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2005 WL 3729359 (La.P.S.C.)

(Cite as: 2005 WL 3729359 (La.P.S.C.))

ENTERGY LOUISIANA, INC., EX PARTE
ORDER NO. U-20925 RRF 2004
Louisiana Public Service Commission
May 25, 2005

In re: Application of Entergy Louisiana, Inc. for a Change in its Rates and Charges so that those Rates and Charges Will be Sufficient to Permit the Company to Recover All of its Costs, and to Provide the Company with a Reasonable Opportunity to Earn an Increased Rate of Return on its Rate Base that is Just and Reasonable and that Reflects Accurately the Company's Cost of Capital.

(Decided at Open Session held May 18, 2005)

I. INTRODUCTION

This matter is before the Commission in connection with a Contested Proposed Stipulated Settlement ("Contested Settlement") being sponsored by the Louisiana Public Service Commission Staff ("Commission Staff") and Entergy Louisiana, Inc. ("ELI" or "the Company"). In January, 2004, ELI filed with the Commission a rate increase request seeking to raise base rates by \$167 million. It sought an authorized Return On Equity ("ROE") of 11.4%. The Contested Settlement, among other matters more fully described below, proposed an \$18.3 million base rate increase with a 10.25% authorized ROE (a copy of the Proposed Settlement Term Sheet is attached hereto as Exhibit #1). Parts of the settlement were opposed by Occidental Chemical Corporation ("OxyChem"), Marathon Oil Company ("Marathon"), Valero Refining New Orleans, L.L.C. ("Valero"), Shell Chemical L.P. ("Shell"), and the Louisiana Energy Users' Group ("LEUG"). After consideration of the record in these proceedings, the arguments of the parties, the Recommendation on Contested Proposed Stipulated Settlement of the presiding Administrative Law Judge and the terms of the Contested Settlement itself, we will approve certain portions of that settlement but modify it in two important respects. First, \$5 million in executive incentive compensation costs will be removed from the revenue requirement. Second, all "interim additions" associated with the life extension of the Waterford 3 nuclear unit shall be eliminated in calculating ELI's revenue requirement. In addition, \$4.1 million shall be removed from the revenue requirement to reflect ELI's estimate of its increased revenues under Service Schedule MSS-1 of the System Agreement as a result of the FERC's decision in Orders 468 and 468-A regarding the appropriate treatment of interruptible load in that Service Schedule. These modifications will eliminate any increase in ELI's base rates and may result in a rate decrease. The \$18.3 million rate increase implemented by ELI on April 29, 2005 shall be reversed and all amounts collected pursuant to that increase, from the date the increase was implemented through the date it is

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reversed, shall be refunded to customers in the same manner in which they were collected with interest at the legal rate. ELI will make a filing to quantify the impact of eliminating interim additions from the revenue requirement. If the impact is greater than \$9.2 million, rates will be decreased by the amount of the excess. A further base rate decrease, and a refund, is possible pending resolution of the appropriate amounts to flow through to ratepayers as the result of FERC Orders 468 and 468-A. No party to this Docket opposes this settlement as amended, and the Commission votes unanimously to approve it.

II. BACKGROUND AND PROCEDURAL HISTORY [FN1]

FN1. A more complete recitation of the background and procedural history of this Docket is contained in the Recommendation on Contested Proposed Stipulated Settlement issued by presiding Administrative Law Judge Finnegan on May 13, 2005 and is attached hereto as Exhibit #2.

On January 9, 2004, ELI submitted its Application for rate increase with the Commission. The Application was amended on February 6, 2004 and sought a base rate increase of \$167 million. In addition to ELI and the Commission Staff, the following parties participated in the proceeding as intervenors: Bayou Steel Corporation, OxyChem, Alsen Environmental Justice Community Organization, Janice Dickerson, Marathon, Calpine Corporation, Jefferson Parish, Tractebel Energy Marketing Inc., Valero, Shell, Air Products and Chemicals, Inc. and the LEUG. Hearings were conducted before presiding Administrative Law Judge Michelle Finnegan on December 6, 7, 9, 10, 13 and 14, 2004. On December 14, 2004, a Proposed Stipulation entered into by the Commission Staff, ELI, LEUG, Shell, Valero, Marathon and Bayou Steel, was received into evidence (a copy of that Proposed Stipulation is attached hereto as Exhibit #3). The Proposed Stipulation listed both matters that were resolved at the hearing and those that required ALJ and Commission decision.

On March 28, 2005, the Commission Staff and ELI filed a "Joint Motion for Hearing on Contested Stipulated Settlement and Approval of Contested Proposed Stipulated Settlement", a Proposed Settlement Term Sheet, testimony in support of the settlement and a proposed Formula Rate Plan ("FRP") (the proposed Formula Rate Plan is attached hereto as Exhibit #4). At our March 23, 2005 B&E, we directed Judge Finnegan to establish a procedural schedule, pursuant to Rule 6 of the Commission's Rules of Practice and Procedure, that would permit us to consider the Contested Settlement at our May, 2005 B&E. Various parties filed comments and testimony concerning the settlement and, pursuant to Rule 6E of our Rules of Practice and Procedure, a hearing was conducted before the presiding Administrative Law Judge on May 3, 2005. Judge Finnegan issued her Recommendation on Contested Proposed Stipulated Settlement on May 13, 2005.

III. SUMMARY OF THE PROPOSED SETTLEMENT AGREEMENT

The terms of the Contested Settlement are set forth in Proposed Settlement Term Sheet attached as Exhibit #1. Its major provisions included the following. An

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authorized Return On Equity of 10.25% was proposed. For purposes of decommissioning trust fund contribution and depreciation expense, an assumed life extension of twenty years for the Waterford 3 nuclear unit was utilized and a 2.12% depreciation rate on Waterford 3 was used. The settlement recognized interim additions associated with the Waterford 3 life extension in the depreciation rate. A reduction in the revenue requirement associated with the Company's investment in its new Customer Care System equal to 15% of the remaining investment and elimination of one year's AFUDC was included. The settlement incorporated the effects of the October, 2004 debt and QUIPS refinancings. A Formula Rate Plan was proposed, which would operate for a three-year period with the ROE frozen at 10.25% for the full three-year operation of the plan. The total effect of these provisions would have resulted in a base rate increase of \$18.3 million, as compared to the \$167 million requested by the Company.

Since the time of the filing of the Contested Settlement, the Federal Energy Regulatory Commission issued a decision on rehearing in FERC Docket No. EL00-66-000, ER00-2854-000, and EL95-33-002 (Consolidated). In Order 468- A, the FERC disposed of rehearing applications and reaffirmed its decision to eliminate the use of interruptible load in determining the Entergy Operating Companies' responsibility for purposes of capability responsibility computations. *Louisiana Public Service Commission v Entergy*, Opinion No. 468-A, 111 FERC ¶ 61,080 (2005). ELI's preliminary estimate is that this will result in an annual \$4.1 million prospective decrease for its retail customers. The net effect of the Contested Settlement and the FERC's decision in these cases would be a \$14.2 million increase in ELI's retail base rates. This would equate to something less than a \$0.75 per month increase for the average residential customer using 1,000 Kwh.

Approximately \$9.9 million of the increase is associated with two purchased power contracts - the ISES PPA and the R.S. Cogen PPA. Assuming gas prices in the \$5.70/mcf range, fuel savings from the two contracts will exceed the capacity costs by over \$23 million, which exceeds the base rate increase. At the current higher natural gas prices, the savings could exceed \$35 million annually.

IV. DISCUSSION

We are in agreement with many aspects of the Contested Settlement. We conclude that reducing ELI's authorized Return On Equity to 10.25% is in the public interest, is fair to ratepayers, and will provide the Company with an opportunity to earn a fair rate of return. In addition, freezing that ROE for 3 years in the FRP proceedings, in light of the current capital market environment, is likely to produce benefits to ratepayers and, at a minimum, will provide insurance against potentially rising capital costs. Similarly, updating the debt return to capture the lowered debt costs associated with ELI's October, 2004 debt and QUIPS refinancings is appropriate, and that portion of the settlement will be adopted. In addition, we believe that the establishment of a new Formula Rate Plan to operate for the next 3 years is appropriate. In the past, that plan has provided significant rate reductions for ELI's customers and permitted the Company to maintain and improve its credit rating and provide it with a fair return for

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shareholders. We will, therefore, approve the new Formula Rate Plan.

There are, however, two significant parts of the settlement that must be changed. First, the revenue requirement supporting the proposed settlement includes some \$5 million of test year expense associated with the Entergy Long Term Incentive Compensation Plan. This plan provides incentive payments to ELI and other Entergy corporate executives based on Entergy's financial performance. Those bonuses are not directly linked to matters such as rate stability, service quality, outage reductions, minimizing length of outages, reductions in numbers of complaints and other such rate and service-related matters. Since we conclude that the bonuses are unrelated to any benefits to ratepayers, shareholders, and not customers, should bear the cost of these incentive payments. As was discussed at length when we considered this matter, the Commission is not prohibiting ELI from making these bonus payments, but merely denying the Company the opportunity to recover the cost of the incentive program from ratepayers.

The second major area that must be addressed and changed, before we can approve the Contested Settlement, concerns the Waterford 3 nuclear unit. The issue of the appropriate life of the Waterford 3 nuclear unit that should be utilized for purposes of determining the depreciation rate and expense and the level of nuclear decommissioning payments was vigorously litigated in this Docket. The Commission Staff, the LEUG, Valero, Shell, Marathon, and OxyChem all supported extending the life of Waterford 3 by an additional 20 years when determining the appropriate depreciation and decommissioning expenses. Use of such an extension has been adopted by this Commission for the River Bend nuclear unit owned by ELI's sister company Entergy Gulf States, Inc., and such a life extension was also assumed by Entergy for purposes of computing decommissioning expense for the ANO1 and ANO2 units owned by another affiliate, Entergy Arkansas, Inc.

In the Contested Settlement, the Company ultimately agreed to utilize a 20- year life extension for Waterford 3 for determining depreciation and decommissioning but, for purposes of determining the depreciation rate and expense, proposed to reflect "interim additions" in the current revenue requirement. Those "interim additions" are the replacements and upgrades that are projected to be necessary in order to extend the useful life of Waterford 3, but have not yet been undertaken. The Contested Settlement reflects the use of interim additions. Marathon, the LEUG, Shell, Valero and OxyChem oppose the use of interim additions.

The Commission is unwilling to permit ELI to reflect interim additions in its depreciation rate and computation of depreciation revenue requirement for Waterford 3. While we recognize that such additions may be necessary to extend the life of the unit, at this time the precise additions are not known, the timing and cost of those additions are uncertain and no expenditures for those additions have yet been made. If and when those additions are undertaken, and the costs are determined to be prudently incurred, they could be recognized in the revenue requirement and eligible for recovery by the Company. The Company will therefore be directed to establish a depreciation rate for Waterford 3 to eliminate 100% of interim additions associated with that unit. ELI estimates that the elimination of

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interim additions will reduce the Waterford 3 depreciation rate to 1.82%. Other parties estimate that the correct rate is substantially lower than 1.82%. The 1.82% rate will be accepted for the purpose of establishing rates in this Order, but ELI will be directed to make a depreciation compliance filing and provide the basis for its calculation to the parties. If the elimination of interim additions lowers the depreciation rate further, the reduction will be flowed through in a rate reduction as well, effective as of the effective date of this Order. In no event shall the Waterford 3 depreciation rate exceed 1.82%. The Commission will direct that the matter be brought back for a decision no later than the September, 2005 Business & Executive Session.

One final matter must be addressed. As mentioned above, the FERC has issued its decision on rehearing (Order No. 468-A) in Docket No. EL00-66-000, ER00-2854-000, and EL95-33-002 (Consolidated). As a result of that Order, System billing charges to ELI will be reduced, and the Company's preliminary estimate is that this will produce a \$4.1 million decrease in ELI's retail base rates. That \$4.1 million decrease will be implemented immediately as part of this settlement, reducing the revenue requirement at least to zero, and ELI is directed to provide the Commission with a revised estimate of the base rate decrease associated with this decision no later than July 15, 2005. Any additional rate decrease ordered by the Commission based on this revised estimate shall be effective as of the effective date of this Order.

There remains a dispute between ELI and the Commission Staff as to whether any amounts are due ELI ratepayers by virtue of Entergy's continued use of interruptible load in determining System Agreement charges from April 1, 2004 (the date of FERC Order 468) and the effective date of this Order. We will address the issue of refunds in a subsequent order after Entergy has responded to the Staff's discovery on this issue, which responses are due no later than July 31, 2005.

No party to this proceeding objects to the terms of this settlement as amended in this Order. For all of the reasons set forth above, on motion of Commissioner Blossman, seconded by Commissioner Sittig, and unanimously adopted,

IT IS ORDERED THAT:

1. The Contested Settlement submitted on March 28, 2005 is hereby adopted, subject to the further amendments and conditions set forth in the following paragraphs;
2. There shall be no rate increase implemented by ELI as a result of this Order, but base rates may be decreased as set forth below;
3. \$5 million of expense associated with the Long Term Incentive Compensation Plan will be removed from the 2002 test year revenue requirement and shall not be reflected in ELI's rates;
4. The depreciation rate for Waterford 3 shall not reflect interim additions.

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ELI is directed to file an updated depreciation study relating to Waterford 3 not later than June 30, 2010 so that the Commission may evaluate this issue at that time;

5. This Order reflects an implicit 1.82% depreciation rate for Waterford 3. ELI will make a compliance filing no later than July 15, 2005 to determine the appropriate depreciation rate level to remove interim additions, and if a rate adjustment is necessary, it will be placed before the Commission no later than the September, 2005 Business & Executive session. ELI shall provide work papers supporting the interim additions adjustment that it proposes. Any additional rate adjustment shall be effective as of the effective date of this Order. The Company's compliance filing may lead to a further reduction in ELI's revenue requirement and a rate decrease, but it shall not increase the depreciation rate or revenue requirement as compared to the depreciation rate implicit in the \$0 rate change ordered today;

6. The Commission will adopt, for a period of 3 years, Formula Rate Plan Rider Schedule FRP-4 attached hereto as Exhibit #4;

7. ELI shall immediately reflect the prospective rate effects of Order 468 and Order 468-A of the Federal Energy Regulatory Commission in Docket No. EL00-66-000, ER00-2854-000 and EL95-33-002 (Consolidated) in accordance with ELI's Formula Rate Plan Rider Section 3.A.4. ELI's preliminary estimate is that ELI's retail customers should receive a \$4.1 million decrease and that decrease will be implemented as of the effective date of this Order. ELI is further ordered to provide the Commission, no later than July 15, 2005, with a revised estimate of the rate decrease associated with FERC Nos. 468 and 468-A. If the Commission determines that a further prospective change in ELI's rates is warranted by the revised estimate, such further change shall be implemented as directed by the Commission and shall be effective as of the effective date of this Order;

8. No later than July 31, 2005, ELI shall provide its calculation of the effect of FERC Orders 468 and 468-A on System Agreement charges from April 1, 2004 - May 31, 2005.

9. Although the original Contested Settlement would have resulted in an \$18.3 million base rate increase, with the amendments described above, the settlement now results in no overall increase in ELI's base rates and could result in a rate decrease. Considering the fuel savings from the two purchased power contracts, ratepayers will receive significant overall benefits. The \$18.3 million rate increase implemented April 29, 2005 shall be reversed and all amounts collected pursuant to the increase, from the date the rate increase was implemented through the date the increase is reversed, shall be refunded to customers in the same manner in which they were collected, with interest at the legal rate. The rate increase shall be reversed immediately. The Company is hereby directed to submit revised tariffs that reflect the implementation of this settlement as well as the Commission's Order No. U-27167, dated April 22, 2005. The Company shall make a compliance filing detailing the reversal of the \$18.3 million rate increase and

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how the refunds were accomplished;

10. The settlement that we approve is without prejudice to the Commission's position or Entergy's position on whether refunds are appropriate as a result of FERC Orders 468 and 468-A in Docket Nos. EL00-66-0000, ER00-2854-000 and EL95-33-002 (Consolidated), and without prejudice to either party's position on how any prospective rate changes from April 1, 2004 shall be calculated and implemented;

11. ELI shall submit responses to the LPSC Staff's discovery requests issued in U-20925 (RRF 2004) on May 6, 2005 as soon as possible, but not later than July 31, 2005 unless the Company is unable to do so for good cause shown;

12. ELI's authorized Return On Equity is hereby set at 10.25%;

13. The 10.25% authorized Return On Equity shall be utilized in computing the earnings under the Formula Rate Plan and shall be frozen at that level for the first 3 years of operation of that plan;

14. To the extent not inconsistent with the specific provisions of this Order, the Proposed Settlement Term Sheet, attached hereto as Exhibit #1, is hereby adopted;

15. To the extent not inconsistent with the specific provisions of this order, the Proposed Stipulation, attached hereto as Exhibit #3, is hereby adopted.

BY ORDER OF THE COMMISSION

BATON ROUGE, LOUISIANA

/S/ CHAIRMAN C. DALE SITTIG

DISTRICT IV

CHAIRMAN C. DALE SITTIG

/S/ VICE CHAIRMAN JAMES M. FIELD

DISTRICT II

VICE CHAIRMAN JAMES M. FIELD

/S/ COMMISSIONER JACK A. BLOSSMAN

DISTRICT I

COMMISSIONER JACK A. BLOSSMAN

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/S/ COMMISSIONER FOSTER L. CAMPBELL

DISTRICT V

COMMISSIONER FOSTER L. CAMPBELL

/S/ COMMISSIONER LAMBERT C. BOISSIERE, III

DISTRICT III

COMMISSIONER LAMBERT C. BOISSIERE, III

SECRETARY

LAWRENCE C. ST. BLANC

This Order is effective as of May 25, 2005.

EXHIBIT 1

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF ENTERGY LOUISIANA, INC. FOR A CHANGE IN ITS RATES AND CHARGES

LPSC DOCKET NO. U-20925 (2004 RRF)

PROPOSED SETTLEMENT TERM SHEET

The Louisiana Public Service Commission ("LPSC" or the "Commission") Staff, Entergy Louisiana, Inc. ("ELI" or the "Company"), the Louisiana Energy Users Group, Marathon Oil Company, Bayou Steel Corporation, Occidental Chemical Corporation, Shell Chemical, L.P., Valero Energy Corporation, Jefferson Parish, Tractebel Energy Marketing, Inc., Calpine Corporation, and Air Products and Chemicals, Inc. enter into this Proposed Settlement for the purpose of resolving all of the issues that have been raised during the course of this proceeding, including those that were addressed in the Proposed Stipulation that was introduced into the record of this proceeding as Joint Hearing Exhibit No. 1. The parties agree to propose the following settlement to the Commission, which will supplement the provisions of the Proposed Stipulation, a copy of which is attached hereto as Exhibit A:

1. Formula Rate Plan

The Commission will approve the Formula Rate Plan Rider Schedule FRP-4 ("FRP") that is attached hereto as Exhibit B. The FRP will reflect

- a) A return on common equity (ROE) bandwidth of 80 basis points above and 80

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basis points below (+/- 0.80 of 1%) the benchmark ROE;

b) A cap on the common equity ratio used for FRP purposes equal to the weighted average common equity ratio of the five Operating Companies, plus 2%;

c) A benchmark ROE of 10.25%;

d) The appropriate pass-through of net extraordinary cost changes and incremental capacity costs as set forth in Exhibit B, Section 3; and

e) Inclusion of short-term debt in the capital structure.

2. Capacity Rate Rider

There will be no separate Capacity Rate Rider.

3. Regulatory Assets

The recovery of the regulatory assets incident to the R.S. Cogen and EPI/ISES PPAs shall be addressed in connection with the proposed settlement of LPSC Consolidated Docket Nos. U-19904-D, U-22491, U-23358, U-24182, U-24993, U-25533, U-25687, U-25888, U-26527, U-27865, or alternatively, in the first Formula Rate Plan proceeding, which shall be filed in 2006 based on a 2005 Evaluation Period.

4. Waterford 3 Life Extension

The decommissioning accrual, depreciation expense, design basis amortization, and investment tax credit amortization for Waterford 3 shall be based on an assumed twenty-year life extension. In this connection, the Commission will specifically approve the use of interim retirements and additions accounting in the calculation of the allowable depreciation expense. The Commission will specifically approve the use of a 2.12% depreciation rate.

Although by this settlement ELI is agreeing to reduce the depreciation rate and decommissioning accrual for Waterford 3 based upon an assumption that the operating license for the plant (and, therefore, the useful life of the plant) will be extended, ELI will be permitted to recover over the useful life of the plant all of the reasonable depreciation and decommissioning expenses relating to the Waterford 3 generating station. In the event that the Nuclear Regulatory Commission ("NRC") formally notifies ELI or the Waterford 3 licensee that the decommissioning funding for Waterford 3 is or would become inadequate, the Company will be permitted recognition in rates of decommissioning expense at a level sufficient to address reasonably the NRC's concern as expressed in the notification. Nothing in this settlement shall be construed to require the Company to represent or report to the NRC that its level of decommissioning funding is sufficient or to preclude ELI or the Waterford 3 licensee from requesting from the Commission an increase in decommissioning funding at a later date.

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5. CCS

The Company's investment in CCS shall be reduced to reflect the removal of one year's AFUDC and an amount equal to 15% of the then remaining investment to reflect an agreed-upon allocation of a portion of the initial investment in CCS to retail open access programs and potential programs.

6. Short Term Debt

Short term debt will be reflected in the capital structure under the FRP. (See Exhibit B)

7. Test Year Revenues

2002 test year revenues will be based on the 2002 test year amount without an adjustment for year-end customer annualization, per the agreement between the Staff and ELI described in item C(12) of the Proposed Stipulation, which will have the effect of increasing test year revenues by \$193,000.

8. Incentive Compensation

Incentive compensation expense will be normalized per the agreement between the Staff and ELI described in item C(13) of the Proposed Stipulation, which will have the effect of reducing test year expense by \$500,000.

9. October 2004 Refinancings

The October 2004 debt and QUIPS refinancings are recognized in the amount of the base rate increase set forth in paragraph 14, below.

10. ROE for the Initial Term of the FRP

For the initial term of the FRP (2006, 2007, and 2008) the evaluation period cost rate for common equity will be frozen at 10.25%.

11. Decommissioning Accrual and Cost Escalation Rate

The ELI (total Company) decommissioning accrual approved by the Commission shall be \$2.282 million, which shall reflect an overall cost escalation rate for decommissioning of 4.08%.

12. AFUDC Rate

The AFUDC rate shall be calculated on a basis consistent with the development of the Company's cost of capital used in the FRP. The AFUDC rate shall not include a separate component based upon an assignment of 100% of the short term debt to CWIP, as does the FERC methodology for calculating AFUDC rates.

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13. Perryville Acquisition

The approval of the Perryville acquisition and the costs associated with the Perryville acquisition, together with the mechanism by which those costs will be recovered through rates, will be addressed in the Perryville certification proceeding, LPSC Docket No. U-27836.

14. Base Rate Increase

A base rate increase of \$18.3 million, allocated to classes on the basis of relative base rate revenues, will be approved.

15. Nothing herein shall be precedential with respect to any issue in any other proceeding except as specifically stated herein or in the attached Proposed Stipulation.

WHEREFORE, this Agreement is executed by the Louisiana Public Service Commission Staff, Entergy Louisiana, Inc., the Louisiana Energy Users Group, Marathon Oil Company, Bayou Steel Corporation, Occidental Chemical Corporation, Shell Chemical, L.P., Valero Energy Corporation, Jefferson Parish, Tractebel Energy Marketing, Inc., Calpine Corporation, and Air Products and Chemicals, Inc. effective as of this ____ day of March, 2005.

Louisiana Public Service Commission

Legal Staff

Entergy Louisiana, Inc.

Louisiana Energy Users Group

Marathon Oil Company

Bayou Steel Corporation

Occidental Chemical Corporation

Shell Chemical, L.P.

Valero Energy Corporation

Jefferson Parish

Tractebel Energy Marketing, Inc.

Calpine Corporation

Air Products and Chemicals, Inc.

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EXHIBIT 2

LOUISIANA PUBLIC SERVICE COMMISSION

ADMINISTRATIVE HEARINGS DIVISION

DOCKET NO. U-20925 RRF 2004

ENTERGY LOUISIANA, INC. EX PARTE

In re: Application of Entergy Louisiana, Inc. for a change in its rates and charges so that those rates and charges will be sufficient to permit the Company to recover all of its costs, and to provide the Company with a reasonable opportunity to earn an increased rate of return on its rate base that is just and reasonable and that reflects accurately the company's cost of capital.

RECOMMENDATION ON CONTESTED PROPOSED STIPULATED SETTLEMENT

BACKGROUND AND PROCEDURAL HISTORY

Background

Entergy Louisiana, Inc. ("ELI") is a public utility organized under Louisiana law with its principal place of business in Jefferson, Louisiana. Entergy Corporation wholly owns ELI's common stock. ELI manufactures, produces, transmits, distributes and sells electricity in 46 of Louisiana's 64 parishes and has an estimated 652,000 retail electric customers in the state.

ELI initiated this proceeding on January 9, 2004 by filing an application for a change in its rates and charges, accompanied by the direct testimony of numerous witnesses. The application was later amended on February 6, 2004.

ELI describes its application as seeking a change in its rates and charges to allow ELI to recover its costs and provide ELI with a reasonable opportunity to earn an increased rate of return on its rate base that is just and reasonable and accurately reflects its cost of capital. ELI sought, through its application: 1) to recover the costs of four Power Purchase Agreements ("PPA") (a 140 MW multi-year unit contingent call option from RS Cogen, a 50 MW life-of-unit PPA from Entergy Power, Inc. from its Independence Steam Electric Station Unit 2, a 200 MW life-of-unit PPA from Entergy Gulf States, Inc. ("EGSI") to purchase two-thirds of the 30% share of River Bend nuclear plant formerly owned by Cajun Electric Power Cooperative, and a 110 MW life-of-unit PPA for purchase of output from Entergy Arkansas, Inc.'s baseload capacity) and costs associated with the purchase of the Perryville station; 2) to recover cost of investments in its infrastructure to improve customer service and reliability; 3) to recover increased operations and maintenance expenses incurred to improve reliability; 4) to recover costs previously borne by industrial load that is no longer served by ELI; 5) to recover other costs as are properly recoverable through ELI's base

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rates; and 6) the opportunity for ELI to earn a fair and reasonable return. ELI asserted that to recover those costs enumerated above, ELI's revenue requirement should be increased by approximately \$167 million. ELI suggested that approximately \$102 million would be recovered through traditional base rate tariffs, and approximately \$65 million would be recovered either through the application of traditional base rate tariffs or through a rider. ELI contended that, even though it is necessary to increase the base rates in order for ELI to recover those enumerated costs, ELI anticipated that the proposed capacity purchases will save in excess of \$140 million in annual fuel and purchased power costs.

In the settlement testimony of Thomas S. Catlin, he outlined ELI's regulatory history since its last rate increase in 1989. In 1989, ELI was granted a rate increase and the Commission froze its rates for the next five years. Pursuant to a revenue requirement filing made by the Company at the expiration of the freeze, in 1995, the Commission reduced ELI's rates by slightly more than \$47 million. He went on to explain that the Commission approved the implementation of a Formula Rate Plan ("FRP") requiring ELI to file, on an annual basis, its results of operation for the previous calendar year. If ELI's earnings exceeded or fell below a predetermined return on equity ("ROE") range, its rates were reduced or increased prospectively.

From 1996 through 2001, ELI's rates were reduced each year under the FRP except one. In that year, ELI's results fell within the "dead band" and its rates were not changed. Mr. Catlin stated that from 1996 through 2001, ELI's base rates were reduced by approximately \$142,000,000. Cumulative ratepayer savings through the end of 2002 exceeded \$677,000,000.

Procedural History

The matter was docketed and published in the Commission's Official Bulletin dated January 16, 2004. Timely interventions were filed by: Bayou Steel Corporation ("Bayou Steel"), Occidental Chemical Corporation ("OxyChem"), Alsen Environmental Justice Community Organization, Janice Dickerson, Marathon Oil Company ("Marathon"), Calpine Corporation ("Calpine"), Jefferson Parish, Tractebel Energy Marketing, Inc. ("Tractebel"), Valero Refining-New Orleans, LLC ("Valero"), Shell Chemical L.P. ("Shell"), Air Products and Chemicals Inc. ("Air Products"), and Louisiana Energy Users Group ("LEUG").

Administrative Law Judge Michelle Finnegan presided over a status conference on March 2, 2004 and a procedural schedule was established. Prior to the hearing, the procedural schedule was extended numerous times at the request of the parties.

The hearing was held on December 6, 7, 9, 10, 13, and 14, 2004.

On December 14, 2004 a Proposed Stipulation was admitted at the hearing as Joint Exhibit #1. ELI, LEUG, Shell, Valero, Marathon, Bayou Steel and Commission Staff entered into the Proposed Stipulation. The Proposed Stipulation resolved several

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issues that were raised during the proceeding and reiterated those issues that remained unresolved and that required a recommendation from the Administrative Law Judge and, ultimately, a ruling from the Commission.

At the Commission's Business and Executive Session held March 23, 2005, this matter was placed on the agenda at the request of Commissioner Blossman for the discussion of a possible settlement. The Commission directed the Administrative Law Judge to furnish a procedural schedule and return this issue to the agenda for the May Business and Executive Session. On March 28, 2005, Commission Staff and ELI filed a Joint Motion for Hearing on Contested Stipulated Settlement and Approval of Contested Proposed Stipulated Settlement. The filing contained the Proposed Settlement Term Sheet submitted by ELI and Commission Staff and testimony from witnesses for the Commission Staff and ELI in support of the proposed settlement. The parties also requested a pre-hearing conference.

On March 29, 2005, Judge Finnegan issued a Ruling on Joint Motion for Hearing on Contested Proposed Stipulated Settlement setting a pre-hearing conference for March 31, 2005. At the pre-hearing conference, a procedural schedule was adopted and the hearing was scheduled for May 3, 2005.

On April 22, 2005, Marathon, LEUG, Shell, Valero and OxyChem filed comments and/or testimony regarding the proposed settlement. On April 26, 2005, ELI filed its rebuttal testimony. On May 3, 2005 a hearing was held on the contested proposed stipulated settlement.

Rule 6(D) of the Commission Rules of Practice and Procedure provides that when two or more non-aligned parties reach agreement with regard to all issues in the form of a Proposed Stipulated Settlement signed by the agreeing parties, they may file a Contested Stipulated Settlement and request a hearing ("Request"). Commission Staff and ELI reached such an agreement in this proceeding. Their Request included a Joint Motion requesting a Stipulation Hearing; the Stipulated Settlement, signed by all Agreeing Parties, namely, Commission Staff and ELI, attesting to their agreement with its terms; the documents, testimony and exhibits in support of the Stipulated Settlement; and a statement of how the proposed settlement is in the public interest. A proposed new tariff form incorporating the Stipulated Settlement was also filed into the record in this proceeding. Those parts of the Stipulated Settlement that are not contested by any of the parties are being forwarded to the Commissioners, without a recommendation on the merits by the Administrative Law Judge, as provided for in Rule(6)(B)(2).

Pursuant to Rule 6(H) of the Commission Rules of Practice and Procedure, the parties proposing a stipulated settlement shall have the burden of proving that the Stipulated Settlement is reasonable in light of the record, consistent with the law, and not contrary to the public interest.

PROPOSED SETTLEMENT TERM SHEET

The Proposed Settlement Term Sheet submitted by Commission Staff and ELI

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supplements the provisions of the Proposed Stipulation. It has two attachments. The first, Exhibit A, is the Proposed Stipulation and Exhibit B is the Formula Rate Plan Rider Schedule FRP-4. Commission Staff and ELI agreed to propose the following settlement to the Commission:

1. Formula Rate Plan

The Commission will approve the Formula Rate Plan Rider Schedule FRP-4 ("FRP") that is attached as Exhibit B. The FRP will reflect

a) A return on common equity (ROE) bandwidth of 80 basis points above and 80 basis points below (+/- 0.80 of 1%) the benchmark ROE;

b) A cap on the common equity ratio used for FRP purposes equal to the weighted average common equity ratio of the five Operating Companies, plus 2%;

c) A benchmark ROE of 10.25%.

d) The appropriate pass-through of net extraordinary cost changes and incremental capacity costs as set forth in Exhibit B, Section 3; and

e) Inclusion of short-term debt in the capital structure.

2. Capacity Rate Rider

There will be no separate Capacity Rate Rider.

3. Regulatory Assets

The recovery of the regulatory assets incident to the R.S. Cogen and EPI/ISES PPAs shall be addressed in connection with the proposed settlement of LPSC Consolidated Docket Nos. U-19904-D, U&-22481, U-23358, U-24182, U-24993, U-25533, U-25687, U-25888, U-26527, U-27865, or alternatively, in the first Formula Rate Plan proceedings, which shall be filed in 2006 based on a 2005 Evaluation Period.

4. Waterford 3 Life Extension

The decommissioning accrual, depreciation expense, design basis amortization, and investment tax credit amortization for Waterford 3 shall be based on an assumed twenty-year life extension. In this connection, the Commission will specifically approve the use of interim retirements and additions accounting in the calculation of the allowable depreciation expense. The Commission will specifically approve the use of a 2.12% depreciation rate.

Although by this settlement ELI is agreeing to reduce the depreciation rate and decommissioning accrual for Waterford 3 based upon an assumption that the operating license for the plant (and, therefore, the useful life of the plant) will be extended, ELI will be permitted to recover over the useful life of the

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plant all of the reasonable depreciation and decommissioning expenses relating to the Waterford 3 generating station. In the event that the NRC formally notifies ELI or the Waterford 3 licensee that the decommissioning funding for Waterford 3 is or would become inadequate, the Company will be permitted recognition in rates of decommissioning expense at a level sufficient to address reasonably the NRC's concern as expressed in the notification. Nothing in this settlement shall be construed to require the Company to represent or report to the NRC that its level of decommissioning funding is insufficient or to preclude ELI or the Waterford 3 licensee from requesting from the Commission an increase in decommissioning funding at a later date.

5. Customer Care System

The Company's investment in CCS shall be reduced to reflect the removal of one year's AFUDC and an amount equal to 15% of the then remaining investment to reflect an agreed-upon allocation of a portion of the initial investment in CCS to retail open access programs and potential programs.

6. Short Term Debt

Short term debt will be reflected in the capital structure under the FRP. (See Exhibit B.)

7. Test Year Revenues

2002 test year revenues will be based on the 2002 test year amount without an adjustment for year-end customer annualization, per the agreement between the Staff and ELI described in item C (12) of the Proposed Stipulation, which will have the effect of increasing test year revenues by \$193,000.

8. Incentive Compensation

Incentive compensation expense will be normalized per the agreement between the staff and ELI described in item C (13) of the Proposed Stipulation, which will have the effect of reducing test year expense by \$500,000.

9. October 2004 Refinancings

The October 2004 debt and QUIPS refinancings are recognized in the amount of the base rate increase set forth in paragraph 14, below.

10. ROE for the Initial Term of the FRP

For the initial term of the FRP (2006, 2007, and 2008) the evaluation period cost rate for common equity will be frozen at 10.25%.

11. Decommissioning Accrual and Cost Escalation Rate

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The ELI (total Company) decommissioning accrual approved by the Commission shall be \$2.282 million, which shall reflect an overall cost escalation rate for decommissioning of 4.08%.

12. AFUDC Rate

The AFUDC rate shall be calculated on a basis consistent with the development of the Company's cost of capital used in the FRP. The AFUDC rate shall not include a separate component based upon an assignment of 100% of the short term debt to CWIP, as does the FERC methodology for calculating AFUDC rates.

13. Perryville Acquisition

The approval of the Perryville acquisition and the costs associated with the Parryville acquisition, together with the mechanism by which those costs will be recovered through rates, will be addressed in the Perryville certification proceeding, LPSC Docket No. U-27836.

14. Base Rate Increase

A base rate increase of \$18.3 million, allocated to classes on the basis of relative base rate revenues, will be approved.

15. Nothing herein shall be precedential with respect to any issue in any other proceeding except as specifically stated herein or in the attached Proposed Stipulation.

SUMMARY OF THE SETTLEMENT TERMS

Per Mr. Catlin's settlement testimony, the base rate increase incorporated in the proposed settlement is \$18.3 million. For the average residential ratepayer using 1,000 kWh per month, that would represent an increase of approximately \$1.18/month or 1.39%.

In response to the question "Please provide a brief overview of the basis on which the \$18.3 million increase incorporated in the proposed settlement between Commission Staff and ELI was established." Mr. Catlin replied:

At the close of the hearings in December 2004, many of the issues in this proceeding had been resolved and were set forth in the Stipulation among all of the parties who participated in the hearings. The \$18.3 million dollar increase reflects adoption of the LPSC Staff's recommendation on all of the remaining disputed accounting or revenue requirement issues including those related to: removal of portion of Customer Case System (CCS) costs, no current recovery of regulatory asset for RS Cogen and ISES deferred capacity costs and recognition of a life extension for Waterford 3. With regard to rate of return, the Proposed Settlement adopts an 8.76 percent overall return. As discussed in detail by Mr. Kahal, this rate of return reflects recognition of the Staff's proposed capital

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structure except that short-term debt has been excluded. However the proposed Formula Rate Plan provides for recognition of the average balance of short-term debt in each evaluation period. The overall rate of return reflects a return on equity of 10.25 percent which is locked-in for the three-year life of the proposed FRP.

SUMMARY OF OPPOSITION OF LEUG, SHELL, VALERO AND OXYCHEM

LEUG, Shell, Valero and OxyChem (collectively "LEUG") oppose the settlement on the following grounds:

1. ELI's base rates should not be increased by \$18.3 million, but rather should be reduced by at least \$8.5 million per year.
2. The Waterford 3 depreciation rate should be adjusted to remove the effects of including interim additions, consistent with LPSC precedent and NARUC's views.
3. The LPSC should reduce ELI's revenue requirement to reflect LEUG's proposed test year sales adjustment.
4. The return on common equity (ROE) included in the settlement is high relative to the ROE proposed by Staff in this proceeding and the ROE authorized by the LPSC for EGSI in the recent Global Settlement case.
5. The rate classes that are excluded from the FRP should likewise be excluded from any base rate change ordered in this case.

SUMMARY OF OPPOSITION OF MARATHON OIL COMPANY

Marathon opposes the following elements of the settlement:

1. The provision that "the Commission will specifically approve the use of interim retirements and additions accounting in the calculation of the allowable (Waterford 3) depreciation expense," a provision clearly contrary to and inconsistent with LPSC Order No. U-22092 which ordered the exclusion of interim additions and interim retirements in EGSI's depreciation expense.
2. The provision that "The Commission will specifically approve the use of a 2.12% depreciation rate" for Waterford 3, a provision which increases ELI's revenue requirements by \$19,219,422 over the revenues required pursuant to the materially lower 1.452% depreciation rate currently used in calculating depreciation expense for the LPSC jurisdictional portion of the EGSI "River Bend" Nuclear Facility.
3. The "Incentive Plan" provision which requires ELI's ratepayers to subsidize approximately \$5,000,000 of "Long-Term Incentive Plan" costs based on shareholder appreciation, an expense which the evidentiary record shows has been disallowed for ratemaking purposes by other regulatory commissions.

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4. The "Test Year Revenues" provision which recommends adoption of 2002 test-year "base rate" revenues of only \$915,952,000 which is \$22,391,173 less than ELI's actual 2003 LPSC jurisdictional "base rate" revenues of \$938,343,173, and \$7,565,885 less than the test-year base rate revenues supported in the evidentiary record through testimony filed on behalf of the Louisiana Energy Users Group and Marathon Oil Company.

5. The FRP provision reflecting an 80 basis point bandwidth above and below the bandwidth ROE.

6. The "Base Rate Increase" provision which authorizes ELI an \$18,300,000 base rate increase.

SUMMARY OF THE ARGUMENTS AND RECOMMENDATIONS OF THE ADMINISTRATIVE LAW JUDGE

Waterford 3 Decommissioning Expense and Depreciation

ELI and Commission Staff

Waterford 3 is a nuclear generating unit owned by ELI, which began commercial operation in 1985. Waterford 3's license will expire in 2024, absent a renewal. Item 4 of the Proposed Settlement Term Sheet provides that decommissioning accrual, depreciation expense, design basis amortization and investment tax credit amortization for Waterford 3 will be based on an assumed 20-year life extension and the Commission will approve the use of interim retirements and additions in the calculation of depreciation expense, resulting in a 2.12% depreciation rate. ELI asserts that Commission Staff has agreed to recognize interim additions for Waterford 3 only in the context of assuming a 20-year life extension for the unit. ELI contends that it is necessary to include interim additions and retirements if a 20-year life extension is assumed - the costs of a life extension must be considered along with the benefits. For example, the steam generator referred to by LEUG would be mandatory to a life extension.

In rebutting Marathon's proposed 1.452% or 1.53% depreciation rate for Waterford 3, ELI argues that Mr. Chavanne, witness for Marathon, presented no analysis for Marathon's proposed depreciation rate. Furthermore, that the use of a 2.12% rate is not in violation of LPSC Order No. U-22092, as the life extension of the facility in that proceeding was not an issue in that case. Docket No. U-22092 addresses EGSI's River Bend facility, ELI also argues that, without making any other changes to the inputs used to reach Commission Staff approved 2.73% rate except for estimating the useful life of Waterford 3 to be 60 rather than 40 years, the depreciation rate would be 1.82%. The intervenors' proposed rates, 1.53% and 1.452% are substantially lower than 1.82%. ELI states that the intervenors want to accept part of the agreement of ELI and Commission Staff, the 20-year life extension, but reject a component part, the inclusion of interim additions.

Commission Staff states that the proposed settlement reflects Commission Staff's

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recommendation to extend the useful life of Waterford 3 by 20 years for the purpose of calculating the depreciation rate and the nuclear decommissioning accrual, 2.12% and \$2.282 million, respectively. Commission Staff asserts that this results in \$29.2 million per year in ratepayer savings.

LEUG

LEUG argues that interim additions should not be included in Waterford 3's depreciation rate. LEUG asserts that the assumed 20-year life extension lowers the depreciation rate of Waterford 3 from 2.73% to 2.12%. LEUG states that if you removed the interim additions from ELI's depreciation rate calculation assuming a life extension, it would further reduce the depreciation rate from 2.12% to 1.53%. LEUG provides that interim additions are a method for ELI to include in its depreciation rate costs for plant additions before the additions are actually made to the plant. Hence, ELI would be charging current customers for estimated future additions. LEUG suggests that the customers who receive the benefit of the future additions pay the associated costs. Furthermore, interim additions are not known and measurable and may not take place as projected.

LEUG contends that ELI confirmed interim additions are estimates of additions projected for the future of certain nuclear parts and including them in the depreciation calculation increases ELI's depreciation rate and thus ELI's revenue requirement in the case. The most significant "interim addition", claims LEUG, is the proposed steam generator replacement in approximately 2026, which could further extend the useful life of Waterford 3. LEUG suggests that reflecting interim additions in the depreciation rate unduly penalizes current ratepayers. LEUG cites a past LPSC decision, Order No. U-22092 regarding EGSI, which addressed depreciation rates in which the LPSC excluded "interim additions." LEUG also refers to a National Association of Regulatory Utility Commissioners ("NARUC") determination that it is inappropriate to include interim additions in the calculation of depreciation rates. LEUG argues that excluding the interim additions will result in a \$14.995 million dollar reduction in rates annually whereas including them in the depreciation calculation will increase ELI's revenue requirement by \$14.995 million.

Marathon

Marathon rejects ELI's and Commission Staff's proposed 2.12% depreciation rate for Waterford 3, stating it is materially higher (46%) than the 1.452% rate proposed by LEUG and the 1.53% rate used for EGSI's River Bend facility. Marathon alleges that use of a 1.452% rate would reduce ELI's revenue requirement by \$19,219,422 from the amount required using a 2.12% rate; this amount, avers Marathon, would completely offset the \$18,300,000 base rate increase proposed by ELI and Commission Staff.

Marathon also opposes the inclusion of interim retirements and additions in the calculation of the depreciation rate for Waterford 3 because it is inconsistent with Order No. U-22092, which stated that interim additions and retirements should

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not be included in the company's depreciation expense. Marathon suggests that the Proposed Stipulation Settlement does not reconcile why interim additions and retirements should be included for Waterford 3 with the Commission's exclusion of interim retirements and additions in the depreciation expense for EGSI's River Bend facility. Moreover, ELI and Commission Staff have the burden of proving the reasonableness of including interim additions and retirements and they have failed to meet that burden.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

Commission Staff and ELI propose that the time period used for determining decommissioning funding for Waterford 3 should be extended by 20 years because ELI intends to seek a renewal of Waterford 3's license for an additional 20 years, which would permit the extension of Waterford 3's useful life by 20 years. Commission Staff contends that because ELI has expressed its intention to seek renewal of the license, the decommissioning costs should be spread over an additional 20 years to better match ELI's projected costs with its customers.

As a part of the extension of the useful life of Waterford 3, Staff and ELI argue that the components that allow such an extension should be considered as well, namely interim additions and interim retirements. Marathon also opposes the inclusion of interim retirements in the calculation of depreciation.

Interim retirements reflect a projection of a retirement of plant in service that is currently in use and providing service to ratepayers. In LPSC Order No. U-22092, the Staff's position was that interim additions should be excluded from depreciation rates, arguing that "calculation of depreciation rates including interim additions requires today's ratepayers pay for property to be used in the future, in violation of the matching principle and the intergenerational equity Principle." As pointed out by Mr. Chavanne in his comments on behalf of Marathon related to the proposed stipulated settlement, if the Commission excludes interim additions in the calculation of the Waterford 3 depreciation rate, ELI's base rate increase should not exceed \$1,578,709. As Mr. Selecky states in his Settlement Testimony and Schedules filed on behalf LEUG, this removing of interim additions from the determination of the depreciation rate further reduces the depreciation expense by \$14,995,000.

Mr. Catlin, in his reply settlement testimony speaks in favor of recognizing the interim additions for Waterford 3 only in the context of recognizing a 20- year life extension for Waterford 3. He argues that the life extension would not be possible without interim additions. He states "Therefore, it is reasonable to consider the costs of achieving the life extension at the same time as the benefits of recognizing that life extension are being flowed through to ratepayers. To not do so could back load the costs of the life extension on future ratepayers."

Depreciation of interim additions results in passing through an expense to ratepayers that may occur in the future. It requires today's ratepayers to pay for

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something that is not used and therefore not providing any service to ratepayers. This is contrary to previous practice of this Commission. It is also contrary to the opinion of the Staff Committee on depreciation of the NARUC Finance and Technology Committee that it is inappropriate to reflect future additions in the development of depreciation rates.

Decommissioning cost recovery is all about timing and, eventually, ELI will be able to recover all of the decommissioning costs. ELI's concern regarding under funding is misplaced because ELI conducts periodic studies of decommissioning costs and those future studies will detect under funding, if any, and it can be corrected at that time. Additionally, the decommissioning studies contain a 15-25% contingency factor.

Staff and ELI have the burden of proving that the use of interim additions in the calculation of the depreciation rate is reasonable, consistent with the law, and not contrary to the public interest. The argument made that interim additions will be required to actually extend the life of Waterford 3 by another 20 years is reasonable. However, it is not consistent with prior decisions of this Commission and is contrary to the public interest by having today's ratepayers pay for a cost that may be incurred at an unknown later date and at an unknown precise cost. Customers who benefit from such additions should pay the cost associated with those interim additions.

Traditional ratemaking principles require ratepayers should only have to pay a return on prudent investments when they become "used and useful." The inclusion of interim retirements is consistent with this principle. The inclusion of interim additions in calculating depreciation rates for Waterford 3 violates this principle. Based on the foregoing, this tribunal does not recommend the use of interim additions in calculating the depreciation rates of Waterford 3. Interim retirements cover costs that are already in place and may appropriately be included in the depreciation rate. However, the exclusion of interim additions will necessarily result in a recalculation of the depreciation rate for Waterford 3.

Incentive Compensation

ELI and Commission Staff

Paragraph 8 of the Proposed Settlement Term Sheet provides that incentive compensation expense will be normalized per the agreement between the Staff and ELI derived in item C(13) of the Proposed Stipulation, which will have the effect of reducing test year expense by \$500,000. ELI states that issues related to incentive compensation were taken into account in determining the \$18.3 million rate increase proposed in the settlement. In refuting Marathon's argument that incentive compensation should be disallowed, ELI states that Marathon propounds two reasons for disallowing this expense: 1) Entergy Corporation's 2004 Proxy Statement, which Marathon argues supports his position that incentive compensation is unnecessary to attract and keep executives; and 2) Marathon cites six

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regulatory decisions disallowing incentive plan costs related to total shareholder returns.

ELI asserts that the 2004 Proxy Statement does not support Marathon's argument because Marathon took portions of it out of context and when the 2004 Proxy Statement is read as a whole, it does not support Marathon's assertions. Further, ELI contends that Marathon's argument is weakened by the fact that Marathon does not oppose incentive compensation, just ratepayer funding of the expense. Marathon does not allege that the compensation is excessive, but objects to recovery through base rates. ELI argues that ELI's financial performance is a reflection of its efficiency and ability to control costs, both of which benefit ratepayers. The more efficient the management of the company, the lower the rates and incentive compensation promotes efficiency.

Marathon alleges ELI has not provided evidence of at least one commission that has permitted ratepayer funding of incentive plan costs resulting from increased return to shareholders. ELI cites *Re: Arkansas Louisiana Gas, Co.*, 150 PUR 4th 333 at 347 (1994) to refute this statement. Furthermore, the fact Marathon only cites six cases in which incentive compensation expense has been disallowed shows that the expense has only been challenged in a small number of jurisdictions.

Commission Staff insists that the recovery of incentive compensation under the terms of the proposed settlement is an insufficient basis to reject the settlement. Commission Staff avers that in the context of this settlement it is reasonable to allow recovery of this expense and these expenses are recoverable so long as they are prudent and not excessive. Commission Staff admits that some jurisdictions have disallowed recovery of incentive compensation costs, yet others have allowed recovery if the costs are not unreasonable. Commission Staff submits that Marathon has not presented any evidence to demonstrate that this expense is unreasonable or excessive.

Marathon

ELI and Commission Staff, in the Proposed Settlement Term Sheet, agreed to normalize ELI's incentive plan costs rather than eliminating them, a decision that would increase rates by \$5,000,000 annually. In support of its argument that **long-term incentive plan** costs should not be borne by the ratepayers, Marathon sets forth that public service commissions in Washington, Illinois, Oregon, Idaho, District of Columbia and Missouri have all disallowed incentive or bonus plans paid to employees based on findings that the plans were shareholder-oriented or that they did not provide any meaningful benefit to the ratepayers; a fact Marathon states that Commission Staff has failed to address in its testimony. Marathon contends that ELI did not present any decisions from other commissions that have allowed recovery from ratepayers for the cost of incentive plans tied to shareholder benefit.

Marathon makes clear that it does not oppose a **long-term incentive plan**, but opposes ratepayer funding for such a plan. Furthermore, if the Commission adopts

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Marathon's proposal to exclude **long-term incentive plan** costs from ELI's revenue requirement, ELI could continue the plan, just not at the expense of ratepayers. Marathon equates **long-term incentive plan** expense to lobbying expense, stating that the Commission's exclusion of lobbying expense from ELI's revenue requirement does not prevent ELI from lobbying. ELI did not submit any evidence that it has been unable to hire and retain top personnel, despite that such costs are disallowed for ratemaking purposes. Marathon rejects ELI's claims that it would have to increase base pay to attract comparable talent, stating that ELI's argument is inconsistent with its "Proxy Statement" communication to shareholders that current base salary levels are set at targeted levels. Likewise, Marathon rejects ELI's argument that customer service and satisfaction would be adversely impacted, stating that it is unsupported by any evidence that suggests that companies with incentive plans funded by ratepayers have higher levels of customer service and satisfaction than companies who have incentive plans funded by shareholders.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

There are many factors that influence the price of publicly traded stocks. Not all of the factors that might impact **long-term incentive plans** reflect a benefit to ratepayers. Incentive pay fluctuates, meaning that it is not known and measurable. There is a possibility that if these costs are built into rates, and for some reason are not paid, ratepayers are disadvantaged.

While keeping competent staff is an important goal, there has been no evidence given that ELI has had difficulty retaining staff. Nor has there been any evidence of any correlation between increased customer service and satisfaction and incentive plans based solely on shareholder appreciation.

The record does not reflect any meaningful benefit of this program for ratepayers. For the reasons stated above, this tribunal recommends that such costs be disallowed for ratemaking purposes. This would reduce the revenue requirement by approximately \$5,000,000.

Retail Sales Revenue

ELI and Commission Staff

Paragraph 7 of the Proposed Settlement Term Sheet provides that 2002 test year revenues will be based on the 2002 test year amount without an adjustment for year-end customer annualization, per the agreement between the Staff and ELI described in item C(12) of the Proposed Stipulation, which will have the effect of increasing test year revenues by \$193,000,000. ELI states that issues related to test-year revenues were taken into account in determining the \$18.3 million rate increase proposed in the settlement. ELI urges that neither the witness for Marathon nor the witness for LEUG propose any offsetting adjustments to either the expenses or rate base. Further, for the adjustments set forth by witnesses for Marathon and LEUG to be accurate, one must assume that the Company was able to

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provide an increased level of service in 2003 without incurring any cost beyond what was reflected in the adjusted test year revenue requirement. There was no evidence presented by either Marathon or LEUG to prove this assumption was correct.

ELI asserts that Marathon cites the inclusion of costs for the Customer Care System ("CCS") and the Voluntary Severance Program ("VSP") as a basis for the sales adjustment and failure to include Marathon's 2003 sales adjustment is a violation of the regulatory "matching principle". In response to Marathon's argument, ELI avows that neither the CCS nor the VSP programs could be said to cause an increase in revenues. ELI states that Marathon's contention that neglecting to use its 2003 sales adjustment violates the matching principle is wrong because the annual reduction in costs resulting from the VSP was reflected in the revenue requirement agreed to by ELI and Commission Staff.

Commission Staff insists that LEUG's adjustment to recognize post test year sales should not be considered without also considering other post test year changes in revenues and expenses. For instance, ELI's rate base increased substantially in 2003, excluding costs related to the new CCS. Acknowledging the affect of the rate base growth would outweigh additional revenue in LEUG's adjustment. Commission Staff maintains that the use of adjusted test year sales is reasonable in this settlement.

LEUG

LEUG argues that the Commission should adjust ELI's test year base revenues to reflect actual sales for 2003. LEUG avers that ELI projected an 8.6% decrease in its test year sales from 2002 levels to determine its test year revenue requirement. However, ELI's actual sales for 2003 indicate that the decline was significantly less than projected. Therefore, given the size of the adjustment that ELI is proposing, LEUG asserts using the actual 2003 sales to test the reasonableness of ELI's adjustment is appropriate. LEUG contends that using the actual 2003 data would increase ELI's base revenues by \$9.459 million thus reducing its revenue requirement by the same amount. Yet, LEUG proposes that the \$9.459 million be reduced by \$1.7 million to reflect the effect of a large customer leaving the ELI system in 2003. After the \$1.7 million deduction, ELI's revenue requirement would be reduced by a total of \$7.76 million.

Marathon

Marathon opposes ELI's proposed test year 2002 revenues of \$915,952,000 as this is \$22,391,173 less than actual per books 2003 revenues for 2003 and is \$7,565,885 less than the test-year revenues recommended in the testimony filed on behalf of Marathon and LEUG. Marathon insists that if the Commission adopts a deflated test-year revenue, it would create an inflated base rate increase level, which would cause a higher than supported increase to ratepayers. Marathon and LEUG initially proposed that 2002 base-rate revenues be increased by \$7,758,885, which would reduce ELI's revenue requirement by \$7,758,885, using ELI's 2003 sales rather than outdated 2002 sales. Marathon avers that what ELI is attempting to do

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is to include 2003 expenses while excluding 2003 revenues.

Marathon suggests that the record in this proceeding shows ELI is requesting recovery of \$3,000,000 annually, on a prospective basis, related to VSP costs incurred in 2003. Marathon urges the Commission to accept the above-described reasonable "revenue related" ratemaking adjustment to reflect actual 2003 sales. Its recommendation, Marathon contends, would reduce the ELI and Commission Staff proposed base rate increase by \$7,565,885.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

LEUG and Marathon both argue that the revenue increase incorporated in the settlement is overstated because the adjustment recommended by Mr. Selecky to reflect 2003 sales was not adopted in the settlement. Mr. Catlin explained in his testimony at the contested proposed stipulated settlement hearing that it would not be appropriate to recognize post test year sales levels without considering other post test year changes in revenues and expenses. He gave as an example that the increase in ELI's rate base in 2003 was significant. He argues that recognizing the revenue requirement impact of that growth in rate base would outweigh the additional revenues produced by the adjustment. Accordingly, he felt that the settlement's use of adjusted test year sales is reasonable.

The impact of only considering the higher sales alone would result in a higher revenue requirement. Considering the foregoing, this tribunal feels that the 2003 test year adjustments related to sales and revenues are reasonable and need not be disturbed.

Formula Rate Plan

Return on Equity

ELI and Commission Staff

A regulated company's rates should be set so that the company recovers costs, including taxes and depreciation, plus a fair and reasonable return on its investment capital. A utility's rates must permit an opportunity for recovery of the cost of capital invested in the utility's assets necessary for it to provide service. The rate of return ("ROR") that a utility should be permitted "to earn on the amount of its investments is the weighted average cost of the types of capital that the utility has to invest, including common equity, preferred stock, long-term debt, and in some instances, short-term debt. An FRP is a mechanism providing for the annual review of ELI's earnings. ELI and Commission Staff propose a FRP that adopts the 10.25% return on equity as the midpoint value for the entire three-year life of the plan. It is argued that this protects customers against any cost of equity increase that might occur through September 2009.

The settlement rate increase in this proceeding incorporates an overall rate of return of 8.76 percent, including a 10.25 percent return on equity ("ROE").

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Mr. Matt Kahal, in his testimony in support of the settlement states:

The 10.25 percent figure compares to Staff's recommended 9.75 percent and ELI's final recommendation of 11.25 percent. The capital structure and debt costs are those recommended by Staff with one small exception. Short-term debt (0.56 percent of total capitalization) is not included at this time, although it is reflected (based on a 13 month average) in the FRP. Thus, the short-term debt exclusion does not apply for the three years of the FRP.

The FRP adopts the 10.25 percent return on equity as the midpoint value for the entire three-year life of the plan. Hence, customers are protected against any cost of equity increase that might occur (e.g., due to adverse market conditions) until September 2009. As explained below, this is an important protection.

When asked the following question, "Your ROE recommendation is 9.75 percent as compared to the settlement return of 10.25 percent, in your opinion, is that a reasonable end result?"

Mr. Kahal responded:

It is a reasonable end result in the context of the entire settlement. Staff's recommendation in this case is 9.75 percent, an estimate of ELI's cost of capital that I believe is supported by evidence in the record in this case.

However, the cost of equity traditionally has been an area of disagreement between the Company and Staff, and in this case the Company's witness (Dr. Morin) recommends 11.25 percent. The settlement is much closer to Staff's estimate than Dr. Morin's and reflects a meaningful reduction from the currently authorized 10.5 percent. The 10.25 percent settlement ROE is a negotiated compromise between the positions of Staff and the Company.

There is a second, very important factor that Staff included in its decision to accept the 10.25 percent return on equity. As part of the settlement, ELI has agreed to a minimum stay out on return on equity for the full three-year term of the FRP, meaning that this very favorable return on equity will remain in effect at least until September 2009. In my opinion, this is an important customer protection obtained through this settlement that would not be available to ELI customers absent the settlement. My recommendation in the rate case of 9.75 percent did not assume that ELI would absorb the risk of a rate of return stay out.

In response to LEUG's proposed 10.05% ROE, Commission Staff states that LEUG arrived at its proposed ROE using testimony from the recent Global Settlement proceedings. At the Global Settlement hearing, a witness for the Commission Staff testified that historically there had been a 0.06% differential in the authorized ROEs of ELI and EGSI. LEUG's witness merely took the ROE approved for EGSI in the Global Settlement, 10.65%, and subtracted 0.06% to arrive at 10.05%. Commission Staff disagrees with this approach, as it is inappropriate to take one component of a settlement out of context and use it as a benchmark for another utility

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company.

LEUG

LEUG contends that ELI's base rates should be reduced by \$8.5 million rather than increased. LEUG alleges that the 10.25% ROE included in the settlement is too high compared to the 9.75% ROE initially proposed by Commission Staff in this proceeding and the ROE approved for EGSI in the recent Global Settlement. LEUG urges that 10.25% is inappropriate for ELI because no testimony has been presented by Commission Staff to indicate that the differential between EGSI and ELI should be less than historical levels, a 0.06% differential.

LEUG maintains that the difference between a 9.75% ROE and a 10.25% ROE increases ELI's revenue requirement by \$10 million. LEUG admits that it has not performed its own ROE study and bases its conclusion, in part, on the testimony filed in the recent Global Settlement. LEUG suggests that the appropriate ROE for ELI should not be more than 10.05% and reducing the ROE to 10.05% would reduce ELI's revenue requirement by \$4 million.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

The 10.25% ROE is a negotiated settlement of the ROE between Commission Staff and ELI. Commission Staff initially proposed a 9.75% ROE and ELI proposed an 11.25% ROE. In the context of this settlement, 10.25% is reasonable, not contrary to law and in the public interest. Sufficient testimony at the settlement hearing in this proceeding supports the use of a 10.25% ROE. As presented in the testimony of Commission Staff, the 10.25% ROE is a midpoint value for the three-year life of the FRP, which protects ratepayers against cost of equity increases, such as adverse market conditions, until September 2009.

Return on Common Equity Bandwidth*ELI and Commission Staff*

Return on equity bandwidth is a range in the earned return on equity in which no change in rates will occur. If the earned return on equity is between the upper and lower limits of the bandwidth, the rates do not change. In the previous FRP for ELI, the bandwidth was 80 basis points; thus with an EPCOE of 10.5%, no change in rates occurred if the earned return on equity was between 9.7% and 11.3%.

The Proposed Settlement Term Sheet Paragraph 1 (a) provides for return on common equity bandwidth of 80 basis points above and 80 basis points below (+/- 0.80 of 1%) the benchmark ROE. ELI contends that Marathon supported, in its previously filed sworn testimony, an 80 basis point bandwidth; yet in the settlement testimony supports a 75 basis point bandwidth asserting that the 80 basis point bandwidth inflates the FRP related basis point bandwidth. ELI asserts that the ROE bandwidth supported by ELI was from 9.85% to 11.35% and the stipulation results in a bandwidth of 9.45% to 11.05%.

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Commission Staff proposes an 80 basis point bandwidth-the same as the previous FRP. Commission Staff states that Marathon's objection to the 80 basis point bandwidth because of the additional revenues it would permit ELI to return when earnings are above the upper and should be rejected. Commission Staff points out that Marathon has recommended a ROE up to 10.5%. Using a 75 basis point bandwidth would permit an 11.25% ROE on the upper end, compared to the 11.05% upper end earnings under the terms of the proposed settlement. Additionally, Marathon's objection neglects to consider that an 80 basis point bandwidth results in ELI receiving less revenue when earnings fall below the lower end. Commission Staff states that Marathon's objection to the 80 basis point bandwidth is another example of objecting to an element of the settlement while ignoring concessions on the part of ELI. The concessions made by ELI are to reflect short-term debt in the capital structure used to calculate earned ROE and to limit the allowed equity ratio to no more than the average of the five Entergy operating companies plus 2% rather than 3% as previously proposed by ELI.

Marathan

Marathon opposes the 80 basis point bandwidth because it permits ELI to earn a higher level of FRP related revenue requirements than ELI requested in the hearing of this proceeding. ELI initially sought a 75 basis point bandwidth. Marathon asserts that the 80 basis point bandwidth, compared to the 75 points, creates a \$1,250,608 benefit to ELI. Moreover, 80 basis points compared to 70 basis points, initially proposed by Commission Staff in this proceeding, creates a \$2,084,348 benefit to ELI in addition to the proposed \$18,300,000 base rate increase- a figure \$11,511,000 higher than the increase initially supported by Commission Staff.

Marathon insists that its initial support of an 80 basis point bandwidth was associated with a substantially lower base rate increase than the \$18,300,000 increase now proposed by ELI and Commission Staff. Previously, Marathon supported a 10.5% ROE with a maximum increase of \$14,787,669 or no increase at all based on Commission Staff's proposed 9.75% ROE. If the Commission were to adopt LEUG's depreciation rate, excluding interim additions, it would lower Marathon's maximum rate increase to \$1,578,709. Marathon alleges that the Proposed Stipulation Settlement inflates the base rate increase amount supported by the record in this proceeding; likewise inflating the FRP related basis point bandwidth.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

Testimony in this proceeding supports the use of an 80 basis point bandwidth on common equity in the FRP. In the context of this settlement, it is reasonable, not contrary to law and in the public interest. An 80 basis point bandwidth is the same bandwidth as used in the previous FRP. The previous RFP provided for a 10.5% ROE, as opposed to the 10.25% ROE recommended by the Administrative Law Judge in this proceeding and that is supported by Commission Staff and ELI. Considering the foregoing, this tribunal supports the 80 basis point bandwidth.

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Rate Allocation

ELI and Commission Staff

The Proposed Settlement Term Sheet provides for an \$18.3 base rate increase, allocating the increase among the rate classes on the basis of relative base rate revenues. LEUG opposes the allocation of the increase to all rate classes except for customers taking service under Special Contract Rates. LEUG sets forth that non-firm rates and rate schedules be excluded from the allocation of the rate increase. LEUG's basis for opposing the allocation is that these classes were excluded from the rate decreases that were allocated under ELI's prior FRPs, ELI admits that LEUG's assertion is correct, but LEUG does not explain why these classes were excluded in the prior FRP. ELI maintains that Commission Staff contended that that these rate schedules should be excluded from the rate decreases because the rates for some of these schedules were too low. Nonetheless, the rates being too low does not justify excluding them from the rate increase.

LEUG

LEUG alleges that the settlement allocates the increase to all rate classes except for Special Contracts, which is inconsistent with the allocation of rate reductions in the FRP, which excludes Special Contracts and non-firm riders and certain rate schedules. LEUG also asserts that if the Commission approves any rate change that it should be implemented consistent with the manner in which the Commission has implemented rate changes for ELI over the past decade. The riders and rates that have previously been excluded from the FRP reductions should not realize any rate change, whether it is an increase or decrease.

RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

LEUG argues that rate classes that are excluded from the FRP should be excluded from any base rate change ordered in this case. As it currently reads in the proposed settlement, except for customers with Special Contracts, a base rate increase will be allocated to all rate classes on the basis of relative base rate revenues. Mr. Selecky argues that the riders and rates that have previously been excluded from the FRP reductions, and are also excluded under the proposed FRP, should not realize any rate change at all.

Mr. Kahal counters this argument by pointing out that LEUG is proposing that customers who already are enjoying steeply discounted rates be carved out of participation in the rate increase. Mr. Kahal also points out that the Proposed Settlement calls for the increase to be allocated on base (i.e., non-fuel) revenues. As he states "This is an extremely favorable methodology for these non-firm customers on full-tariffed rates. I see no reason to provide extra benefits to these customers."

He also argues that more than half of the rate increase is the recovery of capacity costs for the RS Cogen and ISES PPAs. He states that these contracts more

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than pay for themselves with fuel savings. He testifies that "Based on LEUG's recommendation, the customer usage under these rate schedules would be spared any responsibility for the RS Cogen and ISES capacity costs while enjoying the fuel savings those capacity costs create. This would be an unreasonable and inequitable outcome."

This tribunal concurs with Mr. Kahal's rationale that those customers taking non-firm services and those loads on rate schedules that did not share in the prior FRP rate reductions should not be excluded from any rate increase. This aspect of the settlement is reasonable in light of the record, consistent with the law and not contrary to the public interest.

CONCLUSION

Rule (6)(B)(2)(b) of the Rules of Practice and Procedure of the Louisiana Public Service Commission states that the Administrative Law Judge shall issue a recommendation to the Commissioners with regard to the Stipulated Settlement. In this proceeding, comments were received that contested certain portions of the settlement. The opportunity to file rebuttal comments concerning the contested portions of the settlement was provided along with a hearing on the contested issues.

The recommendations issued in this proceeding address contested issues individually. As not all aspects of the Proposed Stipulated Settlement were opposed, many areas of this settlement are not addressed in this recommendation. These recommendations do not lend themselves to an opinion regarding the Proposed Stipulated Settlement as a whole. It will be necessary for the Commission to review all aspects of the settlement in order to determine if the settlement is in the best interest of the ratepayers. It is envisioned that these recommendations on the contested issues will be considered in the context of a more comprehensive review of the numerous issues addressed by the Proposed Stipulated Settlement.

Baton Rouge, Louisiana this 13th day of May, 2005.

Michelle Finnegan

Administrative Law Judge

EXHIBIT 3

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF ENTERGY LOUISIANA, INC. FOR A CHANGE IN ITS RATES AND CHARGES

LPSC DOCKET NO. U-20925 (2004 RRF)

PROPOSED STIPULATION

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The Louisiana Public Service Commission ("LPSC" or "Commission"), Energy Louisiana, Inc. ("ELI" or the "Company"), the Louisiana Energy Users Group ("LEUG"), Marathon Oil Company ("Marathon"), and Bayou Steel Corporation ("Bayou Steel") enter into this stipulation resolving a number of issues that have been raised during the course of this proceeding, and reducing the issues for trial.

A. The following issues in this proceeding have been resolved by agreement in the manner described below.

(All amounts Total Company - \$000's)

1. New Capacity Costs.

In the event that the approvals required to implement the River Bend 30% and EAI Wholesale Base Load Capacity purchased power agreements and/or the acquisition of the Perryville facility are not obtained in time to address the associated capacity costs in the order issued in this proceeding, such costs will not be included in the revenue requirement to be approved in this proceeding, and the Company, the Staff, and intervenors will continue to work to develop a means to provide for appropriate recovery of such costs, which may include a Capacity Cost Rider such as that proposed by the Company or an alternative cost recovery mechanism.

2. Decommissioning Management and Trustee Fees.

The calculation of the average trust fund balance utilized to determine the management and trustee fees each year will include a deduction for the current year decommissioning expenditures, if any.

3. Decommissioning Trust Fund Balance.

The nuclear decommissioning revenue requirement calculation will reflect the actual balance as of December 31, 2003 as the trust fund beginning balance. The calculation also will assume that the currently approved annual funding allowance of \$10,422 will remain in effect for 2004.

4. State Corporate Franchise Tax.

Franchise tax credits of \$2,318 will be amortized over 3 years. The Company agrees to update the Commission on a semi-annual basis regarding the status of efforts to convert ELI from a corporation to a limited liability company.

5. Waterford 3 Sale/Leaseback Debt Cost.

The current lessor debt cost rate of 8.09% less 0.125% (resulting in a debt cost rate of 7.965%) will be used in the cost of capital instead of the 10.375% debt cost rate previously used for the W3 sale/leaseback debt cost. Similarly, in

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future rate cases (and in earnings tests, if any, applied to years subsequent to the 2002 test year used in this case) where the conventional refinancing option is used, the then-current lessor debt cost rate less 0.125% will be used in the cost of capital instead of the 10.375% debt cost rate previously used for the W3 sale/leaseback debt cost. The Company will inform the LPSC Staff in the event of any future lessor sale/leaseback debt refinancings. This stipulation is intended to preclude future claims that something other than the actual sale/leaseback debt cost less 0.125% should be used in the cost of capital where the conventional refinancing option is used, provided that the actual sale/leaseback debt cost is not imprudent. This stipulation is not intended to preclude future challenges to the prudence of any future actual debt cost rate associated with the sale leaseback debt. The Commission Staff reserves any right that it may have to assert in future proceedings that Entergy Louisiana should be required to make refunds or otherwise compensate ratepayers for its use of the 10.375% debt cost rates in periods prior to the effective date of the Order issued in this proceeding. Entergy Louisiana specifically denies that the Commission has the authority to require refunds or otherwise cause Entergy Louisiana to compensate ratepayers for its use of the 10.375% debt cost rate in prior periods, and denies that the Staff would have the right even to litigate this matter in a future proceeding in light of the fact that it is Entergy's position that the Staff could have raised this issue in this proceeding. This stipulation does not resolve the issue whether the Staff may assert a claim for a retroactive refund relating to the Waterford 3 sale/leaseback debt cost in a future proceeding.

6. Update to Capital Structure.

The Company's June 30, 2004 capital structure will be used, except that any capital structure effects resulting from the October 2004 long-term debt and/or QUIPS refinancings addressed in item C(11) below shall be included in the event that these refinancings are included in determining the cost of long-term debt.

7. Short-term Capacity Reserve Charge Proposal.

A Short-term Capacity Reserve Charge will not be approved at this time.

8. IPP Customer Advances.

IPP advances of \$35,493 less accumulated depreciation of \$1,622 will be removed from rate base. Interest expense related to the IPP advances of \$85 will be added to operating expense.

9. Outstanding Payroll Checks.

Other working capital will be reduced by \$127 related to outstanding payroll checks.

10. Cash Working Capital.

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Cash Working Capital will be calculated using the final expense amounts approved by the LPSC.

11. NEIL Insurance.

NEIL insurance expense will be reduced by \$366 and ANI insurance expense will be increased \$295 for net decrease to insurance expense of \$71.

12. Property Insurance.

No adjustment will be made for property insurance expense.

13. Normalization of Certain O&M Expenses.

FERC Account 553 expense will be reduced by \$630 and FERC Account 912 expense will be reduced by \$396. No adjustment will be made for FERC Account 923 expense.

14. Expired Amortizations.

Amortization of Intangible Plant of \$125 for amortizations expiring as of 12/31/03 will not be included in the cost of service. Amortizations expiring in 2004 will be included to be consistent with amortizations for intangible plant added in 2004 not being included.

15. Interest Synchronization.

The interest synchronization adjustment will be calculated using the final rate base and cost of capital approved by the LPSC.

16. FAC Incentive Mechanism.

No FAC incentive mechanism will be approved at this time.

17. Facilities Charges.

If an order is rendered resolving facilities charge rate issues in LPSC Docket No. U-27167 (the Facilities Charge docket) prior to the issuance of an order in this proceeding, the resulting facilities charge rates (or rate methodologies) shall be reflected in the rates implemented pursuant to the compliance filing made upon the conclusion of this proceeding. If an order is not rendered resolving facilities charge rate issues in the Facilities Charge docket prior to the issuance of an order in this proceeding, the parties agree to request an order in the Facilities Charge docket that provides for the implementation of the resulting facilities charge rates (or rate methodologies) in the next base rate proceeding, formula rate plan proceeding, or other proceeding in which the Company's other rates can be set to provide that portion of the Company's total revenue requirement that is not provided by the new facilities charge rates.

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18. Sales and Use Tax Credit.

Sales and Use Tax credits of \$561 will be amortized over 3 years.

19. Environmental Reserve Expense.

No adjustment will be made for Environmental Reserve Expense.

20. Normalization of Injuries and Damages Expense.

Injury and Damages Expense will be increased by \$920.

21. Payroll/Voluntary Severance Plan Costs.

ELI payroll costs will be reduced by \$6,759. Voluntary Severance Plan Costs of \$15,221 will be amortized over four years beginning January 1, 2004. This amortization of VSP costs results in an increase in costs of \$3,805. Grand Gulf purchased power costs will be reduced by \$184, which reflects a three year amortization of ELI's share of VSP costs.

22. CCS: Indirects Included in Error.

CCS costs identified as Indirects Included in Error, in the amount of \$1,800, will not be included in rate base and will not be recoverable.

B. This Stipulation will resolve all issues that have been or could have been raised in this proceeding, except as specifically addressed in item A(5) above, and except the remaining issues discussed in paragraph C, below, which remaining issues will be decided only after a full evidentiary hearing process, or after a further settlement resolving those remaining issues. Implementation of the change in rates that would result from the Company's filing subject to the adjustments agreed to in this Stipulation will be delayed, however, pending a final decision as to the remaining issues to be tried in this proceeding, because the resolution of the remaining issues may require further changes in rates that would offset, at least in part, the change in rates that otherwise would occur as a result of this Stipulation. Rates will be changed only upon final Commission approval of the total change in rates that is to be implemented as a result of this proceeding.

C. The remaining issues that shall continue to be tried through the hearing process, including cross-examination and briefing, or that may be resolved through a further settlement, are issues relating to the following:

1. Formula Rate Plan (including issues relating to the ROE midpoint, the bandwidth, the equity cap, and the treatment of extraordinary cost items).

2. The authorized ROE will be an issue to be litigated even in the absence of agreement on a mutually acceptable Formula Rate Plan.

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3. The proposed Capacity Cost Rider, and potential alternative means of achieving full and timely recovery of new capacity costs, including those relating to the RB 30% and EAI Wholesale Base Load purchased power agreements and/or the acquisition of the Perryville facility in the event that these new capacity acquisitions are not approved in time to be addressed in the order issued in this proceeding. Alternative means of achieving full and timely recovery of capacity costs may include a provision for such recovery in the Formula Rate Plan, or some other rate recovery mechanism.

4. Regulatory Asset on R.S. Cogen and ISES.

5. Decommissioning Cost Escalation Rate.

6. Waterford 3 Twenty-year Life Extension: Decommissioning.

7. Waterford 3 Twenty-year Life Extension: Depreciation.

8. Waterford 3 Twenty-year Life Extension: Investment Tax Credits.

9. CCS (except with regard to the Indirects Included in Error, which has been stipulated as noted in item A(22) above).

10. Short-term Debt.

11. Update to Long-term Debt Cost Rate to reflect October 2004 long-term debt and QUIPS refinancings.

12. The LEUG's proposal that test year revenues should be adjusted to 2003 levels in this case. The Staff and ELI have agreed that 2002 test year revenues should be used, and that the calculation of present base rate revenue for the residential rate schedule will not include an adjustment for year-end customer annualization. The effect of the treatment agreed upon by the Staff and ELI would result in an increase in revenues of \$193.

13. Marathon's proposed disallowance of incentive compensation. The Staff and the Company have agreed to normalize incentive compensation by reducing that test year expense by \$500.

Nothing herein shall be precedential with respect to any issue in any other proceeding except as specifically stated herein.

Please indicate your agreement with the stipulations set forth above by executing the jurat below, and returning the signed original to me, retaining a copy for your records. I will distribute a copy of the executed letters to everyone, and will retain the originals for introduction as a joint exhibit at the hearings to be conducted in this matter.

Sincerely,

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Margot G. Augustin

Accepted:

By: _____

Representing: _____

PROPOSED STIPULATION

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4. State Corporate Franchise Tax.

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Franchise tax credits of \$2,318 will be amortized over 3 years. The Company agrees to update the Commission on a semi-annual basis regarding the status of efforts to convert ELI from a corporation to a limited liability company.

5. Waterford 3 Sale/Leaseback Debt Cost.

The current lessor debt cost rate of 8.09% less 0.125% (resulting in a debt cost rate of 7.965%) will be used in the cost of capital instead of the 10.375% debt cost rate previously used for the W3 sale/leaseback debt cost. Similarly, in future rate cases (and in earnings tests, if any, applied to years subsequent to the 2002 test year used in this case) where the conventional refinancing option is used, the then-current lessor debt cost rate less 0.125% will be used in the cost of capital instead of the 10.375% debt cost rate previously used for the W3 sale/leaseback debt cost. The Company will inform the LPSC Staff in the event of any future lessor sale/leaseback debt refinancings. This stipulation is intended to preclude future claims that something other than the actual sale/leaseback debt cost less 0.125% should be used in the cost of capital where the conventional refinancing option is used, provided that the actual sale/leaseback debt cost is not imprudent. This stipulation is not intended to preclude future challenges to the prudence of any future actual debt cost rate associated with the sale leaseback debt. The Commission Staff reserves any right that it may have to assert in future proceedings that Entergy Louisiana should be required to make refunds or otherwise compensate ratepayers for its use of the 10.375% debt cost rates in periods prior to the effective date of the Order issued in this proceeding. Entergy Louisiana specifically denies that the Commission has the authority to require refunds or otherwise cause Entergy Louisiana to compensate ratepayers for its use of the 10.375% debt cost rate in prior periods, and denies that the Staff would have the right even to litigate this matter in a future proceeding in light of the fact that it is Entergy's position that the Staff could have raised this issue in this proceeding. This stipulation does not resolve the issue whether the Staff may assert a claim for a retroactive refund relating to the Waterford 3 sale/leaseback debt cost in a future proceeding.

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to operating expense.

9. Outstanding Payroll Checks.

Other working capital will be reduced by \$127 related to outstanding payroll checks.

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Cash Working Capital will be calculated using the final expense amounts approved by the LPSC.

11. NEIL Insurance.

NEIL insurance expense will be reduced by \$366 and ANI insurance expense will be increased \$295 for net decrease to insurance expense of \$71.

12. Property Insurance.

No adjustment will be made for property insurance expense.

13. Normalization of Certain O&M Expenses.

FERC Account 553 expense will be reduced by \$630 and FERC Account 912 expense will be reduced by \$396. No adjustment will be made for FERC Account 923 expense.

14. Expired Amortizations.

Amortization of Intangible Plant of \$125 for amortizations expiring as of 12/31/03 will not be included in the cost of service. Amortizations expiring in 2004 will be included to be consistent with amortizations for intangible plant added in 2004 not being included.

15. Interest Synchronization.

The interest synchronization adjustment will be calculated using the final rate base and cost of capital approved by the LPSC.

16. FAC Incentive Mechanism.

No FAC incentive mechanism will be approved at this time.

17. Facilities Charges.

If an order is rendered resolving facilities charge rate issues in LPSC Docket No. U-27167 (the Facilities Charge docket) prior to the issuance of an order in this proceeding, the resulting facilities charge rates (or rate methodologies) shall be reflected in the rates implemented pursuant to the compliance filing made

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upon the conclusion of this proceeding. If an order is not rendered resolving facilities charge rate issues in the Facilities Charge docket prior to the issuance of an order in this proceeding, the parties agree to request an order in the Facilities Charge docket that provides for the implementation of the resulting facilities charge rates (or rate methodologies) in the next base rate proceeding, formula rate plan proceeding, or other proceeding in which the Company's other rates can be set to provide that portion of the Company's total revenue requirement that is not provided by the new facilities charge rates.

18. Sales and Use Tax Credit.

Sales and Use Tax credits of \$561 will be amortized over 3 years.

19. Environmental Reserve Expense.

No adjustment will be made for Environmental Reserve Expense.

20. Normalization of Injuries and Damages Expense.

Injury and Damages Expense will be increased by \$920.

21. Payroll/Voluntary Severance Plan Costs.

ELI payroll costs will be reduced by \$6,759. Voluntary Severance Plan Costs of \$15,221 will be amortized over four years beginning January 1, 2004. This amortization of VSP costs results in an increase in costs of \$3,805. Grand Gulf purchased power costs will be reduced by \$184, which reflects a three year amortization of ELI's share of VSP costs.

22. CCS: Indirects Included in Error.

CCS costs identified as Indirects Included in Error, in the amount of \$1,800, will not be included in rate base and will not be recoverable.

B. This Stipulation will resolve all issues that have been or could have been raised in this proceeding, except as specifically addressed in item A(5) above, and except the remaining issues discussed in paragraph C, below, which remaining issues will be decided only after a full evidentiary hearing process, or after a further settlement resolving those remaining issues. Implementation of the change in rates that would result from the Company's filing subject to the adjustments agreed to in this Stipulation will be delayed, however, pending a final decision as to the remaining issues to be tried in this proceeding, because the resolution of the remaining issues may require further changes in rates that would offset, at least in part, the change in rates that otherwise would occur as a result of this Stipulation. Rates will be changed only upon final Commission approval of the total change in rates that is to be implemented as a result of this proceeding.

C. The remaining issues that shall continue to be tried through the hearing

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process, including cross-examination and briefing, or that may be resolved through a further settlement, are issues relating to the following:

1. Formula Rate Plan (including issues relating to the ROE midpoint, the bandwidth, the equity cap, and the treatment of extraordinary cost items).
2. The authorized ROE will be an issue to be litigated even in the absence of agreement on a mutually acceptable Formula Rate Plan.
3. The proposed Capacity Cost Rider, and potential alternative means of achieving full and timely recovery of new capacity costs, including those relating to the RB 30% and EAI Wholesale Base Load purchased power agreements and/or the acquisition of the Perryville facility in the event that these new capacity acquisitions are not approved in time to be addressed in the order issued in this proceeding. Alternative means of achieving full and timely recovery of capacity costs may include a provision for such recovery in the Formula Rate Plan, or some other rate recovery mechanism.
4. Regulatory Asset on R.S. Cogen and ISES.
5. Decommissioning Cost Escalation Rate.
6. Waterford 3 Twenty-year Life Extension: Decommissioning.
7. Waterford 3 Twenty-year Life Extension: Depreciation.
8. Waterford 3 Twenty-year Life Extension: Investment Tax Credits.
9. CCS (except with regard to the Indirects Included in Error, which has been stipulated as noted in item A(22) above).
10. Short-term Debt.
11. Update to Long-term Debt Cost Rate to reflect October 2004 long-term debt and QUIPS refinancings.
12. The LEUG's proposal that test year revenues should be adjusted to 2003 levels in this case. The Staff and ELI have agreed that 2002 test year revenues should be used, and that the calculation of present base rate revenue for the residential rate schedule will not include an adjustment for year-end customer annualization. The effect of the treatment agreed upon by the Staff and ELI would result in an increase in revenues of \$193.
13. Marathon's proposed disallowance of incentive compensation. The Staff and the Company have agreed to normalize incentive compensation by reducing that test year expense by \$500.

Nothing herein shall be precedential with respect to any issue in any other

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proceeding except as specifically stated herein.

Please indicate your agreement with the stipulations set forth above by executing the jurat below, and returning the signed original to me, retaining a copy for your records. I will distribute a copy of the executed letters to everyone, and will retain the originals for introduction as a joint exhibit at the hearings to be conducted in this matter.

Sincerely,

Margot G. Augustin

Accepted:

By: _____

Representing: _____

EXHIBIT 4

ENTERGY LOUISIANA, INC. ELECTRIC SERVICE**FORMULA RATE PLAN RIDER SCHEDULE FRP-4**

Effective Date:

Filed Date:

Supersedes: Formula Rate Plan Rider Schedule FRP-3

Schedule Consists of, Eight Pages and Attachments A-F

FORMULA RATE PLAN RIDER SCHEDULE FRP-4**1. GENERAL**

Formula Rate Plan Rider Schedule FRP-4 ("Rider FRP") defines the procedure by which the rates contained in the Entergy Louisiana, Inc. ("ELI" or "Company") rate schedules designated in Attachment A to this Rider FRP ("Rate Schedules") may be periodically adjusted. Rider FRP shall apply in accordance with the provisions of Section 2.A below to all electric service billed under the Rate Schedules, whether metered or unmetered, and subject to the jurisdiction of the Louisiana Public Service Commission ("LPSC" or "Commission").

2. APPLICATION AND REDETERMINATION PROCEDURE**2.A. RATE ADJUSTMENTS**

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The adjustments to the Company's rates set forth in Attachment A to this Rider FRP ("Rate Adjustments") shall be added to the rates set out in the Net Monthly Bill section in the Company's Rate Schedules. The Rate Adjustments shall be determined in accordance with the provisions of Section 2.B and 2.C below.

2.B. ANNUAL FILING AND REVIEW

2.B.1. FILING DATE

On or before May 15 of each year, beginning in 2006, ELI shall file a report with the Commission containing an evaluation of the Company's earnings for the immediately preceding calendar year prepared in accordance with the provisions of Section 2.C below ("Evaluation Report"). A revised Attachment A shall be included in each such filing containing revised Rate Adjustments determined in accordance with the provisions of Section 2.C below.

2.B.2. REVIEW PERIOD

The Commission Staff ("Staff") and all intervenors ("Intervenors") in the prior year FRP proceeding shall receive a copy of each Evaluation Report filing at the time it is filed with the Commission. While an Intervenor in prior Evaluation Report reviews shall not be precluded from participation in future reviews, intervenors will be required to file a new intervention in the proceeding associated with each annual Evaluation Report filing. (The Staff, Intervenors and ELI shall be referred to hereinafter, collectively as the "Parties" and shall receive copies of all fillings and pleadings in FRP-related proceedings.) At the time each such Evaluation Report is filed, ELI shall provide the other Parties with workpapers supporting the data and calculations reflected in the Evaluation Report. The other Parties may request clarification and additional supporting data.

The Parties shall then have until July 31 of the filing year or 75 days after filing, whichever is longer, to review the Evaluation Report to ensure that it complies with the requirements of Section 2.C below. If any of the Parties should detect an error(s) in the application of the principles and procedures contained in Section 2.C below, such error(s) shall be formally communicated in writing to the other Parties by July 31 of the filing year or 75 days after filing, whichever is longer. Each such indicated error shall include, if available, documentation of the proposed correction. The Company shall then have twenty-five (25) days to review any proposed corrections, to work with the other Parties to resolve any differences and to file a revised Attachment A containing Rate Adjustments reflecting all corrections upon which the Parties agree. The Company shall provide the other Parties with appropriate workpapers supporting any revisions made to the Rate Adjustments initially filed.

Except where there is an unresolved dispute, which shall be addressed in accordance with the provisions of Section 2.B.3 below, the Rate Adjustments initially filed under the provisions of Section 2.B.1 above, or such corrected Rate Adjustments as may be determined pursuant to the terms of this Section 2.B.2,

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shall become effective for bills rendered on and after the first billing cycle for the month of September of the filing year. Those Rate Adjustments shall then remain in effect until changed pursuant to the provisions of this Rider.

2.B.3. RESOLUTION OF DISPUTED ISSUES

In the event there is a dispute regarding any Evaluation Report, the Parties shall work together in good faith to resolve such dispute. If the Parties are unable to resolve the dispute by the end of the twenty-five (25) day period provided for in Section 2.B.2 above, revised Rate Adjustments reflecting all revisions to the initially filed Rate Adjustments on which the Parties agree shall become effective as provided for in Section 2.B.2 above. Any disputed issues shall be submitted to the Commission for resolution.

If the Commission's final ruling on any disputed issues requires changes in the Rate Adjustments initially implemented pursuant to the above provisions, the Company shall file a revised Attachment A containing such further modified Rate Adjustments within fifteen (15) days after receiving the Commission's order resolving the dispute. The Company shall provide a copy of the filing to the other Parties together with appropriate supporting documentation. Such modified Rate Adjustments shall then be implemented with the next applicable monthly billing cycle after filing and shall remain in effect until superseded by Rate Adjustments established in accordance with the provisions of this Rider FRP.

Within 60 days after receipt of the Commission's final ruling on disputed issues, the Company shall determine the amount to be refunded or surcharged to customers, if any, together with interest at the legal rate of interest. Such refund/surcharge amount shall be effective as of September of the filing year, shall be applied on a percentage basis pursuant to Section 2.C.4 of this Rider FRP and shall be based on the customer's applicable base revenue from the first billing cycle of September of the filing year through the last date the interim Rate Adjustments were billed. Such refund/surcharge amount shall be applied to customers' bills in the manner prescribed by the Commission.

2.C. ANNUAL REDETERMINATION OF RATE ADJUSTMENTS

2.C.1. DEFINITION OF TERMS

a. EVALUATION PERIOD

The Evaluation Period shall be the twelve month period ended December 31 of the calendar year immediately preceding the filing of an Evaluation Report. All data utilized in each Evaluation Report shall be based on actual results for the Evaluation Period as recorded on the Company's books in accordance with the Uniform System of Accounts or such other documentation as may be appropriate.

b. EARNED RATE OF RETURN ON COMMON EQUITY

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The Earned Rate of Return on Common Equity ("EROE") for any Evaluation Period shall be determined in accordance with the Earned Rate of Return on Common Equity Formula set out in Attachment B. The EROE determination shall reflect the Evaluation Period Adjustments set out in Attachment C.

c. BENCHMARK RATE OF RETURN ON RATE BASE

The Benchmark Rate of Return on Rate Base ("BRORB") is the composite weighted embedded cost of capital reflecting the Company's annualized costs of Short-Term Debt, Long-Term Debt, Quarterly Income Preferred Securities ("QUIPS"), Preferred Stock and Common Equity as of the end of the Evaluation Period. The BRORB shall be determined in accordance with the Benchmark Rate of Return on Rate Base Formula set out in Attachment D.

d. EVALUATION PERIOD COST RATE FOR COMMON EQUITY

The Evaluation Period Cost Rate for Common Equity ("EPCOE") is the Company's cost rate for common equity applicable to the Evaluation Period. The EPCOE value applicable for each Evaluation Period shall be determined in accordance with the Evaluation Period Cost Rate for Common Equity Procedure set out in Attachment E.

e. RATE OF RETURN ON COMMON EQUITY BANDWIDTH

The Rate of Return on Common Equity Bandwidth ("Bandwidth") shall be the range of values with an upper limit ("Upper Band") equal to the EPCOE plus 0.80% and a lower limit ("Lower Band") equal to the EPCOE minus 0.80 %.

2.C.2. TOTAL RIDER FRP REVENUE LEVEL

In each Evaluation Report, the Total Rider FRP Revenue level shall be determined using the Rider FRP Revenue Redetermination Formula set out in Attachment F, which reflects the following rules:

a. If the EROE is less than the Lower Band, the Rider FRP Revenue level for the Evaluation Period shall be increased by the amount necessary to increase the EROE for the Evaluation Period by 60% of the difference between the Lower Band and the EROE.

b. There shall be no change in Rider FRP Revenue level for the Evaluation Period if the EROE is less than or equal to the Upper Band and greater than or equal to the Lower Band.

c. In the event that the Company incurs new extraordinary cost changes and/or new capacity costs, as defined in Sections 3.A and 3.D, respectively, and the EROE exceeds the Upper Band, the Rider FRP revenue reduction shall be equal to the lesser of 100% of the difference between the EROE and the Upper Band or the net annual cost of the extraordinary cost changes and/or new capacity costs, as defined in Sections 3.A and 3.D, respectively. In the event that the difference

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between the EROE and the Upper Band exceeds the net annual cost of the extraordinary cost changes and/or newcapacity costs, the Rider FRP revenue reduction shall be equal to 100% of the net annual cost of the extraordinary cost changes and/or new capacity costs plus 60% of the difference between the EROE and the Upper Band minus the net annual cost of the extraordinary cost changes and/or new capacity costs.

d. In the event there are no new extraordinary cost changes and/or new capacity costs pursuant to Sections 3.A and 3.D, respectively, if the EROE exceeds the Upper Band, the Rider FRP Revenue level for the Evaluation Period shall be reduced by the amount necessary to reduce the EROE for the Evaluation Period by 60% of the difference between the Upper Band and the EROE.

e. A change in the Rider FRP Revenue level shall not be made unless it changes the EROE for the Evaluation Period by more than 0.05% (5 basis points).

f. The Section 2.C.2.c sharing mechanism provision shall not apply to the capacity costs relating to the Perryville acquisition (Docket No. U-27836) or the proposed River Bend 30% or the EAI WBL Power Purchase Agreements (Docket No. U-27136) to the extent they are approved by the LPSC. Rather, 100% of the capacity costs shall be reflected and the Rider FRP Revenue level shall be determined pursuant to Sections 2.C.2.a., b., d., and e.

2.C.3. RIDER FRP REVENUE ALLOCATION

The Total Rider FRP Revenue, as determined under the provisions of Section 2.C.2 above, shall be allocated to each applicable rate schedule based on an equal percentage of applicable base revenue. This percentage shall be developed by dividing the Total Rider FRP Revenue by the total applicable base revenue.

2.C.4. RATE ADJUSTMENT REDETERMINATION

All applicable retail rates and riders as noted on Attachment A on file with the Louisiana Public Service Commission will be adjusted by an equal percentage of the base rate revenue of all bills.

3. PROVISIONS FOR OTHER RATE CHANGES

3.A. EXTRAORDINARY COST CHANGES

3.A.1. UNFORESEEN COST CHANGES

It is recognized that from time to time ELI may experience extraordinary increases or decreases in costs that occur as a result of actions, events, or circumstances beyond the control of the Company. Such costs may significantly increase or decrease the Company's revenue requirements and, thereby, require rate changes that this Rider FRP is not designed to address. Should ELI experience such an extraordinary cost increase or decrease having a net annual revenue requirement

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impact exceeding \$10 million on an LPSC jurisdictional basis, then either the Company or the Commission may initiate a proceeding to consider a pass-through of such extraordinary cost increase or decrease.

3.A.2. LIMITED LIABILITY CORPORATION

In the event the Company should convert to a Limited Liability Corporation ("LLC"), the resulting decrease in the LPSC revenue requirement shall be reflected fully through this Rider FRP outside of the FRP sharing mechanism.

3.A.3. SYSTEM AGREEMENT CASE EFFECTS

The effects, if any, associated with a decision by the Federal Energy Regulatory Commission ("FERC") in Docket No. EL01-88-001 shall be considered separately outside of the FRP mechanism. This Rider FRP provision shall have no precedential or other effect with respect to whether a refund is appropriate in connection with a decision in FERC Docket No. EL01-88-001, or whether a stay or injunction is appropriate in the event of an appeal or rehearing of a decision in FERC Docket No. EL01-88-001.

3.A.4. INTERRUPTIBLE LOAD CASE EFFECTS

Any effects associated with a decision in FERC Docket Nos. EL00-66-000, ER00-2854-000 and EL95-33-002 (Consolidated) shall be considered separately outside of the FRP mechanism. When the FERC issues an order disposing of the Application for Clarification and Applications for Rehearing in this case, any effects that are to be implemented at that time shall be flowed through immediately upon LPSC approval of the manner in which that shall occur. However, this Rider FRP provision shall have no precedential or other effect with respect to whether a refund is appropriate in connection with a decision in FERC Docket Nos. EL00-66-000, ER00-2854-000 and EL95-33-002 (Consolidated), or whether a stay or injunction is appropriate in the event of an appeal or rehearing of a decision in those consolidated dockets.

3.B. SPECIAL RATE FILINGS

The Company is experiencing a dynamic business environment and increasing competition. Experimental, developmental, and alternative rate schedules may be appropriate tools for the Company to use to address these conditions. Therefore, nothing in this Rider shall be interpreted as preventing the Company from proposing to revise existing rate schedules or implement new rate schedules as may be appropriate. Any such rate changes shall be filed with the Commission and evaluated in accordance with the rules and procedures then in effect.

3.C. FORCE MAJEURE

In addition to the rights of ELI under this Rider, or as provided by law, to make a filing for the pass-through of costs outside the provisions of this Rider

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FRP, if any event or events beyond the reasonable control of ELI, including natural disaster, damage or unforeseeable loss of generating capacity, changes in regulation ordered by a regulatory body or other entity with appropriate jurisdiction, and orders or acts of civil or military authority, cause increased costs to ELI or result in a deficiency in revenues to ELI which is not readily capable of being addressed in a timely manner under this Rider FRP, ELI may file for rate or other relief outside the provisions of this Rider FRP. Such request shall be considered by the Commission in accordance with its regulations and applicable law governing such filings.

3.D. ADDITIONAL CAPACITY

3.D.1. APPROVED CAPACITY ADDITION

The Company shall be allowed to recover fully through this Rider FRP, outside the FRP sharing mechanism, and consistent with Section 2.C.2., the LPSC retail revenue requirement associated with purchased capacity costs in excess of the amount in base rates as approved by the Commission. Such new capacity costs shall include:

- (1) approval of a new purchase capacity agreement, or
- (2) approval of the recovery of previously deferred capacity costs.

In the event the Company adds to its resources by means of a capacity and/or capacity and energy purchase and in the event that such new resource is used to provide capacity to the Company on or before the first billing cycle for the month of September of a filing year and the Commission has approved the incurrence of such costs and their level pursuant to the applicable General Order(s) of the Commission, then the Company may include all capacity costs related to such resource under this Section 3.D.1 as a cost, so that, at the time that new rates take effect with the first billing cycle for the month of September, those new rates will reflect the capacity costs that are represented by such generating resource.

3.D.2. CAPACITY COST ADJUSTMENTS

The Rider FRP shall be adjusted on an interim basis for:

- (1) the expiration of a purchase capacity agreement previously recovered through Rider FRP, or
- (2) the completion of the recovery of previously deferred capacity costs.

3.D.3. CAPACITY COST TRUE-UP ADJUSTMENTS

The LPSC retail revenue requirement associated with the purchased capacity costs that are billed to ELI pursuant to a cost of service agreement or tariff and

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recovered via this Rider pursuant to Section 3.D. shall be compared to the actual cost of such capacity. Any difference between the revenue requirement of the capacity costs used to determine the level of this Rider during the Evaluation Period and the revenue requirement associated with the actual capacity cost during the Evaluation Period shall be included in the Evaluation Report as part of the Additional Capacity Revenue Requirement in the next Rider FRP Revenue Requirement Redetermination Formula as set out in Attachment F.

4. EFFECTIVE DATE AND TERM

Rider FRP shall continue in effect for three years with annual Evaluation Report filings to be made on or before May 15 of 2006, 2007 and 2008 for the Evaluation Periods 2005, 2006 and 2007, respectively. Unless Rider FRP is extended by mutual agreement of the Commission and the Company, the Rate Adjustments resulting from the May 15, 2008 Evaluation Report filing shall continue in effect until such time as they are superseded pursuant to a final Commission order. If this Rider FRP is terminated by a future order of the Commission, the then-existing Total FRP Revenue shall continue to be in effect until new base rates reflecting the then-existing Total FRP Revenue are duly approved and implemented. Nothing contained in this Rider FRP shall limit the right of any party to file an appeal as provided by law.

ENTERGY LOUISIANA, INC. FORMULA RATE PLAN RIDER SCHEDULE FRP-4 RATE ADJUSTMENTS

I. APPLICABILITY

This rider is applicable under the regular terms and conditions of the Company to all Customers served under any retail electric rate schedule* and/or rider schedule.*

II. NET MONTHLY RATE

The Net Monthly Bill or Monthly Bill calculated pursuant to each applicable retail rate schedule* and rider schedule* on file with the Louisiana Public Service Commission will be adjusted monthly by an equal percentage of x.xxxx% of base revenues, before application of the monthly fuel adjustment.

*Excluding Schedules: MVER, QFSS, AFC, LIS R2, LIPS R2, CS, CS R1, EECS, ECS (Curtaillable Load), LCOP (Incremental Load), DRI (Curtaillable Load), SQF, EER, EAPS, EEDBP, OBP, FTS, PPS, FCA, MS, and Special Contracted Rates.

----- ENTERGY LOUISIANA, INC. EARNED RATE OF RETURN ON COMMON EQUITY FORMULA -----

LINE NO	DESCRIPTION	ADJUSTED AMOUNT
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TOTAL COMPANY

1	RATE BASE (Attachment B, Page 2, L22)
2	BENCHMARK RATE OF RETURN ON RATE BASE (Attachment D, L7, Column D)
3	REQUIRED OPERATING INCOME (L1 - L2)
4	NET UTILITY OPERATING INCOME (Attachment B, Page 3, L28)
5	OPERATING INCOME DEFICIENCY/(EXCESS) (L3 - L4)
6	REVENUE CONVERSION FACTOR (A)
7	REVENUE DEFICIENCY/(EXCESS) (L5 - L6)
	PRESENT RATE REVENUES
8	ULTIMATE CUSTOMERS (Attachment B, Page 3, L3)
9	SALES FOR RESALE (Attachment B, Page 3, L4)
10	TOTAL (L8 + L9)
11	REVENUE REQUIREMENT (L7 + L10)

LPSC RETAIL

12	REVENUE REQUIREMENT ALLOCATION FACTOR (%) (B)
13	REVENUE REQUIREMENT (L11 - L12)
14	PRESENT RATE REVENUES (Attachment B, Page 3, L1)
15	REVENUE DEFICIENCY/(EXCESS) (L13 - L14)
16	REVENUE CONVERSION FACTOR (A)
17	OPERATING INCOME DEFICIENCY/(EXCESS) (L15/L16)
18	RATE BASE ALLOCATION FACTOR (%) (B)
19	RATE BASE (L1 - L18)
20	COMMON EQUITY DEFICIENCY/(EXCESS) (%) (L17/L18)
21	WEIGHTED EVALUATION PERIOD COST RATE FOR COMMON EQUITY (%) (Attachment D, L6, Column D)
22	WEIGHTED EARNED COMMON EQUITY RATE (%) (L21 - L20)
23	COMMON EQUITY RATID (%) (Attachment D, L6, Column B)
24	EARNED RATE OF RETURN ON COMMON EQUITY (%) (L22/L23)

NOTE:

(A) REVENUE CONVERSION FACTOR = 1 / [(1 - COMPOSITE TAX RATE) - (1 - BAD DEBT) - (1 - REGULATORY COMMISSION EXPENSE RATE) - (1 - FRANCHISE TAX RATE)]

(B) THE LPSC RETAIL RATIO UTILIZED BY THE LPSC IN ESTABLISHING THE RATES IN ELI'S RATE SCHEDULES.

ENTERGY LOUISIANA, INC. RATE BASE (A)

LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS (B)	ADJUSTED AMOUNT
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1      GROSS PLANT IN SERVICE (C) (K)
2      DEPRECIATION RESERVES (K)
3      NET UTILITY PLANT (L1 + L2)
4      PROPERTY UNDER FINANCIAL LEASE --
      NET
5      PLANT HELD FOR FUTURE USE
6      CONSTRUCTION WORK IN PROGRESS (D)
7      MATERIALS & SUPPLIES (E)
8      PREPAYMENTS (E)
9      CASH WORKING CAPITAL (F)
10     OTHER WORKING CAPITAL (E) (G)
11     INVESTMENT IN BFI (E)
12     ACCUM DEF W-3 MAINT/REFUEL (H)
13     NUCLEAR FUEL IN REACTOR (E)
14     W-3 DESIGN BASIS/REGULATORY STUDY
      COST
15     AMORT GAIN-BLDG SALE
16     CUSTOMER ADVANCES
17     CUSTOMER DEPOSITS
18     UNFUNDED PENSION EXPENSE
19     DEFERRED ITC PRE-1971 (E)
20     ACCUM DEFERRED INCOME TAXES
21     OTHER (I) (J)
-----
22     RATE BASE (L3 + Sum of L4 - L21)
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NOTES:

(A) BEGINNING/ENDING AVERAGE BALANCES ARE TO BE UTILIZED EXCEPT WHERE OTHERWISE NOTED.

(B) ADJUSTMENTS AS SET OUT IN ATTACHMENT C TO THIS RIDER FRP

(C) PLANT IN SERVICE EXCLUDING DISALLOWED PLANT INVESTMENT AND PLANT HELD UNDER FINANCING - SALE/LEASEBACK

(D) AMOUNT NOT SUBJECT TO AFUDC ACCRUAL

(E) 13-MONTH AVERAGE BALANCES

(F) BASED ON LEAD/LAG STUDY

(G) INCLUDES RESERVE FOR LINCOLLECTIBLES, COLLECTION BANK MINIMUM BALANCES, WORKING FUNDS AND PROPERTY, INJURIES & DAMAGES AND ENVIRONMENTAL RESERVES

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(H) 50% REFUELING OUTAGE EXPENSE FOR THE EVALUATION PERIOD

(I) OTHER ITEMS INCLUDED PURSUANT TO SECTION 7 OF ATTACHMENT C TO THIS RIDER FRP

(J) BEGINNING & ENDING OR 13 MONTH AVERAGE AS MORE APPROPRIATE

(K) YEAR END BALANCES FOR PLANT ACQUISITIONS MADE DURING THE TEST YEAR

ENTERGY LOUISIANA, INC. OPERATING INCOME

LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS (A)	ADJUSTED AMOUNT

	REVENUES			

	SALES TO ULTIMATE CUSTOMERS			
1	LPSC RETAIL			
2	CNO RETAIL			
3	TOTAL (L1 + L2)			
4	SALES FOR RESALE			
5	EPP & SYSTEM SALES			
6	OTHER ELECTRIC REVENUE			
7	TOTAL OPERATING REVENUES (Sum of L3 - L6)			

	EXPENSES			

	OPERATION & MAINTENANCE			
8	PRODUCTION			
9	TRANSMISSION			
10	DISTRIBUTION			
11	CUSTOMER ACCOUNTING			
12	CUSTOMER SERVICE & INFORMATION			
13	SALES			
14	ADMINISTRATIVE & GENERAL			
15	TOTAL O & M EXPENSE (Sum of L8 - L14)			
16	GAIN FROM DISPOSITION OF ALLOWANCES			
17	REGULATORY DEBITS AND CREDITS			
18	DEPRECIATION, AMORTIZATION & ACCRETION EXP			
19	INTEREST ON CUSTOMER DEPOSITS			
20	TAXES OTHER THAN INCOME			
21	STATE INCOME TAX			

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22 FEDERAL INCOME TAX
 23 PROV DEF INC TAX - STATE - NET
 24 PROV DEF INC TAX - FED - NET
 25 INVESTMENT TAX CREDIT - NET
 26 OTHER (B)
 27 TOTAL UTILITY OPERATING EXP (L15 +
 Sum of L16 - L26)

 28 NET UTILITY OPERATING INCOME (L7 -
 L27)

NOTES:

(A) ADJUSTMENTS DEFINED IN ATTACHMENT C

(B) OTHER ITEMS INCLUDED PURSUANT TO SECTION 7 OF ATTACHMENT C

 ENTERGY LOUISIANA, INC. INCOME TAX

LINE NO	DESCRIPTION	PER BOOKS	ADJUSTMENTS (A)	ADJUSTED AMOUNT
1	TOTAL OPERATING REVENUES (Page 3, L7)			
2	TOTAL O&M EXPENSE (Page 3, L15)			
3	GAIN FROM DISPOSITION OF ALLOWANCES (Page 3, L18)			
4	REGULATORY DEBITS AND CREDITS (Page 3, L17)			
5	DEPRECIATION, AMORTIZATION & ACCRETION EXPENSE (Page 3, L18)			
6	INTEREST ON CUSTOMER DEPOSITS (Page 3, L19)			
7	TAXES OTHER THAN INCOME (Page 3, L20)			
8	NET INCOME BEFORE INCOME TAXES (L1 - Sum of L2 - L7)			
9	ADJUSTMENTS TO NET INCOME BEFORE TAXES			
10	TAXABLE INCOME (L8 + L9) ----- COMPUTATION OF STATE INCOME TAX -----			
11	STATE TAXABLE INCOME (L10)			

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12 STATE INCOME TAX BEFORE ADJUSTMENTS
 [L11 - Effective State Tax Rate
 (see Note B)]

13 ADJUSTMENTS TO STATE TAX

14 STATE INCOME TAX (L12 + L13)

COMPUTATION OF FEDERAL INCOME TAX

15 TAXABLE INCOME (L10)

16 STATE INCOME TAX [L12 (shown as
 deduction)]

17 FEDERAL ADJUSTMENTS

18 TOTAL FEDERAL TAXABLE INCOME (Sum
 of L15 - L17)

19 FEDERAL INCOME TAX BEFORE
 ADJUSTMENTS (L18 - Federal Tax
 Rate (see Note B))

20 ADJUSTMENTS TO FEDERAL TAX

21 FEDERAL INCOME TAX (L19 + L20)

NOTE:

(A) ADJUSTMENTS DEFINED IN ATTACHMENT C

(B) THE TAX RATE IN EFFECT AT THE TIME THE EVALUATION REPORT IS FILED SHALL BE UTILIZED.

ENTERGY LOUISIANA, INC. EVALUATION PERIOD ADJUSTMENTS

The actual (per book) data for each Evaluation Period, as reflected in Attachment B, shall be adjusted to reflect the following:

1. Special Rates

A) Present rate revenue shall be adjusted to reflect, on an annualized basis, the Rate Adjustments in effect at the end of the Evaluation Period under this Rider FRP.

B) The rate base, revenue and expense effects associated with any riders, or other rate mechanisms, that ELI may have in effect during the Evaluation Period which recover specific costs are to be eliminated.

2. Interest Synchronization

All Evaluation Period interest expenses are to be eliminated and replaced with an Imputed interest expense amount equal to the Evaluation Period rate base multiplied by the weighted embedded cost of debt for the Evaluation Period

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determined in accordance with Attachment D.

3. Income Taxes

All state and federal income tax effects including 1) adjustments to taxable income, 2) adjustments to current taxes, 3) provisions for deferred income tax (debit and credit), and 4) accumulated provision for deferred income tax (debit and credit) shall be adjusted or eliminated, as appropriate, to comport with the following principles:

A) Effects associated with other adjustments set out in this Attachment C shall similarly and consistently be adjusted;

B) All effects associated with the difference in the timing of transactions, where the underlying timing difference is eliminated, shall also be eliminated;

C) The corporate state and federal income tax laws legally in effect on the date an Evaluation Report is filed under this Rider FRP shall be reflected in the calculation of all income tax amounts; and

D) Tax effects normally excluded in prior Commission Orders regarding ELI for ratemaking purposes shall be eliminated.

4. Specific Ratemaking Adjustments

The following adjustments shall be made for each Evaluation Period to the extent they remain applicable:

A) All capital, rate base and expense effects associated with the sale/leaseback of a portion of Waterford 3 shall be reversed in accordance with the LPSC's decision issued at its August 29, 1989 Business and Executive Session, and in accordance with the LPSC's decision in Docket No. U-20925 (2004 RRF), including treating pro forma call premiums as a component of the capital structure.

B) Fuel Adjustment revenues and purchased power expense shall be adjusted in accordance with LPSC Order No. U-16945 related to ELI's Grand Gulf allocation.

C) Decommissioning expense will be based on the latest approved cost estimates, escalation rates, earnings rates and the depreciable life of Waterford 3.

D) Depreciation expense shall be based on the latest approved Louisiana depreciation rates.

E) The Benchmark Rate of Return on Rate Base as calculated on Attachment D of this Rider FRP shall be adjusted pursuant to the LPSC order in the Vidalia Settlement in Docket No. U-20925 (Subdocket B).

5. Reclassifications

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A) Revenues associated with ELI's rates in the LPSC Retail, CNO Retail, or FERC (Sales for Resale) jurisdictions, but included in Other Electric Revenue on a per book basis (Attachment B, Page 3, Line 6), shall be reclassified to the appropriate jurisdictional rate schedule revenue category.

B) Costs not allowable for ratemaking purposes shall be removed by adjustment from the Evaluation Period cost data. Likewise, costs that are allowed, but recorded below the utility operating income line, shall be included in the Evaluation Period cost data through appropriate reclassification adjustments. These adjustments shall include, but are not limited to: 1) the reclassification of below-the-line interest expense associated with customer deposits as administrative and general O&M expense and 2) interest income related to System Fuels, Inc.

6. Out-of-Period Items

Expenses and revenues recorded in any Evaluation Period that are related to transactions occurring prior to 2005 shall be eliminated by adjustment from the Evaluation Period cost data. This shall include any associated tax adjustments.

7. Other

In addition to Adjustments 1-6 above, there may from time to time be special cost or rate effects that occur during an Evaluation Period that require adjustment of the Evaluation Period cost data. Nothing in this Rider FRP shall preclude any Party from proposing such adjustments.

ENTERGY LOUISIANA, INC. BENCHMARK RATE OF RETURN ON RATE BASE

DESCRIPTION	(A) CAPITAL AMOUNT (1) (\$)	(B) CAPITAL RATIO (2)	(C) COST RATE (3)	(D) BENCHMARK RATE OF RETURN ON RATE BASE (4)
1 SHORT-TERM DEBT				
2 LONG-TERM DEBT				
3 QUIPS				
4 TOTAL DEBT				
5 PREFERRED EQUITY				
6 COMMON EQUITY			EPCOE	
7 TOTAL			100.00%	BROBE

NOTES:

(1) Amounts at the end of the Evaluation Period as adjusted for refinancing activities, except Short-Term Debt which is the 13-month average. All Long-Term

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Debt and QUIPS Issues shall reflect the balance net of a) unamortized debt discount, premium, and expense; b) gain or loss on reacquired debt; and c) any adjustments required per Attachment C. All Preferred Stock issues shall reflect the balance net of discount, premium and capital stock expense. Common equity and preferred equity shall be adjusted for the net unamortized balance of gains and losses on reacquired preferred stock.

(2) Each Capital Amount divided by the Total Capital Amount. However, if the Common Equity Ratio exceeds the weighted average common equity ratio of all five Entergy Operating Companies plus 2%, the Common Equity Capital Amount shall be reduced so that the Common Equity Ratio is equal to the weighted average common equity ratio of all five Entergy Operating Companies plus 2%. Any resulting reduction in the Common Equity Capital Ratios (%) shall then be allocated to Short-Term Debt, Long-Term Debt, QUIPS and Preferred Equity on a pro rata basis based on the corresponding Capital Amounts.

(3) Annualized cost of Long-Term Debt, QUIPS and Preferred Equity at the end of the Evaluation Period divided by the corresponding Capital Amount. The Short-Term Debt Cost Rate is the 13-month average of the Short-Term Debt interest rates on the last day of each month of the Evaluation Period and the immediately preceding December 31. The Long-Term Debt and QUIPS Cost Rates shall include a) annualized amortization of debt discount premium, and expense; b) annualized gain or loss on reacquired debt; and c) any adjustments required per Attachment C. The Common Equity Cost Rate shall be the Evaluation Period Cost Rate for Common Equity (EPCOE) determined in accordance with Attachment E.

(4) The components of the Benchmark Rate of Return on Rate Base (BRORB) column are the corresponding Cost Rates multiplied by the associated Capital Ratio. The BRORB is the sum of the components so determined and expressed as a percent to two decimal places (XX.XX%).

ENTERGY LOUISIANA, INC. EVALUATION PERIOD COST RATE FOR COMMON EQUITY PROCEDURE

A. EVALUATION PERIOD COST RATE FOR COMMON EQUITY

The EPCOE applicable for any Evaluation Report pursuant to this Rider FRP shall be 10.25%. That EPCOE shall remain in effect until a new procedure for determining the EPCOE is established and implemented in connection with any extension of this Rider FRP, or until either Rider FRP Rate Adjustments resulting from the May 15, 2008 Evaluation Report filing are superseded or new base rates are duly approved and implemented, as provided in Section 4 of this Rider FRP.

ENTERGY LOUISIANA, INC. RIDER FRP REVENUE REDETERMINATION FORMULA

SECTION 1

BANDWIDTH CHECK

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DESCRIPTION	REFERENCE	
1 Earned Rate of Return on Common Equity	Attachment B, Page 1, L 24	%
2 Evaluation Period Cost Rate for Common Equity	Developed per Attachment E	10.25%
3 If L 2 + 0.80% < L 1		GO TO Section 2
4 If L 2 - 0.80% > L 1		GO TO Section 3
5 Otherwise		No Rate Change

SECTION 2

UPPER BAND RATE
ADJUSTMENT

DESCRIPTION	REFERENCE	
6 Earned Rate of Return on Common Equity	L 1	%
7 Upper Band	L 2 + 0.80%	%
8 Reduction to Upper Band	L 6 - L 7	%
9 Extraordinary Cost and/or Capacity Costs	Per Sec. 3.A &/or 3.D of Tariff (Note 2)	\$
10 Common Equity Capital Ratio	Attachment D, L 6, Column B	%
11 LPSC Retail Rate Base	Attachment B, Page 1, L 19	\$
12 Revenue Conversion Factor	Attachment B, Page 1, L 6	
13a Net Cost Impact on Common Equity	L 9 / (L10 - L 11 - L 12)	%
13b Reduction due to Extraordinary/Capacity Costs	Lesser of L 8 or L 13a	%

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13c Reduction in Earned Rate of Return on Common Equity	If L 8 > L 13b, then 60% (L8 - L13b); otherwise zero	%
------------------------------------------------------------	------------------------------------------------------------	---

14 Total ROE Reduction	L 13b + L 13c	%
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15 If L 14 <= 0.05%		No Rate Change
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16 If L 14 > 0.05%, than Reduction in Rider FRP Revenue	L 10 - L 11 - L 12 - L14	\$
------------------------------------------------------------	-----------------------------	----

SECTION 3	LOWER BAND RATE ADJUSTMENT
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DESCRIPTION	REFERENCE	
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17 Lower Band	L 2 - 0.80%	%
---------------	-------------	---

18 Earned Rate of Return on Common Equity	L 1	%
----------------------------------------------	-----	---

19 Increase to Lower Band	L 17 - L 18	%
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20 Increase in Earned Rate of Return on Common Equity	60% of L 19	%
----------------------------------------------------------	-------------	---

21 If L 20 <= .05%		No Rate Change
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22 If L 20 > 0.05%, then		
23 Increase in Earned Rate of Return on Common Equity	L 20	%

24 Common Equity Capital Ratio	Attachment D, L 6, Column B	%
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25 LPSC Retail Rate Base	Attachment B, Page 1, L 19	%
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26 Revenue Conversion Factor	Attachment B, Page 1, L 16	
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27 Increase in Rider FRP Revenue	L 23 - L 24 - L 25 - L 26	\$
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SECTION 4	TOTAL RIDER FRP REVENUE
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DESCRIPTION	REFERENCE	
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28	Annualized Evaluation Period FRP Revenue	See Note 1	\$
29	(Reduction)/Increase in Rider FRP Revenue	- L 16 or + L 27	\$
30	Extraordinary Cost Change Revenue Requirement	Per Sec. 3.A of the Tariff (Note 2)	\$
31	Additional Capacity Revenue Requirement	Per Sec. 3.D of the Tariff	\$
32	Total Rider FRP Revenue	L 28 + L 29 + L 30 + L 31	\$

Note:

(1) Rider FRP Rate Adjustments in effect at the end of the applicable Evaluation Period multiplied by the applicable Evaluation Period billing determinants.

(2) The revenue requirement associated with Sections 3.A.1, 3.A.2, 3.A.3, and 3.A.4, if applicable, are to be reflected here in the calculation of Total Rider FRP Revenue.

END OF DOCUMENT

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