

Net cash flow provided by operating activities decreased \$99.6 million in 2010 primarily due to income tax payments of \$68.2 million made in 2010 compared to refunds of \$22.1 million received in 2009 and an increase in pension contributions of \$11.9 million. In 2010, Entergy New Orleans made tax payments in accordance with the Entergy Corporation and Subsidiary Companies Intercompany Income Tax Allocation Agreement. The payments resulted from the reversal of temporary differences for which Entergy New Orleans previously received cash tax benefits and from estimated federal income tax payments for tax year 2010. See "MANAGEMENT'S

**FINANCIAL DISCUSSION AND ANALYSIS – Critical Accounting Estimates**” below for a discussion of qualified pension and other postretirement benefits. The decrease was partially offset by the receipt of \$19.2 million of Community Development Block Grant funds, as discussed above.

#### Investing Activities

Net cash flow used in investing activities increased \$14.5 million in 2011 primarily due to money pool activity and a withdrawal in 2010 from the storm escrow account related to Hurricane Gustav costs. The increase was partially offset by a decrease in construction expenditures due to decreased spending on the gas system rebuild project and System Fuels repayment of Entergy New Orleans's \$3.3 million investment in System Fuels.

Decreases in Entergy New Orleans's receivable from the money pool are a source of cash flow, and Entergy New Orleans's receivable from the money pool decreased \$12.7 million in 2011 compared to decreasing \$44.3 million in 2010. The money pool is an inter-company borrowing arrangement designed to reduce the Utility subsidiaries' need for external short-term borrowings.

Net cash flow used in investing activities decreased \$28.3 million in 2010 primarily due to money pool activity and a withdrawal from the storm escrow account that was related to Hurricane Gustav costs, partially offset by:

- higher fossil construction expenses primarily due to current year outages and the Michoud 3 generator rewind project;
- higher distribution construction expenditures primarily due to increased reliability work; and
- a decrease in Hurricane Katrina insurance proceeds received in 2010 as compared to 2009.

Decreases in Entergy New Orleans's receivable from the money pool are a source of cash flow, and Entergy New Orleans's receivable from the money pool decreased \$44.3 million in 2010 compared to increasing \$6.1 million in 2009.

#### Financing Activities

Net cash flow used in financing activities decreased \$109.5 million in 2011 primarily due to the repayment in 2010 of \$74.3 million of affiliate notes payable that were issued to affiliates as part of Entergy New Orleans's plan of reorganization, the repayment, at maturity, of \$30 million of 4.98% Series first mortgage bonds in July 2010, and the repayment of \$25 million of 6.75% Series first mortgage bonds in December 2010, offset by the issuance of \$25 million of 5.10% Series first mortgage bonds in November 2010.

Net cash flow used in financing activities increased \$118.6 million in 2010 primarily due to:

- the repayment of \$74.3 million of affiliate notes payable in May 2010;
- the repayment, at maturity, of \$30 million of 4.98% Series first mortgage bonds in July 2010;
- the repayment of \$25 million of 6.75% Series first mortgage bonds in December 2010; and
- an increase of \$14.1 million in dividends paid on common stock.

The increase was partially offset by the issuance of \$25 million of 5.10% Series first mortgage bonds in November 2010.

See Note 5 to the financial statements for details on long-term debt.



## Capital Structure

Entergy New Orleans's capitalization is balanced between equity and debt as shown in the following table.

|                            | December 31,<br>2011 | December 31,<br>2010 |
|----------------------------|----------------------|----------------------|
| Debt to capital            | 45.3%                | 44.6%                |
| Effect of subtracting cash | (1.5)%               | (9.5)%               |
| Net debt to net capital    | 43.8%                | 35.1%                |

Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable and long-term debt, including the currently maturing portion. Capital consists of debt and equity. Net capital consists of capital less cash and cash equivalents. Entergy New Orleans uses the net debt to net capital ratio in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy New Orleans's financial condition.

## Uses of Capital

Entergy New Orleans requires capital resources for:

- construction and other capital investments;
- working capital purposes, including the financing of fuel and purchased power costs;
- debt and preferred stock maturities or retirements; and
- dividend payments.

Following are the amounts of Entergy New Orleans's planned construction and other capital investments and existing debt and lease obligations (includes estimated interest payments):

|  | 2012  | 2013-2014 | 2015-2016<br>(In Millions) | After 2016 | Total   |
|--|-------|-----------|----------------------------|------------|---------|
| Planned construction and capital investment (1): |       |           |                            |            |         |
| Generation                                       | \$8   | \$33      | N/A                        | N/A        | \$41    |
| Transmission                                     | 7     | 10        | N/A                        | N/A        | 17      |
| Distribution                                     | 28    | 52        | N/A                        | N/A        | 80      |
| Other  | 21    | 45        | N/A                        | N/A        | 66      |
| Total  | \$64  | \$140     | N/A                        | N/A        | \$204   |
| Long-term debt (2)                               | \$9   | \$83      | \$11                       | \$143      | \$246   |
| Operating leases                                 | \$2   | \$3       | \$2                        | \$-        | \$7     |
| Purchase obligations (3)                         | \$179 | \$329     | \$319                      | \$1,627    | \$2,454 |

- (1) Includes approximately \$43 million annually for maintenance capital, which is planned spending on routine capital projects that are necessary to support reliability of service, equipment or systems and to support normal customer growth. Also includes spending for the long-term gas rebuild project.
- (2) Includes estimated interest payments. Long-term debt is discussed in Note 5 to the financial statements.
- (3) Purchase obligations represent the minimum purchase obligation or cancellation charge for contractual obligations to purchase goods or services. For Entergy New Orleans, almost all of the total consists of unconditional fuel and purchased power obligations, including its obligations under the Unit Power Sales Agreement, which is discussed in Note 8 to the financial statements.

Entergy New Orleans expects to contribute approximately \$4.8 million to its pension plan and approximately \$3.7 million to its other postretirement plans in 2012 although the required pension contributions will not be known with more certainty until the January 1, 2012 valuations are completed by April 1, 2012.

Also in addition to the contractual obligations, Entergy New Orleans has \$53.7 million of unrecognized tax benefits and interest net of unused tax attributes and payments for which the timing of payments beyond 12 months cannot be reasonably estimated due to uncertainties in the timing of effective settlement of tax positions. See Note 3 to the financial statements for additional information regarding unrecognized tax benefits.

The planned capital investment estimate for Entergy New Orleans reflects capital required to support existing business. The estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of regulatory constraints, environmental compliance, market volatility, economic trends, changes in project plans, and the ability to access capital. Management provides more information on long-term debt and preferred stock maturities in Notes 5 and 6 and to the financial statements.

As an indirect, wholly-owned subsidiary of Entergy Corporation, Entergy New Orleans pays dividends from its earnings at a percentage determined monthly. Entergy New Orleans's long-term debt indentures contain restrictions on the payment of cash dividends or other distributions on its common and preferred stock.

### Sources of Capital

Entergy New Orleans's sources to meet its capital requirements include:

- internally generated funds;
- cash on hand; and
- debt and preferred stock issuances.

Entergy New Orleans may refinance, redeem, or otherwise retire debt and preferred stock prior to maturity, to the extent market conditions and interest and dividend rates are favorable.

Entergy New Orleans's receivables from the money pool were as follows as of December 31 for each of the following years:

| <u>2011</u>    | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------|-------------|-------------|-------------|
| (In Thousands) |             |             |             |
| \$9,074        | \$21,820    | \$66,149    | \$60,093    |

See Note 4 to the financial statements for a description of the money pool.

Entergy New Orleans has obtained short-term borrowing authorization from the FERC under which it may borrow through October 2013, up to the aggregate amount, at any one time outstanding, of \$100 million. See Note 4 to the financial statements for further discussion of Entergy New Orleans's short-term borrowing limits. The long-term securities issuances of Entergy New Orleans are limited to amounts authorized by the City Council, and the current authorization extends through July 2012.

### Entergy Louisiana's Ninemile Point Unit 6 Self-Build Project

In June 2011, Entergy Louisiana filed with the LPSC an application seeking certification that the public necessity and convenience would be served by Entergy Louisiana's construction of a combined-cycle gas turbine generating facility (Ninemile 6) at its existing Ninemile Point electric generating station. Ninemile 6 will be a nominally-sized 550 MW unit that is estimated to cost approximately \$721 million to construct, excluding interconnection and transmission upgrades. Entergy Gulf States Louisiana joined in the application, seeking certification of its purchase under a life-of-unit power purchase agreement of up to 35% of the capacity and energy generated by Ninemile 6. The Ninemile 6 capacity and energy is proposed to be allocated 55% to Entergy Louisiana, 25% to Entergy Gulf States Louisiana, and 20% to Entergy New Orleans. In February 2012 the City Council passed a resolution authorizing Entergy New Orleans to purchase 20% of the Ninemile 6 energy and capacity. If approvals are obtained from the LPSC and other permitting agencies, Ninemile 6 construction is

expected to begin in 2012, and the unit is expected to commence commercial operation by mid-2015. The ALJ has established a schedule for the LPSC proceeding that includes February 27 - March 7, 2012 hearing dates.

### **State and Local Rate Regulation**

The rates that Entergy New Orleans charges for electricity and natural gas significantly influence its financial position, results of operations, and liquidity. Entergy New Orleans is regulated and the rates charged to its customers are determined in regulatory proceedings. A governmental agency, the City Council, is primarily responsible for approval of the rates charged to customers.

### **Rate Cases, Formula Rate Plans and Storm-related Riders**

On July 31, 2008, Entergy New Orleans filed an electric and gas base rate case with the City Council. On April 2, 2009, the City Council approved a comprehensive settlement. The settlement provided for a net \$35.3 million reduction in combined fuel and non-fuel electric revenue requirement, including conversion of a \$10.6 million voluntary recovery credit, implemented in January 2008, to a permanent reduction and substantial realignment of Grand Gulf cost recovery from fuel to electric base rates, and a \$4.95 million gas base rate increase, both effective June 1, 2009, with adjustment of the customer charges for all rate classes. A new three-year formula rate plan was also adopted, with terms including an 11.1% benchmark electric return on common equity (ROE) with a +/- 40 basis point bandwidth and a 10.75% benchmark gas ROE with a +/- 50 basis point bandwidth. Earnings outside the bandwidth reset to the midpoint benchmark ROE, with rates changing on a prospective basis depending on whether Entergy New Orleans is over- or under-earning. The formula rate plan also includes a recovery mechanism for City Council-approved capacity additions, plus provisions for extraordinary cost changes and force majeure events.

In May 2010, Entergy New Orleans filed its electric and gas formula rate plan evaluation reports. The filings requested a \$12.8 million electric base revenue decrease and a \$2.4 million gas base revenue increase. Entergy New Orleans and the City Council's Advisors reached a settlement that resulted in an \$18.0 million electric base revenue decrease and zero gas base revenue change effective with the October 2010 billing cycle. The City Council approved the settlement in November 2010.

In May 2011, Entergy New Orleans filed its electric and gas formula rate plan evaluation reports for the 2010 test year. The filings requested a \$6.5 million electric rate decrease and a \$1.1 million gas rate decrease. Entergy New Orleans and the City Council's Advisors reached a settlement that results in an \$8.5 million incremental electric rate decrease and a \$1.6 million gas rate decrease. The settlement also provides for the deferral of \$13.4 million of Michoud plant maintenance expenses incurred in 2010 and the establishment of a regulatory asset that will be amortized over the period October 2011 through September 2018. The City Council approved the settlement in September 2011. The new rates were effective with the first billing cycle of October 2011.

The 2008 rate case settlement also included \$3.1 million per year in electric rates to fund the Energy Smart energy efficiency programs. In September 2009 the City Council approved the energy efficiency programs filed by Entergy New Orleans. The rate settlement provides an incentive for Entergy New Orleans to meet or exceed energy savings targets set by the City Council and provides a mechanism for Entergy New Orleans to recover lost contribution to fixed costs associated with the energy savings generated from the energy efficiency programs.

In October 2006, the City Council approved a rate filing settlement agreement that, among other things, authorized a \$75 million storm reserve for damage from future storms, which will be created over a ten-year period through a storm reserve rider that began in March 2007. These storm reserve funds will be held in a restricted escrow account.

### **Federal Regulation**

See "Independent Coordinator of Transmission", "System Agreement", "Entergy's Proposal to Join the MISO RTO", "Notice to SERC Reliability Corporation Regarding Reliability Standards and FERC Investigation", and "U.S. Department of Justice Investigation" in the "**Rate, Cost-recovery, and Other Regulation – Federal Regulation**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of these topics.

### **Environmental Risks**

Entergy New Orleans's facilities and operations are subject to regulation by various governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous solid wastes, and other environmental matters. Management believes that Entergy New Orleans is in substantial compliance with environmental regulations currently applicable to its facilities and operations. Because environmental regulations are subject to change, future compliance costs cannot be precisely estimated.

### **Critical Accounting Estimates**

The preparation of Entergy New Orleans's financial statements in conformity with generally accepted accounting principles requires management to apply appropriate accounting policies and to make estimates and judgments that can have a significant effect on reported financial position, results of operations, and cash flows. Management has identified the following accounting policies and estimates as critical because they are based on assumptions and measurements that involve a high degree of uncertainty, and there is the potential for future changes in the assumptions and measurements that could produce estimates that would have a material impact on the presentation of Entergy New Orleans's financial position or results of operations.

### **Unbilled Revenue**

As discussed in Note 1 to the financial statements, Entergy New Orleans records an estimate of the revenues earned for energy delivered since the latest customer billing. Each month the estimated unbilled revenue amounts are recorded as revenue and a receivable, and the prior month's estimate is reversed. The difference between the estimate of the unbilled receivable at the beginning of the period and the end of the period is the amount of unbilled revenue recognized during the period. The estimate recorded is primarily based upon an estimate of customer usage during the unbilled period and the billed price to customers in that month, including fuel price. Therefore, revenue recognized may be affected by the estimated price and usage at the beginning and end of each period and fuel price fluctuations, in addition to changes in certain components of the calculation. Effective June 2009, Entergy New Orleans reclassified the fuel component of unbilled accounts receivable to deferred fuel and will no longer include the fuel component in the unbilled calculation, which is in accordance with regulatory treatment.

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

Entergy sponsors qualified defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age and meet certain eligibility requirements while still working for Entergy. Entergy's reported costs of providing these benefits, as described in Note 11 to the financial statements, are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. See the "Critical Accounting Estimates" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis for further discussion. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate.

### Cost Sensitivity

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

| <u>Actuarial Assumption</u>      | <u>Change in Assumption</u> | <u>Impact on 2011 Qualified Pension Cost</u><br>Increase/(Decrease) | <u>Impact on Projected Qualified Benefit Obligation</u> |
|----------------------------------|-----------------------------|---|---|
| Discount rate                    | (0.25%)                     | \$408   | \$5,283   |
| Rate of return on plan assets    | (0.25%)                     | \$249   | -   |
| Rate of increase in compensation | 0.25%                       | \$170   | \$1,027   |

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

| <u>Actuarial Assumption</u> | <u>Change in Assumption</u> | <u>Impact on 2011 Postretirement Benefit Cost</u><br>Increase/(Decrease) | <u>Impact on Accumulated Postretirement Benefit Obligation</u> |
|-----------------------------|-----------------------------|--|--|
| Health care cost trend      | 0.25%                       | \$269  | \$1,675  |
| Discount rate               | (0.25%)                     | \$163  | \$2,057  |

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

### Costs and Funding

Total qualified pension cost for Entergy New Orleans in 2011 was \$5.5 million. Entergy New Orleans anticipates 2012 qualified pension cost to be \$8.5 million. Entergy New Orleans contributed \$12.2 million in qualified pension contributions in 2011 and anticipates approximately a \$4.8 million pension contribution in 2012 although the required pension contributions will not be known with more certainty until the January 1, 2012 valuations are completed by April 1, 2012.

Total postretirement health care and life insurance benefit costs for Entergy New Orleans in 2011 were \$3.7 million, including \$1.2 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy New Orleans expects 2012 postretirement health care and life insurance benefit costs to approximate \$4.2 million, including \$1 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy New Orleans expects to contribute approximately \$3.7 million to its other postretirement plans in 2012.

### Federal Healthcare Legislation

See the "Qualified Pension and Other Postretirement Benefits - Federal Healthcare Legislation" in the "Critical Accounting Estimates" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of Federal Healthcare Legislation.

### New Accounting Pronouncements

See "New Accounting Pronouncements" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Entergy New Orleans, Inc.  
New Orleans, Louisiana

We have audited the accompanying balance sheets of Entergy New Orleans, Inc. (the "Company") as of December 31, 2011 and 2010, and the related income statements, statements of cash flows, and statements of changes in common equity (pages 356 through 360 and applicable items in pages 53 through 194) for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Entergy New Orleans, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
February 27, 2012

**ENTERGY NEW ORLEANS, INC.**  
**INCOME STATEMENTS**

|   | For the Years Ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2011                             | 2010            | 2009            |
|   | (In Thousands)                   |                 |                 |
| <b>OPERATING REVENUES</b>                                 |                                  |                 |                 |
| Electric  | \$529,228                        | \$543,102       | \$535,985       |
| Natural gas   | 100,957                          | 116,347         | 104,437         |
| <b>TOTAL</b>  | <b>630,185</b>                   | <b>659,449</b>  | <b>640,422</b>  |
| <b>OPERATING EXPENSES</b>                                 |                                  |                 |                 |
| Operation and Maintenance:                                |                                  |                 |                 |
| Fuel, fuel-related expenses, and gas purchased for resale | 173,668                          | 169,644         | 196,917         |
| Purchased power   | 207,604                          | 218,025         | 198,836         |
| Other operation and maintenance                           | 106,817                          | 130,917         | 108,716         |
| Taxes other than income taxes                             | 42,032                           | 44,749          | 40,476          |
| Depreciation and amortization                             | 35,026                           | 35,354          | 33,943          |
| Other regulatory charges (credits) - net                  | 1,910                            | (1,072)         | 1,709           |
| <b>TOTAL</b>  | <b>567,057</b>                   | <b>597,617</b>  | <b>580,597</b>  |
| <b>OPERATING INCOME</b>                                   | <b>63,128</b>                    | <b>61,832</b>   | <b>59,825</b>   |
| <b>OTHER INCOME</b>                                       |                                  |                 |                 |
| Allowance for equity funds used during construction       | 622                              | 667             | 230             |
| Interest and investment income                            | 154                              | 544             | 3,762           |
| Miscellaneous - net                                       | (1,234)                          | (2,478)         | (1,125)         |
| <b>TOTAL</b>  | <b>(458)</b>                     | <b>(1,267)</b>  | <b>2,867</b>    |
| <b>INTEREST EXPENSE</b>                                   |                                  |                 |                 |
| Interest expense  | 11,114                           | 13,170          | 16,965          |
| Allowance for borrowed funds used during construction     | (282)                            | (320)           | (98)            |
| <b>TOTAL</b>  | <b>10,832</b>                    | <b>12,850</b>   | <b>16,867</b>   |
| <b>INCOME BEFORE INCOME TAXES</b>                         | <b>51,838</b>                    | <b>47,715</b>   | <b>45,825</b>   |
| Income taxes  | 15,862                           | 16,601          | 15,346          |
| <b>NET INCOME</b>   | <b>35,976</b>                    | <b>31,114</b>   | <b>30,479</b>   |
| Preferred dividend requirements and other                 | 965                              | 965             | 965             |
| <b>EARNINGS APPLICABLE TO COMMON STOCK</b>                | <b>\$35,011</b>                  | <b>\$30,149</b> | <b>\$29,514</b> |

See Notes to Financial Statements.



**ENTERGY NEW ORLEANS, INC.**  
**STATEMENTS OF CASH FLOWS**

|  | For the Years Ended December 31, |           |            |
|--|----------------------------------|-----------|------------|
|  | 2011                             | 2010      | 2009       |
|  | (In Thousands)                   |           |            |
| <b>OPERATING ACTIVITIES</b>  |                                  |           |            |
| Net income   | \$35,976                         | \$31,114  | \$30,479   |
| Adjustments to reconcile net income to net cash flow provided by operating activities: |                                  |           |            |
| Depreciation and amortization  | 35,026                           | 35,354    | 33,943     |
| Deferred income taxes, investment tax credits, and non-current taxes accrued           | (35,276)                         | (47,611)  | 54,797     |
| Changes in assets and liabilities:   |                                  |           |            |
| Receivables  | 24,275                           | (6,289)   | 20,361     |
| Fuel inventory   | (1,160)                          | (113)     | 5,665      |
| Accounts payable   | (3,502)                          | 3,307     | (3,224)    |
| Taxes accrued  | -                                | -         | (18,306)   |
| Interest accrued   | 12                               | (1,121)   | 19         |
| Deferred fuel costs  | 4,694                            | 10,923    | 13,751     |
| Other working capital accounts   | (7,764)                          | 4,174     | 3,401      |
| Provisions for estimated losses  | 4,637                            | (4,785)   | 5,382      |
| Other regulatory assets  | (42,667)                         | (10,073)  | (2,227)    |
| Pension and other postretirement liabilities   | 25,202                           | 5,042     | (5,549)    |
| Other assets and liabilities   | 5,474                            | 29,043    | 10,064     |
| Net cash flow provided by operating activities   | 44,927                           | 48,965    | 148,556    |
| <b>INVESTING ACTIVITIES</b>  |                                  |           |            |
| Construction expenditures  | (56,600)                         | (80,218)  | (61,954)   |
| Allowance for equity funds used during construction                                    | 622                              | 667       | 230        |
| Insurance proceeds   | -                                | 115       | 14,553     |
| Investments in affiliates  | 3,256                            | -         | -          |
| Change in money pool receivable - net  | 12,746                           | 44,329    | (6,056)    |
| Changes in other investments - net   | (6,043)                          | 3,546     | (6,621)    |
| Net cash flow used in investing activities   | (46,019)                         | (31,561)  | (59,848)   |
| <b>FINANCING ACTIVITIES</b>  |                                  |           |            |
| Proceeds from the issuance of long-term debt   | -                                | 24,349    | -          |
| Retirement of long-term debt   | -                                | (129,993) | (728)      |
| Dividends paid:  |                                  |           |            |
| Common stock   | (42,000)                         | (47,000)  | (32,900)   |
| Preferred stock  | (965)                            | (965)     | (965)      |
| Other  | (1,095)                          | -         | (368)      |
| Net cash flow used in financing activities   | (44,060)                         | (153,609) | (34,961)   |
| Net increase (decrease) in cash and cash equivalents                                   | (45,152)                         | (136,205) | 53,747     |
| Cash and cash equivalents at beginning of period                                       | 54,986                           | 191,191   | 137,444    |
| Cash and cash equivalents at end of period   | \$9,834                          | \$54,986  | \$191,191  |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                      |                                  |           |            |
| Cash paid/(received) during the period for:  |                                  |           |            |
| Interest - net of amount capitalized   | \$10,109                         | \$13,550  | \$16,302   |
| Income taxes   | \$39,403                         | \$68,160  | (\$22,054) |

See Notes to Financial Statements.

**ENTERGY NEW ORLEANS, INC.**  
**BALANCE SHEETS**  
**ASSETS**

|  | December 31,   |           |
|--|----------------|-----------|
|  | 2011           | 2010      |
|  | (In Thousands) |           |
| <b>CURRENT ASSETS</b>  |                |           |
| Cash and cash equivalents                                    |                |           |
| Cash   | \$486          | \$1,386   |
| Temporary cash investments                                   | 9,348          | 53,600    |
| Total cash and cash equivalents                              | 9,834          | 54,986    |
| Accounts receivable:   |                |           |
| Customer   | 29,038         | 38,160    |
| Allowance for doubtful accounts                              | (465)          | (734)     |
| Associated companies   | 12,167         | 39,037    |
| Other  | 2,603          | 1,824     |
| Accrued unbilled revenues                                    | 17,023         | 19,100    |
| Total accounts receivable                                    | 60,366         | 97,387    |
| Accumulated deferred income taxes                            | 6,419          | 15,092    |
| Fuel inventory - at average cost                             | 3,806          | 2,646     |
| Materials and supplies - at average cost                     | 9,392          | 9,896     |
| Prepayments and other  | 2,679          | 7,708     |
| <b>TOTAL</b>   | 92,496         | 187,715   |
| <b>OTHER PROPERTY AND INVESTMENTS</b>                        |                |           |
| Non-utility property at cost (less accumulated depreciation) | 1,016          | 1,016     |
| Storm reserve escrow account                                 | 11,996         | 5,953     |
| <b>TOTAL</b>   | 13,012         | 6,969     |
| <b>UTILITY PLANT</b>   |                |           |
| Electric   | 812,329        | 822,003   |
| Natural gas  | 213,160        | 206,148   |
| Construction work in progress                                | 13,610         | 11,669    |
| <b>TOTAL UTILITY PLANT</b>                                   | 1,039,099      | 1,039,820 |
| Less - accumulated depreciation and amortization             | 525,621        | 531,871   |
| <b>UTILITY PLANT - NET</b>                                   | 513,478        | 507,949   |
| <b>DEFERRED DEBITS AND OTHER ASSETS</b>                      |                |           |
| Regulatory assets:   |                |           |
| Deferred fuel costs  | 4,080          | 4,080     |
| Other regulatory assets                                      | 178,815        | 135,282   |
| Other  | 4,154          | 8,081     |
| <b>TOTAL</b>   | 187,049        | 147,443   |
| <b>TOTAL ASSETS</b>  | \$806,035      | \$850,076 |

See Notes to Financial Statements.

**ENTERGY NEW ORLEANS, INC.**  
**BALANCE SHEETS**  
**LIABILITIES AND EQUITY**

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2011             | 2010             |
|   | (In Thousands)   |                  |
| <b>CURRENT LIABILITIES</b>  |                  |                  |
| Accounts payable:   |                  |                  |
| Associated companies  | \$27,042         | \$25,140         |
| Other   | 28,098           | 30,093           |
| Customer deposits   | 21,878           | 21,206           |
| Interest accrued  | 2,840            | 2,828            |
| Deferred fuel costs   | 11,621           | 6,927            |
| System agreement cost equalization  | -                | 15,510           |
| Other   | 4,197            | 2,655            |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>95,676</b>    | <b>104,359</b>   |
| <b>NON-CURRENT LIABILITIES</b>  |                  |                  |
| Accumulated deferred income taxes and taxes accrued   | 144,405          | 180,290          |
| Accumulated deferred investment tax credits   | 1,539            | 1,835            |
| Regulatory liability for income taxes - net   | 33,258           | 40,142           |
| Other regulatory liabilities  | 5,726            | 22               |
| Asset retirement cost liabilities   | 2,893            | 3,396            |
| Accumulated provisions  | 15,843           | 11,206           |
| Pension and other postretirement liabilities  | 74,017           | 48,815           |
| Long-term debt  | 166,537          | 167,215          |
| Gas system rebuild insurance proceeds   | 55,707           | 75,700           |
| Other   | 9,489            | 9,162            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>  | <b>509,414</b>   | <b>537,783</b>   |
| Commitments and Contingencies   |                  |                  |
| Preferred stock without sinking fund  | 19,780           | 19,780           |
| <b>COMMON EQUITY</b>  |                  |                  |
| Common stock, \$4 par value, authorized 10,000,000 shares; issued and outstanding 8,435,900 shares in 2011 and 2010 | 33,744           | 33,744           |
| Paid-in capital   | 36,294           | 36,294           |
| Retained earnings   | 111,127          | 118,116          |
| <b>TOTAL</b>  | <b>181,165</b>   | <b>188,154</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$806,035</b> | <b>\$850,076</b> |

See Notes to Financial Statements.

**ENTERGY NEW ORLEANS, INC.**  
**STATEMENTS OF CHANGES IN COMMON EQUITY**  
**For the Years Ended December 31, 2011, 2010, and 2009**

|                                     | Common Equity   |                    |                      | Total            |
|-------------------------------------|-----------------|--------------------|----------------------|------------------|
|                                     | Common<br>Stock | Paid-in<br>Capital | Retained<br>Earnings |                  |
|                                     | (In Thousands)  |                    |                      |                  |
| <b>Balance at December 31, 2008</b> | \$33,744        | \$36,294           | \$138,353            | \$208,391        |
| Net income                          | -               | -                  | 30,479               | 30,479           |
| Common stock dividends              | -               | -                  | (32,900)             | (32,900)         |
| Preferred stock dividends           | -               | -                  | (965)                | (965)            |
| <b>Balance at December 31, 2009</b> | \$33,744        | \$36,294           | \$134,967            | \$205,005        |
| Net income                          | -               | -                  | 31,114               | 31,114           |
| Common stock dividends              | -               | -                  | (47,000)             | (47,000)         |
| Preferred stock dividends           | -               | -                  | (965)                | (965)            |
| <b>Balance at December 31, 2010</b> | \$33,744        | \$36,294           | \$118,116            | \$188,154        |
| Net income                          | -               | -                  | 35,976               | 35,976           |
| Common stock dividends              | -               | -                  | (42,000)             | (42,000)         |
| Preferred stock dividends           | -               | -                  | (965)                | (965)            |
| <b>Balance at December 31, 2011</b> | <u>\$33,744</u> | <u>\$36,294</u>    | <u>\$111,127</u>     | <u>\$181,165</u> |

See Notes to Financial Statements.

**ENTERGY NEW ORLEANS, INC.**  
**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**

|                           | <u>2011</u>    | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|----------------|-------------|-------------|-------------|-------------|
|                           | (In Thousands) |             |             |             |             |
| Operating revenues        | \$630,185      | \$659,449   | \$640,422   | \$814,383   | \$676,927   |
| Net Income                | \$35,976       | \$31,114    | \$30,479    | \$34,337    | \$24,091    |
| Total assets              | \$806,035      | \$850,076   | \$995,818   | \$998,460   | \$872,141   |
| Long-term obligations (1) | \$186,317      | \$186,995   | \$187,803   | \$292,753   | \$293,692   |

(1) Includes long-term debt (excluding currently maturing debt) and preferred stock without sinking fund.

|                                     | <u>2011</u>           | <u>2010</u>  | <u>2009</u>  | <u>2008</u>  | <u>2007</u>  |
|-------------------------------------|-----------------------|--------------|--------------|--------------|--------------|
|                                     | (Dollars In Millions) |              |              |              |              |
| Electric Operating Revenues:        |                       |              |              |              |              |
| Residential                         | \$176                 | \$196        | \$168        | \$172        | \$142        |
| Commercial                          | 154                   | 174          | 166          | 194          | 181          |
| Industrial                          | 30                    | 36           | 37           | 48           | 47           |
| Governmental                        | 59                    | 70           | 70           | 79           | 72           |
| Total retail                        | <u>419</u>            | <u>476</u>   | <u>441</u>   | <u>493</u>   | <u>442</u>   |
| Sales for resale:                   |                       |              |              |              |              |
| Associated companies                | 95                    | 56           | 87           | 161          | 103          |
| Non-associated companies            | 1                     | 1            | 1            | 2            | 1            |
| Other                               | 14                    | 10           | 7            | 17           | 11           |
| Total                               | <u>\$529</u>          | <u>\$543</u> | <u>\$536</u> | <u>\$673</u> | <u>\$557</u> |
| Billed Electric Energy Sales (GWh): |                       |              |              |              |              |
| Residential                         | 1,888                 | 1,858        | 1,577        | 1,394        | 1,221        |
| Commercial                          | 1,939                 | 1,899        | 1,813        | 1,774        | 1,763        |
| Industrial                          | 498                   | 503          | 526          | 541          | 568          |
| Governmental                        | 795                   | 809          | 805          | 774          | 747          |
| Total retail                        | <u>5,120</u>          | <u>5,069</u> | <u>4,721</u> | <u>4,483</u> | <u>4,299</u> |
| Sales for resale:                   |                       |              |              |              |              |
| Associated companies                | 1,167                 | 906          | 1,528        | 1,336        | 995          |
| Non-associated companies            | 19                    | 13           | 15           | 25           | 15           |
| Total                               | <u>6,306</u>          | <u>5,988</u> | <u>6,264</u> | <u>5,844</u> | <u>5,309</u> |

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

**Plan to Spin Off the Utility's Transmission Business**

See the "**Plan to Spin Off the Utility's Transmission Business**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of this matter, including the planned retirement of debt and preferred securities.

**Results of Operations**

**Net Income**

**2011 Compared to 2010**

Net income increased by \$14.6 million primarily due to higher net revenue, partially offset by higher taxes other than income taxes, higher other operation and maintenance expenses, and higher depreciation and amortization expenses.

**2010 Compared to 2009**

Net income increased by \$2.4 million primarily due to higher net revenue and lower interest expense, partially offset by lower other income, higher taxes other than income taxes, and higher other operation and maintenance expenses.

**Net Revenue**

**2011 Compared to 2010**

Net revenue consists of operating revenues net of: 1) fuel, fuel-related expenses, and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory charges (credits). Following is an analysis of the change in net revenue comparing 2011 to 2010.

|                          | <b>Amount</b>        |
|--------------------------|----------------------|
|                          | <b>(In Millions)</b> |
| 2010 net revenue         | \$540.2              |
| Retail electric price    | 36.0                 |
| Volume/weather           | 21.3                 |
| Purchased power capacity | (24.6)               |
| Other                    | 4.9                  |
| <b>2011 net revenue</b>  | <b>\$577.8</b>       |

The retail electric price variance is primarily due to rate actions, including an annual base rate increase of \$59 million beginning August 2010, with an additional increase of \$9 million beginning May 2011, as a result of the settlement of the December 2009 rate case. See Note 2 to the financial statements for further discussion of the rate case settlement.

The volume/weather variance is primarily due to an increase of 721 GWh, or 4.5%, in billed electricity usage, including the effect of more favorable weather on residential and commercial sales compared to last year. Usage in the industrial sector increased 8.2% primarily in the chemicals and refining industries.

The purchased power capacity variance is primarily due to price increases for ongoing purchased power capacity and additional capacity purchases.

*Gross operating revenues, fuel and purchased power expenses, and other regulatory charges*

Gross operating revenues increased primarily due to the base rate increases and the volume/weather effect, as discussed above.

Fuel and purchased power expenses increased primarily due to an increase in demand coupled with an increase in deferred fuel expense as a result of lower fuel refunds in 2011 versus 2010, partially offset by a decrease in the average market price of natural gas.

Other regulatory charges decreased primarily due to the distribution in the first quarter 2011 of \$17.4 million to customers of the 2007 rough production cost equalization remedy receipts. See Note 2 to the financial statements for further discussion of the rough production cost equalization proceedings.

2010 Compared to 2009

Net revenue consists of operating revenues net of: 1) fuel, fuel-related expenses, and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory charges (credits). Following is an analysis of the change in net revenue comparing 2010 to 2009.

|                                    | <u>Amount</u><br>(In Millions) |
|------------------------------------|--------------------------------|
| 2009 net revenue                   | \$485.1                        |
| Net wholesale revenue              | 27.7                           |
| Volume/weather                     | 27.2                           |
| Rough production cost equalization | 18.6                           |
| Retail electric price              | 16.3                           |
| Securitization transition charge   | 15.3                           |
| Purchased power capacity           | (44.3)                         |
| Other                              | (5.7)                          |
| <b>2010 net revenue</b>            | <b><u>\$540.2</u></b>          |

The net wholesale revenue variance is primarily due to increased sales to municipal and co-op customers due to the addition of new contracts.

The volume/weather variance is primarily due to increased electricity usage primarily in the residential and commercial sectors, resulting from a 1.5% increase in customers, coupled with the effect of more favorable weather on residential sales. Billed electricity usage increased a total of 777 GWh, or 5%.

The rough production cost equalization variance is due to an additional \$18.6 million allocation recorded in the second quarter of 2009 for 2007 rough production cost equalization receipts ordered by the PUCT to Texas retail customers over what was originally allocated to Entergy Texas prior to the jurisdictional separation of Entergy Gulf States, Inc. into Entergy Gulf States Louisiana and Entergy Texas, effective December 2007, as discussed in Note 2 to the financial statements.

The retail electric price variance is primarily due to rate actions, including an annual base rate increase of \$59 million beginning August 2010 as a result of the settlement of the December 2009 rate case. See Note 2 to the financial statements for further discussion of the rate case settlement.

The securitization transition charge variance is due to the issuance of securitization bonds. In November 2009, Entergy Texas Restoration Funding, LLC, a company wholly-owned and consolidated by Entergy Texas, issued securitization bonds and with the proceeds purchased from Entergy Texas the transition property, which is the right to recover from customers through a transition charge amounts sufficient to service the securitization bonds. The securitization transition charge is offset with a corresponding increase in interest on long-term debt with no impact on net income. See Note 5 to the financial statements for further discussion of the securitization bond issuance.

The purchased power capacity variance is primarily due to price increases in ongoing purchased power capacity expense and additional capacity purchases.

*Gross operating revenues and fuel and purchased power expenses*

Gross operating revenues increased primarily due to an increase of \$145.6 million in gross wholesale revenues as a result of the addition of new customer contracts and the increase related to volume/weather, as discussed above. The increase was partially offset by a decrease of \$59.9 million in fuel cost recovery revenues primarily attributable to lower fuel rates and interim fuel refunds in the first quarter 2010 and the third and fourth quarters 2010. The interim fuel refunds and the PUCT approvals are discussed in Note 2 to the financial statements.

Fuel and purchased power expenses increased primarily due to increases in the average market prices of purchased power and natural gas, substantially offset by a decrease in deferred fuel expenses as the result of lower fuel revenues, as discussed above.

**Other Income Statement Variances**

2011 Compared to 2010

Other operation and maintenance expenses increased primarily due to:

- an increase of \$8.5 million in transmission expenses due to a billing adjustment recorded in the fourth quarter 2011 related to prior transmission investment equalization costs (for the approximate period of 1996 - 2011) allocable to Entergy Texas under the Entergy System Agreement;
- an increase of \$2.4 million in the over-recovery of energy efficiency revenues; and
- several individually insignificant items.

The increase was partially offset by the amortization of \$11 million of rate case expenses in 2010 and a decrease of \$3.9 million in compensation and benefits costs primarily due to a decrease in stock option expense. See Note 2 to the financial statements for further discussion of the rate case settlement.

Taxes other than income taxes increased primarily due to an increase in local franchise taxes as a result of higher city franchise and gross receipts taxes and an increase in ad valorem taxes due to a higher 2011 assessment as compared to 2010, partially offset by lower street rentals.

Depreciation and amortization expenses increased primarily due to an increase in plant in service.

2010 Compared to 2009

Other operation and maintenance expenses increased primarily due to the amortization of \$11 million of rate case expenses. See Note 2 to the financial statements for further discussion of the rate case settlement. The increase was partially offset by a charge of \$6.8 million in June 2009 resulting from the Hurricane Ike and Hurricane Gustav storm cost recovery settlement with the PUCT. See Note 2 to the financial statements for discussion of this settlement.

Taxes other than income taxes increased primarily due to a provision recorded for sales and use taxes, an increase in local franchise taxes, and an increase in ad valorem taxes as a result of a higher 2010 assessment as compared to 2009, partially offset by lower millage rates.

Other income decreased primarily due to carrying costs recorded in 2009 on storm restoration costs as approved by Texas legislation. See Note 2 to the financial statements for further discussion of Hurricane Ike storm cost recovery filings.



Interest expense decreased primarily due to lower interest on deferred fuel costs and the pay-down of the debt assumption agreement liability. The decrease was partially offset by the issuance of \$546 million in securitization bonds in November 2009.

### Income Taxes

The effective income tax rates were 38.0%, 39.0%, and 36.6% for 2011, 2010, and 2009, respectively. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 35% to the effective income tax rates.

### Liquidity and Capital Resources

#### **Cash Flow**

Cash flows for the years ended December 31, 2011, 2010, and 2009 were as follows:

|  | <u>2011</u>     | <u>2010</u>      | <u>2009</u>      |
|--|-----------------|------------------|------------------|
|  |                 | (In Thousands)   |                  |
| Cash and cash equivalents at beginning of period     | \$35,342        | \$200,703        | \$2,239          |
| Cash flow provided by (used in):                     |                 |                  |                  |
| Operating activities                                 | 238,837         | 43,095           | 287,533          |
| Investing activities                                 | (219,783)       | (121,439)        | (216,649)        |
| Financing activities                                 | 10,893          | (87,017)         | 127,580          |
| Net increase (decrease) in cash and cash equivalents | <u>29,947</u>   | <u>(165,361)</u> | <u>198,464</u>   |
| Cash and cash equivalents at end of period           | <u>\$65,289</u> | <u>\$35,342</u>  | <u>\$200,703</u> |

### Operating Activities

Cash flow provided by operating activities increased \$195.7 million in 2011 compared to 2010 primarily due to:

- \$73.4 million of fuel cost refunds in 2011 versus \$179.5 million of fuel cost refunds in 2010. See Note 2 to the financial statements for discussion of the fuel cost refunds; and
- income tax refunds of \$13.5 million in 2011 compared to income tax payments of \$48.7 million in 2010.

Cash flow provided by operating activities decreased \$244.4 million in 2010 compared to 2009 primarily due to:

- the timing of collection of receivables from customers;
- income tax payments of \$48.7 million in 2010 compared to income tax refunds of \$72.3 million in 2009. In 2010, Entergy Texas made tax payments in accordance with the Entergy Corporation and Subsidiary Companies Intercompany Income Tax Allocation Agreement. The tax payments resulted from differences between Entergy Texas's estimated utilization of net operating losses and actual utilization on the 2009 tax return filed in 2010;
- an \$87.8 million fuel cost refund made in the first quarter 2010 and an \$77 million fuel cost refund made in the third and fourth quarters 2010; and
- an increase of \$14.7 million in pension contributions. See "Critical Accounting Estimates" below for further discussion of qualified pension and other postretirement benefits funding.

The decrease was partially offset by the absence in 2010 of Hurricane Ike restoration spending that occurred in 2009.

### Investing Activities

Net cash flow used in investing activities increased \$98.3 million in 2011 compared to 2010 primarily due to money pool activity.

Increases in Entergy Texas's receivable from the money pool are a use of cash flow, and Entergy Texas's receivable from the money pool increased by \$49.5 million in 2011 compared to decreasing by \$55.6 million in 2010. The money pool is an inter-company borrowing arrangement designed to reduce Entergy's subsidiaries' need for external short-term borrowings.

Net cash flow used in investing activities decreased \$95.2 million in 2010 compared to 2009 primarily due to money pool activity and a decrease in construction expenditures due to Hurricane Ike spending in 2009, offset by a decrease of \$31.5 million in insurance proceeds and increased remittances to the securitization trust account as a result of the issuance of \$546 million in securitization bonds in November 2009. See Note 5 to the financial statements for further discussion of the issuance of the securitization bonds.

Decreases in Entergy Texas's receivable from the money pool are a source of cash flow, and Entergy Texas's receivable from the money pool decreased by \$55.6 million in 2010 compared to increasing by \$69.3 million in 2009.

### Financing Activities

Entergy Texas's financing activities provided \$10.9 million of cash in 2011 compared to using \$87.0 million of cash in 2010 primarily due to:

- the retirement of \$199 million of debt assumption liabilities and securitization bonds in 2010 compared to the retirement of \$57.4 million of securitization bonds in 2011; and
- a decrease of \$80.6 million in common equity distributions.

The cash provided was partially offset by the issuance of \$200 million of 3.60% Series mortgage bonds in May 2010 compared to the issuance of \$75 million of 4.10% Series first mortgage bonds in September 2011.

Entergy Texas's financing activities used \$87 million of cash in 2010 compared to providing \$127.6 million of cash in 2009 primarily due to:

- the issuance of \$545.9 million of securitization bonds in November 2009. See Note 5 to the financial statements for additional information regarding the securitization bonds;
- the issuance of \$500 million of 7.125% Series mortgage bonds in January 2009;
- the issuance of \$150 million of 7.875% Series mortgage bonds in May 2009;
- the issuance of \$200 million of 3.60% Series mortgage bonds in May 2010; and
- the retirement of \$199 million of debt assumption liabilities and securitization bonds in 2010 compared to \$620 million in 2009.

The use of cash was partially offset by:

- the repayment of Entergy Texas's \$160 million note payable to Entergy Corporation in January 2009;
- the repayment of \$100 million outstanding on Entergy Texas's credit facility in February 2009;
- money pool activity; and
- a decrease of \$33.1 million in common equity distributions.

Decreases in Entergy Texas's payable to the money pool are a use of cash flow, and Entergy Texas's payable to the money pool decreased by \$50.8 million in 2009.

## Capital Structure

Entergy Texas's capitalization is balanced between equity and debt, as shown in the following table.

|   | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|
| Debt to capital   | 65.1%                | 66.8%                |
| Effect of excluding the securitization bonds                | (14.3)%              | (16.0)%              |
| Debt to capital, excluding securitization bonds (1)         | 50.8%                | 50.8%                |
| Effect of subtracting cash                                  | (1.9)%               | (1.0)%               |
| Net debt to net capital, excluding securitization bonds (1) | 48.9%                | 49.8%                |

(1) Calculation excludes the securitization bonds, which are non-recourse to Entergy Texas.

Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable and long-term debt, including the currently maturing portion and also including the debt assumption liability. Capital consists of debt and common equity. Net capital consists of capital less cash and cash equivalents. Entergy Texas uses the net debt to net capital ratio in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy Texas's financial condition.

## Uses of Capital

Entergy Texas requires capital resources for:

- construction and other capital investments;
- debt maturities or retirements;
- working capital purposes, including the financing of fuel and purchased power costs; and
- dividend and interest payments.

Following are the amounts of Entergy Texas's planned construction and other capital investments, existing debt and lease obligations (includes estimated interest payments), and other purchase obligations:

|  | 2012          | 2013-2014 | 2015-2016 | After 2016 | Total   |
|--|---------------|-----------|-----------|------------|---------|
|  | (In Millions) |           |           |            |         |
| Planned construction and capital investment (1): |               |           |           |            |         |
| Generation                                       | \$84          | \$92      | N/A       | N/A        | \$176   |
| Transmission                                     | 45            | 213       | N/A       | N/A        | 258     |
| Distribution                                     | 64            | 141       | N/A       | N/A        | 205     |
| Other  | 9             | 16        | N/A       | N/A        | 25      |
| Total  | \$202         | \$462     | N/A       | N/A        | \$664   |
| Long-term debt (2)                               | \$90          | \$198     | \$496     | \$1,811    | \$2,595 |
| Operating leases                                 | \$6           | \$9       | \$3       | \$1        | \$19    |
| Purchase obligations (3)                         | \$92          | \$118     | \$101     | \$160      | \$471   |

- (1) Includes approximately \$131 million annually for maintenance capital, which is planned spending on routine capital projects that are necessary to support reliability of service, equipment or systems and to support normal customer growth.
- (2) Includes estimated interest payments. Long-term debt is discussed in Note 5 to the financial statements.
- (3) Purchase obligations represent the minimum purchase obligation or cancellation charge for contractual obligations to purchase goods or services. For Entergy Texas, it primarily includes unconditional fuel and purchased power obligations.

In addition to the contractual obligations given above, Entergy Texas expects to contribute approximately \$7.7 million to its pension plans and approximately \$5.2 million to other postretirement plans in 2012 although the required pension contributions will not be known with more certainty until the January 1, 2012 valuations are completed by April 1, 2012.

Also in addition to the contractual obligations, Entergy Texas has \$7.2 million of unrecognized tax benefits and interest net of unused tax attributes and payments for which the timing of payments beyond 12 months cannot be reasonably estimated due to uncertainties in the timing of effective settlement of tax positions. See Note 3 to the financial statements for additional information regarding unrecognized tax benefits.

Entergy's Utility supply plan initiative will continue to seek to transform its generation portfolio with new or repowered generation resources. Opportunities resulting from the supply plan initiative, including new projects or the exploration of alternative financing sources, could result in increases or decreases in the capital expenditure estimates given above. The estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of regulatory constraints, environmental compliance, market volatility, economic trends, business restructuring, changes in project plans, and the ability to access capital. Management provides more information on long-term debt and preferred stock maturities in Notes 5 and 6 to the financial statements.

As a wholly-owned subsidiary, Entergy Texas pays dividends to Entergy Corporation from its earnings at a percentage determined monthly.

### Sources of Capital

Entergy Texas's sources to meet its capital requirements include:

- internally generated funds;
- cash on hand;
- debt or preferred stock issuances; and
- bank financing under new or existing facilities.

Entergy Texas may refinance, redeem, or otherwise retire debt prior to maturity, to the extent market conditions and interest and dividend rates are favorable.

All debt and common and preferred stock issuances by Entergy Texas require prior regulatory approval. Debt issuances are also subject to issuance tests set forth in its bond indentures and other agreements. Entergy Texas has sufficient capacity under these tests to meet its foreseeable capital needs.

Entergy Texas's receivables from or (payables to) the money pool were as follows as of December 31 for each of the following years:

| <u>2011</u>    | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------|-------------|-------------|-------------|
| (In Thousands) |             |             |             |
| \$63,191       | \$13,672    | \$69,317    | (\$50,794)  |

See Note 4 to the financial statements for a description of the money pool.

Entergy Texas has a credit facility in the amount of \$100 million scheduled to expire in August 2012. No borrowings were outstanding under the facility as of December 31, 2011.

Entergy Texas has obtained short-term borrowing authorization through October 2013 from the FERC under which it may borrow at any one time outstanding, \$200 million in the aggregate. See Note 4 to the financial statements for further discussion of Entergy Texas's short-term borrowing limits. Entergy Texas has also obtained an order from the FERC authorizing long-term securities issuances through July 2013.

### Hurricane Ike and Hurricane Gustav

In September 2008, Hurricane Ike caused catastrophic damage to Entergy Texas's service territory. The storm resulted in widespread power outages, significant damage to distribution, transmission, and generation infrastructure, and the loss of sales during the power outages. Entergy Texas filed an application in April 2009 seeking a determination that \$577.5 million of Hurricane Ike and Hurricane Gustav restoration costs are recoverable,

including estimated costs for work to be completed. On August 5, 2009, Entergy Texas submitted to the ALJ an unopposed settlement agreement intended to resolve all issues in the storm cost recovery case. Under the terms of the agreement \$566.4 million, plus carrying costs, are eligible for recovery. Insurance proceeds will be credited as an offset to the securitized amount. Of the \$11.1 million difference between Entergy Texas's request and the amount agreed to, which is part of the black box agreement and not directly attributable to any specific individual issues raised, \$6.8 million is operation and maintenance expense for which Entergy Texas recorded a charge in the second quarter 2009. The remaining \$4.3 million was recorded as utility plant. The PUCT approved the settlement in August 2009, and in September 2009 the PUCT approved recovery of the costs, plus carrying costs, by securitization. See Note 5 to the financial statements for a discussion of the November 2009 issuance of the securitization bonds.

In the third quarter 2009, Entergy settled with its insurer on its Hurricane Ike claim and Entergy Texas received \$75.5 million in proceeds (Entergy received a total of \$76.5 million).

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

The rates that Entergy Texas charges for its services significantly influence its financial position, results of operations, and liquidity. Entergy Texas is regulated and the rates charged to its customers are determined in regulatory proceedings. The PUCT, a governmental agency, is primarily responsible for approval of the rates charged to customers.

### **Filings with the PUCT**

#### **2009 Rate Case**

In December 2009, Entergy Texas filed a rate case requesting a \$198.7 million increase reflecting an 11.5% return on common equity based on an adjusted June 2009 test year. The rate case also includes a \$2.8 million revenue requirement to provide supplemental funding for the decommissioning trust maintained for the 70% share of River Bend for which Entergy Texas retail customers are partially responsible, in response to an NRC notification of a projected shortfall of decommissioning funding assurance. Beginning in May 2010, Entergy Texas implemented a \$17.5 million interim rate increase, subject to refund. Intervenor and PUCT Staff filed testimony recommending adjustments that would result in a maximum rate increase, based on the PUCT Staff's testimony, of \$58 million.

The parties filed a settlement in August 2010 intended to resolve the rate case proceeding. The settlement provides for a \$59 million base rate increase for electricity usage beginning August 15, 2010, with an additional increase of \$9 million for bills rendered beginning May 2, 2011. The settlement stipulates an authorized return on equity of 10.125%. The settlement states that Entergy Texas's fuel costs for the period April 2007 through June 2009 are reconciled, with \$3.25 million of disallowed costs, which were included in an interim fuel refund. The settlement also sets River Bend decommissioning costs at \$2.0 million annually. Consistent with the settlement, in the third quarter 2010, Entergy Texas amortized \$11 million of rate case costs. The PUCT approved the settlement in December 2010.

#### **2011 Rate Case**

In November 2011, Entergy Texas filed a rate case requesting a \$112 million base rate increase reflecting a 10.6% return on common equity based on an adjusted June 2011 test year. The rate case also proposed a purchased power recovery rider. The parties have agreed to a procedural schedule that contemplates a final decision by July 30, 2012, with rates relating back to June 30, 2012. On January 12, 2012, the PUCT voted not to address the purchased power recovery rider in the current rate case, but the PUCT voted to set a baseline in the rate case proceeding that would be applicable if a purchased power capacity rider is approved in a separate proceeding.

## **Fuel and Purchased Power Cost Recovery**

Entergy Texas's rate schedules include a fixed fuel factor to recover fuel and purchased power costs, including carrying charges, not recovered in base rates. Semi-annual revisions of the fixed fuel factor are made in March and September based on the market price of natural gas and changes in fuel mix. The amounts collected under Entergy Texas's fixed fuel factor and any interim surcharge or refund are subject to fuel reconciliation proceedings before the PUCT.

In January 2008, Entergy Texas made a compliance filing with the PUCT describing how its 2007 rough production cost equalization receipts under the System Agreement were allocated between Entergy Gulf States, Inc.'s Texas and Louisiana jurisdictions. In December 2008 the PUCT adopted an ALJ proposal for decision recommending an additional \$18.6 million allocation to Texas retail customers. Because the PUCT allocation to Texas retail customers is inconsistent with the LPSC allocation to Louisiana retail customers, the PUCT's decision results in trapped costs between the Texas and Louisiana jurisdictions with no mechanism for recovery. Entergy Texas filed with the FERC a proposed amendment to the System Agreement bandwidth formula to specifically calculate the payments to Entergy Gulf States Louisiana and Entergy Texas of Entergy Gulf States, Inc.'s rough production cost equalization receipts for 2007. In May 2009 the FERC issued an order rejecting the proposed amendment. Because of the FERC's order, Entergy Texas recorded the effects of the PUCT's allocation of the additional \$18.6 million to Texas retail customers in the second quarter 2009. On an after-tax basis, the charge to earnings was approximately \$13.0 million (including interest). The PUCT and FERC decisions are now final.

In May 2009, Entergy Texas filed with the PUCT a request to refund \$46.1 million, including interest, of fuel cost recovery over-collections through February 2009. Entergy Texas requested that the proposed refund be made over a four-month period beginning June 2009. Pursuant to a stipulation among the various parties, in June 2009 the PUCT issued an order approving a refund of \$59.2 million, including interest, of fuel cost recovery overcollections through March 2009. The refund was made for most customers over a three-month period beginning July 2009.

In October 2009, Entergy Texas filed with the PUCT a request to refund approximately \$71 million, including interest, of fuel cost recovery over-collections through September 2009. Entergy Texas requested that the proposed refund be made over a six-month period beginning January 2010. Pursuant to a stipulation among the various parties, the PUCT issued an order approving a refund of \$87.8 million, including interest, of fuel cost recovery overcollections through October 2009. The refund was made for most customers over a three-month period beginning January 2010.

In June 2010, Entergy Texas filed with the PUCT a request to refund approximately \$66 million, including interest, of fuel cost recovery over-collections through May 2010. In September 2010 the PUCT issued an order providing for a \$77 million refund, including interest, for fuel cost recovery over-collections through June 2010. The refund was made for most customers over a three-month period beginning with the September 2010 billing cycle.

In December 2010, Entergy Texas filed with the PUCT a request to refund fuel cost recovery over-collections through October 2010. Pursuant to a stipulation among the parties that was approved by the PUCT in March 2011, Entergy Texas refunded over-collections through November 2010 of approximately \$73 million, including interest through the refund period. The refund was made for most customers over a three-month period that began with the February 2011 billing cycle.

In December 2011, Entergy Texas filed with the PUCT a request to refund approximately \$43 million, including interest, of fuel cost recovery over-collections through October 2011. Entergy Texas and the parties to the proceeding reached an agreement that Entergy Texas will refund \$67 million, including interest, over a three-month period, which refund includes additional over-recoveries through December 2011. Entergy Texas and the parties requested that interim rates consistent with the settlement be approved effective with the March 2012 billing month, and this request was granted by the presiding ALJ on February 16, 2012.

Entergy Texas's November 2011 rate case filing, which is discussed above, also includes a request to reconcile \$1.3 billion of fuel and purchased power costs covering the period July 2009 through June 2011.

### **Federal Regulation**

See "Independent Coordinator of Transmission", "System Agreement", "Entergy's Proposal to Join the MISO RTO", "Notice to SERC Reliability Corporation Regarding Reliability Standards and FERC Investigation", and "U.S. Department of Justice Investigation" in the "**Rate, Cost-recovery, and Other Regulation – Federal Regulation**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of these topics.

### **Industrial and Commercial Customers**

Entergy Texas's large industrial and commercial customers continually explore ways to reduce their energy costs. In particular, cogeneration is an option available to a portion of Entergy Texas's industrial customer base. Entergy Texas responds by working with industrial and commercial customers and negotiating electric service contracts to provide, under existing rate schedules, competitive rates that match specific customer needs and load profiles. Entergy Texas actively participates in economic development, customer retention, and reclamation activities to increase industrial and commercial demand, from both new and existing customers. Entergy Texas does not currently expect additional significant losses to cogeneration because of the current economics of the electricity markets and Entergy Texas's marketing efforts in retaining industrial customers.

### **Environmental Risks**

Entergy Texas's facilities and operations are subject to regulation by various governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. Management believes that Entergy Texas is in substantial compliance with environmental regulations currently applicable to its facilities and operations. Because environmental regulations are subject to change, future compliance costs cannot be precisely estimated.

### **Critical Accounting Estimates**

The preparation of Entergy Texas's financial statements in conformity with generally accepted accounting principles requires management to apply appropriate accounting policies and to make estimates and judgments that can have a significant effect on reported financial position, results of operations, and cash flows. Management has identified the following accounting policies and estimates as critical because they are based on assumptions and measurements that involve a high degree of uncertainty, and the potential for future changes in the assumptions and measurements that could produce estimates that would have a material effect on the presentation of Entergy Texas's financial position or results of operations.

### **Unbilled Revenue**

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

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

Entergy sponsors qualified defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age and meet certain eligibility requirements while still working for Entergy. Entergy's reported costs of providing these benefits, as described in Note 11 to the financial statements, are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various

actuarial calculations, assumptions, and accounting mechanisms. See the "**Critical Accounting Estimates**" section of Entergy Corporation and Subsidiaries' Management's Discussion and Analysis for further discussion. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate.

#### Cost Sensitivity

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

| <u>Actuarial Assumption</u>      | <u>Change in Assumption</u> | <u>Impact on 2011 Qualified Pension Cost</u><br>Increase/(Decrease) | <u>Impact on Qualified Projected Benefit Obligation</u> |
|----------------------------------|-----------------------------|---|---|
| Discount rate                    | (0.25%)                     | \$808   | \$10,726  |
| Rate of return on plan assets    | (0.25%)                     | \$647   | -   |
| Rate of increase in compensation | 0.25%                       | \$334   | \$1,830   |

The following chart reflects the sensitivity of postretirement benefit cost and accumulated postretirement benefit obligation changes in certain actuarial assumptions (dollars in thousands):

| <u>Actuarial Assumption</u> | <u>Change in Assumption</u> | <u>Impact on 2011 Postretirement Benefit Cost</u><br>Increase/(Decrease) | <u>Impact on Accumulated Postretirement Benefit Obligation</u> |
|-----------------------------|-----------------------------|--|--|
| Health care cost trend      | 0.25%                       | \$596  | \$3,969  |
| Discount rate               | (0.25%)                     | \$376  | \$4,520  |

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

#### Costs and Funding

Total qualified pension cost for Entergy Texas in 2011 was \$4.4 million. Entergy Texas anticipates 2012 qualified pension cost to be \$10.4 million. Entergy Texas contributed \$18.2 million to its qualified pension plans in 2011. Entergy Texas's contributions to the pension trust are currently estimated to be approximately \$7.7 million in 2012 although the required pension contributions will not be known with more certainty until the January 1, 2012 valuations are completed by April 1, 2012.

Total postretirement health care and life insurance benefit costs for Entergy Texas in 2011 were \$4.1 million, including \$1.5 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy Texas expects 2012 postretirement health care and life insurance benefit costs to approximate \$6 million, including \$1.3 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy Texas expects to contribute approximately \$5.2 million to its other postretirement plans in 2012.

#### Federal Healthcare Legislation

See the "**Qualified Pension and Other Postretirement Benefits - Federal Healthcare Legislation**" in the "**Critical Accounting Estimates**" section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of Federal Healthcare Legislation.

#### New Accounting Pronouncements

See "**New Accounting Pronouncements**" section of Entergy Corporation and Subsidiaries Management's Discussion and Analysis.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of  
Entergy Texas, Inc. and Subsidiaries  
Beaumont, Texas

We have audited the accompanying consolidated balance sheets of Entergy Texas, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated income statements, consolidated statements of cash flows, and consolidated statements of changes in common equity (pages 374 through 378 and applicable items in pages 53 through 194) for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Entergy Texas, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana  
February 27, 2012

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**

|  | For the Years Ended December 31, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2011                             | 2010             | 2009             |
|  | (In Thousands)                   |                  |                  |
| <b>OPERATING REVENUES</b>                                    |                                  |                  |                  |
| Electric   | \$1,757,199                      | \$1,690,431      | \$1,563,823      |
| <b>OPERATING EXPENSES</b>                                    |                                  |                  |                  |
| Operation and Maintenance:                                   |                                  |                  |                  |
| Fuel, fuel-related expenses, and<br>gas purchased for resale | 352,022                          | 343,083          | 449,335          |
| Purchased power  | 775,067                          | 743,438          | 584,550          |
| Other operation and maintenance                              | 214,191                          | 209,699          | 204,524          |
| Taxes other than income taxes                                | 69,329                           | 63,897           | 55,480           |
| Depreciation and amortization                                | 79,263                           | 76,057           | 74,035           |
| Other regulatory charges - net                               | 52,307                           | 63,683           | 44,807           |
| <b>TOTAL</b>   | <b>1,542,179</b>                 | <b>1,499,857</b> | <b>1,412,731</b> |
| <b>OPERATING INCOME</b>                                      | <b>215,020</b>                   | <b>190,574</b>   | <b>151,092</b>   |
| <b>OTHER INCOME</b>  |                                  |                  |                  |
| Allowance for equity funds used during construction          | 3,781                            | 5,661            | 5,232            |
| Interest and investment income                               | 5,528                            | 7,222            | 47,541           |
| Miscellaneous - net  | (3,047)                          | (3,220)          | 544              |
| <b>TOTAL</b>   | <b>6,262</b>                     | <b>9,663</b>     | <b>53,317</b>    |
| <b>INTEREST EXPENSE</b>                                      |                                  |                  |                  |
| Interest expense   | 93,554                           | 95,272           | 106,163          |
| Allowance for borrowed funds used during construction        | (2,609)                          | (3,618)          | (2,510)          |
| <b>TOTAL</b>   | <b>90,945</b>                    | <b>91,654</b>    | <b>103,653</b>   |
| <b>INCOME BEFORE INCOME TAXES</b>                            | <b>130,337</b>                   | <b>108,583</b>   | <b>100,756</b>   |
| Income taxes   | 49,492                           | 42,383           | 36,915           |
| <b>NET INCOME</b>  | <b>\$80,845</b>                  | <b>\$66,200</b>  | <b>\$63,841</b>  |

See Notes to Financial Statements.

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | For the Years Ended December 31, |           |            |
|--|----------------------------------|-----------|------------|
|  | 2011                             | 2010      | 2009       |
|  | (In Thousands)                   |           |            |
| <b>OPERATING ACTIVITIES</b>  |                                  |           |            |
| Net income   | \$80,845                         | \$66,200  | \$63,841   |
| Adjustments to reconcile net income to net cash flow provided by operating activities: |                                  |           |            |
| Depreciation and amortization  | 79,263                           | 76,057    | 74,035     |
| Deferred income taxes, investment tax credits, and non-current taxes accrued           | 56,219                           | 63,418    | 4,365      |
| Changes in assets and liabilities:   |                                  |           |            |
| Receivables  | (39,640)                         | (41,820)  | 281,710    |
| Fuel inventory   | (12)                             | 1,085     | 2,688      |
| Accounts payable   | (11,442)                         | 23,415    | (99,483)   |
| Taxes accrued  | 11,760                           | (49,030)  | 27,986     |
| Interest accrued   | (582)                            | 3,102     | 8,473      |
| Deferred fuel costs  | (12,766)                         | (25,318)  | 123,927    |
| Other working capital accounts   | 42,518                           | (115,753) | (95,603)   |
| Provisions for estimated losses  | (296)                            | (3,390)   | (4,226)    |
| Other regulatory assets  | (15,611)                         | 51,637    | (187,250)  |
| Pension and other postretirement liabilities   | 64,686                           | (5,998)   | (12,594)   |
| Other assets and liabilities   | (16,105)                         | (510)     | 99,664     |
| Net cash flow provided by operating activities   | 238,837                          | 43,095    | 287,533    |
| <b>INVESTING ACTIVITIES</b>  |                                  |           |            |
| Construction expenditures  | (173,462)                        | (162,822) | (188,277)  |
| Allowance for equity funds used during construction                                    | 3,781                            | 5,661     | 5,232      |
| Insurance proceeds   | -                                | 5,293     | 36,749     |
| Change in money pool receivable - net  | (49,519)                         | 55,645    | (69,317)   |
| Increase in other investments  | -                                | 2,318     | -          |
| Remittances to transition charge account   | (92,786)                         | (89,939)  | (36,999)   |
| Payments from transition charge account  | 92,203                           | 62,405    | 35,963     |
| Net cash flow used in investing activities   | (219,783)                        | (121,439) | (216,649)  |
| <b>FINANCING ACTIVITIES</b>  |                                  |           |            |
| Proceeds from the issuance of long-term debt   | 74,092                           | 198,435   | 1,177,819  |
| Retirement of long-term debt   | (57,419)                         | (199,052) | (619,945)  |
| Change in money pool payable - net   | -                                | -         | (50,794)   |
| Repayment of loan from Entergy Corporation   | -                                | -         | (160,000)  |
| Changes in credit borrowings - net   | -                                | -         | (100,000)  |
| Dividends paid:  |                                  |           |            |
| Common stock   | (5,780)                          | (86,400)  | (119,500)  |
| Net cash flow provided by (used in) financing activities                               | 10,893                           | (87,017)  | 127,580    |
| Net increase (decrease) in cash and cash equivalents                                   | 29,947                           | (165,361) | 198,464    |
| Cash and cash equivalents at beginning of period                                       | 35,342                           | 200,703   | 2,239      |
| Cash and cash equivalents at end of period   | \$65,289                         | \$35,342  | \$200,703  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                               |                                  |           |            |
| Cash paid/(received) during the period for:  |                                  |           |            |
| Interest - net of amount capitalized   | \$89,792                         | \$87,147  | \$93,951   |
| Income taxes   | (\$13,538)                       | \$48,713  | (\$72,322) |

See Notes to Financial Statements.

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**

|   | December 31,       |                    |
|---|--------------------|--------------------|
|   | 2011               | 2010               |
|   | (In Thousands)     |                    |
| <b>CURRENT ASSETS</b>   |                    |                    |
| Cash and cash equivalents:  |                    |                    |
| Cash  | \$150              | \$1,719            |
| Temporary cash investments  | 65,139             | 33,623             |
| Total cash and cash equivalents   | 65,289             | 35,342             |
| Securitization recovery trust account   | 41,215             | 40,632             |
| Accounts receivable:  |                    |                    |
| Customer  | 68,290             | 56,358             |
| Allowance for doubtful accounts   | (1,461)            | (2,185)            |
| Associated companies  | 129,561            | 53,128             |
| Other   | 9,573              | 11,605             |
| Accrued unbilled revenues   | 41,573             | 39,471             |
| Total accounts receivable   | 247,536            | 158,377            |
| Accumulated deferred income taxes   | 88,436             | 44,752             |
| Fuel inventory - at average cost  | 53,884             | 53,872             |
| Materials and supplies - at average cost  | 29,810             | 28,842             |
| Prepayments and other   | 15,203             | 14,856             |
| <b>TOTAL</b>  | <b>541,373</b>     | <b>376,673</b>     |
| <b>OTHER PROPERTY AND INVESTMENTS</b>   |                    |                    |
| Investments in affiliates - at equity   | 783                | 812                |
| Non-utility property - at cost (less accumulated depreciation)  | 930                | 1,223              |
| Other   | 17,969             | 17,037             |
| <b>TOTAL</b>  | <b>19,682</b>      | <b>19,072</b>      |
| <b>UTILITY PLANT</b>  |                    |                    |
| Electric  | 3,338,608          | 3,205,566          |
| Construction work in progress   | 90,856             | 80,096             |
| <b>TOTAL UTILITY PLANT</b>  | <b>3,429,464</b>   | <b>3,285,662</b>   |
| Less - accumulated depreciation and amortization  | 1,289,166          | 1,245,729          |
| <b>UTILITY PLANT - NET</b>  | <b>2,140,298</b>   | <b>2,039,933</b>   |
| <b>DEFERRED DEBITS AND OTHER ASSETS</b>   |                    |                    |
| Regulatory assets:  |                    |                    |
| Regulatory asset for income taxes - net   | 129,924            | 127,046            |
| Other regulatory assets (includes securitization property of \$704,896 as of December 31, 2011 and \$763,841 as of December 31, 2010) | 1,178,067          | 1,168,960          |
| Long-term receivables - associated companies  | 31,254             | 32,596             |
| Other   | 18,408             | 19,584             |
| <b>TOTAL</b>  | <b>1,357,653</b>   | <b>1,348,186</b>   |
| <b>TOTAL ASSETS</b>   | <b>\$4,059,006</b> | <b>\$3,783,864</b> |

See Notes to Financial Statements.

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND EQUITY**

|  | December 31,       |                    |
|--|--------------------|--------------------|
|  | 2011               | 2010               |
|  | (In Thousands)     |                    |
| <b>CURRENT LIABILITIES</b>                                 |                    |                    |
| Accounts payable:  |                    |                    |
| Associated companies                                       | \$60,583           | \$69,862           |
| Other  | 69,160             | 70,325             |
| Customer deposits  | 38,294             | 38,376             |
| Taxes accrued  | 40,311             | 28,551             |
| Interest accrued   | 33,095             | 33,677             |
| Deferred fuel costs  | 64,664             | 77,430             |
| Pension and other postretirement liabilities               | 1,029              | 1,354              |
| System agreement cost equalization                         | 43,290             | -                  |
| Other  | 4,847              | 4,222              |
| <b>TOTAL</b>   | <b>355,273</b>     | <b>323,797</b>     |
| <b>NON-CURRENT LIABILITIES</b>                             |                    |                    |
| Accumulated deferred income taxes and taxes accrued        | 934,990            | 829,668            |
| Accumulated deferred investment tax credits                | 19,339             | 20,936             |
| Other regulatory liabilities                               | 11,710             | 26,178             |
| Asset retirement cost liabilities                          | 3,870              | 3,651              |
| Accumulated provisions                                     | 5,024              | 5,320              |
| Pension and other postretirement liabilities               | 137,735            | 72,724             |
| Long-term debt (includes securitization bonds of           |                    |                    |
| \$749,673 as of December 31, 2011 and                      |                    |                    |
| \$807,066 as of December 31, 2010)                         | 1,677,127          | 1,659,230          |
| Other  | 14,583             | 18,070             |
| <b>TOTAL</b>   | <b>2,804,378</b>   | <b>2,635,777</b>   |
| Commitments and Contingencies                              |                    |                    |
| <b>COMMON EQUITY</b>                                       |                    |                    |
| Common stock, no par value, authorized 200,000,000 shares; |                    |                    |
| issued and outstanding 46,525,000 shares in 2011 and 2010  | 49,452             | 49,452             |
| Paid-in capital  | 481,994            | 481,994            |
| Retained earnings  | 367,909            | 292,844            |
| <b>TOTAL</b>   | <b>899,355</b>     | <b>824,290</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>\$4,059,006</b> | <b>\$3,783,864</b> |

See Notes to Financial Statements.

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN COMMON EQUITY**  
**For the Years Ended December 31, 2011, 2010, and 2009**

|                                     | <b>Common Equity</b>    |                            |                              |                  |
|-------------------------------------|-------------------------|----------------------------|------------------------------|------------------|
|                                     | <b>Common<br/>Stock</b> | <b>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Total</b>     |
|                                     | <b>(In Thousands)</b>   |                            |                              |                  |
| <b>Balance at December 31, 2008</b> | \$49,452                | \$481,994                  | \$368,703                    | \$900,149        |
| Net income                          | -                       | -                          | 63,841                       | 63,841           |
| Common stock dividends              | -                       | -                          | (119,500)                    | (119,500)        |
| <b>Balance at December 31, 2009</b> | \$49,452                | \$481,994                  | \$313,044                    | \$844,490        |
| Net income                          | -                       | -                          | 66,200                       | 66,200           |
| Common stock dividends              | -                       | -                          | (86,400)                     | (86,400)         |
| <b>Balance at December 31, 2010</b> | \$49,452                | \$481,994                  | \$292,844                    | \$824,290        |
| Net income                          | -                       | -                          | 80,845                       | 80,845           |
| Common stock dividends              | -                       | -                          | (5,780)                      | (5,780)          |
| <b>Balance at December 31, 2011</b> | <u>\$49,452</u>         | <u>\$481,994</u>           | <u>\$367,909</u>             | <u>\$899,355</u> |

See Notes to Financial Statements.

**ENTERGY TEXAS, INC. AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**

|                           | <u>2011</u>    | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|----------------|-------------|-------------|-------------|-------------|
|                           | (In Thousands) |             |             |             |             |
| Operating revenues        | \$1,757,199    | \$1,690,431 | \$1,563,823 | \$2,012,258 | \$1,782,923 |
| Net Income                | \$80,845       | \$66,200    | \$63,841    | \$57,895    | \$58,921    |
| Total assets              | \$4,059,006    | \$3,783,864 | \$3,920,133 | \$3,984,771 | \$3,606,752 |
| Long-term obligations (1) | \$1,677,127    | \$1,659,230 | \$1,490,283 | \$1,084,368 | \$1,103,863 |

(1) Includes long-term debt (excluding currently maturing debt)

|                                     | <u>2011</u>           | <u>2010</u>    | <u>2009</u>    | <u>2008</u>    | <u>2007</u>    |
|-------------------------------------|-----------------------|----------------|----------------|----------------|----------------|
|                                     | (Dollars In Millions) |                |                |                |                |
| Electric Operating Revenues:        |                       |                |                |                |                |
| Residential                         | \$638                 | \$559          | \$533          | \$606          | \$544          |
| Commercial                          | 369                   | 321            | 337            | 417            | 364            |
| Industrial                          | 352                   | 305            | 332            | 489            | 414            |
| Governmental                        | 26                    | 23             | 23             | 27             | 24             |
| Total retail                        | <u>1,385</u>          | <u>1,208</u>   | <u>1,225</u>   | <u>1,539</u>   | <u>1,346</u>   |
| Sales for resale:                   |                       |                |                |                |                |
| Associated companies                | 262                   | 373            | 294            | 436            | 398            |
| Non-associated companies            | 74                    | 76             | 10             | 6              | 6              |
| Other                               | 36                    | 33             | 35             | 31             | 33             |
| Total                               | <u>\$1,757</u>        | <u>\$1,690</u> | <u>\$1,564</u> | <u>\$2,012</u> | <u>\$1,783</u> |
| Billed Electric Energy Sales (GWh): |                       |                |                |                |                |
| Residential                         | 6,034                 | 5,958          | 5,453          | 5,245          | 5,280          |
| Commercial                          | 4,433                 | 4,271          | 4,165          | 4,092          | 4,085          |
| Industrial                          | 6,102                 | 5,642          | 5,570          | 5,948          | 5,911          |
| Governmental                        | 294                   | 271            | 258            | 248            | 246            |
| Total retail                        | <u>16,863</u>         | <u>16,142</u>  | <u>15,446</u>  | <u>15,533</u>  | <u>15,522</u>  |
| Sales for resale:                   |                       |                |                |                |                |
| Associated companies                | 4,158                 | 3,758          | 3,630          | 3,771          | 4,366          |
| Non-associated companies            | 1,258                 | 1,300          | 231            | 87             | 89             |
| Total                               | <u>22,279</u>         | <u>21,200</u>  | <u>19,307</u>  | <u>19,391</u>  | <u>19,977</u>  |

**SYSTEM ENERGY RESOURCES, INC.**  
**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS**

System Energy's principal asset currently consists of a 78.5% ownership interest and 11.5% leasehold interest in Grand Gulf. The capacity and energy from its 90% interest is sold under the Unit Power Sales Agreement to its only four customers, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. System Energy's operating revenues are derived from the allocation of the capacity, energy, and related costs associated with its 90% interest in Grand Gulf pursuant to the Unit Power Sales Agreement. Payments under the Unit Power Sales Agreement are System Energy's only source of operating revenues.

**Results of Operations**

**Net Income**

**2011 Compared to 2010**

Net income decreased \$18.4 million primarily due to an increase in the effective income tax rate. A decrease in operating income was offset by an increase in other income and a decrease in interest expense, which led to a slight increase in income before income taxes. Operating income was lower because of lower rate base compared to 2010. Other income was higher and interest expense was lower primarily because of AFUDC accrued on the Grand Gulf uprate project.

**2010 Compared to 2009**

Net income increased \$33.7 million primarily due to a decrease in the effective income tax rate.

**Income Taxes**

The effective income tax rates for 2011, 2010, and 2009 were 53.9%, 40.4%, and 66.5%, respectively. The increase in the rate for 2011 is primarily due to an intercompany settle up for federal income taxes for years prior to 2008 which include an allocation of the tax benefit of Entergy Corporation's expenses to the subsidiaries generating taxable income for the respective years. The effects of various tax positions settled with the IRS pertaining to the 2006/2007 audit require System Energy to pay back prior benefits of the Entergy Corporation's expenses it received when the benefits were originally allocated based upon the tax return as filed. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 35.0% to the effective income tax rates.

**Liquidity and Capital Resources**

**Cash Flow**

Cash flows for the years ended December 31, 2011, 2010, and 2009 were as follows:

|  | <u>2011</u>      | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|------------------|
|  |                  | (In Thousands)   |                  |
| Cash and cash equivalents at beginning of period     | \$263,772        | \$264,482        | \$102,788        |
| Cash flow provided by (used in):                     |                  |                  |                  |
| Operating activities                                 | 430,681          | 250,405          | 417,877          |
| Investing activities                                 | (311,397)        | (184,588)        | (149,344)        |
| Financing activities                                 | (197,899)        | (66,527)         | (106,839)        |
| Net increase (decrease) in cash and cash equivalents | <u>(78,615)</u>  | <u>(710)</u>     | <u>161,694</u>   |
| Cash and cash equivalents at end of period           | <u>\$185,157</u> | <u>\$263,772</u> | <u>\$264,482</u> |



### Operating Activities

Cash flow provided by operating activities increased \$180.3 million in 2011 primarily due to income tax refunds of \$100.9 million in 2011 compared to income tax payments of \$56 million in 2010. In 2011 System Energy received cash refunds in accordance with the Entergy Corporation and Subsidiary Companies Intercompany Income Tax Allocation Agreement. The refunds result from a decrease in 2010 taxable income from what was previously estimated because of the recognition of additional repair expenses for tax purposes associated with a tax accounting change filed in 2010 and from the reversal of temporary differences for which System Energy previously made cash tax payments.

Cash flow provided by operations decreased \$167.5 million in 2010 primarily due to income tax payments of \$56 million in 2010 compared to income tax refunds of \$120.4 in 2009, and an increase of \$26.6 million in pension contributions. In 2010 System Energy made tax payments in accordance with the Entergy Corporation and Subsidiary Companies Intercompany Income Tax Allocation Agreement. The payments resulted from the reversal of temporary differences for which System Energy previously received cash tax benefits and from estimated federal income tax payments for tax year 2010. See "**Critical Accounting Estimates**" below for a discussion of qualified pension and other postretirement benefits.

### Investing Activities

Net cash used in investing activities increased \$126.8 million in 2011 primarily due to:

- The proceeds from the transfer, in the first quarter 2010, of \$100.3 million in development costs related to Entergy New Nuclear Development, LLC;
- An increase in construction expenditures resulting primarily from spending on the power uprate project at Grand Gulf;
- The repayment in 2010 of \$25.6 million by Entergy New Orleans of a note issued in resolution of its bankruptcy proceedings; and
- money pool activity.

The increase was partially offset by a decrease in nuclear fuel purchases due to the timing of refueling outages.

Increases in System Energy's receivable from the money pool are a use of cash flow, and System Energy's receivable from the money pool increased by \$22.5 million in 2011 compared to increasing by \$7.4 million in 2010. The money pool is an inter-company borrowing arrangement designed to reduce the Utility subsidiaries' need for external short-term borrowings.

Net cash used in investing activities increased \$35.2 million in 2010 primarily due to an increase of \$129.5 million in nuclear fuel purchases due to the timing of refueling outages, and an increase in construction expenditures primarily due to the Grand Gulf power uprate project. The increase was partially offset by:

- the proceeds from the transfer of \$100.3 million in development costs related to Entergy New Nuclear Development, LLC discussed below;
- money pool activity; and
- the repayment by Entergy New Orleans of a \$25.6 million note issued in resolution of its bankruptcy proceedings.

Increases in System Energy's receivable from the money pool are a use of cash flow, and System Energy's receivable from the money pool increased by \$7.4 million in 2010 compared to increasing by \$47.6 million in 2009.

### Financing Activities

Cash used in financing activities increased \$131.4 million in 2011 primarily due to the issuance of \$60 million of 5.33% Series G notes by the nuclear fuel company variable interest entity in 2010, the repayment of \$38.3 million in commercial paper in 2011 as compared to the issuance of \$20.3 million in commercial paper in 2010, and the partial retirement of \$40 million of 6.2% pollution control bonds in 2011. The increase was slightly offset by a \$24 million decrease in dividend paid on common stock.

Net cash flow used in financing activities decreased \$40.3 million in 2010 primarily due to:

- the issuance in April 2010 of \$60 million of 5.33% Series G notes by the nuclear fuel company variable interest entity to finance its fuel procurement activities; and
- commercial paper issuances by the nuclear fuel company variable interest entity to finance its fuel procurement activities.

The decrease was partially offset by:

- an increase of \$24.9 million in dividends paid on common stock; and
- an increase of \$13.3 million in the January 2010 principal payment made on the Grand Gulf sale-leaseback compared to the January 2009 principal payment.

See Note 5 to the financial statements for details of long-term debt.

### **Capital Structure**

System Energy's capitalization is balanced between equity and debt, as shown in the following table.

|                            | <b>December 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|----------------------------|------------------------------|------------------------------|
| Debt to capital            | 48.3%                        | 51.7%                        |
| Effect of subtracting cash | (7.1)%                       | (9.0)%                       |
| Net debt to net capital    | 41.2%                        | 42.7%                        |

Net debt consists of debt less cash and cash equivalents. Debt consists of capital lease obligations and long-term debt, including the currently maturing portion. Capital consists of debt and common shareholder's equity. Net capital consists of capital less cash and cash equivalents. System Energy uses the net debt to net capital ratio in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating System Energy's financial condition.

### **Uses of Capital**

System Energy requires capital resources for:

- construction and other capital investments;
- debt maturities or retirements;
- working capital purposes, including the financing of fuel costs; and
- dividend and interest payments.