

SYSTEM ENERGY RESOURCES INC

Form 10-Q

August 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number and Registrant, State of Incorporation, Address of Principal Executive Offices, Telephone Number, and IRS Employer Identification No.	Commission File Number	Registrant, State of Incorporation, Address of Principal Executive Offices, Telephone Number, and IRS Employer Identification No.
1-11299 ENTERGY CORPORATION (a Delaware corporation) 639 Loyola Avenue New Orleans, Louisiana 70113 Telephone (504) 576-4000 72-1229752	1-31508	ENTERGY MISSISSIPPI, INC. (a Mississippi corporation) 308 East Pearl Street Jackson, Mississippi 39201 Telephone (601) 368-5000 64-0205830
1-10764 ENTERGY ARKANSAS, INC. (an Arkansas corporation) 425 West Capitol Avenue Little Rock, Arkansas 72201 Telephone (501) 377-4000 71-0005900	0-5807	ENTERGY NEW ORLEANS, INC. (a Louisiana corporation) 1600 Perdido Street, Building 505 New Orleans, Louisiana 70112 Telephone (504) 670-3700 72-0273040
333-148557 ENTERGY GULF STATES LOUISIANA, L.L.C. (a Louisiana limited liability company) 446 North Boulevard Baton Rouge, Louisiana 70802 Telephone (800) 368-3749	000-53134	ENTERGY TEXAS, INC. (a Texas corporation) 350 Pine Street Beaumont, Texas 77701 Telephone (409) 838-6631 61-1435798

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1-32718	ENTERGY LOUISIANA, LLC (a Texas limited liability company) 446 North Boulevard Baton Rouge, Louisiana 70802 Telephone (225) 381-5868 75-3206126	1-9067	SYSTEM ENERGY RESOURCES, INC. (an Arkansas corporation) Echelon One 1340 Echelon Parkway Jackson, Mississippi 39213 Telephone (601) 368-5000 72-0752777
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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Entergy Corporation	<input checked="" type="checkbox"/>			
Entergy Arkansas, Inc.			<input checked="" type="checkbox"/>	
Entergy Gulf States Louisiana, L.L.C.			<input checked="" type="checkbox"/>	
Entergy Louisiana, LLC			<input checked="" type="checkbox"/>	
Entergy Mississippi, Inc.			<input checked="" type="checkbox"/>	
Entergy New Orleans, Inc.			<input checked="" type="checkbox"/>	
Entergy Texas, Inc.			<input checked="" type="checkbox"/>	
System Energy Resources, Inc.			<input checked="" type="checkbox"/>	

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).
 Yes

No

Common Stock Outstanding

Outstanding at July 31, 2008

Entergy Corporation	(\$0.01 par value)	191,574,567
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Entergy Corporation, Entergy Arkansas, Inc., Entergy Gulf States Louisiana, L.L.C., Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc., Entergy Texas, Inc., and System Energy Resources, Inc. separately file this combined Quarterly Report on Form 10-Q. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company reports herein only as to itself and makes no other representations whatsoever as to any other company. This combined Quarterly Report on Form 10-Q supplements and updates the Entergy Annual Report on Form 10-K for the calendar year ended December 31, 2007, the Entergy Texas Form 10, and the Entergy and Entergy Texas Quarterly Reports on Form 10-Q for the quarter

ended March 31, 2008, filed by the individual registrants with the SEC, and should be read in conjunction therewith.

ENTERGY CORPORATION AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2008

	<u>Page Number</u>
Definitions	1
Entergy Corporation and Subsidiaries	
Management's Financial Discussion and Analysis	
Plan to Pursue Separation of Non-Utility Nuclear	3
Results of Operations	6
Liquidity and Capital Resources	11
Significant Factors and Known Trends	16
Critical Accounting Estimates	20
New Accounting Pronouncements	20
Consolidated Statements of Income	21
Consolidated Statements of Cash Flows	22
Consolidated Balance Sheets	24
Consolidated Statements of Retained Earnings, Comprehensive Income, and Paid-In Capital	26
Selected Operating Results	28
Notes to Financial Statements	29
Part I. Item 4. Controls and Procedures	51
Entergy Arkansas, Inc.	
Management's Financial Discussion and Analysis	
Results of Operations	53
Liquidity and Capital Resources	56
Significant Factors and Known Trends	58
Critical Accounting Estimates	59
New Accounting Pronouncements	59
Income Statements	60
Statements of Cash Flows	61
Balance Sheets	62
Selected Operating Results	64
Entergy Gulf States Louisiana, L.L.C.	
Management's Financial Discussion and Analysis	
Jurisdictional Separation of Entergy Gulf States, Inc. into Entergy Gulf States Louisiana and Entergy	65

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	Texas	
	Results of Operations	65
	Liquidity and Capital Resources	70
	Significant Factors and Known Trends	72
	Critical Accounting Estimates	73
	New Accounting Pronouncements	73
	Income Statements	74
	Statements of Cash Flows	75
	Balance Sheets	76
	Statements of Members' Equity and Comprehensive Income	78
	Selected Operating Results	79
Entergy Louisiana, LLC		
	Management's Financial Discussion and Analysis	
	Results of Operations	80
	Liquidity and Capital Resources	82
	Significant Factors and Known Trends	85
	Critical Accounting Estimates	87
	New Accounting Pronouncements	87
	Income Statements	88
	Statements of Cash Flows	89

ENTERGY CORPORATION AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2008

		<u>Page</u> <u>Number</u>
	Balance Sheets	90
	Statements of Members' Equity and Comprehensive Income	92
	Selected Operating Results	93
Entergy Mississippi, Inc.		
	Management's Financial Discussion and Analysis	
	Results of Operations	94
	Liquidity and Capital Resources	97
	Significant Factors and Known Trends	98
	Critical Accounting Estimates	99
	New Accounting Pronouncements	99
	Income Statements	100
	Statements of Cash Flows	101
	Balance Sheets	102
	Selected Operating Results	104

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Entergy New Orleans, Inc.

Management's Financial Discussion and Analysis	
Hurricane Katrina	105
Results of Operations	105
Liquidity and Capital Resources	108
Significant Factors and Known Trends	109
Critical Accounting Estimates	110
New Accounting Pronouncements	110
Income Statements	111
Statements of Cash Flows	113
Balance Sheets	114
Selected Operating Results	116

Entergy Texas, Inc.

Management's Financial Discussion and Analysis	
Jurisdictional Separation of Entergy Gulf States, Inc. into Entergy Gulf States Louisiana and Entergy Texas	117
Results of Operations	117
Liquidity and Capital Resources	120
Significant Factors and Known Trends	122
Critical Accounting Estimates	123
New Accounting Pronouncements	123
Consolidated Statements of Operations	124
Consolidated Statements of Cash Flows	125
Consolidated Balance Sheets	126
Consolidated Statements of Retained Earnings and Paid-in-Capital	128
Selected Operating Results	129

System Energy Resources, Inc.

Management's Financial Discussion and Analysis	
Results of Operations	130
Liquidity and Capital Resources	130
Significant Factors and Known Trends	131
Critical Accounting Estimates	132
New Accounting Pronouncements	132
Income Statements	133
Statements of Cash Flows	135
Balance Sheets	136

ENTERGY CORPORATION AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2008

Part II. Other Information

Item 1. Legal Proceedings	138
Item 1A. Risk Factors	138
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	138
Item 4. Submission of Matters to a Vote of Security Holders	139
Item 5. Other Information	140
Item 6. Exhibits	145
Signature	148

FORWARD-LOOKING INFORMATION

In this combined report and from time to time, Entergy Corporation and the Registrant Subsidiaries each makes statements as a registrant concerning its expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "intends," "plans," "predicts," "estimates," and similar expressions are intended to identify forward-looking statements but are not the only means to identify these statements. Although each of these registrants believes that these forward-looking statements and the underlying assumptions are reasonable, it cannot provide assurance that they will prove correct. Any forward-looking statement is based on information current as of the date of this combined report and speaks only as of the date on which such statement is made. Except to the extent required by the federal securities laws, these registrants undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements involve a number of risks and uncertainties. There are factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, including those factors discussed or incorporated by reference in (a) Item 1A. Risk Factors in the Form 10-K and the Entergy Texas Form 10, (b) Management's Financial Discussion and Analysis in the Form 10-K, the Entergy Texas Form 10, and in this report, and (c) the following factors (in addition to others described elsewhere in this combined report and in subsequent securities filings):

- resolution of pending and future rate cases and negotiations, including various performance-based rate discussions and implementation of Texas restructuring legislation, and other regulatory proceedings, including those related to Entergy's System Agreement, Entergy's utility supply plan, recovery of storm costs, and recovery of fuel and purchased power costs
- changes in utility regulation, including the beginning or end of retail and wholesale competition, the ability to recover net utility assets and other potential stranded costs, the operations of the independent coordinator of transmission that includes Entergy's utility service territory, and the application of more stringent transmission reliability requirements or market power criteria by the FERC
- changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown of nuclear generating facilities, particularly those in the Non-Utility Nuclear business
- resolution of pending or future applications for license renewals or modifications of nuclear generating

facilities

- the performance of Entergy's generating plants, and particularly the capacity factors at its nuclear generating facilities
- Entergy's ability to develop and execute on a point of view regarding future prices of electricity, natural gas, and other energy-related commodities
- prices for power generated by Entergy's unregulated generating facilities, the ability to hedge, sell power forward or otherwise reduce the market price risk associated with those facilities, including the Non-Utility Nuclear plants, and the prices and availability of fuel and power Entergy must purchase for its utility customers, and Entergy's ability to meet credit support requirements for fuel and power supply contracts
- volatility and changes in markets for electricity, natural gas, uranium, and other energy-related commodities
- changes in law resulting from federal energy legislation
- changes in environmental, tax, and other laws, including requirements for reduced emissions of sulfur, nitrogen, carbon, mercury, and other substances
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel and nuclear waste storage and disposal
- variations in weather and the occurrence of hurricanes and other storms and disasters, including uncertainties associated with efforts to remediate the effects of Hurricanes Katrina and Rita and recovery of costs associated with restoration
- Entergy's and its subsidiaries' ability to manage their capital projects and operation and maintenance costs
- Entergy's ability to purchase and sell assets at attractive prices and on other attractive terms
- the economic climate, and particularly growth in Entergy's service territory
- the effects of Entergy's strategies to reduce tax payments

FORWARD-LOOKING INFORMATION (Concluded)

- changes in the financial markets, particularly those affecting the availability of capital and Entergy's ability to refinance existing debt, execute its share repurchase program, and fund investments and acquisitions
- actions of rating agencies, including changes in the ratings of debt and preferred stock, changes in general corporate ratings, and changes in the rating agencies' ratings criteria
- changes in inflation and interest rates
- the effect of litigation and government investigations
- advances in technology
- the potential effects of threatened or actual terrorism and war
- Entergy's ability to attract and retain talented management and directors
- changes in accounting standards and corporate governance
- and the following transactional factors (in addition to others described elsewhere in this and in subsequent securities filings): (i) risks inherent in the contemplated Non-Utility Nuclear spin-off, joint venture and related transactions (including the level of debt incurred by the spun-off company and the terms and costs related thereto); (ii) legislative and regulatory actions; and (iii) conditions of the capital markets during the periods covered by the forward-looking statements. Entergy Corporation cannot provide any assurances that the spin-off or any of the proposed transactions related thereto will be completed, nor can it give assurances as to the terms on which such transactions will be consummated. The transaction is subject to certain conditions precedent, including regulatory approvals and the final approval by the Board.

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DEFINITIONS

Certain abbreviations or acronyms used in the text and notes are defined below:

<u>Abbreviation or Acronym</u>	<u>Term</u>
AEEC	Arkansas Electric Energy Consumers
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANO 1 and 2	Units 1 and 2 of Arkansas Nuclear One Steam Electric Generating Station (nuclear), owned by Entergy Arkansas
APSC	Arkansas Public Service Commission
Board	Board of Directors of Entergy Corporation
capacity factor	Actual plant output divided by maximum potential plant output for the period
City Council or Council	Council of the City of New Orleans, Louisiana
Entergy	Entergy Corporation and its direct and indirect subsidiaries
Entergy Corporation	Entergy Corporation, a Delaware corporation
Entergy Gulf States, Inc.	Predecessor company for financial reporting purposes to Entergy Gulf States Louisiana that included the assets and business operations of both Entergy Gulf States Louisiana and Entergy Texas
Entergy Gulf States Louisiana	Entergy Gulf States Louisiana, L.L.C., a company created in connection with the jurisdictional separation of Entergy Gulf States, Inc. and the successor company to Entergy Gulf States, Inc. for financial reporting purposes. The term is also used to refer to the Louisiana jurisdictional business of Entergy Gulf States, Inc., as the context requires.
Entergy-Koch	Entergy-Koch, LP, a joint venture equally owned by subsidiaries of Entergy and Koch Industries, Inc.
Entergy Texas	Entergy Texas, Inc., a company created in connection with the jurisdictional separation of Entergy Gulf States, Inc. The term is also used to refer to the Texas jurisdictional business of Entergy Gulf States, Inc., as the context requires.
Entergy Texas Form 10	Registration Statement on Form 10 filed with the SEC by Entergy Texas, as amended July 15, 2008.
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
firm liquidated damages	Transaction that requires receipt or delivery of energy at a specified delivery point (usually at a market hub not associated with a specific asset); if a party fails to deliver or receive energy, the defaulting party must compensate the other party as specified in the contract

Form 10-K	Annual Report on Form 10-K for the calendar year ended December 31, 2007 filed by Entergy Corporation and its Registrant Subsidiaries (other than Entergy Texas) with the SEC
Grand Gulf	Unit No. 1 of Grand Gulf Steam Electric Generating Station (nuclear), 90% owned or leased by System Energy
GWh	Gigawatt-hour(s), which equals one million kilowatt-hours
Independence	Independence Steam Electric Station (coal), owned 16% by Entergy Arkansas, 25% by Entergy Mississippi, and 7% by Entergy Power
IRS	Internal Revenue Service
ISO	Independent System Operator
kW	Kilowatt
kWh	Kilowatt-hour(s)
LPSC	Louisiana Public Service Commission
MMBtu	One million British Thermal Units

1

DEFINITIONS (Continued)

MPSC	Mississippi Public Service Commission
MW	Megawatt(s), which equals one thousand kilowatt(s)
MWh	Megawatt-hour(s)
Net debt ratio	Gross debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents
Net MW in operation	Installed capacity owned or operated
Non-Utility Nuclear	Entergy's business segment that owns and operates six nuclear power plants and sells electric power produced by those plants to wholesale customers
NRC	Nuclear Regulatory Commission
NYPA	New York Power Authority
PPA	Purchased power agreement
production cost	Cost in \$/MMBtu associated with delivering gas, excluding the cost of the gas
PUCT	Public Utility Commission of Texas
PUHCA 1935	Public Utility Holding Company Act of 1935, as amended
PUHCA 2005	Public Utility Holding Company Act of 2005, which repealed PUHCA 1935, among other things
Registrant Subsidiaries	Entergy Arkansas, Inc., Entergy Gulf States Louisiana, L.L.C., Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc., Entergy Texas, Inc., and System Energy Resources, Inc.
River Bend	River Bend Steam Electric Generating Station (nuclear), owned by Entergy Gulf States Louisiana
SEC	Securities and Exchange Commission

SFAS	Statement of Financial Accounting Standards as promulgated by the FASB
System Agreement	Agreement, effective January 1, 1983, as modified, among the Utility operating companies relating to the sharing of generating capacity and other power resources
System Energy	System Energy Resources, Inc.
TIEC	Texas Industrial Energy Consumers
TWh	Terawatt-hour(s), which equals one billion kilowatt-hours
unit-contingent	Transaction under which power is supplied from a specific generation asset; if the asset is unavailable, the seller is not liable to the buyer for any damages
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended and approved by FERC, among Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf
Utility	Entergy's business segment that generates, transmits, distributes, and sells electric power, with a small amount of natural gas distribution
Utility operating companies	Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas
Waterford 3	Unit No. 3 (nuclear) of the Waterford Steam Electric Generating Station, 100% owned or leased by Entergy Louisiana
weather-adjusted usage	Electric usage excluding the effects of deviations from normal weather

ENTERGY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Entergy operates primarily through two business segments: Utility and Non-Utility Nuclear.

- **Utility**

generates, transmits, distributes, and sells electric power in a four-state service territory that includes portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operates a small natural gas distribution business.

- **Non-Utility Nuclear**

owns and operates six nuclear power plants located in the northern United States and sells the electric power produced by those plants primarily to wholesale customers. This business also provides services to other nuclear power plant owners.

In addition to its two primary, reportable, operating segments, Entergy also operates the non-nuclear wholesale assets business. The non-nuclear wholesale assets business sells to wholesale customers the electric power produced by power plants that it owns while it focuses on improving performance and exploring sales or restructuring opportunities for its power plants.

Plan to Pursue Separation of Non-Utility Nuclear

In November 2007, the Board approved a plan to pursue a separation of the Non-Utility Nuclear business from Entergy through a tax-free spin-off of the Non-Utility Nuclear business to Entergy shareholders. Enexus Energy Corporation, a wholly-owned subsidiary of Entergy and formerly referred to as SpinCo, will be a new, separate, and publicly-traded company. In addition, under the plan, Enexus and Entergy are expected to enter into a nuclear services business joint venture, Equagen L.L.C., with 50% ownership by Enexus and 50% ownership by Entergy. The Equagen board of members will be comprised of equal membership from both Entergy and Enexus.

Upon completion of the spin-off, Entergy Corporation's shareholders will own 100% of the common stock in both Enexus and Entergy. Entergy expects that Enexus' business will be substantially comprised of Non-Utility Nuclear's assets, including its six nuclear power plants, and Non-Utility Nuclear's power marketing operation. Entergy Corporation's remaining business will primarily be comprised of the Utility business. Equagen is expected to operate the nuclear assets owned by Enexus, and provide certain services to the Utility's nuclear operations. Equagen is also expected to offer nuclear services to third parties, including decommissioning, plant relicensing, plant operations, and ancillary services.

Entergy Nuclear Operations, Inc., the current NRC-licensed operator of the Non-Utility Nuclear plants, filed an application in July 2007 with the NRC seeking indirect transfer of control of the operating licenses for the six Non-Utility Nuclear power plants, and supplemented that application in December 2007 to incorporate the planned business separation. Entergy Nuclear Operations, Inc., which is expected to be wholly-owned by Equagen, will remain the operator of the plants after the separation. Entergy Operations, Inc., the current NRC-licensed operator of Entergy's five Utility nuclear plants, will remain a wholly-owned subsidiary of Entergy and will continue to be the operator of the Utility nuclear plants. In the December 2007 supplement to the NRC application, Entergy Nuclear Operations, Inc. provided additional information regarding the spin-off transaction, organizational structure, technical and financial qualifications, and general corporate information. The NRC published a notice in the Federal Register establishing a period for the public to submit a request for hearing or petition to intervene in a hearing proceeding. The NRC notice period expired on February 5, 2008 and two petitions to intervene in the hearing proceeding were filed before the deadline. Each of the petitions opposes the NRC's approval of the license transfer on various grounds, including contentions that the approval request is not adequately supported regarding the basis for the proposed structure, the adequacy of decommissioning funding, and the adequacy of financial qualifications. Entergy submitted answers to the petitions on March 31 and April 8, and the NRC or a presiding officer designated by the NRC will determine whether a hearing will be granted. If a hearing is granted, the NRC is expected to issue a procedural schedule providing for limited discovery, written testimony and a legislative-type hearing. Under the NRC's procedural rules for license transfer approvals, the NRC Staff will continue to review the application,

prepare a Safety Evaluation Report and issue an approval or denial without regard to whether a hearing request is pending or has been granted. Thus, resolution of the hearing requests is not a prerequisite to obtaining the required NRC approval. On July 28, 2008 the NRC approved Entergy Nuclear Operations, Inc.'s application.

Pursuant to Federal Power Act Section 203, on February 21, 2008, an application was filed with the FERC requesting approval for the indirect disposition and transfer of control of jurisdictional facilities of a public utility. In June 2008 the FERC issued an order authorizing the requested indirect disposition and transfer of control.

On January 28, 2008, Entergy Nuclear Vermont Yankee and Entergy Nuclear Operations, Inc. requested approval from the Vermont Public Service Board for the indirect transfer of control, consent to pledge assets, issue guarantees

and assign material contracts, amendment to certificate of public good, and replacement of guaranty and substitution of a credit support agreement for Vermont Yankee. Two Vermont utilities that buy power from Vermont Yankee, the regional planning commission for the area served by Vermont Yankee, a municipality in which the Vermont Yankee training center is located, the union that represents certain Vermont Yankee employees, and two unions that represent certain employees at the Pilgrim plant in Massachusetts petitioned to intervene. Although the Pilgrim unions' petition to intervene was denied, the Pilgrim unions filed for reconsideration or, in the alternative, for participation as amicus curiae, and the Vermont Public Service Board has allowed the unions to participate as amicus curiae. Discovery is underway in this proceeding, in which parties can ask questions about or request the production of documents related to the transaction.

In addition, the Vermont Department of Public Service, which is the public advocate in proceedings before the Public Service Board, has prefiled its initial and rebuttal testimony in the case in which the Vermont Department of Public Service takes the position that Entergy Nuclear Vermont Yankee and Entergy Nuclear Operations, Inc. have not demonstrated that the restructuring promotes the public good because its benefits do not outweigh the risks, raising concerns that the target rating for Enexus Energy's debt is below investment grade and that the company may not have the financial capability to withstand adverse financial developments, such as an extended outage. The Vermont Department of Public Service's testimony also expresses concern about the EquaGen joint venture structure and Enexus' ability, under the operating agreement between Entergy Nuclear Vermont Yankee and Entergy Nuclear Operations, Inc., to ensure that Vermont Yankee is well-operated. Two distribution utilities that buy Vermont Yankee power prefiled testimony that also expresses concerns about the structure but found that there was a small net benefit to the restructuring. The Vermont Public Service Board conducted hearings on July 28-30, 2008, during which it considered the testimony prefiled by Entergy Nuclear Vermont Yankee, Entergy Nuclear Operations, Inc., the Vermont Department of Public Service, and the two distribution utilities. Briefing will now follow the hearings, and the Vermont Public Service Board will then issue a decision.

On January 28, 2008, Entergy Nuclear FitzPatrick, Entergy Nuclear Indian Point 2, Entergy Nuclear Indian Point 3, Entergy Nuclear Operations, Inc., and corporate affiliate NewCo (now named Enexus) filed a petition with the New York Public Service Commission (NYPSC) requesting a declaratory ruling regarding corporate reorganization or in the alternative an order approving the transaction and an order approving debt financing. Petitioners also requested confirmation that the corporate reorganization will not have an effect on Entergy Nuclear FitzPatrick's, Entergy Nuclear Indian Point 2's, Entergy Nuclear Indian Point 3's, and Entergy Nuclear Operations, Inc.'s status as lightly regulated entities in New York, given that they will continue to be competitive wholesale generators. The New York State Attorney General's Office, Westchester County, and Riverkeeper, Inc. have filed objections to the business separation and to the transfer of the FitzPatrick and Indian Point Energy Center nuclear power plants, arguing that the debt associated with the spin-off could threaten access to adequate financial resources for those nuclear power plants, that Entergy could potentially be able to terminate revenue sharing agreements with the New York Power Authority (NYPA), the entity from which Entergy purchased the FitzPatrick and Indian Point 3 nuclear power plants, and because the New York State Attorney General's Office believes Entergy must file an environmental impact statement assessing the proposed corporate restructuring. In addition to the New York State Attorney General's Office, several other parties have also requested to be added to the service list for this proceeding.

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On May 23, 2008, the NYPSC issued its Order Establishing Further Procedures in this matter. In the order, the NYPSC determined that due to the nuclear power plants' unique role in supporting the reliability of electric service in New York, and their large size and unique operational concerns, a more searching inquiry of the transaction will be conducted than if other types of lightly-regulated generation were at issue. Accordingly, the NYPSC assigned an ALJ

to preside over this proceeding and prescribed a sixty (60) day discovery period. The order provided that after at least sixty (60) days, the ALJ would establish when the discovery period would conclude. The NYPSC stated that the scope of discovery will be tightly bounded by the public interest inquiry relevant to this proceeding; namely, adequacy and security of support for the decommissioning of the New York nuclear facilities; financial sufficiency of the proposed capital structure in supporting continued operation of the facilities; and, arrangements for managing, operating and maintaining the facilities. The NYPSC also stated that during the discovery period, the NYPSC Staff may conduct technical conferences to assist in the development of a full record in this proceeding.

On July 23, 2008, the ALJs issued a ruling concerning discovery and seeking comments on a proposed process and schedule. In the ruling, the ALJs proposed a process for completing a limited, prescribed discovery process, to be followed three weeks later by the filing of initial comments addressing defined issues, with reply comments due two weeks after the initial comment deadline. Following receipt of all comments, a ruling will be made on whether, and to what extent, an evidentiary hearing is required. The ALJs' ruling acknowledged that the proposed process will not facilitate a decision by the NYPSC in September 2008. The ALJs asked the parties to address three specific topic areas: (1) the financial impacts related to the specific issues previously outlined by the NYPSC; (2) other obligations associated with the arrangement for managing, operating and maintaining the facilities; and (3) the extent that NYPA revenues from value sharing payments under the value sharing agreement between Entergy and NYPA would decrease. The ALJs have indicated that the potential financial effect of the termination of the value sharing payments on NYPA and New York electric consumers are factors the ALJs believe should be considered by the NYPSC in making its public interest determination. For further discussion of the value sharing agreements, see Note 1 to the financial statements herein. Entergy continues to seek regulatory approval from the NYPSC in a timely manner.

In connection with the separation, Enexus is currently expected to incur up to \$4.5 billion of debt in the form of debt securities. The debt will be incurred in the following transactions:

- Enexus is expected to issue up to \$3.5 billion of debt securities in partial consideration of Entergy's transfer to it of the non-utility nuclear business.
- These debt securities are expected to be exchanged for up to \$3.5 billion of debt securities that Entergy plans to issue prior to the separation. As a result of the exchange (should the exchange occur), the holders of the debt securities that Entergy plans to issue prior to the separation will become holders of the up to \$3.5 billion of Enexus debt securities.
- Enexus is expected to incur the balance of the debt through one or more public or private offerings of notes or other debt securities.

Out of the proceeds Enexus receives from the public or private offerings, it expects to retain approximately \$500 million, which it intends to use for working capital and other general corporate purposes. All of the remaining proceeds are expected to be transferred to Entergy to settle intercompany debt. Enexus will not receive any proceeds from either the issuance of up to \$3.5 billion of its debt securities or the exchange of its debt securities for Entergy debt securities. Entergy expects to use the proceeds that it receives from the issuance of its debt securities to reduce outstanding Entergy debt or repurchase Entergy shares. The amount to be paid to Entergy, the amount and term of the debt Enexus will incur, and the type of debt and entity that will incur the debt have not been finally determined, but will be determined prior to the separation. A number of factors could affect this final determination, and the amount of debt ultimately incurred could be different from the amount disclosed. Additionally, Entergy expects Enexus to enter into one or more credit facilities or other financing arrangements intended to support Enexus' working capital needs, collateral obligations, and other corporate needs arising from hedging and normal course of business requirements.

Entergy is targeting the fourth quarter 2008 as the effective date for the spin-off and EquaGen transactions to be completed. Entergy expects the transactions to qualify for tax-free treatment for U.S. federal income tax purposes for both Entergy and its shareholders, and Entergy submitted a private letter ruling request to the IRS in April 2008 regarding the tax-free treatment. Final terms of the transactions and spin-off completion are subject to several conditions, including the final approval of the Board.

Results of Operations

Income Statement Variances

Second Quarter 2008 Compared to Second Quarter 2007

Following are income statement variances for Utility, Non-Utility Nuclear, Parent & Other, and Entergy comparing the second quarter 2008 to the second quarter 2007 showing how much the line item increased or (decreased) in comparison to the prior period:

	Utility	Non-Utility Nuclear	Parent & Other (1)	Entergy
	(In Thousands)			
2 nd Quarter 2007 Consolidated Net Income	\$148,194	\$108,726	\$10,682	\$267,602
Net revenue (operating revenue less fuel expense, purchased power, and other regulatory charges/credits)	52,329	134,664	8,595	195,588
Other operation and maintenance expenses	17,895	25,546	27,198	70,639
Taxes other than income taxes	5,980	4,156	(542)	9,594
Depreciation and amortization	2,547	6,612	165	9,324
Other income	4,895	(24,551)	(1,941)	(21,597)
Interest charges	(929)	9,227	(19,739)	(11,441)
Other expenses	6,250	9,709	3	15,962
Income taxes	13,961	19,973	42,627	76,561
2 nd Quarter 2008 Consolidated Net Income	\$159,714	\$143,616	(\$32,376)	\$270,954

(1) Parent & Other includes eliminations, which are primarily intersegment activity.

Refer to "**ENTERGY CORPORATION AND SUBSIDIARIES - SELECTED OPERATING RESULTS**" for further information with respect to operating statistics.

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Net Revenue

Utility

Following is an analysis of the change in net revenue comparing the second quarter 2008 to the second quarter 2007.

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	Amount (In Millions)
2007 net revenue	\$1,129.5
Volume/weather	42.3
Other	10.0
2008 net revenue	\$1,181.8

The volume/weather variance is primarily due to increased electricity usage, including the effect of more favorable weather compared to the same period in 2007 and higher sales during the unbilled period. Billed retail electricity usage increased a total of 594 GWh in the residential and commercial sectors, an increase of 4.4%.

Non-Utility Nuclear

Net revenue increased for Non-Utility Nuclear from \$419 million for the second quarter 2007 to \$553 million for the second quarter 2008 primarily due to higher pricing in its contracts to sell power and increased production resulting from fewer outage days and the acquisition of the Palisades plant on April 11, 2007. In addition to refueling outages, second quarter 2007 was affected by a 28 day unplanned outage. Following are key performance measures for Non-Utility Nuclear for the second quarter 2008 and 2007:

	2008	2007
Net MW in operation at June 30	4,998	4,998
Average realized price per MWh	\$58.22	\$51.28
GWh billed	10,145	8,896
Capacity factor	92%	82%
Refueling Outage Days:		
Indian Point 2	19	-
Pilgrim	-	33
Vermont Yankee	-	24

Other Operation and Maintenance Expenses

Utility

Other operation and maintenance expenses increased from \$461 million for the second quarter 2007 to \$479 million for the second quarter 2008 primarily due to:

- an increase of \$8 million in loss reserves, including storm damage reserves at Entergy Mississippi;
- an increase of \$6 million in storm damage charges as a result of several storms hitting Entergy Arkansas' service territory in 2008. Entergy Arkansas discontinued regulatory storm reserve accounting beginning July 2007 as a result of the APSC order issued in Entergy Arkansas' rate case. As a result, non-capital storm expenses are charged to other operation and maintenance expenses;
- an increase of \$6 million in payroll-related costs; and
- various other insignificant factors.

These increases were partially offset by a reimbursement of \$7 million of costs in connection with a litigation settlement.

Non-Utility Nuclear

Other operation and maintenance expenses increased from \$175 million for the second quarter 2007 to \$201 million for the second quarter 2008 primarily due to deferring costs from one refueling outage in 2008 compared to two refueling outages in second quarter 2007, in addition to the acquisition of the Palisades plant in April 2007. Other operation and maintenance expenses associated with the Palisades plant were \$31 million for the second quarter 2008 compared to \$24 million for the second quarter 2007.

Parent & Other

Other operation and maintenance expenses increased for the parent company, Entergy Corporation, for the second quarter 2008 primarily due to outside services costs related to the planned spin-off of the Non-Utility Nuclear business.

Other Income

Other income decreased primarily due to a \$24.4 million charge to interest income in the second quarter 2008 resulting from the recognition of the other than temporary impairment of certain securities held in Non-Utility Nuclear's decommissioning trust funds.

Income Taxes

The effective income tax rates for the second quarters of 2008 and 2007 were 39.9% and 28.0%, respectively. The difference in the effective income tax rate versus the statutory rate of 35% for the second quarter 2008 is primarily due to state income taxes and book and tax differences for utility plant items. The reduction in the effective income tax rate versus the statutory rate of 35% for the second quarter 2007 is primarily due to the resolution of tax audit issues in the 2002-2003 audit cycle, book and tax differences related to the allowance for equity funds used during construction, and the amortization of investment tax credits. These factors were partially offset by book and tax differences for utility plant items and state income taxes.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Following are income statement variances for Utility, Non-Utility Nuclear, Parent & Other, and Entergy comparing the six months ended June 30, 2008 to the six months ended June 30, 2007 showing how much the line item increased or (decreased) in comparison to the prior period:

	Utility	Non-Utility Nuclear	Parent & Other (1)	Entergy
	(In Thousands)			
2007 Consolidated Net Income	\$252,644	\$236,896	(\$9,743)	\$479,797

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Net revenue (operating revenue less fuel expense, purchased power, and other regulatory charges/credits)	79,620	338,153	7,258	425,031
Other operation and maintenance expenses	29,871	60,183	27,477	117,531
Taxes other than income taxes	(8,518)	9,243	(5,243)	(4,518)
Depreciation and amortization	1,572	20,071	256	21,899
Other income	(13,572)	(21,687)	(5,929)	(41,188)
Interest charges	(6,403)	13,732	(14,213)	(6,884)
Other expenses	7,797	24,608	6	32,411
Income taxes	17,512	60,211	45,775	123,498
2008 Consolidated Net Income	\$276,861	\$365,314	(\$62,472)	\$579,703

8

(1) Parent & Other includes eliminations, which are primarily intersegment activity.

Net Revenue

Utility

Following is an analysis of the change in net revenue comparing the six months ended June 30, 2008 to the six months ended June 30, 2007.

	Amount (In Millions)
2007 net revenue	\$2,136.8
Volume/weather	43.4
Fuel recovery	18.3
Rider revenue	15.3
Base revenues	15.1
Purchased power capacity	(19.1)
Other	6.6
2008 net revenue	\$2,216.4

The volume/weather variance is primarily due to increased electricity usage, including the effect of more favorable weather compared to the same period in 2007. Billed retail electricity usage increased a total of 936 GWh in the residential and commercial sectors, an increase of 3.4%.

The fuel recovery variance resulted primarily from a reserve for potential rate refunds in the first quarter 2007 in Texas as a result of a PUCT ruling related to the application of past PUCT rulings addressing transition to competition in Texas.

The rider revenue variance is primarily due to:

- an increase in the Attala power plant costs that are recovered through the power management rider by Entergy Mississippi. The net income effect of this recovery is limited to a portion representing an allowed return on equity

with the remainder offset by Attala power plant costs in other operation and maintenance expenses, depreciation expenses, and taxes other than income taxes;

- a storm damage rider that became effective in October 2007 at Entergy Mississippi; and
- an Energy Efficiency rider that became effective in November 2007 at Entergy Arkansas.

The establishment of the storm damage rider and the Energy Efficiency rider results in an increase in rider revenue and a corresponding increase in other operation and maintenance expense with no impact on net income.

The base revenues variance is primarily due to the interim surcharge to collect \$10 million in under-recovered incremental purchased capacity costs incurred through July 2007 in Texas. The surcharge was collected over a two-month period beginning February 2008. The incremental capacity recovery rider and PUCT approval is discussed in Note 2 to the financial statements in the Form 10-K. The variance is also due to a formula rate plan increase effective July 2007 at Entergy Mississippi.

The purchased power capacity variance is due to the amortization of deferred capacity costs and is partially offset in base revenues due to the incremental purchased capacity costs recovered through the interim surcharge, as discussed above.

9

Non-Utility Nuclear

Net revenue increased for Non-Utility Nuclear from \$840 million for the six months ended June 30, 2007 to \$1,178 million for the six months ended June 30, 2008 primarily due to higher pricing in its contracts to sell power, additional production resulting from the acquisition of the Palisades plant in April 2007, and fewer outage days. In addition to refueling outages, second quarter 2007 was affected by a 28 day unplanned outage. Palisades contributed \$154 million of net revenue for the six months ended June 30, 2008 compared to \$70 million of net revenue for the six months ended June 30, 2007. Included in the Palisades net revenue is \$38 million and \$15 million for the six months ended June 30, 2008 and 2007, respectively, of amortization of the Palisades purchased power agreement liability, which is non-cash revenue and is discussed in Note 15 to the financial statements in the Form 10-K. Following are key performance measures for Non-Utility Nuclear for the six months ended June 30, 2008 and 2007:

	2008	2007
Net MW in operation at June 30	4,998	4,998
Average realized price per MWh	\$59.89	\$53.13
GWh billed	20,905	17,211
Capacity factor	95%	86%
Refueling Outage Days:		
Indian Point 2	26	-
Indian Point 3	-	24
Pilgrim	-	33
Vermont Yankee	-	24

Other Operation and Maintenance Expenses

Utility

Other operation and maintenance expenses increased from \$870 million for the six months ended June 30, 2007 to \$899 million for the six months ended June 30, 2008 primarily due to:

- an increase of \$16 million in fossil expenses primarily due to higher costs for plant maintenance outages as a result of differing outage schedules for 2008 compared to 2007;
- an increase of \$16 million in storm damage charges as a result of several storms hitting Entergy Arkansas' service territory in 2008. Entergy Arkansas discontinued regulatory storm reserve accounting beginning July 2007 as a result of the APSC order issued in Entergy Arkansas' rate case. As a result, non-capital storm expenses are charged to other operation and maintenance expenses; and
- an increase of \$9 million in loss reserves, including storm damage reserves at Entergy Mississippi.

The increase was partially offset by a reimbursement of \$7 million of costs in connection with a litigation settlement.

Non-Utility Nuclear

Other operation and maintenance expenses increased from \$322 million for the six months ended June 30, 2007 to \$382 million for the six months ended June 30, 2008 primarily due to deferring costs from one refueling outage in 2008 compared to three refueling outages in 2007, in addition to the acquisition of the Palisades plant in April 2007. Other operation and maintenance expenses associated with the Palisades plant were \$60 million for the six months ended June 30, 2008 compared to \$24 million for the six months ended June 30, 2007.

10

Parent & Other

Other operation and maintenance expenses increased for the parent company, Entergy Corporation, for the six months ended June 30, 2008 primarily due to outside services costs related to the planned spin-off of the Non-Utility Nuclear business, including approximately \$23.7 million of such costs in the second quarter 2008.

Other Income

Other income decreased primarily due to approximately \$27 million in charges to interest income in 2008 resulting from the recognition of the other than temporary impairment of certain securities held in Non-Utility Nuclear's decommissioning trust funds. Other factors contributing to the decrease were a reduction in the allowance for equity funds used during construction in the Utility due to a revision in the first quarter 2007 related to removal costs and a reduction in carrying charges on storm costs as recovery of some of those costs has been completed.

Income Taxes

The effective income tax rates for the six months ended June 30, 2008 and 2007 were 38.9% and 33.9%, respectively. The difference in the effective income tax rate versus the statutory rate of 35% for the six months ended June 30, 2008 is primarily due to state income taxes and book and tax differences for utility plant items, partially offset by an adjustment to state income taxes for Non-Utility Nuclear to reflect the effect of a change in the methodology of computing New York state income taxes as required by that state's taxing authority. The reduction in the effective income tax rate versus the statutory rate of 35% for the six months ended June 30, 2007 is primarily du