

NUMBER OF CALLS – CUSTOMER SERVICE CENTERS

Based on a twenty-four month average of customer calls for each Legal Entity.

Used for the allocation of costs associated with the administration and support of Entergy's Customer Service Centers.

RADIO USAGE

Based on usage of Entergy's 2-way radio system.

Used for the allocation of costs associated with the administration and support of Entergy's 2-way radio system.

TOTAL IT SPEND

Based on the total dollars spent in the Information Technology plan.

Used for the allocation of costs associated with the administration and support of Entergy's IT business planning.

SUPPLY CHAIN MATERIALS TRANSACTIONS

Based on the number of Supply Chain materials transactions for each Legal Entity.

Used for the allocation of costs associated with the support of systems that manage Supply Chain materials.

AVERAGE NUMBER OF CAPITAL EXPENDITURE AUTHORIZATION PROJECTS FOR INFORMATION TECHNOLOGY, CUSTOMER SERVICE, DISTRIBUTION AND TRANSMISSION

Based on a twelve-month average of outstanding Capital Expenditure Authorizations for the Information Technology, Customer Service, Distribution and Transmission organizations.

Used for the allocation of costs associated with the prioritization of capital projects for the Information Technology, Customer Service, Distribution and Transmission organizations.

SECTION 263A TAX BENEFITS

Based on Section 263A tax benefits for each Legal Entity.

Used for the allocation of costs associated with tax administration, planning, and support related to Section 263A tax benefits.

**Amendment To
Service Agreement**

The parties hereto do hereby stipulate and agree to that the SERVICE AGREEMENT entered into by and between them under date of April 1, 1963, and as heretofore amended on January 1, 1972, April 27, 1984, August 1, 1988, January 28, 1991, January 1, 1992, January 1, 1996, January 1, 1998, January 1, 1999, January 1, 2000, January 1, 2001, April 1, 2002, January 1, 2003 and August 1, 2003 be and the same hereby is further amended by substituting for the Supplement to Exhibit II to the SERVICE AGREEMENT, the attached revised Supplement to Exhibit II. This Amendment is made and entered into as of March 1, 2004.

ENTERGY SERVICES, INC.

By Nathan G. Langston
Senior Vice President and Chief Accounting Officer

ENTERGY NEW ORLEANS, INC.

By [Signature]
President and CEO

ALLOCATION FORMULAE FOR GROUPS OF CLIENT COMPANIES

Exhibit II, Supplement

Note: Each allocation formula will be based on data relevant to participating Client Companies to whom the services are provided.

ENERGY SALES

Based on total kilowatt-hours of energy sold to consumers.

Used primarily for the allocation of costs associated with the financial analyses of sales and related items.

CUSTOMERS

Based on a twelve-month average of residential, commercial, industrial, government, and municipal general business electric and gas customers.

Used primarily for the allocation of costs associated with the support of customer based services. Would include customer service and support, marketing, economic forecasts, environmental services, financial and regulatory analyses and customer information systems.

EMPLOYEES

Based on the number of full-time employees at period end.

Used primarily for the allocation of costs associated with the support of employee-based services. Would include administration of employee benefits programs, employee communications, employee training, and various facilities-based benefits and information technology desktop support.

RESPONSIBILITY RATIO

Based on the ratio of the company's load at time of system peak load. The peak load is the average of the twelve monthly highest clock-hour demands in kilowatts of the interconnected system occurring each month coincident with the system peak load.

Used primarily for the allocation of costs incurred in fossil plant support and integrated planning.

TRANSMISSION LINE MILES

Based on the number of miles of transmission lines, weighted for design voltage (Voltage < 400kv = 1; Voltage >=400kv =2).

Used primarily for the allocation of costs associated with project design, maintenance and installation of Entergy transmission lines.

SUBSTATIONS

Based on the number of high voltage substations weighted for Voltage (Voltage < 500kv = 1; Voltage >= 500kv = 2).

Used primarily for the allocation of related engineering and technical support for transmission and distribution substation operations and maintenance as well as for engineering and project management associated with substation construction.

COMPOSITE - TRANSMISSION LINES/SUBSTATIONS

Based on two components: Transmission Line Miles (30% weighting) and the Number of High Voltage Substations (70% weighting).

Used primarily for the allocation of the costs associated with the support of the transmission and distribution function that has both a transmission line component as well as a substation or load component.

GAS CONSUMPTION

Based on the volume of natural gas consumed annually by all gas fired generating units within the Entergy System.

Used for the allocation of costs associated with services in support of gas purchased for generation units.

LEVEL OF ESI SERVICE

Based on ESI total billings to each System company, excluding corporate overhead.

Used for the allocation of costs associated with support of ESI as a legal entity.

SYSTEM CAPACITY (NON-NUCLEAR)

Based on the power level, in kilowatts, that could be achieved if all non-nuclear generating units were operating at maximum capability simultaneously.

Used primarily for the allocation of costs associated with the support of the fossil operations of the System. This would include services provided by plant support, environmental and purchasing.

LABOR DOLLARS BILLED

Based on total labor dollars billed to each company.

Used primarily to allocate the costs associated with employee benefits plans, payroll taxes, departmental indirect costs and performance based compensation plans for ESI employees.

DISTRIBUTION LINE MILES

Based on the number of miles of distribution lines of 34.5kv or less.

Used primarily for the allocation of costs associated with project design, maintenance and installation of Entergy distribution lines.

COAL CONSUMPTION

Based on the quantity of tons of coal delivered for a twelve-month period to each coal plant within the Entergy System.

Used for the allocation of costs associated with services in support of coal purchased for coal generating units.

ACCOUNTS PAYABLE TRANSACTIONS

Based on a twelve-month number of accounts payable transactions processed.

Used for the allocation of costs associated with the support of the accounts payable function.

SQUARE FOOTAGE

Based on square footage occupied by ESI functional business units.

Used primarily to allocate the costs associated with facilities supervision and support.

INSURANCE PREMIUMS (NON-NUCLEAR)

Based on non-nuclear insurance premiums.

Used for the allocation of costs associated with risk management.

ASSET LOCATIONS

Based on the number of asset locations at period end.

Used for the allocation of costs associated with the fixed asset accounting function.

CAPITAL EXPENDITURE AUTHORIZATIONS

Based on a twelve-month average of outstanding Capital Expenditure Authorizations and Storm Job Orders.

Used for the allocation of costs associated with the capital project costing accounting function.

TOTAL ASSETS

Based on total assets at period end.

Used primarily to allocate costs associated with the oversight and safeguarding of corporate assets. This would include services provided by financial management and certain finance functions, among others. Also used when the services provided are driven by the relative size and complexity of the System Companies and there is no functional relationship between the services and any other available allocation formula.

BANK ACCOUNTS

Based on the number of bank accounts at period end.

Used for the allocation of costs associated with daily cash management activities.

SERVER AND MAINFRAME USAGE COMPOSITE

Based on the use of historical expenditures.

Used primarily for the allocation of costs associated with mainframe, unix servers and related database administration.

GENERAL LEDGER TRANSACTIONS

Based on the number of general ledger transactions for the period.

Used primarily for the allocation of costs associated with general ledger activities, including related information systems, and for general accounting activities.

TRANSITION TO COMPETITION

Based on a twelve-month average of residential, commercial, industrial, government, and municipal general business of gas and/or electric customers.

Used primarily for the allocation of costs associated with the management support of the Entergy System's strategy for and transition to competition.

TELEPHONES

Based on the number of telephones within each Legal Entity at period end.

Used for the allocation of costs associated with maintenance and support of telephones.

FIBER

Based on capacity and use of the Entergy System's fiber optic network.

Used primarily for the allocation of fiber optic operations and maintenance expenses.

NUCLEAR UNITS

Based on the number of nuclear units managed and operated by each Entergy System Company.

Used primarily to allocate nuclear fuel-related services.

NUCLEAR SITES

Based on the number of nuclear sites managed and operated by each Entergy System Company.

Used to allocate miscellaneous nuclear-related services.

ACCOUNTS RECEIVABLE INVOICES

Based on a twelve-month number of accounts receivable transactions processed.

Used for the allocation of costs associated with the support of the accounts receivable function.

PAYCHECKS

Based on the number of paychecks issued at each Legal Entity at period end.

Used for the allocation of costs associated with the processing of payroll.

PROPERTY AND LIABILITY PAID LOSSES

Based on a five-year annual average of the property and liability losses paid by the system companies.

Used for the allocation of costs associated with the operation and maintenance of the Risk Information System.

COMPOSITE- SUPPLY CHAIN (Number of Transactions, Stockroom Count and Procurement Total Spending)

Based on three components with weighting to each: number of transactions, stockroom count, and procurement total spending.

Used for the allocation of costs associated with the management and operations of the materials management and work order processing system.

SUPPLY CHAIN – Inventory Management Fossil, Transmission & Distribution Issues, Transfers & Returns

Based on the number of issues, transfer & return transactions for each Legal Entity at period end.

Used for the allocation of costs associated with the management and operations of investment recovery, including Fossil, but excluding Nuclear.

SUPPLY CHAIN – Procurement Total Spending

Based on the dollar amount of procurement spending within each Legal Entity at period end.

Used for the allocation of costs associated with procurement activities for the Entergy System.

SUPPLY CHAIN – Labor Dollars

Based on the labor dollars for the Transformer, Meter, and Light Shops.

Used primarily for the allocation of costs associated with services provided by employees in the supply chain equipment refurbishment and repair department.

DISTRIBUTION SUBSTATIONS TRANSFORMERS

Based on the number of transformers at the Distribution Substations at period end.

Used primarily for the allocation of costs associated with the maintenance, administrative activities, and technical analysis of all Distribution Substations.

REMOTE ACCESS SERVICES (RAS) ID's

Based on the number of RAS ID's within each Legal Entity at period end.

Used for the allocation of costs associated with providing Remote Access Service to Entergy employees and contractors.

VEHICLES

Based on the number of vehicles owned by each Legal Entity.

Used for the allocation of costs associated with the maintenance of company vehicles.

MANAGED ACCOUNTS

Based on the number of industrial and commercial managed accounts.

Used for the allocation of costs associated with the maintenance of Entergy's industrial and commercial customer accounts.

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SECTION 263A TAX BENEFITS

Based on Section 263A tax benefits for each Legal Entity.

Used for the allocation of costs associated with tax administration, planning, and support related to Section 263A tax benefits.

OPEN WORKERS' COMPENSATION CLAIMS

Based on the number of open claims for each Legal Entity.

Used for the allocation of costs associated with managing workers' compensation claims processes and budgets.

UNIT POWER SALES AGREEMENT

Based on fixed allocation percentages under Entergy's Unit Power Sales Agreement.

Used primarily for the allocation of certain Tax Department services in connection with Entergy's Unit Power Sales Agreement.

RECORDS MANAGEMENT

Based on the number of employees at each Legal Entity using records management services.

Used to allocate costs associated with the management and supervision of non-nuclear business unit records management processes.

THIS AGREEMENT made and entered into by and between Middle South Services, Inc. (hereinafter referred to as Services) a corporation organized under the laws of the State of Delaware, and MIDDLE SOUTH UTILITIES, INC. (hereinafter referred to as Client Company) a corporation organized under the laws of the State of Florida with its principal place of business at Two Broadway, New York, New York,

W I T N E S S E T H T H A T:

WHEREAS, on March 28, 1963, the Securities and Exchange Commission (hereinafter referred to as Commission) entered an order under the Public Utility Holding Company Act of 1935 (hereinafter referred to as Act) authorizing the organization and conduct of business of Services, a wholly-owned subsidiary of Middle South Utilities, Inc. (hereinafter referred to as Middle South); and

WHEREAS, Services is organized, staffed and equipped to render services as herein provided to Middle South and its associated companies (hereinafter referred to as Client Companies), with whom Services is entering into agreements in the form hereof; and

WHEREAS, economies and increased efficiencies will result from the performance by Services of certain services for the Client Companies; and

WHEREAS, Services is willing to render such services at cost, determined in accordance with applicable rules and regulations of the Commission under the Act, except that there will be no charge for the use of the initial equity capital of Services amounting to \$20,000;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein, the parties hereto agree as follows:

I. AGREEMENT TO FURNISH SERVICES

Services agrees to furnish to Client Company, upon the terms and conditions hereinafter set forth, such of the services described in Exhibit I hereto at such times, for such periods and in such manner as Client Company may from time to time require. (References herein to Exhibit I shall mean said Exhibit as it shall be in effect from

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time to time with amendments thereof or supplements thereto). Services will, as and to the extent required for Client Company, keep itself and its personnel available and competent to render such services to Client Company, to the extent it may be authorized so to do by Federal and State agencies having jurisdiction. Services will also provide for Client Company such special services not described in Exhibit I as Client Company may require and which Services concludes it is competent to perform.

In supplying the various services provided for under this agreement, Services may arrange for the services of such executives, accountants, financial advisers, technical advisers, attorneys, engineers and other persons with the necessary qualifications and experience as are required for or pertinent to the rendition of such services.

Services, after consultation with Client Company, may arrange for the services of non-affiliated experts, consultants and attorneys in connection with the performance of any of the services supplied under this agreement.

II. AGREEMENT TO TAKE SERVICES

Client Company agrees to take from Services such of the services described in Exhibit I as are required from time to time by the Client Company. Client Company further agrees to take from Services such other general or special services, whether or not described in Exhibit I and whether or not now contemplated, as Client Company may from time to time require and Services shall conclude it is competent to perform.

III. COMPENSATION AND ALLOCATION

As compensation for services rendered (as provided in Section II above) to it by Services, Client Company hereby agrees to pay to Services the cost of such services. Bills will be rendered for the amount of such cost on or before the 15th day of the succeeding month and will be payable on or before the 25th day

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of such month, The methods for the determination and the allocation of the cost of services to be paid by Client Company are set forth in Exhibit II hereto.

IV. CLIENT COMPANIES

Client Companies will consist of Middle South and its associated companies; all such companies will be served at cost as provided in Section III and Exhibit II.

V. TERM OF AGREEMENT - MODIFICATION

This agreement shall become effective as of April 1, 1963, subject to receipt of any required authorization of the Commission, and shall continue until terminated as of the end of any calendar year by either party giving to the other at least 60 days written notice of its intention so to terminate.

This agreement will be subject to termination or modification at any time to the extent its performance may conflict with the provisions of the Act, as amended, or with any rule, regulation or order of the Commission adopted before or after the execution hereof. This agreement shall be subject to the approval of any state commission or other regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this agreement.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the 1st day of April, 1963.

MIDDLE SOUTH SERVICES, INC.

By [Signature]

Title President

MIDDLE SOUTH UTILITIES, INC.

By [Signature]

Title Vice President

S371-0001-0101

DESCRIPTION OF SERVICES WHICH WILL BE PROVIDED BY MIDDLE SOUTH SERVICES, INC.
UNDER THIS AND SIMILAR SERVICE AGREEMENTS

- (1) Consultation and advice on financial planning, sale of securities and temporary cash investments, including assistance in connection with the preparation, printing and filing of appropriate documents with regulatory authorities, and provision of liaison with financial community;
- (2) Consultation and advice on budgeting and preparation of long-range forecasts;
- (3) Consultation and advice on employee benefit plans;
- (4) Consultation and advice with respect to regulatory matters, particularly those involving the Securities and Exchange Commission or the Federal Power Commission, and provision of liaison and assistance in processing matters with the staffs of such commissions;
- (5) Planning assistance and advice in the field of atomic energy, including coordination of research programs and other activities in such field;
- (6) Liaison with special counsel representing operating companies in actions against electrical manufacturers for damages under the antitrust laws and with consultants retained to prepare testimony and other data for use in such actions;
- (7) Operation of Middle South Area Office and placing of Middle South System national advertising;
- (8) Tax services relating to preparation and filing of returns for federal and state income taxes and declarations of estimated income taxes; studies of adequacy of tax accruals; and assistance in connection with audit of returns by Internal Revenue Service and State Tax Agencies;
- (9) Insurance consulting and advisory services relating to fire and allied lines of insurance, casualty and surety insurance, and employee benefit insurance;
- (10) General consultation on management and business problems; 8821-0001-0100

- (11) Consultation on special accounting problems;
- (12) Statistical services, such as study of comparative operating results, and up-dating annually System statistical data;
- (13) Preparation of maps;
- (14) General advisory engineering services relating particularly to system planning and operation; and
- (15) Planning assistance and advice with respect to System sales of power under the interconnection agreements among the operating companies.

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METHODS OF ALLOCATING COST AMONG CLIENT COMPANIES RECEIVING SERVICE UNDER
THIS AND SIMILAR SERVICE AGREEMENTS WITH MIDDLE SOUTH SERVICES, INC. (SERVICES)

1. The costs of rendering service by Services will include all costs of doing business including interest on debt but excluding a return for the use of Services' initial equity capital amounting to \$20,000.
2. (a) Services will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - (i) those expenses that are directly attributable to such department, and
 - (ii) an appropriate portion of those office and house-keeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- (b) Expenses of the department will include salaries and wages of employees, including social security taxes, vacations, paid absences, sickness, employee disability expenses, and other employee welfare expenses, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department.
- (c) The expenses of the department will not include:
 - (i) those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of a Client Company or a group of Client Companies and are to be charged as such to such Client Company or group of Client Companies; and
 - (ii) Services' overhead expenses that are attributable to maintaining the corporate existence of Services, franchise and other general taxes, and all other incidental overhead expenses including those auditing fees and accounting department expenses attributable to Services.

(d) Services will establish annual budgets for controlling the expenses of each service department.

3. (a) Employees in each department will be divided into two classes:

A Those employees rendering service to Client Companies,
and

B those office and general service employees, such as secretaries, stenographers, telephone operators and file clerks, who generally assist employees in Class A or render other house-keeping services and who are not engaged directly in rendering service to a Client Company or a group of Client Companies. In the event that any such office or general service employees are assigned to functions that are attributable to services being performed for Client Companies, such employees shall be reclassified as Class A employees.

(b) Expenses set forth in Section 2 above will be separated to show:

(i) salaries and wages of Class A employees, and

(ii) all other expenses of the department.

(c) There will be attributed to a Class A employee's salary or wage, that percentage of all other expenses of his department (as defined in Section 2(b) above) that his salary or wage is to the total Class A salaries and wages of that department.

(d) Class A employees in each department will maintain a record of the time they are employed in rendering service to each Client Company or group of Client Companies. An hourly rate for each Class A employee will be determined at the beginning of each year as follows: Each Class A employee's annual salary adjusted for any estimated salary change plus employee welfare expenses which shall include medical and hospital insurance premiums, life insurance premiums, social security taxes, retirement income benefits, employee

disability expenses, and any other similar welfare expenses, shall be divided by the total number of estimated productive hours which shall be determined as follows:

Total available working days (considering Saturdays, Sundays and recognized holidays)		x
Less allowable days for		
Estimated vacation	x	
Estimated sick leave	x	
Estimated non-productive time (conventions, con- ferences, unassigned)	<u>x</u>	<u>x</u>
Estimated net available productive days for the year		<u>x</u>

Multiply estimated net available productive days by the number of working hours per day to determine estimated annual productive time in hours. Divide estimated annual productive time into the sum of employee's salary plus all other costs as stated above to determine employee's hourly rate.

If and when personnel of Services becomes a significant number, it may be deemed permissible to compute average hourly rates by groups of employees performing the same type of service, provided the salary spread within a group is not too significant.

Such hourly rate as determined above will be employed throughout the year in billing Client Companies for services rendered and will be adjusted from time to time to reflect significant unforeseen developments such as disease epidemics.

4. The charge to Client Company or a group of Client Companies for a particular service will be the sum of the figures derived by multiplying the hours reported by each Class A employee in rendering such service by the hourly rate applicable to such employee. Other expenses of a department as defined in 2(a)(ii) will be allocated in proportion to the employee hourly rate charges. When services are rendered to a group of Client Companies, the cost of such services will be allocated among companies in the group in accordance with

the allocation formulas in Section 7 of this Exhibit.

5. Those expenses of Services that are not included in the annual expense of a department under Section 2 above will be charged to Client Companies receiving service as follows:
 - (a) Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Client Company or a group of Client Companies will be charged directly to such company or group of companies. Such costs incurred for a group of Client Companies will be allocated on the basis set forth in Section 7 of this Exhibit.
 - (b) The total annual expenses of Services referred to above in Section 2(c)(ii) will be allocated among the Client Companies in the same proportions as the charges to Client Companies under Section 4 are allocated.
6. On the basis of the foregoing, monthly bills will be rendered to Client Company, subject to adjustment after the year's end to ensure that all billings represent actual costs. Billing procedures and amounts will be open to audit by Client Company and by any regulatory authority having jurisdiction in respect of the Client Company.
7. (a) When services are rendered to a group of Client Companies, the following formulas will be used to allocate the charges therefor among Client Companies in such group:

<u>Department</u>	<u>Basis of Allocation</u>
(1) Executive and Advisory*	Gross electric revenues for the preceding calendar year
(2) Finance and Accounting*	Gross electric revenues for the preceding calendar year
(3) Engineering	Total investment in utility plant in service at preceding December 31st
(4) Public Relations and Area Office*	Electric general business revenues for the preceding calendar year
(5) Tax	The sum of the total income and total deductions as reported for Federal Income Tax purposes on the last return filed
(6) Insurance	Insurance premiums for the preceding calendar year

(b) If the use of a basis of allocation would result in an inequity because of a change in operations or organization of the Client Companies, then Services may adjust the basis to effect an equitable distribution based upon a functional relationship between the services involved and the formula used.

* It is not anticipated that any significant services will relate to gas or transit. If they should, appropriate adjustment will be made.

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Amendment No. 1
to
Service Agreement

The parties hereto do hereby stipulate and agree that the SERVICE AGREEMENT entered into by and between them under date of April 1, 1963, be and the same hereby is amended by substituting for the form of Exhibit I and Exhibit II to the Service Agreement, the attached revised form of Exhibit I and Exhibit II.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be executed this 1st day of January, 1972.

MIDDLE SOUTH SERVICES, INC.

By *J. W. Lewis*
Title President

MIDDLE SOUTH UTILITIES, INC.

By *C. E. Lewis*
Title Chairman

DESCRIPTION OF SERVICES WHICH WILL BE PROVIDED BY MIDDLE SOUTH SERVICES, INC.
UNDER THIS AND SIMILAR SERVICE AGREEMENTS

- (1) Consultation and advice on financial planning, sale of securities and temporary cash investments, including assistance in connection with the preparation, printing and filing of appropriate documents with regulatory authorities, and provision of liaison with financial community;
- (2) Consultation and advice on budgeting and preparation of long-range forecasts;
- (3) Consultation and advice on employee benefit plans;
- (4) Consultation and advice with respect to regulatory matters, particularly those involving the Securities and Exchange Commission or the Federal Power Commission, and provision of liaison and assistance in processing matters with the staffs of such commissions;
- (5) Planning assistance and advice in the field of atomic energy, including coordination of research programs and other activities in such field;
- (6) Liaison with special counsel representing operating companies in proceedings involving the Middle South System and with consultants retained to prepare testimony and other data for use in such proceedings;
- (7) Operation of an advertising and public relations department and placing of Middle South System national advertising;
- (8) Tax services relating to preparation and filing of returns for federal and state income taxes and declaration of estimated income taxes; studies of adequacy of tax accruals; and assistance in connection with audit of returns by Internal Revenue Service and State Tax Agencies;
- (9) Insurance consulting and advisory services relating to fire and allied lines of insurance, casualty and surety insurance, and employee benefit insurance;
- (10) General consultation on management and business problems;
- (11) Consultation on special accounting problems;
- (12) Statistical services, such as study of comparative operating results, and up-dating annually System statistical data;
- (13) Preparation of maps;

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- (14) General advisory engineering services including system planning, operation and fuel supply;
- (15) Operation of a System Operations Center for the control of bulk power supply and load dispatching within the System and with interconnected systems;
- (16) Planning assistance and advice with respect to System sales of power under the interconnection agreements among the operating companies and acting on behalf of the operating companies in dealings with other electric utilities with relation to the sale, purchase or exchange of bulk electric power and energy;
- (17) Operation of a data processing Computer Center to serve the Middle South System;
- (18) Consultation and advisory services with respect to rate studies, rate design, cost studies, load research, weather analysis, economic studies, forecasts of intra-system transactions, and computer rate analysis programs; and
- (19) Consultation, advice and services with respect to internal auditing.

METHODS OF ALLOCATING COSTS AMONG CLIENT COMPANIES RECEIVING SERVICE UNDER
THIS AND SIMILAR SERVICE AGREEMENTS WITH MIDDLE SOUTH SERVICES, INC. (SERVICES)

1. The costs of rendering service by Services will include all costs of doing business including interest on debt but excluding a return for the use of Services' initial equity capital amounting to \$20,000.
2. (a) Services will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - (i) those expenses that are directly attributable to such department, and
 - (ii) an appropriate portion of those office and house-keeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- (b) Expenses of the department will include salaries and wages of employees, including social security taxes, vacations, paid absences, sickness, employee disability expenses, and other employee welfare expenses, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department.
- (c) The expenses of the department will not include:
 - (i) those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of a Client Company or a group of Client Companies and are to be charged as such to such Client Company or group of Client Companies; and
 - (ii) Services' overhead expenses that are attributable to maintaining the corporate existence of Services, franchise and other general taxes, and all other incidental overhead expenses including those auditing fees and accounting department expenses attributable to Services.

- (d) Services will establish annual budgets for controlling the expenses of each service department.
- 3. (a) Employees in each department will be divided into two classes:
 - A. Those employees rendering service to Client Companies, and
 - B. those office and general service employees, such as secretaries, stenographers, telephone operators and file clerks, who generally assist employees in Class A or render other house-keeping services and who are not engaged directly in rendering service to a Client Company or a group of Client Companies. In the event that any such office or general service employees are assigned to functions that are attributable to services being performed for Client Companies, such employees shall be reclassified as Class A employees.
- (b) Expenses set forth in Section 2 above will be separated to show:
 - (i) salaries and wages of Class A employees, and
 - (ii) all other expenses of the department.
- (c) There will be attributed to a Class A employee's salary or wage, that percentage of all other expenses of his department (as defined in Section 2(b) above) that his salary or wage is to the total Class A salaries and wages of that department.
- (d) Class A employees in each department will maintain a record of the time they are employed in rendering service to each Client Company or group of Client Companies. An hourly rate for each Class A employee will be determined at the beginning of each year as follows: Each Class A employee's annual salary adjusted for any estimated salary change plus employee welfare expenses which shall include medical and hospital insurance premiums, life insurance premiums, social security taxes, retirement income benefits, employee disability expenses, and

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any other similar welfare expenses, shall be divided by the total number of estimated productive hours which shall be determined as follows:

Total available working days (considering Saturdays, Sundays and recognized holidays)		x
Less allowable days for		
Estimated vacation	x	
Estimated sick leave	x	
Estimated non-productive time (conventions, con- ferences, unassigned)	x	x
Estimated net available productive days for the year		x

Multiply estimated net available productive days by the number of working hours per day to determine estimated annual productive time in hours. Divide estimated annual productive time into the sum of employee's salary plus all other costs as stated above to determine employee's hourly rate.

For groups of employees performing the same type of service, where the salary spread within a group is not significant, an average hourly rate may be determined in accordance with the foregoing formula.

Such hourly rate as determined above will be employed throughout the year in billing Client Companies for services rendered and will be adjusted from time to time to reflect significant unforeseen developments such as disease epidemics.

4. The charge to Client Company or a group of Client Companies for a particular service will be the sum of the figures derived by multiplying the hours reported by each Class A employee in rendering such service by the hourly rate applicable to such employee. Other expenses of a department as defined in 2(a)(ii) will be allocated in proportion to the employee hourly rate charges. When services are rendered to a group of Client Companies, the cost of such services will be allocated among companies in the group in accordance with the allocation formulae in Section 7 of this Exhibit.

5. Those expenses of Services that are not included in the annual expense of a department under Section 2 above will be charged to Client Companies receiving service as follows:
- (a) Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Client Company or a group of Client Companies will be charged directly to such company or group of companies. Such costs incurred for a group of Client Companies will be allocated on the basis set forth in Section 7 of this Exhibit.
- (b) The total annual expenses of Services referred to above in Section 2(c)(ii) will be allocated among the Client Companies in the same proportions as the charges to Client Companies under Section 4 are allocated.
6. On the basis of the foregoing, monthly bills will be rendered to Client Company, subject to adjustment after the year's end to ensure that all billings represent actual costs. Billing procedures and amounts will be open to audit by Client Company and by any regulatory authority having jurisdiction in respect of the Client Company.
7. (a) When services are rendered to a group of Client Companies, the following formulae will be used to allocate the charges therefor among Client Companies in such group:

<u>Department/Activity</u>	<u>Basis of Allocation</u>
(1) Executive and Advisory	Gross electric and gas revenues for the preceding calendar year. (Note 1)
(2) Finance and Accounting	Gross electric revenues or total capitalization for the preceding calendar year, depending upon the nature of the services rendered. (Note 2)

<u>Department/Activity</u>	<u>Basis of Allocation</u>
(3) Engineering, System Planning and Fuel Supply	Capability responsibility ratio (Note 3) or total capitalization for the preceding calendar year, depending upon the nature of the services rendered.
(4) System Operations Center	Capability responsibility ratio. (Note 3)
(5) Advertising	Gross electric and gas revenues from ultimate customers for the preceding calendar year. (Note 1)
(6) Public Relations	Gross electric and gas revenues or electric and gas revenues from ultimate customers or total capitalization for the preceding calendar year, depending upon the nature of the services rendered. (Note 1)
(7) Tax	The sum of the total income and total deductions as reported for Federal Income Tax purposes on the return filed for the preceding calendar year.
(8) Insurance	Insurance premiums for the preceding calendar year.
(9) Computer Center	Various bases, depending upon the nature of the services rendered, as agreed upon by the Client Companies.
(10) Economic Research	Gross electric and gas revenues from ultimate customers or gross electric revenues for the preceding calendar year or capability responsibility, depending upon the nature of the services rendered. (Notes 1 & 3)
(11) Internal Auditing	Gross electric revenues for the preceding calendar year. (Note 2)

8321-0001-000

- (b) If the use of a basis of allocation would result in an inequity because of a change in operations or organization of the Client Companies, then Services may adjust the basis to effect an equitable distribution based upon a functional relationship between the services involved and the formula used.

Note 1: It is not anticipated that any significant services will relate to transit. If they should, appropriate adjustment will be made.

Note 2: It is not anticipated that any significant services will relate to gas or transit. If they should, appropriate adjustment will be made.

Note 3: The capability responsibility of a company is the System capability multiplied by the ratio obtained by dividing a company's peak load by the System peak load. The company's peak load is the average of the four highest clock hour demands in kilowatts of the company's inter-connected system, each on a different day, occurring during the twelve month period ending with the current month.

Amendment No. 2

To

Service Agreement

The parties hereto do hereby stipulate and agree that the SERVICE agreement entered into by and between them under date of April 1, 1963, be and the same hereby is amended by substituting for the form of Exhibit I and Exhibit II to the Service Agreement, the attached revised form of Exhibit I and Exhibit II.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 to be executed this 27th day of April, 1984.

MIDDLE SOUTH SERVICES, INC.

By *J. B. Smith*

Title President

MIDDLE SOUTH UTILITIES, INC.

By *J. W. Lewis*

Title President

- (1) Consultation and advice on financial planning, sale of securities and temporary cash investments, including assistance in connection with the preparation, printing and filing of appropriate documents with regulatory authorities, and provision of liaison with financial community;
- (2) Consultation and advice on budgeting and preparation of long-range forecasts;
- (3) Consultation and advice on employee benefit plans;
- (4) Consultation and advice with respect to regulatory matters, particularly those involving the Securities and Exchange Commission or the Federal Energy Regulatory Commission, and provision of liaison and assistance in processing matters with the staffs of such commissions;
- (5) Planning assistance and advice in the field of nuclear activities including coordination or research programs and other activities in such field;
- (6) Liaison with special counsel representing operating companies in proceedings involving the Middle South System and with consultants retained to prepare testimony and other data for use in such proceedings;
- (7) Operation of a communications and public relations department and placing of Middle South System national advertising;
- (8) Tax services relating to preparation and filing of returns for federal and state income taxes and declaration of estimated income taxes; studies of adequacy of tax accruals; and assistance in connection with audit of returns by Internal Revenue Service and State Tax Agencies;
- (9) Insurance consulting and advisory services relating to fire and allied lines of insurance, casualty and surety insurance, and employee benefit insurance;
- (10) General consultation on management, business problems and strategic planning;
- (11) Consultation on special accounting problems;
- (12) Statistical services, such as study of comparative operating results, and up-dating annually System statistical data;
- (13) Preparation of maps;

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- (14) General advisory engineering services including system planning, operation, fuel supply and construction management;
 - (15) Operation of a System Operations Center for the control of bulk power supply and load dispatching within the System and with interconnected systems;
 - (16) Planning assistance and advice with respect to System sales of power under the interconnection agreements among the operating companies and acting on behalf of the operating companies in dealings with other electric utilities with relation to the sale, purchase or exchange of bulk electric power and energy;
 - (17) Operation of a data processing Computer Center to serve the Middle South System;
 - (18) Consultation and advisory services with respect to rate studies, rate design, cost studies, load research, weather analysis, economic studies, forecasts of intra-system transactions, and computer rate analysis programs; and
 - (19) Consultation, advice and services with respect to internal auditing.

S321-0001-0005

1. The costs of rendering service by Services will include all costs of doing business including interest on debt but excluding a return for the use of Services' initial equity capital amounting to \$20,000.
2. (a) Services will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - (i) those expenses that are directly attributable to such department, and
 - (ii) an appropriate portion of those office and house-keeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- (b) Expenses of the department will include salaries and wages of employees, including social security taxes, vacations, paid absences, sickness, employee disability expenses, and other employee welfare expenses, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department.
- (c) The expenses of the department will not include:
 - (i) those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of a Client Company or a group of Client Companies and are to be charged as such to such Client Company or group of Client Companies; and
 - (ii) Services' overhead expenses that are attributable to maintaining the corporate existence of Services, franchise and other general taxes, and all other incidental overhead expenses including those auditing fees and accounting department expenses attributable to Services.

(d) Services will establish annual budgets for controlling the expenses of each service department.

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3. (a) Employees in each department will be divided into two classes:

A. Those employees rendering service to Client Companies (Class A),
and

B. those office and general service employees, such as secretaries, stenographers, telephone operators and file clerks, who generally assist employees in Class A or render other house-keeping services and who are not engaged directly in rendering service to a Client Company or a group of Client Companies. In the event that any such office or general service employees are assigned to functions that are attributable to services being performed for Client Companies, such employees shall be reclassified as Class A employees.

(b) Expenses set forth in Section 2 above will be separated to show:

(i) salaries and wages of Class A employees, and

(ii) all other expenses of the department.

(c) Class A employees in each department will maintain a record of the time they are employed in rendering service to each Client Company or group of Client Companies. The hourly rate for each Class A employee will be determined each month.

4. The charge to Client Company or a group of Client Companies for a particular service will be the sum of the figures derived by multiplying the hours reported by each Class A employee in rendering such service by the hourly rate applicable to such employee and other direct and allocated expenses. Other expenses of a department as defined in 2(a) (ii) will be allocated in proportion to the salaries and wages charges. When services are rendered to a group of Client Companies, the cost of such services will be allocated among companies in the group in accordance with the allocation formulae in Section 7 of this Exhibit.

5321-0001-0007

5. Those expenses of Services that are not included in the expense department under Section 2 above will be charged to Client Companies receiving service as follows:

- (a) Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Client Company or a group of Client Companies will be charged directly to such company or group of companies. Such costs incurred for a group of Client Companies will be allocated on the basis set forth in Section 7 of this Exhibit.
- (b) The total expenses of Services referred to above in Section 2(c)(ii) will be allocated among the Client Companies in the same proportions as the charges to Client Companies under Section 4 are allocated.

6. On the basis of the foregoing, monthly bills will be rendered to Client Company. Billing procedures and amounts will be open to audit by Client Company and by any regulatory authority having jurisdiction in respect of the Client Company.

7. (a) When services are rendered to a group of Client Companies, the following formulae will be used to allocate the charges therefor among Client Companies in such group:

<u>Department/Activity</u>	<u>Basis of Allocation</u>
(1) Executive and Advisory	Composite factor (Note 1)
(2) Finance and Accounting	Composite factor (Note 1)
(3) Nuclear	Number of nuclear units.
(4) Engineering, System Planning and Fuel Supply	Capability responsibility ratio (Note 2)
(5) System Operations Center	Capability responsibility ratio (Note 2)
(6) Communications	Composite factor (Note 1)
(7) Public Relations	Composite factor (Note 1)

<u>Department/Activity</u>	<u>Basis of Allocation</u>
(8) Tax	The sum of the total income and total deductions as reported for Federal Income Tax purposes on the return filed for the preceding calendar year.
(9) Insurance	Insurance premiums for the preceding calendar year.
(10) Computer Center	Various bases, depending upon the nature of the services rendered, as agreed upon by the Client Companies.
(11) Internal Auditing	Composite factor (Note 1)
(b) If the use of a basis of allocation would result in an inequity because of a change in operations or organization of the Client Companies, then Services may adjust the basis to effect an equitable distribution based upon a functional relationship between the services involved and the formula used. Any such change in allocation bases shall be made only after first giving to the Commission written notice of such proposed change not less than 60 days prior to the proposed effectiveness of any such change.	
Note 1:	The composite factor is composed of four factors with equal weighting to each. Those factors are kilowatt-hour sales, average customers, number of employees and capability responsibility ratio.
Note 2:	The capability responsibility of a company is the System capability multiplied by the ratio obtained by dividing a company's peak load by the System peak load. The company's peak load is the average of the twelve monthly highest clock hour demands in kilowatts of the Company's interconnected system, occurring each month coincident with the System peak load, during the twelve month period ending with the current month.

Amendment No. 3

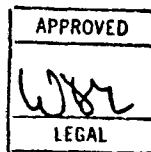
To

Service Agreement

The parties hereto do hereby stipulate and agree that the SERVICE AGREEMENT entered into by and between them under date of April 1, 1963, be and the same hereby is amended by substituting for the form of Exhibit II to the Service Agreement, the attached revised form of Exhibit II. The effective date of this Amendment No. 3 is January 1, 1989.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to be executed this 1st day of August, 1988.

MSU SYSTEM SERVICES, INC.



By *[Signature]*

Title President/CEO

MIDDLE SOUTH UTILITIES, INC.

By *[Signature]*

Title Chairman/President

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METHODS OF ALLOCATING COSTS AMONG CLIENT COMPANIES RECEIVING SERVICES FROM THIS AND SIMILAR SERVICE AGREEMENTS WITH MSU SYSTEM SERVICES, INC.

1. The costs of rendering service by Services will include all costs of doing business including interest on debt but excluding a return for the use of Services' initial equity capital amounting to \$20,000.
2. (a) Services will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - (i) those expenses that are directly attributable to such department, and
 - (ii) an appropriate portion of those office and house-keeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- (b) Expenses of the department will include salaries and wages of employees, including social security taxes, vacations, paid absences, sickness, employee disability expenses, and other employee welfare expenses, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department.
- (c) Departmental expenses will be categorized into one of two classes:
 - (i) those expenses which are directly attributable to specific services rendered to a Client Company or group of Client Companies (Departmental Direct Costs), and
 - (ii) those expenses which are attributable to the overall operation of the department and not to a specific service provided to Client Companies (Departmental Indirect Costs).

Departmental Indirect costs will be classified as fixed (Indirect Departmental Fixed Costs) or variable (Indirect Departmental Variable Costs). Departmental Indirect Fixed Costs include all costs incurred by a department which are necessary to operate the department but do not vary with the level of services provided to other System Companies during a fiscal year.

Departmental Indirect Fixed Costs include:

- (1) Administrative labor costs associated with office and general service employees described in Section 3(a). This would include not only the salaries and wages of these employees but also other related employment costs described in Section 2(b) above.
- (2) Occupancy costs including rent and utilities.
- (3) Depreciation.
- (4) Other fixed costs attributable to a department.

Departmental Indirect Variable Costs are those costs incurred by a department which are necessary to support services to other System Companies and cannot be practically assigned to individual services provided to other System Companies but vary with the level of these services during a fiscal year. This would include materials and supplies, telephone usage, postage, etc.

- (d) The indirect expenses of the department will not include:
 - (i) those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of a Client Company or a group of Client Companies and are to be directly charged to such Client Company or group of Client Companies; and
 - (ii) Services' overhead expenses that are attributable to maintaining the corporate existence of Services, franchise and other general taxes, and all other incidental overhead expenses including those auditing fees and accounting department expenses attributable to Services (Indirect Corporate Costs).

- (e) Services will establish annual budgets for controlling the expenses of each service department and those expenses outlined above in Section 2(d) which are not department specific.
3. (a) Employees in each department will be divided into two classes:
- A. Those employees rendering service to Client Companies (Class A).
and
 - B. those office and general service employees, such as secretaries, stenographers, telephone operators and file clerks, who generally assist employees in Class A or render other house-keeping services and who are not engaged directly in rendering service to a Client Company or a group of Client Companies. In the event that any such office or general service employees are assigned to functions that are attributable to services being performed for Client Companies, such employees shall be reclassified as Class A employees.
- (b) Expenses set forth in Section 2 above will be separated to show:
- (i) salaries and wages of Class A employees, and
 - (ii) all other expenses of the department.
- (c) Class A employees in each department will maintain a record of the time they are employed in rendering service to each Client Company or group of Client Companies. The hourly rate for each Class A employee will be determined each month.
4. The charge to Client Company or a group of Client Companies for a particular service will be the sum of the figures derived by multiplying the hours reported by each Class A employee in rendering such service by the hourly rate applicable to such employee and other direct allocated expenses. Indirect Departmental Variable Costs as defined in 2(c)(ii) will be allocated in proportion to the direct salaries and wages charged. When services are rendered to a group of Client Companies the cost of such services will be allocated among companies in the group in accordance with the allocation formulae in Section 7 of this Exhibit.

Indirect Departmental Fixed Costs will be allocated to client companies on the basis set forth in Section 7 of this Exhibit.

X

Those expenses of Services that are not included in the expense department under Section 2 above will be charged to Client receiving service as follows:

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- (a) Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Client Company or a group of Client Companies will be charged directly to such company or group of companies. Such costs incurred for a group of Client Companies will be allocated on the basis set forth in Section 7 of this Exhibit.
- (b) The Indirect Corporate Costs of Services referred to above in Section 2(d)(ii) will be allocated among the Client Companies on the basis set forth in Section 7 of this Exhibit.
6. On the basis of the foregoing, monthly bills will be rendered to Client Company. Billing procedures and amounts will be open to audit by Client Company and by any regulatory authority having jurisdiction in respect of the Client Company.
7. (a) When services are rendered to a group of Client Companies, the following formulae will be used to allocate the charges therefor among Client Companies in such group:

<u>Department/Activity</u>	<u>Basis of Allocation</u>
(1) Executive and Advisory	Composite factor (Note 1)
(2) Finance and System Accounting	Composite factor (Note 1)
(3) Nuclear	Number of participating nuclear companies
(4) Engineering, System Planning and Fuel Supply	Capability responsibility ratio (Note 2)
(5) System Operations Center	Capability responsibility ratio (Note 2)
(6) Communications	Composite factor (Note 1)
(7) Public Relations	Composite factor (Note 1)

X

Department/Activity

Basis of Allocation

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(8) Tax

The sum of the total income and total deductions as reported for Federal Income Tax purposes on the return filed for the preceding calendar year.

(9) Insurance

Insurance premiums for the preceding calendar year.

(10) Computer Center

Various bases, depending upon the nature of the services rendered, as agreed upon by the Client Companies.

(11) Internal Auditing

Composite factor (Note 1)

(12) Indirect Corporate Costs

Composite factor (Note 1)

(b) If the use of a basis of allocation would result in an inequity because of a change in operations or organization of the Client Companies, then Services may adjust the basis to effect an equitable distribution based upon a functional relationship between the services involved and the formula used. Any such change in allocation bases shall be made only after first giving to the Commission written notice of such proposed change not less than 60 days prior to the proposed effectiveness of any such change.

Note 1: The composite factor is composed of four factors with equal weighting to each. Those factors are kilowatt-hour sales, average customers, number of employees and capability responsibility ratio.

Note 2: The capability responsibility of a company is the System capability multiplied by the ratio obtained by dividing a company's peak load by the System peak load. The company's peak load is the average of the twelve monthly highest clock hour demands in kilowatts of the Company's interconnected system, occurring each month coincident with the System peak load, during the twelve month period ending with the current month.

Amendment
Dated January 1, 1991
To
Service Agreement



The parties hereto do hereby stipulate and agree that the SERVICE AGREEMENT entered into by and between them under date of April 1, 1963, as amended, be and the same hereby is further amended by substituting for the form of Exhibit II to the Service Agreement, the attached revised form of Exhibit II. The effective date of this Amendment is January 1, 1991.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed this 28th day of January, 1991.

ENTERGY SERVICES, INC.

By [Signature]
Title Executive Vice President-
Finance and External Affairs

ENTERGY CORPORATION

By [Signature]
Title Chairman of the Board & President

METHODS OF ALLOCATING COSTS AMONG CLIENT COMPANIES RECEIVING
SERVICE UNDER THIS AND SIMILAR SERVICE AGREEMENTS WITH
ENTERGY SERVICES, INC. (SERVICES)

1. The costs of rendering service by Services will include all costs of doing business including interest on debt but excluding a return for the use of Services' initial equity capital amounting to \$20,000.
2. (a) Services will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - (i) those expenses that are directly attributable to such department, and
 - (ii) an appropriate portion of those office and house-keeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- (b) Expenses of the department will include salaries and wages of employees, including social security taxes, vacations, paid absences, sickness, employee disability expenses, and other employee welfare expenses, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department.
- (c) Departmental expense will be categorized into one of two classes:
 - (i) those expenses which are directly attributable to specific services rendered to a Client Company or group of Client Companies (Departmental Direct Costs), and
 - (ii) those expenses which are attributable to the overall operation of the department and not to a specific service provided to Client Companies (Departmental Indirect Costs).

Departmental Indirect costs will be classified as fixed (Indirect Departmental Fixed Costs) or variable (Indirect Departmental Variable Costs). Departmental Indirect Fixed Costs include all costs incurred by a department which are necessary to operate the department but do not vary with the level of services provided to other System Companies during a fiscal year.

Departmental Indirect Fixed Costs include:

(1) Administrative labor costs associated with office and general service employees described in Section 3(a). This would include not only the salaries and wages of these employees but also other related employment costs described in Section 2(b) above.

(2) Occupancy costs including rent and utilities.

(3) Depreciation.

(4) Other fixed costs attributable to a department.

Departmental Indirect Variable costs are those costs incurred by a department which are necessary to support services to other System companies and cannot be practically assigned to individual services provided to other System companies but vary with the level of these services during a fiscal year. This would include materials and supplies, telephone usage, postage, etc.

(d) The indirect expenses of the department will not include:

(i) those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of a Client Company or a group of Client Companies, or arising in any manner from specific services rendered to a Client Company or a group of Client Companies, and are to be directly charged to such Client Company or group of Client Companies; and

- (iii) Services' overhead expenses that are attributable to maintaining the corporate existence of Services, franchise and other general taxes, and all other incidental overhead expenses including those auditing fees and accounting department expenses attributable to Services (Indirect Corporate Costs).
 - (e) Services will establish annual budgets for controlling the expenses of each service department and those expenses outlined above in Section 2(d) which are not department specific.
3. (a) Employees in each department will be divided into two classes:
- A. Those employees rendering service to Client Companies (Class A), and
 - B. Those office and general service employees, such as secretaries, stenographers, telephone operators and file clerks, who generally assist employees in Class A or render other house-keeping services and who are not engaged directly in rendering service to a Client Company or a group of Client Companies. In the event that any such office or general service employees are assigned to functions that are attributable to services being performed for Client Companies, such employees shall be reclassified as Class A employees.
- (b) Expenses set forth in Section 2 above will be separated to show:
- (i) salaries and wages of Class A employees, and
 - (ii) all other expenses of the department.
- (c) Class A employees in each department will maintain a record of the time they are employed in rendering service to each Client Company or group of Client Companies. The hourly rate for each Class A employee will be determined each month.

4. The charge to Client Company or a group of Client Companies for a particular service will be the sum of the figures derived by multiplying the hours reported by each Class A employee in rendering such service by the hourly rate applicable to such employee and other direct allocated expenses. Indirect Departmental Variable Costs as defined in 2(c)(ii) will be allocated in proportion to the direct salaries and wages charged. When services are rendered to a group of Client Companies the cost of such services will be allocated among companies in the group in accordance with the allocation formulae in Section 7 of this Exhibit.

Indirect Departmental Fixed Costs will be allocated to Client Companies on the basis set forth in Section 7 of this Exhibit.

5. Those expenses of Services that are not included in the expense of a department under Section 2 above will be charged to Client Companies receiving service as follows:
 - (a) Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Client Company or a group of Client Companies, or arising in any manner from specific services rendered to a Client Company or a group of Client Companies, will be charged directly to such company or group of companies. Such costs incurred for a group of Client Companies will be allocated on the basis set forth in Section 7 of this Exhibit.
 - (b) The Indirect Corporate Costs of Services referred to above in Section 2(d)(ii) will be allocated among the Client Companies on the basis set forth in Section 7 of this Exhibit.
6. On the basis of the foregoing, monthly bills will be rendered to Client Company. Billing procedures and amounts will be open to audit by Client Company and by any

regulatory authority having jurisdiction in respect of the Client Company.

7. (a) When services are rendered to a group of Client Companies, the following formulae will be used to allocate the charges therefor among Client Companies in such group:

<u>Department/Activity</u>	<u>Basis of Allocation</u>
1) Executive and Advisory	Composite factor (Note 1)
2) Finance & System Accounting	Composite factor (Note 1)
3) Nuclear	Number of participating nuclear companies
4) Engineering, System Planning and Fuel Supply	Capability responsibility ratio (Note 2)
5) System Operations Center	Capability responsibility ratio (Note 2)
6) Communications	Composite factor (Note 1)
7) Public Relations	Composite factor (Note 1)
8) Tax	The sum of the total income and total deductions as reported for Federal Income Tax purposes on the return filed for the preceding calendar year.
9) Insurance	Insurance premiums for the preceding calendar year.
10) Computer Center	Various bases, depending upon the nature of the services rendered, as agreed upon by the Client Companies.
11) Internal Auditing	Composite factor (Note 1)
12) Indirect Departmental Fixed Costs and Indirect Corporate Costs	Allocated among Client Companies in the same proportion as the charges to the Client Companies excluding Indirect Departmental Fixed Costs and Indirect Corporate Costs.