Mississippi's earned return on common equity to the specified point of adjustment of 6.51% return on rate base, within the formula rate plan bandwidth. The 2019 look-back filing compares actual 2019 results to the approved benchmark return on rate base and reflects the need for a $7.3 million interim increase in formula rate plan revenues. In accordance with the MPSC-approved revisions to the formula rate plan, Entergy Mississippi implemented a $24.3 million interim rate increase, reflecting a cap equal to 2% of 2019 retail revenues, effective with the April 2020 billing cycle, subject to refund. In June 2020, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a joint stipulation that confirmed that the 2020 test year filing showed that a $23.8 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.51% return on rate base, within the formula rate plan bandwidth. Pursuant to the joint stipulation, Entergy Mississippi's 2019 look-back filing reflected an earned return on rate base of 6.75% in calendar year 2019, which is within the look-back bandwidth. As a result, there is no change in formula rate plan revenues in the 2019 look-back filing. In June 2020 the MPSC approved the joint stipulation with rates effective for the first billing cycle of July 2020. In the June 2020 order the MPSC directed Entergy Mississippi to submit revisions to its formula rate plan to realign recovery of costs from its energy efficiency cost recovery rider to its formula rate plan. In November 2020 the MPSC approved Entergy Mississippi's revisions to its formula rate plan providing for the realignment of energy efficiency costs to its formula rate plan, the deferral of energy efficiency expenditures into a regulatory asset, and the elimination of its energy efficiency cost recovery rider effective with the January 2022 billing cycle.

2021 Formula Rate Plan Filing

In March 2021, Entergy Mississippi submitted its formula rate plan 2021 test year filing and 2020 look-back filing showing Entergy Mississippi's earned return for the historical 2020 calendar year to be below the formula rate plan bandwidth and projected earned return for the 2021 calendar year to be below the formula rate plan bandwidth. The 2021 test year filing shows a $95.4 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.69% return on rate base, within the formula rate plan bandwidth. The change in formula rate plan revenues, however, is capped at 4% of retail revenues, which equates to a revenue change of $44.3 million. The 2021 evaluation report also includes $3.9 million in demand side management costs for which the MPSC approved realignment of recovery from the energy efficiency rider to the formula rate plan. These costs are not subject to the 4% cap and result in a total change in formula rate plan revenues of $48.2 million. The 2020 look-back filing compares actual 2020 results to the approved benchmark return on rate base and reflects the need for a $16.8 million interim increase in formula rate plan revenues. In addition, the 2020 look-back filing includes an interim capacity adjustment true-up for the Choctaw Generating Station, which increases the look-back interim rate adjustment by $1.7 million. These interim rate adjustments total $18.5 million. In accordance with the provisions of the formula rate plan, Entergy Mississippi implemented a $22.1 million interim rate increase, reflecting a cap equal to 2% of 2020 retail revenues, effective with the April 2021 billing cycle, subject to refund, pending a final MPSC order. The $3.9 million of demand side management costs and the Choctaw Generating Station true-up of $1.7 million, which are not subject to the 2% cap of 2020 retail revenues, were included in the April 2021 rate adjustments.

In June 2021, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a joint stipulation that confirmed the 2021 test year filing that resulted in a total rate increase of $48.2 million. Pursuant to the joint stipulation, Entergy Mississippi's 2020 look-back filing reflected an earned return on rate base of 6.12% in calendar year 2020, which is below the look-back bandwidth, resulting in a $17.5 million increase in formula rate plan revenues on an interim basis through June 2022. This includes $1.7 million related to the Choctaw Generating Station and $3.7 million of COVID-19 non-bad debt expenses. See " COVID-19 Orders " below for additional discussion of provisions of the joint stipulation related to COVID-19 expenses. In June 2021 the MPSC approved the joint stipulation with rates effective for the first billing cycle of July 2021. In June 2021, Entergy Mississippi recorded regulatory credits of $19.9 million to reflect the effects of the joint stipulation.

2022 Formula Rate Plan Filing

Entergy Mississippi's formula rate plan includes a look-back evaluation report filing in March 2022 that will compare actual 2021 results to the performance-adjusted allowed return on rate base. In fourth quarter 2021, Entergy Mississippi recorded a regulatory asset of $19 million in connection with the look-back feature of the formula rate plan to reflect that the 2021 earned return was below the formula bandwidth.

COVID-19 Orders

In March 2020 the MPSC issued an order suspending disconnections for a period of sixty days. The MPSC extended the order on disconnections through May 26, 2020. In April 2020 the MPSC issued an order authorizing utilities to defer incremental costs and expenses associated with COVID-19 compliance and to seek future recovery through rates of the prudently incurred incremental costs and expenses. In December 2020, Entergy Mississippi resumed disconnections for commercial, industrial, and governmental customers with past-due balances that have not made payment arrangements. In January 2021, Entergy Mississippi resumed disconnecting service for residential customers with past-due balances that had not made payment arrangements. Pursuant to the June 2021 MPSC order approving Entergy Mississippi's 2021 formula rate plan filing, Entergy Mississippi stopped deferring COVID-19 non-bad debt expenses effective December 31, 2020 and included those expenses in the look-back filing for the 2021 formula rate plan test year. In the order, the MPSC also adopted Entergy Mississippi's quantification and methodology for calculating COVID-19 incremental bad debt expenses and authorized Entergy Mississippi to continue deferring these bad debt expenses through December 2021. As of December 31, 2021, Entergy Mississippi had a regulatory asset of $15.0 million for costs associated with the COVID-19 pandemic.

Fuel and Purchased Power Cost Recovery

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

In November 2018, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation of the annual factor included an under-recovery of approximately $57 million as of September 30, 2018. In January 2019 the MPSC approved the proposed energy cost factor effective for February 2019 bills.

In November 2019, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation included $39.6 million of prior over-recovery flowing back to customers beginning September 2020. Entergy Mississippi's balance in its deferred fuel account did not decrease as expected after implementation of the new factor. In an effort to assist customers during the COVID-19 pandemic, in May 2020, Entergy Mississippi requested an interim adjustment to the energy cost recovery rider to credit approximately $50 million from the over-recovered balance in the deferred fuel account to customers over four consecutive billing months. The MPSC approved this interim adjustment in May 2020 effective for June through September 2020 bills.

In November 2020, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation of the annual factor included an over-recovery of approximately $24.4 million as of September 30, 2020. In January 2021 the MPSC approved the proposed energy cost factor effective for February 2021 bills.

In November 2021, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation of the annual factor included an under-recovery of approximately $80.6 million as of September 30, 2021. In December 2021, at the request of the MPSC, Entergy

Mississippi submitted a proposal to mitigate the impact of rising fuel costs on customer bills during 2022. Entergy Mississippi proposed that the deferred fuel balance as of December 31, 2021, which was $121.9 million, be amortized over three years, and that the MPSC authorize Entergy Mississippi to apply its weighted-average cost of capital as the carrying cost for the unamortized fuel balance. In January 2022 the MPSC approved the amortization of $100 million of the deferred fuel balance over two years and authorized Entergy Mississippi to apply its weighted-average cost of capital as the carrying cost for the unamortized fuel balance. The MPSC approved the proposed energy cost factor effective for February 2022 bills.

Storm Cost Recovery Filings with Retail Regulators

Entergy Mississippi has approval from the MPSC to collect a storm damage provision of $1.75 million per month. If Entergy Mississippi's accumulated storm damage provision balance exceeds $15 million, the collection of the storm damage provision ceases until such time that the accumulated storm damage provision becomes less than $10 million. Entergy Mississippi's storm damage provision balance has been less than $10 million since May 2019, and Entergy Mississippi has been billing the monthly storm damage provision since July 2019.

Federal Regulation

See the " **Rate, Cost-recovery, and Other Regulation – Federal Regulation** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis and Note 2 to the financial statements for a discussion of federal regulation.

Nuclear Matters

See the " **Nuclear Matters** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of nuclear matters.

Environmental Risks

Entergy Mississippi'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 Mississippi is in substantial compliance with environmental regulations currently applicable to its facilities and operations, with reference to possible exceptions noted in " **Regulation of Entergy's Business - Environmental Regulation** " in Part I, Item 1. Because environmental regulations are subject to change, future compliance costs cannot be precisely estimated.

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.

Utility Regulatory Accounting

See " **Utility Regulatory Accounting** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for discussion of accounting for the effects of rate regulation.

Impairment of Long-lived Assets

See " **Impairment of Long-lived Assets** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for discussion of the estimates associated with the impairment of long-lived assets.

Taxation and Uncertain Tax Positions

See " **Taxation and Uncertain Tax Positions** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for further discussion.

Qualified Pension and Other Postretirement Benefits

Entergy Mississippi's qualified pension and other postretirement reported costs, 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 " **Qualified Pension and Other Postretirement Benefits** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial 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).

Actuarial Assumption	Change in Assumption	Impact on 2022 Qualified Pension Cost	Impact on 2021 Projected Qualified Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$507	$11,348
Rate of return on plan assets	(0.25%)	$771	$ —
Rate of increase in compensation	0.25%	$539	$2,523

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

Actuarial Assumption	Change in Assumption	Impact on 2022 Postretirement Benefit Cost	Impact on 2021 Accumulated Postretirement Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$51	$1,876
Health care cost trend	0.25%	$71	$1,224

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

Costs and Employer Contributions

Total qualified pension cost for Entergy Mississippi in 2021 was $33.8 million, including $16.7 million in settlement costs. Entergy Mississippi anticipates 2022 qualified pension cost to be $13.7 million. Entergy Mississippi contributed $13.7 million to its qualified pension plans in 2021 and estimates 2022 pension contributions will be approximately $12.9 million, although the 2022 required pension contributions will be known with more certainty when the January 1, 2022 valuations are completed, which is expected by April 1, 2022.

Total postretirement health care and life insurance benefit income for Entergy Mississippi in 2021 was $4.7 million. Entergy Mississippi expects 2022 postretirement health care and life insurance benefit income of approximately $4.4 million. In 2021, Entergy Mississippi's contributions (that is, contributions to the external trusts plus claims payments) were offset by trust claims reimbursements, resulting in a net reimbursement of $393 thousand. Entergy Mississippi estimates that 2022 contributions will be approximately $130 thousand.

Other Contingencies

See " **Other Contingencies** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of the estimates associated with environmental, litigation, and other risks.

New Accounting Pronouncements

See " **New Accounting Pronouncements** " section of Note 1 to the financial statements for a discussion of new accounting pronouncements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the member and Board of Directors of
Entergy Mississippi, LLC

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Entergy Mississippi, LLC (the "Company") as of December 31, 2021 and 2020, the related statements of income, cash flows and changes in member's equity (pages 372 through 376 and applicable items in pages 49 through 233), for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Rate and Regulatory Matters —Entergy Mississippi, LLC — Refer to Note 2 to the financial statement

Critical Audit Matter Description

The Company is subject to rate regulation by the Mississippi Public Service Commission (the "MPSC"), which has jurisdiction with respect to the rates of electric companies in Mississippi, and to wholesale rate regulation by the

Federal Energy Regulatory Commission ("FERC"). Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment;

regulatory assets and liabilities; income taxes; operating revenues; operation and maintenance expense; and depreciation and amortization expense.

The Company's rates are subject to regulatory rate-setting processes and annual earnings oversight. Because the MPSC and the FERC set the rates the Company is allowed to charge customers based on allowable costs, including a reasonable return on equity, the Company applies accounting standards that require the financial statements to reflect the effects of rate regulation, including the recording of regulatory assets and liabilities. The Company assesses whether the regulatory assets and regulatory liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs, and factors such as changes in applicable regulatory and political environments. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the MPSC and the FERC will not approve: (1) full recovery of the costs of providing utility service, or (2) full recovery of amounts invested in the utility business and a reasonable return on that investment.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management to support its assertions about impacted account balances and disclosures and the high degree of subjectivity involved in assessing the impact of future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery in future rates of incurred costs and refunds to customers. Auditing management's judgments regarding the outcome of future decisions by the MPSC and the FERC, involved especially subjective judgment and specialized knowledge of accounting for rate regulation and the rate setting process.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the MPSC and the FERC included the following, among others:

- We tested the effectiveness of management's controls over the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We also tested the effectiveness of management's controls over the initial recognition of amounts as property, plant, and equipment; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.
- We read relevant regulatory orders issued by the MPSC and the FERC for the Company and other public utilities, regulatory statutes, interpretations, procedural memorandums, filings made by intervenors, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the MPSC's and FERC's treatment of similar costs under similar circumstances. We evaluated the external information and compared to management's recorded regulatory asset and liability balances for completeness.
- For regulatory matters in process, we inspected the Company's filings with the MPSC and the FERC, including the annual formula rate plan filing, and considered the filings with the MPSC and the FERC by intervenors that may impact the Company's future rates, for any evidence that might contradict management's assertions.
- We obtained an analysis from management and support from internal and external legal counsel, as appropriate, regarding probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities not yet addressed in a regulatory order to assess management's assertion that amounts are probable of recovery or a future reduction in rates.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana

February 25, 2022

We have served as the Company's auditor since 2001.

ENTERGY MISSISSIPPI, LLC
INCOME STATEMENTS

	For the Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
OPERATING REVENUES			
Electric	$ 1,406,346	$ 1,247,854	$ 1,323,043
OPERATING EXPENSES			
Operation and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	181,511	187,087	277,425
Purchased power	298,034	240,471	284,492
Other operation and maintenance	298,129	288,543	266,175
Taxes other than income taxes	111,712	101,525	105,318
Depreciation and amortization	226,545	209,252	170,886
Other regulatory charges (credits) - net	5,913	(15,219)	14,993
TOTAL	1,121,844	1,011,659	1,119,289
OPERATING INCOME	284,502	236,195	203,754
OTHER INCOME (DEDUCTIONS)			
Allowance for equity funds used during construction	8,101	6,726	8,356
Interest and investment income	53	272	1,412
Miscellaneous - net	(8,791)	(9,253)	(4,478)
TOTAL	(637)	(2,255)	5,290
INTEREST EXPENSE			
Interest expense	75,124	68,945	61,785
Allowance for borrowed funds used during construction	(3,416)	(2,778)	(3,532)
TOTAL	71,708	66,167	58,253
INCOME BEFORE INCOME TAXES	212,157	167,773	150,791
Income taxes	45,323	27,190	30,866
NET INCOME	$ 166,834	$ 140,583	$ 119,925

See Notes to Financial Statements.

Table of Contents

ENTERGY MISSISSIPPI, LLC
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2021	2020	2019
		(In Thousands)	
OPERATING ACTIVITIES			
Net income	$ 166,834	$ 140,583	$ 119,925
Adjustments to reconcile net income to net cash flow provided by operating activities:			
Depreciation and amortization	226,545	209,252	170,886
Deferred income taxes, investment tax credits, and non-current taxes accrued	64,868	36,827	32,547
Changes in assets and liabilities:			
Receivables	10,260	(1,889)	(17,245)
Fuel inventory	6,806	(1,978)	(3,208)
Accounts payable	27,068	22,794	(226)
Taxes accrued	(1,811)	17,423	13,109
Interest accrued	(3,606)	1,989	(1,331)
Deferred fuel costs	(136,569)	(55,711)	78,418
Other working capital accounts	(9,522)	630	(5,557)
Provisions for estimated losses	(8,476)	(3,517)	(1,121)
Other regulatory assets	4,909	(89,369)	(34,923)
Other regulatory liabilities	21,930	(18,672)	(21,524)
Pension and other postretirement liabilities	(51,828)	11,319	6,534
Other assets and liabilities	33,552	30,633	3,668
Net cash flow provided by operating activities	350,960	300,314	339,952
INVESTING ACTIVITIES			
Construction expenditures	(654,352)	(555,287)	(432,600)
Allowance for equity funds used during construction	8,101	6,726	8,356
Changes in money pool receivable - net	(40,456)	44,692	(3,313)
Payment for purchase of plant or assets	—	(28,612)	(305,472)
Other	53	1,719	(655)
Net cash flow used in investing activities	(686,654)	(530,762)	(733,684)
FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	398,284	165,385	437,153
Retirement of long-term debt	—	—	(150,000)
Changes in money pool payable - net	(16,516)	16,516	—
Capital contributions from parent	—	—	130,000
Distributions/dividends paid:			
Common equity	—	(10,000)	—
Other	1,535	6,964	(8,774)
Net cash flow provided by financing activities	383,303	178,865	408,379
Net increase (decrease) in cash and cash equivalents	47,609	(51,583)	14,647
Cash and cash equivalents at beginning of period	18	51,601	36,954
Cash and cash equivalents at end of period	$ 47,627	$ 18	$ 51,601
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$ 76,245	$ 64,536	$ 60,533
Income taxes	($ 19,672)	($ 8,084)	($ 12,204)

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, LLC
BALANCE SHEETS
ASSETS

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT ASSETS		
Cash and cash equivalents:		
Cash	$ 29	$ 11
Temporary cash investments	47,598	7
Total cash and cash equivalents	47,627	18
Accounts receivable:		
Customer	84,048	105,732
Allowance for doubtful accounts	(7,209)	(19,527)
Associated companies	42,994	2,740
Other	14,609	11,821
Accrued unbilled revenues	56,034	59,514
Total accounts receivable	190,476	160,280
Deferred fuel costs	121,878	—
Fuel inventory - at average cost	10,311	17,117
Materials and supplies - at average cost	69,639	59,542
Prepayments and other	6,394	4,876
TOTAL	446,325	241,833
OTHER PROPERTY AND INVESTMENTS		
Non-utility property - at cost (less accumulated depreciation)	4,527	4,543
Escrow accounts	48,886	64,635
TOTAL	53,413	69,178
UTILITY PLANT		
Electric	6,613,109	6,084,730
Construction work in progress	95,452	134,854
TOTAL UTILITY PLANT	6,708,561	6,219,584
Less - accumulated depreciation and amortization	2,127,590	2,005,087
UTILITY PLANT - NET	4,580,971	4,214,497
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory assets:		
Other regulatory assets	462,432	467,341
Other	14,248	14,413
TOTAL	476,680	481,754
TOTAL ASSETS	$ 5,557,389	$ 5,007,262

See Notes to Financial Statements.

Table of Contents

ENTERGY MISSISSIPPI, LLC
BALANCE SHEETS
LIABILITIES AND EQUITY

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT LIABILITIES		
Accounts payable:		
Associated companies	$ 42,929	$ 61,727
Other	113,000	117,629
Customer deposits	86,167	86,200
Taxes accrued	106,273	108,084
Interest accrued	17,283	20,889
Deferred fuel costs	—	14,691
Other	36,731	34,270
TOTAL	402,383	443,490
NON-CURRENT LIABILITIES		
Accumulated deferred income taxes and taxes accrued	720,097	646,674
Accumulated deferred investment tax credits	10,913	9,062
Regulatory liability for income taxes - net	212,445	224,000
Other regulatory liabilities	49,313	15,828
Asset retirement cost liabilities	10,315	9,762
Accumulated provisions	38,028	46,504
Pension and other postretirement liabilities	59,065	110,901
Long-term debt	2,179,989	1,780,577
Other	35,273	47,730
TOTAL	3,315,438	2,891,038
Commitments and Contingencies		
EQUITY		
Member's equity	1,839,568	1,672,734
TOTAL	1,839,568	1,672,734
TOTAL LIABILITIES AND EQUITY	$ 5,557,389	$ 5,007,262

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, LLC
STATEMENTS OF CHANGES IN MEMBER'S EQUITY
For the Years Ended December 31, 2021, 2020, and 2019

	Member's Equity
	(In Thousands)
Balance at December 31, 2018	$ 1,292,226
Net income	119,925
Capital contribution from parent	130,000
Balance at December 31, 2019	$ 1,542,151
Net income	140,583
Common equity distributions	(10,000)
Balance at December 31, 2020	$ 1,672,734
Net income	166,834
Balance at December 31, 2021	$ 1,839,568

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES

MANAGEMENT ' S FINANCIAL DISCUSSION AND ANALYSIS

Hurricane Ida

In August 2021, Hurricane Ida caused significant damage to Entergy New Orleans's service area, including Entergy's electrical grid. The storm resulted in widespread power outages, including the loss of 100% of Entergy New Orleans's load and damage to distribution and transmission infrastructure, including the loss of connectivity to the eastern interconnection. Total restoration costs for the repair and/or replacement of the electrical system damaged by Hurricane Ida are currently estimated to be approximately $200 million . Also, Entergy New Orleans's revenues in 2021 were adversely affected by extended power outages resulting from the hurrica ne.

Entergy New Orleans has recorded accounts payable for the estimated costs incurred that were necessary to return customers to service. Entergy New Orleans recorded corresponding regulatory assets of approximately $80 million and construction work in progress of approximately $120 million. Entergy New Orleans recorded the regulatory assets in accordance with its accounting policies and based on the historic treatment of such costs in its service area because management believes that recovery through some form of regulatory mechanism is probable. There are well-established mechanisms and precedent for addressing these catastrophic events and providing for recovery of prudently incurred storm costs in accordance with applicable regulatory and legal principles.

Entergy New Orleans is considering all available avenues to recover storm-related costs from Hurricane Ida, including federal government assistance and securitization financing. In September 2021, Entergy New Orleans withdrew $39 million from its funded storm reserves. Entergy New Orleans believes its liquidity is sufficient to meet its current obligations. As of December 31, 2021, Entergy New Orleans has $42.9 million of cash and cash equivalents and the ability to borrow up to $150 million from the Entergy System money pool.

In September 2021 the City Council issued a number of resolutions associated with Hurricane Ida including: (1) a resolution initiating an investigation of Entergy New Orleans's preparation for and response to Hurricane Ida and a statement that the City Council opposes recovery of Hurricane Ida costs unless it is demonstrated that any such restoration costs are unrelated to deficient maintenance practices; and (2) resolutions requesting that the LPSC and the FERC study the prudence of Entergy Louisiana's transmission planning. Entergy New Orleans will oppose any attempt by the City Council to alter the legal standard in Louisiana that allows Entergy New Orleans to recover its prudently incurred hurricane restoration costs. Because storm cost recovery or financing will be subject to review by applicable regulatory authorities and Entergy New Orleans has not gone through the regulatory process regarding Hurricane Ida storm costs, there is an element of risk, and Entergy is unable to predict with certainty the degree of success it may have in its recovery initiatives, the amount of restoration costs and incremental losses it may ultimately recover, or the timing of such recovery. In February 2022, Entergy New Orleans filed with the City Council a securitization application requesting that the City Council review Entergy New Orleans's storm reserve and increase the storm reserve funding level to $150 million, to be funded through securitization.

Results of Operations

2021 Compared to 2020

Net Income

Net income decreased $17.5 million primarily due to higher other operation and maintenance expenses, higher depreciation and amortization expenses, a higher effective income tax rate, lower volume/weather, and lower other income. The decrease was partially offset by higher retail electric price.

Operating Revenues

Following is an analysis of the change in operating revenues comparing 2021 to 2020:

	Amount
	(In Millions)
2020 operating revenues	$633.8
Fuel, rider, and other revenues that do not significantly affect net income	102.4
Retail electric price	41.0
Volume/weather	(8.3)
2021 operating revenues	**$768.9**

Entergy New Orleans's results include revenues from rate mechanisms designed to recover fuel, purchased power, and other costs such that the revenues and expenses associated with these items generally offset and do not affect net income. "Fuel, rider, and other revenues that do not significantly affect net income" includes the revenue variance associated with these items.

The retail electric price variance is primarily due to an interim increase in formula rate plan revenues resulting from the recovery of New Orleans Power Station costs, effective November 2020, and a rate increase effective November 2021 in accordance with the terms of the 2021 formula rate plan filing. See Note 2 to the financial statements for further discussion of the rate case resolution and the formula rate plan filing.

The volume/weather variance is primarily due to decreased residential and industrial usage, including the effect of Hurricane Ida in the third quarter 2021, and decreased usage during the unbilled sales period, partially offset by the effect of more favorable weather on residential sales. The decrease in industrial usage is primarily due to a decrease in demand from existing customers, primarily in the food products industry. See " **Hurricane Ida** " above for further discussion of the effects of Hurricane Ida.

Billed electric energy sales for Entergy New Orleans for the years ended December 31, 2021 and 2020 are as follows:

	2021	**2020**	**% Change**
	(GWh)		
Residential	2,258	2,294	(2)
Commercial	1,978	1,975	—
Industrial	415	423	(2)
Governmental	755	755	—
Total retail	5,406	5,447	(1)
Sales for resale:			
Non-associated companies	2,369	1,969	20
Total	7,775	7,416	5

See Note 19 to the financial statements for additional discussion of Entergy New Orleans's operating revenues.

Other Income Statement Variances

Other operation and maintenance expenses increased primarily due to:

- an increase of $6.5 million in non-nuclear generation expenses primarily due to the timing of the scope of work performed during plant outages in 2021 as compared to 2020 and higher expenses associated with the New Orleans Power Station, which was placed in service in May 2020;
- an increase of $5.7 million in energy efficiency expenses due to the timing of recovery from customers;
- an increase of $2.5 million primarily due to an increase in contract costs related to customer solutions and sustainability initiatives, including customer service center support and enhanced customer billing; and
- an increase of $2.3 million in compensation and benefits costs in 2021 primarily du e to lower healthcare claims activity in 2020 as a result of the COVID-19 pandemic, an increase in healthcare cost rates, and an increase in net periodic pension and other postretirement benefits costs as a result of a de crease in the discount rate used to value the benefit liabilities. See " **Critical Accounting Estimates** " below and Note 11 to the financial statements for further discussion of pension and other postretirement benefit costs.

Taxes other than income taxes decreased primarily due to a decrease in ad valorem taxes.

Depreciation and amortization expenses increased primarily due to additions to plant in service, including the New Orleans Power Station, which was placed in service in May 2020.

Other regulatory charges (credits) - net includes regulatory credits recorded in first quarter 2020 to reflect compliance with terms of the 2018 combined rate case resolution approved by the City Council in February 2020. See Note 2 to the financial statements for further discussion of the rate case resolution.

Other income decreased primarily due to a decrease in the allowance for equity funds used during construction due to higher construction work in progress in 2020, including the New Orleans Power Station project.

The effective income tax rates were 15.7% fo r 2021 and (9.3%) for 2020. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 21% to the effective income tax rates, and for additional discussion regarding income taxes.

2020 Compared to 2019

See " **MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS** - **Results of Operations** " in Item 7 of Entergy New Orleans's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, for discussion of results of operations for 2020 compared to 2019.

Liquidity and Capital Resources

Cash Flow

Cash flows for the years ended December 31, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
		(In Thousands)	
Cash and cash equivalents at beginning of period	$26	$6,017	$19,677
Net cash provided by (used in):			
Operating activities	78,808	64,024	115,604
Investing activities	(169,920)	(220,845)	(204,310)
Financing activities	133,948	150,830	75,046
Net increase (decrease) in cash and cash equivalents	42,836	(5,991)	(13,660)
Cash and cash equivalents at end of period	$42,862	$26	$6,017

2021 Compared to 2020

Operating Activities

Net cash flow provided by operating activities increased $14.8 million in 2021 primarily due to:

- higher collections from customers;
- the timing of recovery of fuel and purchased power costs; and
- income tax refunds of $3.8 million received in 2021 compared to income tax payments of $3.4 million made in 2020, each in accordance with an intercompany income tax allocation agreement.

The increase was partially offset by the timing of payments to vendors and an increase of $20.6 million in storm spending in 2021, primarily due to Hurricane Ida restoration efforts. See " **Hurricane Ida** " above for discussion of hurricane restoration efforts.

Investing Activities

Net cash flow used in investing activities decreased $50.9 million in 2021 primarily due to $83 million in receipts from storm reserve escrow accounts in 2021 and a decrease of $54.3 million in non-nuclear generation construction expenditures primarily due to lower spending on the New Orleans Power Station and the New Orleans Solar Station projects.

The decrease was partially offset by:

- an increase of $74.2 million in distribution construction expenditures primarily due to higher capital expenditures for storm restoration in 2021, partially offset by lower spending on advanced metering infrastructure. The increase in storm restoration spending is primarily due to Hurricane Ida restoration efforts. See " **Hurricane Ida** " above for discussion of hurricane restoration efforts; and
- money pool activity.

Increases in Entergy New Orleans's receivable from the money pool are a use of cash flow, and Entergy New Orleans's receivable from the money pool increased $36.4 million in 2021 compared to decreasing $5.2 million in 2020. The money pool is an inter-company borrowing arrangement designed to reduce the Utility subsidiaries' need for external short-term borrowings.

Financing Activities

Net cash flow provided by financing activities decreased $16.9 million primarily due to a capital contribution of $60 million received from Entergy Corporation in November 2020 in order to maintain Entergy New Orleans's capital structure and money pool activity. The decrease was partially offset by long-term debt activity providing $183.4 million of cash in 2021 compared to providing $138.9 million of cash in 2020 and repayments of long-term credit borrowings of $20 million in 2020.

Decreases in Entergy New Orleans's payable to the money pool are a use of cash flow, and Entergy New Orleans's payable to the money pool decreased $10.2 million in 2021 compared to increasing by $10.2 million in 2020.

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

2020 Compared to 2019

See " **MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS** - **Results of Operations** " in Item 7 of Entergy New Orleans's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, for discussion of results of operations for 2020 compared to 2019.

Capital Structure

Entergy New Orleans's debt to capital ratio is shown in the following table. The increase in the debt to capital ratio is primarily due to the net issuance of long-term debt in 2021.

	December 31, 2021	December 31, 2020
Debt to capital	55.4 %	51.5 %
Effect of excluding securitization bonds	(1.0 %)	(1.6 %)
Debt to capital, excluding securitization bonds (a)	54.4 %	49.9 %
Effect of subtracting cash	(1.4 %)	—%
Net debt to net capital, excluding securitization bonds (a)	53.0 %	49.9 %

(a) Calculation excludes the securitization bonds, which are non-recourse to Entergy New Orleans.

Net debt consists of debt less cash and cash equivalents. Debt consists of short-term borrowings, finance lease obligations, long-term debt, including the currently maturing portion, and the long-term payable due to an associated company. Capital consists of debt and equity. Net capital consists of capital less cash and cash equivalents. Entergy New Orleans uses the debt to capital ratios excluding securitization bonds in analyzing its financial condition and believes they provide useful information to its investors and creditors in evaluating Entergy New Orleans's financial condition because the securitization bonds are non-recourse to Entergy New Orleans, as more fully described in Note

5 to the financial statements. Entergy New Orleans also uses the net debt to net capital ratio excluding securitization bonds in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy New Orleans's financial condition because net debt indicates Entergy New Orleans's outstanding debt position that could not be readily satisfied by cash and cash equivalents on hand.

Entergy New Orleans seeks to optimize its capital structure in accordance with its regulatory requirements and to control its cost of capital while also maintaining equity capitalization at a level consistent with investment-grade debt ratings. To the extent that operating cash flows are in excess of planned investments, cash may be used to reduce outstanding debt or may be paid as a distribution, or both, in appropriate amounts to maintain the capital structure. To the extent that operating cash flows are insufficient to support planned investments, Entergy New Orleans may issue incremental debt or reduce distributions, or both, to maintain its capital structure. In addition, in certain infrequent circumstances, such as financing of large transactions that would materially alter the capital structure if financed entirely with debt and reducing distributions, Entergy New Orleans may receive equity contributions to maintain its capital structure.

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 maturities or retirements; and
- distribution and interest payments.

Following are the amounts of Entergy New Orleans's planned construction and other capital investments.

	2022	2023	2024
		(In Millions)	
Planned construction and capital investment:			
Generation	$10	$ —	$5
Transmission	25	20	15
Distribution	105	115	140
Utility Support	25	10	10
Total	$165	$145	$170

In addition to routine capital spending to maintain operations, the planned capital investment estimate for Entergy New Orleans includes generation projects to modernize, decarbonize, and diversify Entergy New Orleans's portfolio; distribution and Utility support spending to improve reliability, resilience, and customer experience; transmission spending to drive reliability and resilience while supporting renewables expansion; and other investments. Estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of regulatory constraints and requirements, environmental compliance, business opportunities, market volatility, economic trends, business restructuring, changes in project plans, and the ability to access capital.

In addition to the planned spending in the table above, Entergy New Orleans also expects to pay for $95 million of capital investments in 2022 related to Hurricane Ida restoration work that has been accrued as of December 31, 2021.

Following are the amounts of Entergy New Orleans's existing debt and lease obligations (includes estimated interest payments).

	2022	2023	2024	2025-2026	After 2026
			(In Millions)		
Long-term debt (a)	$44	$211	$38	$214	$787
Operating leases (b)	$2	$1	$1	$1	$1
Finance leases (b)	$1	$1	$1	$1	$1

(a) Long-term debt is discussed in Note 5 to the financial statements.
(b) Lease obligations are discussed in Note 10 to the financial statements.

Other Obligations

Entergy New Orleans currently expects to contribute approximately $922 thousand to its qualified pension plan and approximately $175 thousand to other postretirement health care and life insurance plans in 2022, although the 2022 required pension contributions will be known with more certainty when the January 1, 2022 valuations are completed, which is expected by April 1, 2022. See " **Critical Accounting Estimates - Qualified Pension and Other Postretirement Benefits** " below for a discussion of qualified pension and other postretirement benefits funding.

Entergy New Orleans has $154.6 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.

In addition, Entergy New Orleans enters into fuel and purchased power agreements that contain minimum purchase obligations. Entergy New Orleans has rate mechanisms in place to recover fuel, purchased power, and associated costs incurred under these purchase obligations. See Note 8 to the financial statements for discussion of Entergy New Orleans's obligations under the Unit Power Sales Agreement.

As a wholly-owned subsidiary of Entergy Utility Holding Company, LLC, Entergy New Orleans pays distributions from its earnings at a percentage determined monthly.

Renewables

In July 2018, Entergy New Orleans filed an application with the City Council requesting approval of three utility-scale solar projects totaling 90 MW. If approved, the resource additions will allow Entergy New Orleans to make significant progress towards meeting its voluntary commitment to the City Council to add up to 100 MW of renewable energy resources. The three projects include constructing a self-build solar plant in Orleans Parish with an output of 20 MW, acquiring a 50 MW solar facility in Washington Parish through a build-own-transfer acquisition, and procuring 20 MW of solar power from a project to be built in St. James Parish through a power purchase agreement. In December 2018 the City Council advisors requested that Entergy New Orleans pursue alternative deal structures for the Washington Parish project and attempt to reduce costs for the 20 MW New Orleans Solar Station. As a result of settlement discussions, in March 2019, Entergy New Orleans revised its application to convert the build-own transfer acquisition of the 50 MW facility in Washington Parish to a power purchase agreement. In June 2019 the parties to the proceeding executed a stipulated settlement term sheet, which recommends that the City Council approve Entergy New Orleans's revised application as to all three projects. In July 2019 the City Council approved the stipulated settlement. Commercial operation of the 20 MW New Orleans Solar Station commenced in December 2020. Due to a delay resulting from Hurricane Ida, Entergy New Orleans now expects to begin receiving power under the 50 MW Iris Solar and the 20 MW St. James Solar power purchase agreements in 2022.

Sources of Capital

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

- internally generated funds;
- cash on hand;
- the Entergy System money pool;

- storm reserve escrow accounts;
- debt and preferred membership interest issuances, including debt issuances to refund or retire currently outstanding or maturing indebtedness;
- capital contributions; and
- bank financing under new or existing facilities.

Circumstances such as weather patterns, fuel and purchased power price fluctuations, and unanticipated expenses, including unscheduled plant outages and storms, could affect the timing and level of internally generated funds in the future. In addition to the financings necessary to meet capital requirements and contractual obligations, Entergy New Orleans expects to continue, when economically feasible, to retire higher-cost debt and replace it with lower-cost debt if market conditions permit.

All debt and common and preferred membership interest issuances by Entergy New Orleans require prior regulatory approval. Debt issuances are also subject to issuance tests set forth in its bond indenture and other agreements. Entergy New Orleans has sufficient capacity under these tests to meet its foreseeable capital needs for the next twelve months and beyond.

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

2021	2020	2019	2018
(In Thousands)			
$36,410	($10,190)	$5,191	$22,016

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

Entergy New Orleans has a credit facility in the amount of $25 million scheduled to expire in June 2024. The credit facility includes fronting commitments for the issuance of letters of credit against $10 million of the borrowing capacity of the facility. As of December 31, 2021, there were no cash borrowings and no letters of credit outstanding under the credit facility. In addition, Entergy New Orleans is a party to an uncommitted letter of credit facility as a means to post collateral to support its obligations to MISO. As of December 31, 2021, a $1 million letter of credit was outstanding under Entergy New Orleans's letter of credit facility. See Note 4 to the financial statements for additional discussion of the credit facilities.

Entergy New Orleans obtained authorization from the FERC through October 2023 for short-term borrowings not to exceed an aggregate amount of $150 million at any time outstanding and long-term borrowings and securities issuances. 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 not only by the FERC, but also by the City Council, and the current City Council authorization extends through December 2023.

Hurricane Zeta

In October 2020, Hurricane Zeta caused significant damage to Entergy New Orleans's service area. The storm resulted in widespread power outages, significant damage to distribution and transmission infrastructure, and the loss of sales during the power outages. In March 2021, Entergy New Orleans withdrew $44 million from its funded storm reserves. In May 2021, Entergy New Orleans filed an application with the City Council requesting approval and certification that its system restoration costs associated with Hurricane Zeta of approximately

$36 million, including approximately $28 million in capital costs and approximately $8 million in non-capital costs, were reasonable and necessary to enable Entergy New Orleans to restore electric service to its customers and Entergy New Orleans's electric utility infrastructure.

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.

Retail Rates

2018 Base Rate Case

In September 2018, Entergy New Orleans filed an electric and gas base rate case with the City Council. The filing requested a 10.5% return on equity for electric operations with opportunity to earn a 10.75% return on equity through a performance adder provision of the electric formula rate plan in subsequent years under a formula rate plan and requested a 10.75% return on equity for gas operations. The filing's major provisions included: (1) a new electric rate structure, which realigns the revenue requirement associated with capacity and long-term service agreement expense from certain existing riders to base revenue, provides for the recovery of the cost of advanced metering infrastructure, and partially blends rates for Entergy New Orleans's customers residing in Algiers with customers residing in the remainder of Orleans Parish through a three-year phase-in; (2) contemporaneous cost recovery riders for investments in energy efficiency/demand response, incremental changes in capacity/long-term service agreement costs, grid modernization investment, and gas infrastructure replacement investment; and (3) formula rate plans for both electric and gas operations.

In October 2019 the City Council's Utility Committee approved a resolution for a change in electric and gas rates for consideration by the full City Council that included a 9.35% return on common equity, an equity ratio of the lesser of 50% or Entergy New Orleans's actual equity ratio, and a total reduction in revenues that Entergy New Orleans initially estimated to be approximately $39 million ($36 million electric; $3 million gas). At its November 7, 2019 meeting, the full City Council approved the resolution that had previously been approved by the City Council's Utility Committee. Based on the approved resolution, in the fourth quarter 2019 Entergy New Orleans recorded an accrual of $10 million that reflects the estimate of the revenue billed in 2019 to be refunded to customers in 2020 based on an August 2019 effective date for the rate decrease. Entergy New Orleans also recorded a total of $12 million in regulatory assets for rate case costs and information technology costs associated with integrating Algiers customers with Entergy New Orleans's legacy system and records. Entergy New Orleans will also be allowed to recover $10 million of retired general plant costs over a 20-year period.

The resolution directed Entergy New Orleans to submit a compliance filing within 30 days of the date of the resolution to facilitate the eventual implementation of rates, including all necessary calculations and conforming rate schedules and riders. The electric formula rate plan rider includes, among other things, (1) a provision for forward-looking adjustments to include known and measurable changes realized up to 12 months after the evaluation period; (2) a decoupling mechanism; and (3) recognition that Entergy New Orleans is authorized to make an in-service adjustment to the formula rate plan to include the non-fuel cost of the New Orleans Power Station in rates, unless the two pending appeals in the New Orleans Power Station proceeding have not concluded. Under this circumstance, Entergy New Orleans shall be permitted to defer the New Orleans Power Station non-fuel costs, including the cost of capital, until Entergy New Orleans commences non-fuel cost recovery. After taking into account the requirements for submission of the compliance filing, the total annual revenue requirement reduction required by the resolution was refined to approximately $45 million ($42 million electric, including $29 million in rider reductions; $3 million gas). In January 2020 the City Council's advisors found that the rates calculated by Entergy New Orleans and reflected in the December 2019 compliance filing should be implemented, except with respect to the City Council-approved energy efficiency cost recovery rider, which rider calculation should take into account events to be determined by the City Council in the future. On February 17, 2020, Entergy New Orleans filed with the City Council an agreement in principle between Entergy New Orleans and the City Council's advisors. On February 20, 2020, the City Council voted to approve the proposed agreement in principle and issued a resolution modifying the required treatment of certain accumulated deferred income taxes. As a result of the agreement in principle, the total annual revenue requirement reduction will be approximately $45 million ($42 million electric, including $29 million in rider reductions; and $3 million gas). Entergy New Orleans fully implemented the new rates in April 2020.

Commercial operation of the New Orleans Power Station commenced in May 2020. In accordance with the City Council resolution issued in the 2018 base rate case proceeding, Entergy New Orleans had been deferring the New Orleans Power Station non-fuel costs pending the conclusion of the appellate proceedings. In October 2020 the Louisiana Supreme Court denied all writ applications relating to the New Orleans Power Station. With those denials, Entergy New Orleans began recovering New Orleans Power Station costs in rates in November 2020. Entergy New Orleans is recovering the costs over a five-year period that began in November 2020. In December 2020 the Alliance for Affordable Energy and Sierra Club filed a joint motion with the City Council to institute a prudence review to investigate the costs of the New Orleans Power Station. On January 28, 2021, the City Council passed a resolution giving parties 30 days to respond to the motion. In March 2021, Entergy New Orleans filed a response to that motion stating that a prudence review is unnecessary given the New Orleans Power Station was constructed on budget and ahead of schedule. As of December 31, 2021 the regulatory asset for the deferral of New Orleans Power Station non-fuel costs was $4 million.

2020 Formula Rate Plan Filing

Entergy New Orleans's first annual filing under the three-year formula rate plan approved by the City Council in November 2019 was originally due to be filed in April 2020. The authorized return on equity under the approved three-year formula rate plan is 9.35% for both electric and gas operations. The City Council approved several extensions of the deadline to allow additional time to assess the effects of the COVID-19 pandemic on the New Orleans community, Entergy New Orleans customers, and Entergy New Orleans itself. In October 2020 the City Council approved an agreement in principle filed by Entergy New Orleans that results in Entergy New Orleans foregoing its 2020 formula rate plan filing and shifting the three-year formula rate plan to filings in 2021, 2022, and 2023. Key provisions of the agreement in principle include: changing the lower of actual equity ratio or 50% equity ratio approved in the rate case to a hypothetical capital structure of 51% equity and 49% debt for the duration of the three-year formula rate plan; changing the 2% depreciation rate for the New Orleans Power Station approved in the rate case to 3%; retention of over-recovery of $2.2 million in rider revenues; recovery of $1.4 million of certain rate case expenses outside of the earnings band; recovery of the New Orleans Solar Station costs upon commercial operation; and Entergy New Orleans's dismissal of its 2018 rate case appeal.

2021 Formula Rate Plan Filing

In July 2021, Entergy New Orleans submitted to the City Council its formula rate plan 2020 test year filing. The 2020 test year evaluation report produced an earned return on equity of 6.26% compared to the authorized return on equity of 9.35%. Entergy New Orleans sought approval of a $64 million rate increase based on the formula set by the City Council in the 2018 rate case. The formula resulted in an increase in authorized electric revenues of $40 million and an increase in authorized gas revenues of $18.8 million. Entergy New Orleans also sought to commence collecting $5.2 million in electric revenues and $0.3 million in gas revenues that were previously approved by the City Council for collection through the formula rate plan. The filing was subject to review by the City Council and other parties over a 75-day review period, followed by a 25-day period to resolve any disputes among the parties. In October 2021 the City Council's advisors filed a 75-day report recommending a reduction of $10 million for electric revenues and a reduction of $4.5 million for gas revenues, along with one-time credits funded by certain electric regulatory liabilities currently held by Entergy New Orleans for customers. On October 26, 2021, Entergy New Orleans provided notice to the City Council that it intends to implement rates effective with the first billing cycle of November 2021, with such rates reflecting an amount agreed-upon by Entergy New Orleans including adjustments filed in the City Council's 75-day report, per the approved process for formula rate plan implementation. The total formula rate plan increase implemented was $49.5 million, with an increase of $34.9 million in electric revenues and $14.6 million in gas revenues. Also, credits of $17.6 million funded by certain regulatory liabilities currently held by Entergy New Orleans for customers will be issued over a five-month period from November 2021 through March 2022. Resulting rates went into effect with the first billing cycle of November 2021 pursuant to the formula rate plan tariff.

COVID-19 Orders

In March 2020, Entergy New Orleans voluntarily suspended customer disconnections for non-payment of utility bills through May 2020. Subsequently, the City Council ordered that the moratorium be extended to August 1, 2020. In May 2020 the City Council issued an accounting order authorizing Entergy New Orleans to establish a regulatory asset for incremental COVID-19-related expenses. In January 2021, Entergy New Orleans resumed disconnecting service to commercial and small business customers with past-due balances that had not made payment arrangements. In February 2021 the City Council adopted a resolution suspending residential customer disconnections for non-payment of utility bills and suspending the assessment and accumulation of late fees on residential customers with past-due balances through May 15, 2021, which was not extended by the City Council. As of December 31, 2021, Entergy New Orleans had a regulatory asset of $17.4 million for costs associated with the COVID-19 pandemic.

In June 2020 the City Council established the City Council Cares Program and directed Entergy New Orleans to use the approximately $7 million refund received from the Entergy Arkansas opportunity sales FERC proceeding and approximately $15 million of non-securitized storm reserves to fund this program, which was intended to provide temporary bill relief to customers who become unemployed during the COVID-19 pandemic. The program was effective July 1, 2020, and offered qualifying residential customers bill credits of $100 per month for up to four months, for a maximum of $400 in residential customer bill credits. Credits of $4.3 million were applied to customer bills under the City Council Cares Program.

Fuel and Purchased Power Cost Recovery

Entergy New Orleans's electric rate schedules include a fuel adjustment tariff designed to reflect no more than targeted fuel and purchased power costs, adjusted by a surcharge or credit for deferred fuel expense arising from the monthly reconciliation of actual fuel and purchased power costs incurred with fuel cost revenues billed to customers, including carrying charges.

Entergy New Orleans's gas rate schedules include a purchased gas adjustment to reflect estimated gas costs for the billing month, adjusted by a surcharge or credit similar to that included in the electric fuel adjustment clause, including carrying charges.

Show Cause Order

In July 2016 the City Council approved the issuance of a show cause order, which directed Entergy New Orleans to make a filing on or before September 29, 2016 to demonstrate the reasonableness of its actions or positions with regard to certain issues in four existing dockets that relate to Entergy New Orleans's: (i) storm hardening proposal; (ii) 2015 integrated resource plan; (iii) gas infrastructure rebuild proposal; and (iv) proposed sizing of the New Orleans Power Station and its community outreach prior to the filing. In September 2016, Entergy New Orleans filed its response to the City Council's show cause order. The City Council has not established any further procedural schedule with regard to this proceeding.

Reliability Investigation

In August 2017 the City Council established a docket to investigate the reliability of the Entergy New Orleans distribution system and to consider implementing certain reliability standards and possible financial penalties for not meeting any such standards. In April 2018 the City Council adopted a resolution directing Entergy New Orleans to demonstrate that it has been prudent in the management and maintenance of the reliability of its distribution system. The resolution also called for Entergy New Orleans to file a revised reliability plan addressing the current state of its distribution system and proposing remedial measures for increasing reliability. In June 2018, Entergy New Orleans filed its response to the City Council's resolution regarding the prudence of its management and maintenance of the reliability of its distribution system. In July 2018, Entergy New Orleans filed its revised reliability plan discussing the various reliability programs that it uses to improve distribution system reliability and discussing generally the positive effect that advanced meter deployment and grid modernization can have on future reliability. Entergy New Orleans has retained a national consulting firm with expertise in distribution system reliability to conduct a review of Entergy New Orleans's distribution system reliability-related practices and procedures and to provide recommendations for improving distribution system reliability. The report was filed with the City Council in October 2018. The City Council also approved a resolution that opens a prudence investigation into whether Entergy New Orleans was imprudent for not acting sooner to address outages in New Orleans and whether fines should be imposed. In January 2019, Entergy New Orleans filed testimony in response to the prudence investigation and asserting that it had been prudent in managing system reliability. In April 2019 the City Council advisors filed comments and testimony asserting that Entergy New Orleans did not act prudently in maintaining and improving its distribution system reliability in recent years and recommending that a financial penalty in the range of $1.5 million to $2 million should be assessed. Entergy New Orleans disagrees with the recommendation and submitted rebuttal testimony and rebuttal comments in June 2019. In November 2019 the City Council passed a resolution that penalized Entergy New Orleans $1 million for alleged imprudence in the maintenance of its distribution system. In December 2019, Entergy New Orleans filed suit in Louisiana state court seeking judicial review of the City Council's resolution. Although the City Council evidentiary record has been lodged with the Civil District count, the court has not yet established a briefing schedule.

Renewable Portfolio Standard Rulemaking

In March 2019 the City Council initiated a rulemaking proceeding to consider whether to establish a renewable portfolio standard. The rulemaking will consider, among other issues, whether to adopt a renewable portfolio standard, whether such standard should be voluntary or mandatory, what kinds of technologies should qualify for inclusion in the rules, what level, if any, of renewable generation should be required, and whether penalties are an appropriate component of the proposed rules. Parties to the proceeding submitted initial comments in June 2019 and reply comments in July 2019. Entergy New Orleans recommended that the City Council adopt a voluntary clean energy standard of 70% of generation being clean energy by 2030, as so defined, which, in addition to renewable generation, would include nuclear, beneficial electrification, and demand-side management as compliant technologies. Several other industry leaders, academic researchers, and environmental advocates filed comments also supporting a clean energy standard. Other parties, including many representatives of the solar and wind industry, are recommending mandatory, renewables-only requirements of up to 100% renewable resources by 2040. In September 2019 the City Council advisors issued a report and recommendations, which also put forth three alternative rules for comment from the parties. Comments were submitted in October 2019 and replies were filed in November 2019. In March 2020 the City Council's Utility Committee recommended a resolution for approval by the City Council that directed the City Council advisors to work toward development of a rule for enacting a Renewable and Clean Portfolio Standard. The four components of the Renewable and Clean Portfolio Standard that the City Council expressed a desire to implement are: (1) a mandatory requirement that Entergy New Orleans achieve 100% net zero carbon emissions by 2040; (2) reliance on renewable energy credits purchased without the associated energy for compliance with the standard being phased out over the ten-year period from 2040 to 2050; (3) no carbon-emitting resources in the portfolio of resources Entergy New Orleans uses to serve New Orleans by 2050; and (4) a mechanism to limit costs in any one plan year to no more than one percent of plan year total utility retail sales revenues. The City Council adopted the Utility Committee resolution in April 2020. The first technical meeting of the parties occurred in June 2020; a second technical meeting occurred in July 2020. In August 2020 the City Council advisors issued a final draft of the rules for review and comment from the parties before final rules are proposed for consideration by the City Council. Entergy New Orleans filed comments in September and October 2020. In

February 2021 the City Council amended the proposed draft rules to exclude beneficial electrification and carbon capture from the technologies eligible for credit under the Renewable and Clean Portfolio Standard and opened a 30-day comment period regarding the proposed amendments. Under the rule, however, these technologies can be approved by the City Council as a "qualified measure" on a case-by-case basis. The City Council approved the draft rule, as amended, in May 2021. In January 2022 the City Council issued a resolution requiring the City of New Orleans and the Sewerage and Water Board use 100% renewable power. The resolution accelerates the City Council's Renewable and Clean Portfolio Standard goal of 100% carbon neutral by 2040 and carbon free by 2050. The resolution directs Entergy New Orleans to work with the City of New Orleans and the Sewerage and Water Board to develop details related to the new goal.

Load Shed Investigation

On February 16, 2021, due to high customer demand and limited generation, MISO issued an order requiring load-serving entities throughout its southern region to shed load to protect the integrity of the bulk electric system. Entergy New Orleans was required to shed load of at least 26 MW, but due to certain complications with its automated load shed program and certain load measurement issues, it inadvertently shed approximately 105 MW of load in its service area. The maximum time any customer was without power due to the load shed event was one hour and forty minutes. In late February 2021 the City Council ordered its advisors to conduct an investigation into the load shed event and to issue a report, which was completed and filed in April 2021. The report recommended that the City Council open an additional docket to determine whether any of Entergy New Orleans's actions were imprudent. In May 2021 the City Council opened a docket directing its advisors to conduct a prudence investigation and determine whether financial and/or other penalties should be imposed by the City Council. In June 2021, Entergy New Orleans filed a response to the show cause docket that outlined how its response to Winter Storm Uri was reasonable under the circumstances. In November 2021 the City Council's Advisors issued a report that criticized Entergy's response to the winter storm, including the inadvertent shedding of 105MW of load and communications with customers. The advisors' report, however, did not find that Entergy New Orleans was imprudent and did not recommend a fine under the circumstances. In February 2022 the City Council's advisors presented to the City Council their report and investigative findings. While the presentation was critical, it recommended remedial actions to the load shedding process and did not recommend a finding of imprudence or a fine. Entergy New Orleans would oppose any attempt to levy a fine under the circumstances presented.

Management Audit

In September 2021 the City Council issued a resolution initiating a management audit of Entergy New Orleans that has been proposed by certain solar advocates. The advocates have proposed a broad scope audit including, but not limited to, ensuring the corporate culture embraces climate solutions, employee salaries, expenses, and capital spending, but the City Council has not yet determined the full scope of the proposed audit. In September 2021 the City Council passed a resolution directing its staff to issue a request for qualifications for firms interested in conducting the audit.

Utility Alternative Investigation

In September 2021 the City Council issued a resolution directing its staff to initiate a request for qualifications for a third-party firm to study alternatives to Entergy New Orleans as the electric service provider for New Orleans. Entergy responded to the City Council and issued a press release stating that it stands ready to work with the City Council to quickly implement any action taken by the City Council in response to the study. In the press release, Entergy proposed four preliminary options for consideration by the City Council: merger of Entergy New Orleans with Entergy Louisiana, sale of Entergy New Orleans, spinoff of Entergy New Orleans to establish a standalone company, or municipalization of the assets of Entergy New Orleans by the City of New Orleans.

System Resiliency and Storm Hardening

In October 2021 the City Council passed a resolution and order establishing a docket and procedural schedule with respect to system resiliency and storm hardening. The docket will identify a plan for storm hardening and resiliency projects with other stakeholders. Entergy New Orleans's response is due March 1, 2022. In February 2022, Entergy New Orleans filed with the City Council a request for an extension of time to file its response, until July 1, 2022. The hearing officer set a briefing schedule and is expected to rule on the motion before the March 1, 2022 deadline.

Federal Regulation

See the " **Rate, Cost-recovery, and Other Regulation – Federal Regulation** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis and Note 2 to the financial statements for a discussion of federal regulation.

Nuclear Matters

See the " **Nuclear Matters** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of nuclear matters.

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 and 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, with reference to possible exceptions noted in " **Regulation of Entergy's Business - Environmental Regulation** " in Part I, Item 1. 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.

Utility Regulatory Accounting

See " **Utility Regulatory Accounting** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for discussion of accounting for the effects of rate regulation.

Impairment of Long-lived Assets

See “ **Impairment of Long-lived Assets** ” in the “ **Critical Accounting Estimates** ” section of Entergy Corporation and Subsidiaries Management’s Financial Discussion and Analysis for discussion of the estimates associated with the impairment of long-lived assets.

Taxation and Uncertain Tax Positions

See " **Taxation and Uncertain Tax Positions** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for further discussion.

Qualified Pension and Other Postretirement Benefits

Entergy New Orleans's qualified pension and other postretirement reported costs, 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 " **Qualified Pension and Other Postretirement Benefits** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial 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).

Actuarial Assumption	Change in Assumption	Impact on 2022 Qualified Pension Cost	Impact on 2021 Projected Qualified Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$202	$5,196
Rate of return on plan assets	(0.25%)	$372	$ —
Rate of increase in compensation	0.25%	$225	$987

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

Actuarial Assumption	Change in Assumption	Impact on 2022 Postretirement Benefit Cost	Impact on 2021 Accumulated Postretirement Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$68	$878
Health care cost trend	0.25%	$80	$531

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

Costs and Employer Contributions

Total qualified pension cost for Entergy New Orleans in 2021 was $9.9 million, including $5.4 million in settlement costs. Entergy New Orleans anticipates 2022 qualified pension cost to be $3 million. Entergy New Orleans contributed $5.4 million to its qualified pension plans in 2021 and estimates 2022 pension contributions will be approximately $922 thousand, although the 2022 required pension contributions will be known with more certainty when the January 1, 2022 valuations are completed, which is expected by April 1, 2022.

Total postretirement health care and life insurance benefit income for Entergy New Orleans in 2021 was $6.4 million. Entergy New Orleans expects 2022 postretirement health care and life insurance benefit income of approximately $6.7 million. Entergy New Orleans contributed $126 thousand to its other postretirement plans in 2021 and estimates 2022 contributions will be approximately $175 thousand.

Other Contingencies

See " **Other Contingencies** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of the estimates associated with environmental, litigation, and other risks.

New Accounting Pronouncements

See " **New Accounting Pronouncements** " section of Note 1 to the financial statements for a discussion of new accounting pronouncements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the member and Board of Directors of
Entergy New Orleans, LLC and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Entergy New Orleans, LLC and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, cash flows, and changes in member's equity (pages 395 through 400 and applicable items in pages 49 through 233), for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Rate and Regulatory Matters— Entergy New Orleans, LLC and Subsidiaries — Refer to Note 2 to th financial statements

Critical Audit Matter Description

The Company is subject to rate regulation by the Council of the City of New Orleans, Louisiana (the "City Council"), which has jurisdiction with respect to the rates of electric companies in the City of New Orleans, Louisiana, and to wholesale rate regulation by the Federal Energy Regulatory Commission ("FERC"). Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; income taxes; operating revenues; operation and maintenance expense; and depreciation and amortization expense.

The Company's rates are subject to regulatory rate-setting processes and annual earnings oversight. Because the City Council and the FERC set the rates the Company is allowed to charge customers based on allowable costs, including a reasonable return on equity, the Company applies accounting standards that require the financial statements to reflect the effects of rate regulation, including the recording of regulatory assets and liabilities. The Company assesses whether the regulatory assets and regulatory liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs, and factors such as changes in applicable regulatory and political environments. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the City Council and the FERC will not approve: (1) full recovery of the costs of providing utility service, or (2) full recovery of amounts invested in the utility business and a reasonable return on that investment.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management to support its assertions about impacted account balances and disclosures and the high degree of subjectivity involved in assessing the impact of future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery in future rates of incurred costs, including major storm restoration costs, and refunds to customers. Auditing management's judgments regarding the outcome of future decisions by the City Council and the FERC, involved especially subjective judgment and specialized knowledge of accounting for rate regulation and the rate setting process.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the City Council and the FERC included the following, among others:

- We tested the effectiveness of management's controls over the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We also tested the effectiveness of management's controls over the initial recognition of amounts as property, plant, and equipment; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.
- We read relevant regulatory orders issued by the City Council and the FERC for the Company and other public utilities, regulatory statutes, interpretations, procedural memorandums, filings made by intervenors, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the City Council's and the FERC's treatment of similar costs under similar circumstances. We evaluated the external information and compared to management's recorded regulatory asset and liability balances for completeness.
- For regulatory matters in process, including major storm restoration costs, we inspected the Company's filings with the City Council and the FERC, including the base rate case filing, and considered the filings with the City Council and the FERC by intervenors that may impact the Company's future rates, for any evidence that might contradict management's assertions .
- We obtained an analysis from management and support from internal and external legal counsel, as appropriate, regarding probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities not yet addressed in a regulatory order, including major storm restoration costs, to assess management's assertion that amounts are probable of recovery or a future reduction in rates.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
February 25, 2022

We have served as the Company's auditor since 2001.

Table of Contents

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	For the Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
OPERATING REVENUES			
Electric	$ 672,231	$ 560,632	$ 594,417
Natural gas	96,621	73,209	91,806
TOTAL	768,852	633,841	686,223
OPERATING EXPENSES			
Operation and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	150,018	76,781	105,217
Purchased power	268,568	243,572	258,306
Other operation and maintenance	145,377	125,756	121,057
Taxes other than income taxes	53,569	57,454	55,270
Depreciation and amortization	73,480	64,012	56,072
Other regulatory charges (credits) - net	13,177	1,854	21,616
TOTAL	704,189	569,429	617,538
OPERATING INCOME	64,663	64,412	68,685
OTHER INCOME			
Allowance for equity funds used during construction	2,371	6,339	9,941
Interest and investment income	48	120	428
Miscellaneous - net	(1,240)	316	(6,038)
TOTAL	1,179	6,775	4,331
INTEREST EXPENSE			
Interest expense	29,164	29,105	24,463
Allowance for borrowed funds used during construction	(1,056)	(3,049)	(4,262)
TOTAL	28,108	26,056	20,201
INCOME BEFORE INCOME TAXES	37,734	45,131	52,815
Income taxes	5,936	(4,207)	186
NET INCOME	$ 31,798	$ 49,338	$ 52,629

See Notes to Financial Statements.

(Page left blank intentionally)

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
OPERATING ACTIVITIES			
Net income	$ 31,798	$ 49,338	$ 52,629
Adjustments to reconcile net income to net cash flow provided by operating activities:			
Depreciation and amortization	73,480	64,012	56,072
Deferred income taxes, investment tax credits, and non-current taxes accrued	12,573	3,938	21,350
Changes in assets and liabilities:			
Receivables	(42,612)	(12,003)	(9,372)
Fuel inventory	(967)	(58)	(387)
Accounts payable	22,457	5,582	(5,571)
Taxes accrued	(315)	398	234
Interest accrued	(104)	1,179	550
Deferred fuel costs	9,737	(7,048)	3,630
Other working capital accounts	(3,233)	(13,156)	5,021
Provisions for estimated losses	(83,569)	1,356	1,948
Other regulatory assets	18,173	(7,427)	(29,567)
Other regulatory liabilities	4,985	(4,728)	(22,105)
Pension and other postretirement liabilities	(32,144)	(14,063)	(14,624)
Other assets and liabilities	68,549	(3,296)	55,796
Net cash flow provided by operating activities	78,808	64,024	115,604
INVESTING ACTIVITIES			
Construction expenditures	(220,284)	(228,983)	(229,560)
Allowance for equity funds used during construction	2,371	6,339	9,941
Payment for purchase of assets	—	(1,584)	—
Changes in money pool receivable - net	(36,410)	5,191	16,825
Payments to storm reserve escrow account	(7)	(433)	(1,752)
Receipts from storm reserve escrow account	83,045	—	—
Changes in securitization account	1,365	(1,375)	236
Net cash flow used in investing activities	(169,920)	(220,845)	(204,310)
FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	183,403	138,925	113,876
Retirement of long-term debt	(36,873)	(56,593)	(35,376)
Repayment of long-term payable due to associated company	(1,618)	(1,838)	(1,979)
Capital contributions from parent	—	60,000	—
Changes in money pool payable - net	(10,190)	10,190	—
Other	(774)	146	(1,475)
Net cash flow provided by financing activities	133,948	150,830	75,046
Net increase (decrease) in cash and cash equivalents	42,836	(5,991)	(13,660)
Cash and cash equivalents at beginning of period	26	6,017	19,677
Cash and cash equivalents at end of period	$ 42,862	$ 26	$ 6,017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$ 28,009	$ 26,673	$ 22,873
Income taxes	($ 3,839)	$ 3,392	($ 5,310)
See Notes to Financial Statements.			

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT ASSETS		
Cash and cash equivalents		
Cash	$ 26	$ 26
Temporary cash investments	42,836	—
Total cash and cash equivalents	42,862	26
Securitization recovery trust account	1,999	3,364
Accounts receivable:		
Customer	69,902	70,694
Allowance for doubtful accounts	(13,282)	(17,430)
Associated companies	74,146	2,381
Other	13,668	4,248
Accrued unbilled revenues	25,550	31,069
Total accounts receivable	169,984	90,962
Deferred fuel costs	—	2,130
Fuel inventory - at average cost	2,945	1,978
Materials and supplies - at average cost	19,216	16,550
Prepayments and other	5,428	3,715
TOTAL	242,434	118,725
OTHER PROPERTY AND INVESTMENTS		
Non-utility property at cost (less accumulated depreciation)	1,016	1,016
Storm reserve escrow account	—	83,038
TOTAL	1,016	84,054
UTILITY PLANT		
Electric	1,976,202	1,821,638
Natural gas	373,983	348,024
Construction work in progress	22,199	12,460
TOTAL UTILITY PLANT	2,372,384	2,182,122
Less - accumulated depreciation and amortization	774,309	740,796
UTILITY PLANT - NET	1,598,075	1,441,326
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory assets:		
Deferred fuel costs	4,080	4,080
Other regulatory assets (includes securitization property of $ 25,761 as of December 31, 2021 and $ 35,559 as of December 31, 2020)	248,617	266,790
Other	56,101	23,931
TOTAL	308,798	294,801
TOTAL ASSETS	$ 2,150,323	$ 1,938,906

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND EQUITY

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT LIABILITIES		
Payable due to associated company	$ 1,326	$ 1,618
Accounts payable:		
Associated companies	45,057	54,234
Other	146,921	60,766
Customer deposits	28,539	27,912
Taxes accrued	4,385	4,700
Interest accrued	7,991	8,095
Deferred fuel costs	7,607	—
Current portion of unprotected excess accumulated deferred income taxes	1,906	3,296
Other	6,204	5,462
TOTAL CURRENT LIABILITIES	249,936	166,083
NON-CURRENT LIABILITIES		
Accumulated deferred income taxes and taxes accrued	365,384	338,714
Accumulated deferred investment tax credits	16,306	16,095
Regulatory liability for income taxes - net	40,589	55,675
Asset retirement cost liabilities	4,032	3,768
Accumulated provisions	6,329	89,898
Long-term debt (includes securitization bonds of $ 29,661 as of December 31, 2021 and $ 41,291 as of December 31, 2020)	777,254	629,704
Long-term payable due to associated company	9,585	10,911
Other	42,193	21,141
TOTAL NON-CURRENT LIABILITIES	1,261,672	1,165,906
Commitments and Contingencies		
EQUITY		
Member's equity	638,715	606,917
TOTAL	638,715	606,917
TOTAL LIABILITIES AND EQUITY	$ 2,150,323	$ 1,938,906

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
For the Years Ended December 31, 2021, 2020, and 2019

	Member's Equity
	(In Thousands)
Balance at December 31, 2018	$ 444,950
Net income	52,629
Balance at December 31, 2019	$ 497,579
Net income	49,338
Capital contributions from parent	60,000
Balance at December 31, 2020	$ 606,917
Net income	31,798
Balance at December 31, 2021	$ 638,715

See Notes to Financial Statements.

ENTERGY TEXAS, INC. AND SUBSIDIARIES

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Results of Operations

2021 Compared to 2020

Net Income

Net income increased $13.8 million primarily due to higher retail electric price and higher volume/weather. The increase was partially offset by higher depreciation and amortization expenses, lower other income, higher other operation and maintenance expenses, higher taxes other than income taxes, and a higher effective income tax rate.

Operating Revenues

Following is an analysis of the change in operating revenues comparing 2021 to 2020.

	Amount
	(In Millions)
2020 operating revenues	$1,587.1
Fuel, rider, and other revenues that do not significantly affect net income	175.3
Retail electric price	123.2
Volume/weather	16.9
2021 operating revenues	**$1,902.5**

Entergy Texas's results include revenues from rate mechanisms designed to recover fuel, purchased power, and other costs such that the revenues and expenses associated with these items generally offset and do not affect net income. "Fuel, rider, and other revenues that do not significantly affect net income" includes the revenue variance associated with these items.

The retail electric price variance is primarily due to the implementation of the generation cost recovery rider, which includes the first-year revenue requirement for the Montgomery County Power Station, effective January 2021, an increase in the transmission cost recovery factor rider effective March 2021, and an increase in the distribution cost recovery factor rider effective March 2021. See Note 2 to the financial statements for further discussion of the generation cost recovery rider and transmission and distribution cost recovery factor rider filings.

The volume/weather variance is primarily due to an increase of 1,002 GWh, or 5%, in billed electricity usage, including an increase in industrial and commercial usage and the effect of more favorable weather on residential sales, partially offset by a decrease in weather-adjusted residential usage. The increase in industrial usage is primarily due to an increase in demand from expansion projects, primarily in the transportation and chemicals industries, and an increase in demand from cogeneration customers. The increase in commercial usage is primarily due to reduced impacts from the COVID-19 pandemic on businesses as compared to prior year. The decrease in weather-adjusted residential usage is primarily due to the impact that the COVID-19 pandemic had on prior year usage.

Billed electric energy sales for Entergy Texas for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020	% Change
	(GWh)		
Residential	6,201	6,146	1
Commercial	4,494	4,386	2
Industrial	8,729	7,885	11
Governmental	255	260	(2)
Total retail	19,679	18,677	5
Sales for resale:			
Associated companies	1,364	1,203	13
Non-associated companies	1,008	810	24
Total	22,051	20,690	7

See Note 19 to the financial statements for additional discussion of Entergy Texas's operating revenues.

Other Income Statement Variances

Other operation and maintenance expenses increased primarily due to:

- an increase of $15.4 million in non-nuclear generation expenses primarily due to higher expenses associated with the Montgomery County Power Station, which began commercial operation in January 2021, and a higher scope of work performed during outages in 2021 as compared to 2020;
- an increase of $4.3 million primarily due to an increase in contract costs related to customer solutions and sustainability initiatives, including customer service center support and enhanced customer billing;
- an increase of $4.2 million in distribution operations expenses primarily due to higher contractor costs and higher reliability costs;
- an increase of $4.1 million in compensation and benefits costs in 2021 primarily due to higher incentive-based compensation accruals in 2021 as compared to prior year, lower healthcare claims activity in 2020 as a result of the COVID-19 pandemic, an increase in healthcare cost rates, and an increase in net periodic pension and other postretirement benefits costs as a result of a decrease in the discount rate used to value the benefit liabilities. See "**Critical Accounting Estimates**" below and Note 11 to the financial statements for further discussion of pension and other postretirement benefit costs; and
- an increase of $2.1 million as a result of the amount of transmission costs allocated by MISO.

The increase was partially offset by a decrease of $5.2 million in meter reading expenses as a result of the deployment of advanced metering systems.

Taxes other than income taxes increased primarily due to an increase in ad valorem taxes, a sales tax audit assessment in 2021, and an increase in local franchise taxes. Ad valorem taxes increased as a result of higher assessments, primarily due to the addition of the Montgomery County Power Station. Local franchise taxes increased as a result of higher retail revenues in 2021 as compared to 2020.

Depreciation and amortization expenses increased primarily due to additions to plant in service, including the Montgomery County Power Station, which was placed in service in January 2021.

Other income decreased primarily due to a decrease in the allowance for equity funds used during construction due to higher construction work in progress in 2020, including the Montgomery County Power Station project.

Interest expense increased primarily due to a decrease in the allowance for borrowed funds used during construction due to higher construction work in progress in 2020, including the Montgomery County Power Station project.

The effective income tax rates were 10% for 2021 and 1.4% for 2020. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 21% to the effective income tax rates, and for additional discussion regarding income taxes.

2020 Compared to 2019

See " **MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Results of Operations** " in Item 7 of Entergy Texas's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, for discussion of results of operations for 2020 compared to 2019.

Liquidity and Capital Resources

Cash Flow

Cash flows for the years ended December 31, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
		(In Thousands)	
Cash and cash equivalents at beginning of period	$248,596	$12,929	$56
Net cash provided by (used in):			
Operating activities	356,933	375,325	286,739
Investing activities	(647,271)	(848,648)	(878,280)
Financing activities	41,770	708,990	604,414
Net increase (decrease) in cash and cash equivalents	(248,568)	235,667	12,873
Cash and cash equivalents at end of period	$28	$248,596	$12,929

2021 Compared to 2020

Operating Activities

Net cash flow provided by operating activities decreased $18.4 million in 2021 primarily due to:

- increased fuel costs, including those related to Winter Storm Uri, and the timing of recovery of fuel and purchased power costs. See Note 2 to the financial statements for a discussion of fuel and purchased power cost recovery;
- the timing of payments to vendors; and

- an increase of $14.8 million in income taxes paid in 2021. The estimated income tax payments made in 2020 were offset by refunds received in accordance with an intercompany income tax allocation agreement.

The decrease was offset by higher collections from customers and a decrease of approximately $13 million in storm spending in 2021, primarily due to increased spending on Hurricane Laura restoration efforts in 2020.

Investing Activities

Net cash flow used in investing activities decreased $201.4 million in 2021 primarily due to:

- a decrease of $128.8 million in non-nuclear generation construction expenditures primarily due to higher spending in 2020 on the Montgomery County Power Station project, partially offset by a higher scope of work performed during outages in 2021 as compared to 2020;
- a decrease of $94 million in transmission construction expenditures primarily due to a lower scope of work on projects performed in 2021 as compared to 2020; and
- the sale of a 7.56% partial interest in the Montgomery County Power Station in June 2021 for approximately $67.9 million. See Note 14 to the financial statements for further discussion of the transaction.

The decrease was partially offset by:

- an increase of $27.6 million in distribution construction expenditures primarily due to increased spending on the reliability and infrastructure of the distribution system and higher capital expenditures for storm restoration in 2021, partially offset by lower spending in 2021 on advanced metering infrastructure; and
- the purchase of the Hardin County Peaking Facility in June 2021 for approximately $36.7 million. See Note 14 to the financial statements for further discussion of the Hardin County Peaking Facility purchase.

Financing Activities

Net cash flow provided by financing activities decreased $667.2 million in 2021 primarily due to:

- the issuances of $175 million of 3.55% Series mortgage bonds in March 2020 and $600 million of 1.75% Series mortgage bonds in October 2020;
- the repayment, prior to maturity, of $125 million of 2.55% Series mortgage bonds in May 2021 and the repayment, at maturity, of $75 million of 4.10% Series mortgage bonds in September 2021; and
- capital contributions of $95 million received from Entergy Corporation in 2021 in order to maintain Entergy Texas's capital structure and in anticipation of various upcoming capital expenditures as compared to a capital contribution of $175 million received from Entergy Corporation in 2020 in anticipation of upcoming expenditures, including Montgomery County Power Station.

The decrease was partially offset by:

- the repayment of $135 million of 5.625% Series mortgage bonds in November 2020;
- the issuance of $130 million of 1.50% Series mortgage bonds in August 2021;
- money pool activity; and
- the payment of $30 million of common stock dividends in 2020. No common stock dividends were paid in 2021 in order to maintain Entergy Texas's capital structure.

Increases in Entergy Texas's payable to the money pool are a source of cash flow, and Entergy Texas's payable to the money pool increased $79.6 million in 2021. The money pool is an inter-company borrowing arrangement designed to reduce the Utility subsidiaries' need for external short-term borrowings.

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

2020 Compared to 2019

See " **MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS** - **Liquidity and Capital Resources** - **Cash Flow** " in Item 7 of Entergy Texas's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, for discussion of operating, investing, and financing cash flow activities for 2020 compared to 2019.

Capital Structure

Entergy Texas's debt to capital ratio is shown in the following table. The decrease in the debt to capital ratio is primarily due to the net repayment of long-term debt in 2021 and the $95 million in capital contributions received from Entergy Corporation in 2021.

	December 31, 2021	December 31, 2020
Debt to capital	48.7 %	53.7 %
Effect of excluding securitization bonds	(0.5 %)	(1.3 %)
Debt to capital, excluding securitization bonds (a)	48.2 %	52.4 %
Effect of subtracting cash	—%	(2.7 %)
Net debt to net capital, excluding securitization bonds (a)	48.2 %	49.7 %

(a) 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 finance lease obligations 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 Texas uses the debt to capital ratios excluding securitization bonds in analyzing its financial condition and believes they provide useful information to its investors and creditors in evaluating Entergy Texas's financial condition because the securitization bonds are non-recourse to Entergy Texas, as more fully described in Note 5 to the financial statements. Entergy Texas also uses the net debt to net capital ratio excluding securitization bonds in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy Texas's financial condition because net debt indicates Entergy Texas's outstanding debt position that could not be readily satisfied by cash and cash equivalents on hand.

Entergy Texas seeks to optimize its capital structure in accordance with its regulatory requirements and to control its cost of capital while also maintaining equity capitalization at a level consistent with investment-grade debt ratings. To the extent that operating cash flows are in excess of planned investments, cash may be used to reduce outstanding debt or may be paid as a dividend, or both, in appropriate amounts to maintain the capital structure. To the extent that operating cash flows are insufficient to support planned investments, Entergy Texas may issue incremental debt or reduce dividends, or both, to maintain its capital structure. In addition, Entergy Texas may receive equity contributions to maintain its capital structure for certain circumstances such as financing of large transactions that would materially alter the capital structure if financed entirely with debt and reduced dividends.

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.

	2022	2023	2024
		(In Millions)	
Planned construction and capital investment:			
Generation	$90	$195	$470
Transmission	110	180	195
Distribution	260	380	350
Utility Support	70	70	40
Total	$530	$825	$1,055

In addition to routine capital spending to maintain operations, the planned capital investment estimate for Entergy Texas includes generation projects to modernize, decarbonize, and diversify Entergy Texas's portfolio, such as the Orange County Advanced Power Station; distribution and Utility support spending to improve reliability, resilience, and customer experience; transmission spending to drive reliability and resilience while also supporting renewables expansion; and other investments. Estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of regulatory constraints and requirements, environmental compliance, business opportunities, market volatility, economic trends, business restructuring, changes in project plans, and the ability to access capital.

Following are the amounts of Entergy Texas's existing debt and lease obligations (includes estimated interest payments).

	2022	2023	2024	2025-2026	After 2026
			(In Millions)		
Long-term debt (a)	$133	$133	$77	$284	$3,088
Operating leases (b)	$5	$4	$3	$3	$1
Finance leases (b)	$2	$2	$1	$2	$1

(a) Long-term debt is discussed in Note 5 to the financial statements.
(b) Lease obligations are discussed in Note 10 to the financial statements.

Other Obligations

Entergy Texas expects to contribute approximately $1.9 million to its qualified pension plans and approximately $66 thousand to other postretirement health care and life insurance plans in 2022, although the 2022 required pension contributions will be known with more certainty when the January 1, 2022 valuations are completed, which is expected by April 1, 2022. See "**Critical Accounting Estimates - Qualified Pension and Other Postretirement Benefits**" below for a discussion of qualified pension and other postretirement benefits funding.

Entergy Texas has $11.6 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.

In addition, Entergy Texas enters into fuel and purchased power agreements that contain minimum purchase obligations. Entergy Texas has rate mechanisms in place to recover fuel, purchased power, and associated costs incurred under these purchase obligations.

As a subsidiary, Entergy Texas dividends its earnings to Entergy Corporation at a percentage determined monthly.

Liberty County Solar Facility

In September 2020, Entergy Texas filed an application seeking PUCT approval to amend Entergy Texas's certificate of convenience and necessity to acquire the 100 MW Liberty County Solar Facility and a determination that Entergy Texas's acquisition of the facility through a tax equity partnership is in the public interest. In its preliminary order, the PUCT determined that, in considering Entergy Texas's application, it would not specifically address whether Entergy Texas's use of a tax equity partnership is in the public interest. In March 2021 intervenors and PUCT staff filed testimony, and Entergy Texas filed rebuttal testimony in April 2021. A hearing on the merits was held in April 2021. In July 2021 the presiding ALJs issued a proposal for decision recommending that the PUCT deny the certification requested in the application. In October 2021 the PUCT issued an order adopting the ALJs' proposal for decision and denying Entergy Texas's application. Following review of the order and without receipt of required regulatory approval by the PUCT, Entergy Texas is not proceeding with the acquisition of the Liberty County Solar Facility. Entergy Texas recorded a write-off of $2.5 million in the fourth quarter of 2021 related to the Liberty County Solar Facility project.

Orange County Advanced Power Station

In September 2021, Entergy Texas filed an application seeking PUCT approval to amend Entergy Texas's certificate of convenience and necessity to construct, own, and operate the Orange County Advanced Power Station, a new 1,215 MW combined-cycle combustion turbine facility to be located in Bridge City, Texas at an expected total cost of $1.2 billion inclusive of the estimated costs of the generation facilities, transmission upgrades, contingency, an allowance for funds used during construction, and necessary regulatory expenses, among others. The project includes combustion turbine technology with dual fuel capability, able to co-fire up to 30% hydrogen by volume upon commercial operation and upgradable to support 100% hydrogen operations in the future. In December 2021 the PUCT referred the proceeding to the State Office of Administrative Hearings. A hearing on the merits is scheduled for April 2022. A final order by the PUCT is expected in September 2022. Subject to receipt of required regulatory approvals and other conditions, the facility is expected to be in-service by May 2026.

Sources of Capital

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

- internally generated funds;
- cash on hand;
- the Entergy System money pool;
- debt or preferred stock issuances, including debt issuances to refund or retire currently outstanding or maturing indebtedness;
- capital contributions; and
- bank financing under new or existing facilities.

Circumstances such as weather patterns, fuel and purchased power price fluctuations, and unanticipated expenses, including unscheduled plant outages and storms, could affect the timing and level of internally generated funds in the future. In addition to the financings necessary to meet capital requirements and contractual obligations, Entergy Texas expects to continue, when economically feasible, to retire higher-cost debt and replace it with lower-cost debt if market conditions permit.

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 indenture and other agreements. Entergy Texas has sufficient capacity under these tests to meet its foreseeable capital needs for the next twelve months and beyond.

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

2021	2020	2019	2018
(In Thousands)			
($79,594)	$4,601	$11,181	($22,389)

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

Entergy Texas has a credit facility in the amount of $150 million scheduled to expire in June 2026. The credit facility includes fronting commitments for the issuance of letters of credit against $30 million of the borrowing capacity of the facility. As of December 31, 2021, there were no cash borrowings and $1.3 million of letters of credit outstanding under the credit facility. In addition, Entergy Texas is a party to an uncommitted letter of credit facility as a means to post collateral to support its obligations to MISO. As of December 31, 2021, $79.6 million in letters of credit were outstanding under Entergy Texas's letter of credit facility. See Note 4 to the financial statements for additional discussion of the credit facilities.

Entergy Texas obtained authorizations from the FERC through October 2023 for short-term borrowings, not to exceed an aggregate amount of $200 million at any time outstanding, and long-term borrowings and security issuances. See Note 4 to the financial statements for further discussion of Entergy Texas's short-term borrowing limits.

Hurricane Laura, Hurricane Delta, and Winter Storm Uri

In August 2020 and October 2020, Hurricane Laura and Hurricane Delta caused extensive damage to Entergy Texas's service area. In February 2021, Winter Storm Uri also caused damage to Entergy Texas's service area. The storms resulted in widespread power outages, significant damage primarily to distribution and transmission infrastructure, and the loss of sales during the power outages. In April 2021, Entergy Texas filed an application with the PUCT requesting a determination that approximately $250 million of system restoration costs associated with Hurricane Laura, Hurricane Delta, and Winter Storm Uri, including approximately $200 million in capital costs and approximately $50 million in non-capital costs, were reasonable and necessary to enable Entergy Texas to restore electric service to its customers and Entergy Texas's electric utility infrastructure. The filing also included the projected balance of approximately $13 million of a regulatory asset containing previously approved system restoration costs related to Hurricane Harvey. In September 2021 the parties filed an unopposed settlement agreement, pursuant to which Entergy Texas removed from the amount to be securitized approximately $4.3 million that will instead be charged to its storm reserve, $5 million related to no particular issue, of which Entergy Texas would be permitted to seek recovery in a future proceeding, and approximately $300 thousand related to attestation costs. In December 2021 the PUCT issued an order approving the unopposed settlement and determining system restoration costs of $243 million related to Hurricane Laura, Hurricane Delta, and Winter Storm Uri and the $13 million projected remaining balance of the Hurricane Harvey system restoration costs were eligible for securitization. The order also determines that Entergy Texas can recover carrying costs on the system restoration costs related to Hurricane Laura, Hurricane Delta, and Winter Storm Uri.

In July 2021, Entergy Texas filed with the PUCT an application for a financing order to approve the securitization of the system restoration costs that are the subject of the April 2021 application. In November 2021 the parties filed an unopposed settlement agreement supporting the issuance of a financing order consistent with Entergy Texas's application and with minor adjustments to certain upfront and ongoing costs to be incurred to facilitate the issuance and serving of system restoration bonds. In January 2022 the PUCT issued a financing order consistent with the unopposed settlement.

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 and Texas Cities

2018 Rate Case

In May 2018, Entergy Texas filed a base rate case with the PUCT seeking an increase in base rates and rider rates of approximately $166 million, of which $48 million was associated with moving costs then being collected through riders into base rates such that the total incremental revenue requirement increase was approximately $118 million. The base rate case was based on a 12-month test year ending December 31, 2017. In addition, Entergy Texas included capital additions placed into service for the period of April 1, 2013 through December 31, 2017, as well as a post-test year adjustment to include capital additions placed in service by June 30, 2018.

In October 2018 the parties filed an unopposed settlement resolving all issues in the proceeding and a motion for interim rates effective for usage on and after October 17, 2018. The unopposed settlement reflected the following terms: a base rate increase of $53.2 million (net of costs realigned from riders and including updated depreciation rates), a $25 million refund to reflect the lower federal income tax rate applicable to Entergy Texas from January 25, 2018 through the date new rates were implemented, $6 million of capitalized skylining tree hazard costs will not be recovered from customers, $242.5 million of protected excess accumulated deferred income taxes, which includes a tax gross-up, will be returned to customers through base rates under the average rate assumption method over the lives of the associated assets, and $185.2 million of unprotected excess accumulated deferred income taxes, which includes a tax gross-up, will be returned to customers through a rider. The unprotected excess accumulated deferred income taxes rider will include carrying charges and will be in effect over a period of 12 months for large customers and over a period of four years for other customers. The settlement also provided for the deferral of $24.5 million of costs associated with the remaining book value of the Neches and Sabine 2 plants, previously taken out of service, to be recovered over a ten-year period and the deferral of $20.5 million of costs associated with Hurricane Harvey to be recovered over a 12-year period, each beginning in October 2018. The settlement provided final resolution of all issues in the matter, including those related to the Tax Cuts and Jobs Act. In October 2018 the ALJ granted the unopposed motion for interim rates to be effective for service rendered on or after October 17, 2018. In December 2018 the PUCT issued an order approving the unopposed settlement.

Distribution Cost Recovery Factor (DCRF) Rider

In March 2019, Entergy Texas filed with the PUCT a request to set a new DCRF rider. The new DCRF rider was designed to collect approximately $3.2 million annually from Entergy Texas's retail customers based on its capital invested in distribution between January 1, 2018 and December 31, 2018. In September 2019 the PUCT issued an order approving rates, which had been effective on an interim basis since June 2019, at the level proposed in Entergy Texas's application.

In March 2020, Entergy Texas filed with the PUCT a request to amend its DCRF rider. The amended rider was designed to collect from Entergy Texas's retail customers approximately $23.6 million annually, or $20.4 million in incremental annual DCRF revenue beyond Entergy Texas's then-effective DCRF rider, based on its capital invested in distribution between January 1, 2019 and December 31, 2019. In May and June 2020 intervenors filed testimony recommending reductions in Entergy Texas's annual revenue requirement of approximately $0.3 million and $4.1 million. The parties briefed the contested issues in this matter and a proposal for decision was issued in September 2020 recommending a $4.1 million revenue reduction related to non-advanced metering system meters included in the DCRF calculation. The parties filed exceptions to the proposal for decision and replies to those exceptions in September 2020. In October 2020 the PUCT issued a final order approving a $16.3 million incremental annual DCRF revenue increase.

In October 2020, Entergy Texas filed with the PUCT a request to amend its DCRF rider. The amended rider was designed to collect from Entergy Texas's retail customers approximately $26.3 million annually, or $6.8 million in incremental annual revenues beyond Entergy Texas's then-effective DCRF rider based on its capital invested in distribution between January 1, 2020 and August 31, 2020. In February 2021 the ALJ with the State Office of Administrative Hearings approved Entergy Texas's agreed motion for interim rates, which went into effect in March 2021. In March 2021 the parties filed an unopposed settlement recommending that Entergy Texas be allowed to collect its full requested DCRF revenue requirement and resolving all issues in the proceeding. In May 2021 the PUCT issued an order approving the settlement.

In August 2021, Entergy Texas filed with the PUCT a request to amend its DCRF rider. The proposed rider is designed to collect from Entergy Texas's retail customers approximately $40.2 million annually, or $13.9 million in incremental annual revenues beyond Entergy Texas's currently effective DCRF rider based on its capital invested in distribution between September 1, 2020 and June 30, 2021. In September 2021 the PUCT referred the proceeding to the State Office of Administrative Hearings. A procedural schedule was established with a hearing scheduled in December 2021. In December 2021 the parties filed an unopposed settlement recommending that Entergy Texas be allowed to collect its full requested DCRF revenue requirement and resolving all issues in the proceeding, including a motion for interim rates to take effect for usage on and after January 24, 2022. Also, in December 2021, the ALJ with the State Office of Administrative Hearings issued an order granting the motion for interim rates, which went into effect in January 2022, admitting evidence, and remanding the proceeding to the PUCT to consider the settlement.

Transmission Cost Recovery Factor (TCRF) Rider

In December 2018, Entergy Texas filed with the PUCT a request to set a new TCRF rider. The new TCRF rider was designed to collect approximately $2.7 million annually from Entergy Texas's retail customers based on its capital invested in transmission between January 1, 2018 and September 30, 2018. In April 2019 parties filed testimony proposing a load growth adjustment, which would fully offset Entergy Texas's proposed TCRF revenue requirement. In July 2019 the PUCT granted Entergy Texas's application as filed to begin recovery of the requested $2.7 million annual revenue requirement, rejecting opposing parties' proposed adjustment; however, the PUCT found that the question of prudence of the actual investment costs should be determined in Entergy Texas's next rate case similar to the procedure used for the costs recovered through the DCRF rider. In October 2019 the PUCT issued an order on a motion for rehearing, clarifying and affirming its prior order granting Entergy Texas's application as filed. Also in October 2019 a second motion for rehearing was filed, and Entergy Texas filed a response in opposition to the motion. The second motion for rehearing was overruled by operation of law. In December 2019, Texas Industrial Energy Consumers filed an appeal to the PUCT order in district court alleging that the PUCT erred in declining to apply a load growth adjustment.

In August 2019, Entergy Texas filed with the PUCT a request to amend its TCRF rider. The amended TCRF rider was designed to collect approximately $19.4 million annually from Entergy Texas's retail customers based on its capital invested in transmission between January 1, 2018 and June 30, 2019, which is $16.7 million in incremental annual revenue above the $2.7 million approved in the prior pending TCRF proceeding. In January 2020 the PUCT issued an order approving an unopposed settlement providing for recovery of the requested revenue requirement. Entergy Texas implemented the amended rider beginning with bills covering usage on and after January 23, 2020.

In October 2020, Entergy Texas filed with the PUCT a request to amend its TCRF rider. The amended rider was designed to collect from Entergy Texas's retail customers approximately $51 million annually, or $31.6 million in incremental annual revenues beyond Entergy Texas's then-effective TCRF rider based on its capital invested in transmission between July 1, 2019 and August 31, 2020. In March 2021 the parties filed an unopposed settlement recommending that Entergy Texas be allowed to collect its full requested TCRF revenue requirement with interim rates effective March 2021 and resolving all issues in the proceeding. In March 2021 the ALJ granted the motion for interim rates, admitted evidence, and remanded the case to the PUCT for consideration of a final order at a future open meeting. In June 2021 the PUCT issued an order approving the settlement.

In October 2021, Entergy Texas filed with the PUCT a request to amend its TCRF rider. The proposed rider is designed to collect from Entergy Texas's retail customers approximately $66.1 million annually, or $15.1 million in incremental annual revenues beyond Energy Texas's currently effective TCRF rider based on its capital invested in transmission between September 1, 2020 and July 31, 2021 and changes in approved transmission charges. In January 2022 the PUCT referred the proceeding to the State Office of Administrative Hearings. In February 2022 the parties filed an unopposed settlement recommending that Entergy Texas be allowed to collect its full requested TCRF revenue requirement with interim rates effective March 2022. In February 2022 the ALJ granted the motion for interim rates, admitted evidence, and remanded the case to the PUCT for consideration of a final order at a future open meeting.

Generation Cost Recovery Rider

In October 2020, Entergy Texas filed an application to establish a generation cost recovery rider with an initial annual revenue requirement of approximately $91 million to begin recovering a return of and on its generation capital investment in the Montgomery County Power Station through August 31, 2020. In December 2020, Entergy Texas filed an unopposed settlement supporting a generation cost recovery rider with an annual revenue requirement of approximately $86 million. The settlement revenue requirement was based on a depreciation rate intended to fully depreciate Montgomery County Power Station over 38 years and the removal of certain costs from Entergy Texas's request. Under the settlement, Entergy Texas retained the right to propose a different depreciation rate and seek recovery of a majority of the costs removed from its request in its next base rate proceeding. On January 14, 2021, the PUCT approved the generation cost recovery rider settlement rates on an interim basis and abated the proceeding. In March 2021, Entergy Texas filed to update its generation cost recovery rider to include investment in Montgomery County Power Station after August 31, 2020. In April 2021 the ALJ issued an order unabating the proceeding and in May 2021 the ALJ issued an order finding Entergy Texas's application and notice of the application to be sufficient. In May 2021, Entergy Texas filed an amendment to the application to reflect the PUCT's approval of the sale of a 7.56% partial interest in the Montgomery County Power Station to East Texas Electric Cooperative, Inc., which closed in June 2021. In June 2021 the PUCT referred the proceeding to the State Office of Administrative Hearings. In July 2021 the ALJ with the State Office of Administrative Hearings adopted a procedural schedule setting a hearing on the merits for September 2021. In July 2021 the parties filed a motion to abate the procedural schedule noting they had reached an agreement in principle and to allow the parties time to finalize a settlement agreement, which motion was granted by the ALJ. In October 2021, Entergy Texas filed on behalf of the parties an unopposed settlement agreement that would adjust its generation cost recovery rider to recover an annual revenue requirement of approximately $88.3 million related to Entergy Texas's investment in the Montgomery County Power Station through January 1, 2021, with Entergy Texas able to seek recovery of the remainder of its investment in its next base rate case. Also in October 2021 the ALJ granted a motion to admit evidence and remand the proceeding to the PUCT. In January 2022 the PUCT issued an order approving the unopposed settlement.

In December 2020, Entergy Texas also filed an application to amend its generation cost recovery rider to reflect its acquisition of the Hardin County Peaking Facility, which closed in June 2021. Because Hardin was to be acquired in the future, the initial generation cost recovery rider rates proposed in the application represented no change from the generation cost recovery rider rates established in Entergy Texas's previous generation cost recovery rider proceeding. In July 2021 the PUCT issued an order approving the application. In August 2021, Entergy Texas filed an update application to recover its actual investment in the acquisition of the Hardin County Peaking Facility. In September 2021 the PUCT referred the proceeding to the State Office of Administrative Hearings. A procedural schedule was established with a hearing scheduled in April 2022. In January 2022, Entergy Texas filed an update to its application to align the requested revenue requirement with the terms of the generation cost recovery rider settlement approved by the PUCT in January 2022. See Note 14 to the financial statements for further discussion of the Hardin County Peaking Facility purchase.

COVID-19 Orders

In March 2020 the PUCT authorized electric utilities to record as a regulatory asset expenses resulting from the effects of the COVID-19 pandemic. In future proceedings the PUCT will consider whether each utility's request for recovery of these regulatory assets is reasonable and necessary, the appropriate period of recovery, and any amount of carrying costs thereon. In March 2020 the PUCT ordered a moratorium on disconnections for nonpayment for all customer classes, but, in April 2020, revised the disconnect moratorium to apply only to residential customers. The PUCT allowed the moratorium to expire on June 13, 2020, but on July 17, 2020, the PUCT re-established the disconnect moratorium for residential customers until August 31, 2020. In January 2021, Entergy Texas resumed disconnections for customers with past-due balances that have not made payment arrangements. As of December 31, 2021, Entergy Texas had a regulatory asset of $11.7 million for costs associated with the COVID-19 pandemic.

Fuel and Purchased Power Cost Recovery

Entergy Texas's rate schedules include a fixed fuel factor to recover fuel and purchased power costs, including interest, 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. A fuel reconciliation is required to be filed at least once every three years and outside of a base rate case filing.

In September 2019, Entergy Texas filed an application to reconcile its fuel and purchased power costs for the period from April 2016 through March 2019. During the reconciliation period, Entergy Texas incurred approximately $1.6 billion in Texas jurisdictional eligible fuel and purchased power expenses, net of certain revenues credited to such expenses and other adjustments. Entergy Texas estimated an under-recovery balance of approximately $25.8 million, including interest, which Entergy Texas requested authority to carry over as the beginning balance for the subsequent reconciliation period beginning April 2019. In March 2020 an intervenor filed testimony proposing that the PUCT disallow: (1) $2 million in replacement power costs associated with generation outages during the reconciliation period; and (2) $24.4 million associated with the operation of the Spindletop natural gas storage facility during the reconciliation period. In April 2020, Entergy Texas filed rebuttal testimony refuting all points raised by the intervenor. In June 2020 the parties filed a stipulation and settlement agreement, which included a $1.2 million disallowance not associated with any particular issue raised by any party. The PUCT approved the settlement in August 2020.

In July 2020, Entergy Texas filed an application with the PUCT to implement an interim fuel refund of $25.5 million, including interest. Entergy Texas proposed that the interim fuel refund be implemented beginning with the first August 2020 billing cycle over a three-month period for smaller customers and in a lump sum amount in the billing month of August 2020 for transmission-level customers. The interim fuel refund was approved in July 2020, and Entergy Texas began refunds in August 2020.

In February 2021, Entergy Texas filed an application to implement a fuel refund for a cumulative over-recovery of approximately $75 million that is primarily attributable to settlements received by Entergy Texas from MISO related to Hurricane Laura. Entergy Texas planned to issue the refund over the period of March through August 2021. On February 22, 2021, Entergy Texas filed a motion to abate its fuel refund proceeding to assess how the February 2021 winter storm impacted Entergy Texas's fuel over-recovery position. In March 2021, Entergy Texas withdrew its application to implement the fuel refund. Entergy Texas is continuing to evaluate its fuel balance and will file a subsequent refund or surcharge application consistent with the requirements of the PUCT's rules.

Federal Regulation

See the " **Rate, Cost-recovery, and Other Regulation – Federal Regulation** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis and Note 2 to the financial statements for a discussion of federal regulation.

Nuclear Matters

See the " **Nuclear Matters** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of nuclear matters.

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.

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, with reference to possible exceptions noted in " **Regulation of Entergy's Business - Environmental Regulation** " in Part I, Item 1. 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.

Utility Regulatory Accounting

See " **Utility Regulatory Accounting** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for discussion of accounting for the effects of rate regulation.

Impairment of Long-lived Assets

See " **Impairment of Long-lived Assets** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for discussion of the estimates associated with the impairment of long-lived assets.

Taxation and Uncertain Tax Positions

See " **Taxation and Uncertain Tax Positions** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for further discussion.

Qualified Pension and Other Postretirement Benefits

Entergy Texas's qualified pension and other postretirement reported costs, 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 " **Qualified Pension and Other Postretirement Benefits** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries' Management's Financial 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).

Actuarial Assumption	Change in Assumption	Impact on 2022 Qualified Pension Cost	Impact on 2021 Qualified Projected Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$363	$9,007
Rate of return on plan assets	(0.25%)	$727	$ —
Rate of increase in compensation	0.25%	$406	$1,797

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

Actuarial Assumption	Change in Assumption	Impact on 2022 Postretirement Benefit Cost	Impact on 2021 Accumulated Postretirement Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	$42	$2,067
Health care cost trend	0.25%	$74	$1,370

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

Costs and Employer Contributions

Total qualified pension cost for Entergy Texas in 2021 was $18.6 million, including $11.8 million in settlement costs. Entergy Texas anticipates 2022 qualified pension cost to be $5.7 million. Entergy Texas contributed $7 million to its qualified pension plans in 2021 and estimates 2022 pension contributions will be approximately $1.9 million, although the 2022 required pension contributions will be known with more certainty when the January 1, 2022 valuations are completed, which is expected by April 1, 2022.

Total postretirement health care and life insurance benefit income for Entergy Texas in 2021 was $10.9 million. Entergy Texas expects 2022 postretirement health care and life insurance benefit income to approximate $11.1 million. Entergy Texas contributed $98 thousand to its other postretirement plans in 2021 and estimates 2022 contributions will be approximately $66 thousand.

Other Contingencies

See " **Other Contingencies** " in the " **Critical Accounting Estimates** " section of Entergy Corporation and Subsidiaries Management's Financial Discussion and Analysis for a discussion of the estimates associated with environmental, litigation, and other risks.

New Accounting Pronouncements

See " **New Accounting Pronouncements** " section of Note 1 to the financial statements for a discussion of new accounting pronouncements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Entergy Texas, Inc. and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, cash flows, and changes in common equity (pages 418 through 422 and applicable items in pages 49 through 233), for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Rate and Regulatory Matters —Entergy Texas, Inc. and Subsidiaries — Refer to Note 2 to the financia statements

Critical Audit Matter Description

The Company is subject to rate regulation by the Public Utility Commission of Texas (the "PUCT"), which has jurisdiction with respect to the rates of electric companies in Texas, and to wholesale rate regulation by the Federal Energy Regulatory Commission ("FERC"). Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; income taxes; operating revenues; operation and maintenance expense; and depreciation and amortization expense.

The Company's rates are subject to regulatory rate-setting processes and annual earnings oversight. Because the PUCT and the FERC set the rates the Company is allowed to charge customers based on allowable costs, including a reasonable return on equity, the Company applies accounting standards that require the financial statements to reflect the effects of rate regulation, including the recording of regulatory assets and liabilities. The Company assesses whether the regulatory assets and regulatory liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs, and factors such as changes in applicable regulatory and political environments. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the PUCT and the FERC will not approve: (1) full recovery of the costs of providing utility service, or (2) full recovery of amounts invested in the utility business and a reasonable return on that investment.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management to support its assertions about impacted account balances and disclosures and the high degree of subjectivity involved in assessing the impact of future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery in future rates of incurred costs and refunds to customers. Auditing management's judgments regarding the outcome of future decisions by the PUCT and the FERC, involved especially subjective judgment and specialized knowledge of accounting for rate regulation and the rate setting process.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the PUCT and the FERC included the following, among others:

- We tested the effectiveness of management's controls over the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We also tested the effectiveness of management's controls over the initial recognition of amounts as property, plant, and equipment; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.
- We read relevant regulatory orders issued by the PUCT and the FERC for the Company and other public utilities, regulatory statutes, interpretations, procedural memorandums, filings made by intervenors, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the PUCT's and the FERC's treatment of similar costs under similar circumstances. We evaluated the external information and compared to management's recorded regulatory asset and liability balances for completeness.
- For regulatory matters in process, we inspected the Company's filings with the PUCT and the FERC, including the base rate case filing, and considered the filings with the PUCT and the FERC by intervenors that may impact the Company's future rates, for any evidence that might contradict management's assertions .
- We obtained an analysis from management and support from internal and external legal counsel, as appropriate, regarding probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities not yet addressed in a regulatory order to assess management's assertion that amounts are probable of recovery or a future reduction in rates.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana

February 25, 2022

We have served as the Company's auditor since 2001.

ENTERGY TEXAS, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	For the Years Ended December 31,		
	2021	2020	2019
		(In Thousands)	
OPERATING REVENUES			
Electric	$ 1,902,511	$ 1,587,125	$ 1,488,955
OPERATING EXPENSES			
Operation and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	335,742	238,428	162,544
Purchased power	588,941	510,633	602,563
Other operation and maintenance	281,713	250,170	258,924
Taxes other than income taxes	94,989	72,909	76,366
Depreciation and amortization	214,838	177,738	153,286
Other regulatory charges (credits) - net	59,581	90,398	88,770
TOTAL	1,575,804	1,340,276	1,342,453
OPERATING INCOME	326,707	246,849	146,502
OTHER INCOME			
Allowance for equity funds used during construction	9,892	44,073	28,445
Interest and investment income	837	1,201	3,072
Miscellaneous - net	721	(28)	546
TOTAL	11,450	45,246	32,063
INTEREST EXPENSE			
Interest expense	87,787	92,920	86,333
Allowance for borrowed funds used during construction	(3,980)	(18,940)	(13,269)
TOTAL	83,807	73,980	73,064
INCOME BEFORE INCOME TAXES	254,350	218,115	105,501
Income taxes	25,526	3,042	(53,896)
NET INCOME	228,824	215,073	159,397
Preferred dividend requirements	1,909	1,882	580
EARNINGS APPLICABLE TO COMMON STOCK	$ 226,915	$ 213,191	$ 158,817

See Notes to Financial Statements.

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

	For the Years Ended December 31,		
	2021	2020	2019
	(In Thousands)		
OPERATING ACTIVITIES			
Net income	$ 228,824	$ 215,073	$ 159,397
Adjustments to reconcile net income to net cash flow provided by operating activities:			
Depreciation and amortization	214,838	177,738	153,286
Deferred income taxes, investment tax credits, and non-current taxes accrued	48,813	36,033	20,143
Changes in assets and liabilities:			
Receivables	(16,455)	(30,082)	58,445
Fuel inventory	10,819	(5,938)	(4,926)
Accounts payable	(5,718)	(23,692)	(33,646)
Prepaid taxes and taxes accrued	(3,420)	2,730	(3,805)
Interest accrued	(1,854)	1,864	(5,363)
Deferred fuel costs	(133,636)	72,355	(6,696)
Other working capital accounts	(12,105)	(11,837)	(13,822)
Provisions for estimated losses	(140)	274	(5,748)
Other regulatory assets	103,380	(12,065)	85,400
Other regulatory liabilities	(28,747)	(57,477)	(105,517)
Pension and other postretirement liabilities	(42,502)	(28,825)	(7,152)
Other assets and liabilities	(5,164)	39,174	(3,257)
Net cash flow provided by operating activities	356,933	375,325	286,739
INVESTING ACTIVITIES			
Construction expenditures	(702,754)	(895,857)	(898,090)
Allowance for equity funds used during construction	9,892	44,073	28,526
Proceeds from sale of assets	67,920	—	—
Payment for purchase of assets	(36,534)	(4,931)	—
Changes in money pool receivable - net	4,601	6,580	(11,181)
Changes in securitization account	9,604	1,487	2,465
Net cash flow used in investing activities	(647,271)	(848,648)	(878,280)
FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	127,931	937,725	986,019
Retirement of long-term debt	(269,435)	(367,565)	(578,593)
Capital contributions from parent	95,000	175,000	185,000
Proceeds from the issuance of preferred stock	3,713	—	33,188
Changes in money pool payable - net	79,594	—	(22,389)
Dividends paid:			
Common stock	—	(30,000)	—
Preferred stock	(1,881)	(2,064)	—
Other	6,848	(4,106)	1,189
Net cash flow provided by financing activities	41,770	708,990	604,414
Net increase (decrease) in cash and cash equivalents	(248,568)	235,667	12,873
Cash and cash equivalents at beginning of period	248,596	12,929	56
Cash and cash equivalents at end of period	$ 28	$ 248,596	$ 12,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$ 87,094	$ 89,077	$ 89,402
Income taxes	$ 17,594	$ 2,792	$ 17,010

See Notes to Financial Statements.

Table of Contents

ENTERGY TEXAS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT ASSETS		
Cash and cash equivalents:		
Cash	$ 28	$ 26
Temporary cash investments	—	248,570
Total cash and cash equivalents	28	248,596
Securitization recovery trust account	26,629	36,233
Accounts receivable:		
Customer	83,797	103,221
Allowance for doubtful accounts	(5,814)	(16,810)
Associated companies	31,720	18,892
Other	13,404	11,780
Accrued unbilled revenues	62,241	56,411
Total accounts receivable	185,348	173,494
Deferred fuel costs	48,280	—
Fuel inventory - at average cost	42,712	53,531
Materials and supplies - at average cost	72,884	56,227
Prepayments and other	17,515	20,165
TOTAL	393,396	588,246
OTHER PROPERTY AND INVESTMENTS		
Investments in affiliates - at equity	300	349
Non-utility property - at cost (less accumulated depreciation)	376	376
Other	18,128	19,889
TOTAL	18,804	20,614
UTILITY PLANT		
Electric	7,181,567	6,007,687
Construction work in progress	183,965	879,908
TOTAL UTILITY PLANT	7,365,532	6,887,595
Less - accumulated depreciation and amortization	2,049,750	1,864,494
UTILITY PLANT - NET	5,315,782	5,023,101
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory assets:		
Other regulatory assets (includes securitization property of $ 23,818 as of December 31, 2021 and $ 78,590 as of December 31, 2020)	421,333	524,713
Other	112,096	70,397
TOTAL	533,429	595,110
TOTAL ASSETS	$ 6,261,411	$ 6,227,071

See Notes to Financial Statements.

Table of Contents

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

	December 31, 2021	December 31, 2020
	(In Thousands)	
CURRENT LIABILITIES		
Currently maturing long-term debt	$ —	$ 200,000
Accounts payable:		
Associated companies	142,929	55,944
Other	164,981	350,947
Customer deposits	37,271	36,282
Taxes accrued	49,018	52,438
Interest accrued	19,002	20,856
Current portion of unprotected excess accumulated deferred income taxes	27,188	29,249
Deferred fuel costs	—	85,356
Other	16,120	12,370
TOTAL	456,509	843,442
NON-CURRENT LIABILITIES		
Accumulated deferred income taxes and taxes accrued	692,496	639,422
Accumulated deferred investment tax credits	9,325	9,942
Regulatory liability for income taxes - net	144,145	175,594
Other regulatory liabilities	37,060	32,297
Asset retirement cost liabilities	8,520	8,063
Accumulated provisions	8,242	8,382
Long-term debt (includes securitization bonds of $ 53,979 as of December 31, 2021 and $ 123,066 as of December 31, 2020)	2,354,148	2,293,708
Other	67,760	58,643
TOTAL	3,321,696	3,226,051
Commitments and Contingencies		
EQUITY		
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding 46,525,000 shares in 2021 and 2020	49,452	49,452
Paid-in capital	1,050,125	955,162
Retained earnings	1,344,879	1,117,964
Total common shareholder's equity	2,444,456	2,122,578
Preferred stock without sinking fund	38,750	35,000
TOTAL	2,483,206	2,157,578
TOTAL LIABILITIES AND EQUITY	$ 6,261,411	$ 6,227,071

See Notes to Financial Statements.

Table of Contents

ENTERGY TEXAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2021, 2020, and 2019

		Common Equity			
	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Total
	(In Thousands)				
Balance at December 31, 2018	$ —	$ 49,452	$ 596,994	$ 775,956	$ 1,422,402
Net income	—	—	—	159,397	159,397
Capital contributions from parent	—	—	185,000	—	185,000
Preferred stock issuance	35,000	—	(1,812)	—	33,188
Preferred stock dividends	—	—	—	(580)	(580)
Balance at December 31, 2019	$ 35,000	$ 49,452	$ 780,182	$ 934,773	$ 1,799,407
Net income	—	—	—	215,073	215,073
Capital contributions from parent	—	—	175,000	—	175,000
Common stock dividends	—	—	—	(30,000)	(30,000)
Preferred stock dividends	—	—	—	(1,882)	(1,882)
Other	—	—	(20)	—	(20)
Balance at December 31, 2020	$ 35,000	$ 49,452	$ 955,162	$ 1,117,964	$ 2,157,578
Net income	—	—	—	228,824	228,824
Capital contributions from parent	—	—	95,000	—	95,000
Preferred stock issuance	3,750	—	(37)	—	3,713
Preferred stock dividends	—	—	—	(1,909)	(1,909)
Balance at December 31, 2021	$ 38,750	$ 49,452	$ 1,050,125	$ 1,344,879	$ 2,483,206

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

System Energy's principal asset consists of an ownership interest and a 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. As discussed in " **Complaints Against System Energy** " below, System Energy is currently involved in proceedings at the FERC commenced by the retail regulators of its customers regarding its return on equity, its capital structure, its renewal of the sale-leaseback of 11.5% of Grand Gulf, the treatment of uncertain tax positions in rate base, and the rates it charges under the Unit Power Sales Agreement.

Results of Operations

2021 Compared to 2020

Net Income

Net income increased $7.7 million primarily due to the increase in operating revenues resulting from changes in rate base and due to a provision for rate refund recorded in 2020 to reflect a one-time credit of $25.2 million provided for in the Federal Power Act section 205 filing made by System Energy in December 2020. See " **Complaints Against System Energy** " below for further discussion of these items and other proceedings involving System Energy at the FERC. The one-time credit is discussed in the **Grand Gulf Sale-leaseback Renewal Complaint and Uncertain Tax Position Rate Base Issue** part of that section. The return on equity complaint is discussed in the **Return on Equity and Capital Structure Complaints** part of that section.

Income Taxes

The effective income tax rates w ere (1.9%) f or 2021 and 17.2% for 2020. See Note 3 to the financial statements for a reconciliation of the federal statutory rate of 21% to the effective income tax rates, and for additional discussion regarding income taxes.

2020 Compared to 2019

See " **MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS** - **Results of Operations** " in Item 7 of System Energy's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021, for discussion of results of operations for 2020 compared to 2019.

Liquidity and Capital Resources

Cash Flow

Cash flows for the years ended December 31, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
		(In Thousands)	
Cash and cash equivalents at beginning of period	$242,469	$68,534	$95,685
Net cash provided by (used in):			
Operating activities	201,211	(145,462)	300,141
Investing activities	(193,392)	(206,443)	(119,553)
Financing activities	(161,087)	525,840	(207,739)
Net increase (decrease) in cash and cash equivalents	(153,268)	173,935	(27,151)
Cash and cash equivalents at end of period	$89,201	$242,469	$68,534

2021 Compared to 2020

Operating Activities

System Energy's operating activities provided $201.2 million of cash in 2021 compared to using $145.5 million of cash in 2020 primarily due to a decrease of $329.4 million in income taxes paid in 2021 and a decrease in spending of $35.9 million on nuclear refueling outage costs in 2021 as compared to prior year, partially offset by proceeds of $35 million received in December 2020 from the DOE resulting from litigation regarding spent nuclear fuel storage costs that were previously expensed. System Energy made income tax payments of $55 million in 2021, which included payments made as a result of the amended Mississippi tax returns filed based on federal adjustments related to the resolution of the 2014-2015 IRS audit and additional payments made in accordance with an intercompany income tax allocation agreement. System Energy made income tax payments of $384.3 million in 2020 in accordance with an intercompany income tax allocation agreement. The 2020 income tax payments are primarily related to the resolution of the 2014-2015 IRS audit regarding the treatment of nuclear decommissioning costs included in cost of goods sold, which is discussed in Note 3 to the financial statements in " **Tax Accounting Methods.** " See Note 8 to the financial statements for a discussion of the spent nuclear fuel litigation.

Investing Activities

Net cash flow used in investing activities decreased by $13.1 million in 2021 primarily due to:

- a decrease of $100.8 million in nuclear construction expenditures as a result of spending in 2020 on Grand Gulf outage projects and upgrades; and
- a decrease of $45.7 million as a result of fluctuations in nuclear fuel activity because of variations from year to year in the timing and pricing of fuel reload requirements, material and services deliveries, and the timing of cash payments during the nuclear fuel cycle.

The decrease was partially offset by money pool activity.

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 $71.7 million in 2021 compared to decreasing by $55.3 million in 2020. The money pool is an inter-company borrowing arrangement designed to reduce the Utility subsidiaries' need for external short-term borrowings.