

ENTERGY CORPORATION
AND SUBSIDIARIES

2020 ANNUAL REPORT



WE POWER LIFESM 

Entergy Corporation and Subsidiaries 2020

Entergy Corporation (NYSE: ETR) is an integrated energy company engaged in electric power production, transmission and retail distribution operations. Entergy delivers electricity to 3 million utility customers in Arkansas, Louisiana, Mississippi and Texas. Entergy owns and operates one of the cleanest large-scale U.S. power generating fleets with approximately 30,000 megawatts of electric generating capacity, including 8,000 megawatts of nuclear power. Headquartered in New Orleans, Louisiana, Entergy has annual revenues of \$10.1 billion and more than 13,000 employees.

In addition to our Annual Report to Shareholders, Entergy produces an Integrated Report, highlighting our economic, environmental and social performance. Producing an Integrated Report reinforces our belief that our stakeholders – customers, employees, communities and owners – are linked and that we must deliver sustainable value to all stakeholders in order to succeed.

We encourage you to visit our 2020 Integrated Report at integratedreport.entergy.com.

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To All Our Stakeholders

While preparing to write this letter, I was acutely aware that 2020 would be one of the most analyzed and scrutinized years in modern history, the subject of countless books, essays, films, debates, dissertations, and conversations for decades to come.

The task of describing a year like no other seemed a bit overwhelming at first. From a personal and professional standpoint, I had never seen anything like it in my more than six decades on the planet, and in many ways, I'm still processing the experience.

Telling Entergy's 2020 story is a responsibility I am humbled by, and thankful for, because I am speaking on behalf of a team of employees who managed to make extraordinary things happen.

In my efforts to sum up the year, I find myself looking at it through two lenses: the first is how the year tried to divide us, and the second is how we chose to respond.

As for division, beyond any measure it was a year defined by forces and events that threatened to pull us apart:

- A frightening pandemic separated us from our families, friends, and co-workers;
- Social and political unrest polarized our nation; and
- Catastrophic storms disrupted lives and devastated communities.

These challenges took a profound toll on our lives and introduced new fears and uncertainties about the future. At times, it seemed like the best way to protect our physical, emotional, and spiritual wellbeing was to stay apart, hunker down, and hope for the best.

Thankfully, this mindset did not take hold at Entergy. For a company whose purpose is serving others, it became apparent early on that the only response to division was unity. Our ability to stay connected and united around a common purpose, grounded in our core values, helped us stay true to ourselves and our legacy of service. United by our vision to power the lives of those we serve, we focused relentlessly on our mission — creating sustainable value for customers, communities, employees, and owners.

To those who say there was no way to prepare for 2020, all I can tell you is that the 13,400 women and men of Entergy were prepared. Whatever 2020 threw at us, we didn't back down. Whenever we encountered obstacles, we stuck together and worked through each day as one team. By choosing unity over division and estrangement, we delivered on our strategic, operational, and financial commitments, despite the challenges.

That's what our stakeholders expect from us. And that's what it takes to be the premier utility.

Prepared for the COVID-19 Pandemic

Preparing for the unexpected has long been a hallmark of Entergy's success. Well before the novel coronavirus was an actuality, we had a detailed pandemic response plan in place.

In January of 2020, we activated our plan and mobilized teams with four primary objectives: (1) ensuring the safety and wellness of our employees; (2) maintaining safe, reliable service for our customers; (3) supporting our communities through volunteerism and financial resources; and (4) mitigating financial impacts to the company.

Entergy's extensive preparations allowed us to quickly adapt to new working arrangements, with much of our workforce telecommuting. For field employees and others for whom telecommuting was not an option, we made sure they were equipped with tools and resources to ensure their safety on and off the job while keeping the lights on and the gas flowing for our customers.

During uncertain times, our unity and continuity mattered more than ever.

The energy we supplied in 2020 was an essential, stabilizing necessity that made it possible for hospitals, nursing homes, healthcare clinics, and a broad range of medical providers to carry out their lifesaving mission in communities throughout our service area.

Our energy kept the supply chain in motion, making it possible for grocery stores, pharmacies, relief agencies, emergency responders, and other critical entities to provide vital supplies and services to keep our communities moving forward.

With many families homebound during the pandemic, our energy powered remote offices and classrooms while helping our customers stay connected to one another and the outside world.

When the pandemic created economic hardships in our communities, our philanthropic support and employee volunteerism provided relief for families in crisis. Through grants to more than 80 nonprofits, we provided food, rent and mortgage assistance, utility assistance, emergency grants, and workforce training for those who were laid off as a result of the pandemic.

Prepared for a Record-Breaking Storm Season

In 2020, our employees also demonstrated once again why Entergy is best-in-class in storm response. During a storm season unlike any other in our history, their commitment to health, safety, and preparedness was one of our proudest achievements.

When five named storms devastated portions of our service area — including Hurricane Laura, the strongest storm to hit Louisiana in over 160 years — our storm-response teams worked around the clock to safely restore service, rebuild infrastructure, and help our communities recover, all while following virus-prevention protocols.

To ensure our communities had access to critical resources after hurricanes Laura, Delta, and Zeta, we deployed 82 generators — equal to more than 43 MW of power — across the region, including underserved areas.

When Hurricane Zeta struck the Gulf Coast in late October, we faced an additional challenge of ensuring that polling places had power by Election Day. Partnering with state and local governments, we deployed more than 200 power pods across six Louisiana parishes to ensure every polling place was operational.

Widespread storm damage deepened the crisis for many communities already struggling from impacts of the pandemic. In addition to restoring power and rebuilding infrastructure, Entergy led economic recovery efforts through charitable donations and volunteer support that helped our communities build back.

Leading on Environmental Stewardship

Entergy's environmental leadership is well-established, and 2020 was another milestone year in our efforts to combat climate change. After more than two decades of setting and achieving voluntary emission-reduction targets, we intensified our commitment to achieve net-zero carbon emissions by 2050.

Our longstanding commitment to sustainability has led to measurable, undeniable results:

- For the past two decades, our emission rate has been well below the sector average,
- Our utility CO2 emission rate has decreased approximately 30% since 2000, and
- Today we operate one of the cleanest large-scale power generating fleets in the nation.

We know that creating a carbon-free future calls for more investments in renewables. Entergy is already the largest utility provider of renewable energy in Arkansas and Louisiana, and we're building the largest utility-owned solar facility in Mississippi. We're working with our regulators and stakeholders to responsibly expand access to renewable energy across our service area under a framework that balances reliability, affordability, and environmental stewardship.

We're also exploring emerging technologies and innovative partnerships to accelerate our net-zero carbon emissions actions, most recently through a partnership with Mitsubishi Power. We are focused on advancing technologies and expertise to co-fire our generation with hydrogen.

We are working today to make this a reality. With the selection of the Orange County Power Station, a self-build project in Southeast Texas, we will develop a state-of-the-art generation facility with the option to be powered partially or fully with hydrogen. Additionally, we're exploring the potential use of carbon capture and sequestration once that technology is economically available.

Being a premier utility means doing our part to create a more sustainable future for our customers, communities, and the world — a goal we are continuously striving for in all aspects of our operations.

Championing Diversity, Inclusion, and Belonging

For Entergy, keeping the power on and gas flowing is just part of what we do. Our focus on diversity, inclusion, and belonging is also a critical business imperative, and our ability to deliver sustainable value to our stakeholders now and in the future depends on it.

We strategically elevated diversity, inclusion, and belonging as one of our corporate priorities in 2018. As part of our efforts, we've delivered training courses to better equip leaders at all levels to effectively engage in meaningful conversations about race and other sensitive issues and increase awareness of unconscious biases that may play out in the workplace.

In June of 2020, my executive team held an employee town hall on race and equality with a goal to foster transparent, productive, and even raw conversations among employees and leaders at all levels. Since that time, teams have been hard at work laying a firm foundation on which to continue building and strengthening our culture of diversity, inclusion, and belonging.

We also published a 2020 Inclusive Climate Report based on our organizational health survey results, which we made available to the entire workforce. In addition to a 90% survey participation rate, employees provided 25,000 comments on topics ranging from our COVID-19 response to our diversity, inclusion, and belonging efforts — valuable insights we are using to improve our performance and responsiveness.

Delivering Financial Results

Our stock performance in 2020 did not reflect the extraordinary accomplishments of our organization. And of course, we're disappointed. But our strong financial results demonstrated otherwise: Entergy's adjusted earnings per share of \$5.66 was in the top half of our guidance range. We achieved this by exceeding our \$100 million cost-savings target for the year, which we established to offset lower revenues resulting from COVID-19.

Challenges and headwinds are a natural part of doing business. No company is immune, no utility is immune, and Entergy is no exception. However, the test of sustainability is less about challenges and headwinds and more about how we are equipped and prepared to successfully address them. The reality is that our achievements and strong financial results in 2020 proved our ability, in the face of adversity, to deliver on our commitments.

Today, we're positioned to accomplish even greater things in the future. I say that with confidence because of what I saw our employees do last year. All across our company, they rose to the challenge to power life while safeguarding others' health and safety.

Despite obstacles imposed by the pandemic, our employees found ways to connect, innovate, drive growth, and build toward the future. When storms caused unprecedented destruction in our service area, our workforce answered the call, again and again, with an unwavering commitment to safety, service, and professionalism.

While it's important to acknowledge our progress, we know there's more work to be done in our mission to become the premier utility. We are taking a critical look at our performance in 2020 and building on our knowledge and experience to find better ways to serve our stakeholders.

During a year marked by personal loss, crisis, and chaos, we proved that outside forces are no match for the ties that bind us. Through our decisions and actions, we proved that the values we hold in common are much more meaningful and powerful than our differences.

By moving forward with unity, we will create a stronger foundation for continued success in 2021 and beyond. And as we focus on the journey ahead, there's nowhere else I'd rather be than working alongside the employees of Entergy.

A handwritten signature in black ink, appearing to read "L. P. Denault". The signature is fluid and cursive, with a prominent initial "L" and "P".

Leo P. Denault
Chairman of the Board and Chief Executive Officer
March 26, 2021

FORWARD-LOOKING INFORMATION AND REGULATION G COMPLIANCE

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, projections, 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 “may,” “will,” “could,” “project,” “believe,” “anticipate,” “intend,” “expect,” “estimate,” “continue,” “potential,” “plan,” “predict,” “forecast,” and other similar words or 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 (a) those factors discussed or incorporated by reference in Item 1A. Risk Factors contained in the Form 10-K for the year ended December 31, 2020, (b) those factors discussed or incorporated by reference in Management’s Financial Discussion and Analysis contained in the Form 10-K for the year ended December 31, 2020, 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 related litigation, formula rate proceedings and related negotiations, including various performance-based rate discussions, Entergy’s utility supply plan, and recovery of fuel and purchased power costs, as well as delays in cost recovery resulting from these proceedings;
- continuing long-term risks and uncertainties associated with the termination of the System Agreement in 2016, including the potential absence of federal authority to resolve certain issues among the Utility operating companies and their retail regulators;
- regulatory and operating challenges and uncertainties and economic risks associated with the Utility operating companies’ participation in MISO, including the benefits of continued MISO participation, the effect of current or projected MISO market rules and market and system conditions in the MISO markets, the allocation of MISO system transmission upgrade costs, the MISO-wide base rate of return on equity allowed or any MISO-related charges and credits required by the FERC, and the effect of planning decisions that MISO makes with respect to future transmission investments by the Utility operating companies;
- changes in utility regulation, including with respect to retail and wholesale competition, the ability to recover net utility assets and other potential stranded costs, and the application of more stringent return on equity criteria, transmission reliability requirements or market power criteria by the FERC or the U.S. Department of Justice;
- changes in the regulation or regulatory oversight of Entergy’s nuclear generating facilities and nuclear materials and fuel, including with respect to the planned or actual shutdown and sale of each of the nuclear generating facilities owned or operated by Entergy Wholesale Commodities, and the effects of new or existing safety or environmental concerns regarding nuclear power plants and nuclear fuel;
- resolution of pending or future applications, and related regulatory proceedings and litigation, for license modifications or other authorizations required of nuclear generating facilities and the effect of public and political opposition on these applications, regulatory proceedings, and

FORWARD-LOOKING INFORMATION AND REGULATION G COMPLIANCE (Continued)

litigation;

- the performance of and deliverability of power from Entergy's generation resources, including the capacity factors at Entergy's nuclear generating facilities;
- increases in costs and capital expenditures that could result from changing regulatory requirements, emerging operating and industry issues, and the commitment of substantial human and capital resources required for the safe and reliable operation and maintenance of Entergy's 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 merchant generating facilities and the ability to hedge, meet credit support requirements for hedges, sell power forward or otherwise reduce the market price risk associated with those facilities, including the Entergy Wholesale Commodities nuclear plants, especially in light of the planned shutdown and sale of each of these nuclear plants;
- 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, emissions allowances, and other energy-related commodities, and the effect of those changes on Entergy and its customers;
- changes in law resulting from federal or state energy legislation or legislation subjecting energy derivatives used in hedging and risk management transactions to governmental regulation;
- changes in environmental laws and regulations, agency positions or associated litigation, including requirements for reduced emissions of sulfur dioxide, nitrogen oxide, greenhouse gases, mercury, particulate matter and other regulated air emissions, heat and other regulated discharges to water, requirements for waste management and disposal and for the remediation of contaminated sites, wetlands protection and permitting, and changes in costs of compliance with environmental laws and regulations;
- changes in laws and regulations, agency positions, or associated litigation related to protected species and associated critical habitat designations;
- the effects of changes in federal, state, or local laws and regulations, and other governmental actions or policies, including changes in monetary, fiscal, tax, environmental, trade/tariff, domestic purchase requirements, or energy policies;
- the effects of full or partial shutdowns of the federal government or delays in obtaining government or regulatory actions or decisions;
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel and nuclear waste storage and disposal and the level of spent fuel and nuclear waste disposal fees charged by the U.S. government or other providers related to such sites;
- variations in weather and the occurrence of hurricanes and other storms and disasters, including uncertainties associated with efforts to remediate the effects of hurricanes (including from Hurricane Laura, Hurricane Delta, and Hurricane Zeta), ice storms, or other weather events and the recovery of costs associated with restoration, including accessing funded storm reserves, federal and local cost recovery mechanisms, securitization, and insurance, as well as any related unplanned outages;
- the risk that an incident at any nuclear generation facility in the U.S. could lead to the assessment of significant retrospective assessments and/or retrospective insurance premiums as a result of Entergy's participation in a secondary financial protection system, a utility industry mutual insurance company, and industry self-insurance programs;

FORWARD-LOOKING INFORMATION AND REGULATION G COMPLIANCE (Continued)

- effects of climate change, including the potential for increases in extreme weather events and sea levels or coastal land and wetland loss;
- changes in the quality and availability of water supplies and the related regulation of water use and diversion;
- Entergy's ability to manage its capital projects, including completion of projects timely and within budget and to obtain the anticipated performance or other benefits, and its 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 economic conditions in Entergy's Utility service area and the northern United States and events and circumstances that could influence economic conditions in those areas, including power prices, and the risk that anticipated load growth may not materialize;
- changes to federal income tax laws and regulations, including continued impact of the Tax Cuts and Jobs Act and its intended and unintended consequences on financial results and future cash flows;
- the effects of Entergy's strategies to reduce tax payments;
- changes in the financial markets and regulatory requirements for the issuance of securities, particularly as they affect access to capital and Entergy's ability to refinance existing securities, execute share repurchase programs, 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 effects of litigation and government investigations or proceedings;
- changes in technology, including (i) Entergy's ability to implement new or emerging technologies, (ii) the impact of changes relating to new, developing, or alternative sources of generation such as distributed energy and energy storage, renewable energy, energy efficiency, demand side management and other measures that reduce load and government policies incentivizing development of the foregoing, and (iii) competition from other companies offering products and services to Entergy's customers based on new or emerging technologies or alternative sources of generation;
- Entergy's ability to effectively formulate and implement plans to reduce its carbon emission rate and aggregate carbon emissions, including its commitment to achieve net-zero carbon emissions by 2050, and the potential impact on its business of attempting to achieve such objectives;
- the effects, including increased security costs, of threatened or actual terrorism, cyber-attacks or data security breaches, natural or man-made electromagnetic pulses that affect transmission or generation infrastructure, accidents, and war or a catastrophic event such as a nuclear accident or a natural gas pipeline explosion;
- the effects of a global event or pandemic, such as the COVID-19 global pandemic, including economic and societal disruptions; volatility in the capital markets (and any related increased cost of capital or any inability to access the capital markets or draw on available bank credit facilities); reduced demand for electricity, particularly from commercial and industrial customers; increased or unrecoverable costs; supply chain, vendor, and contractor disruptions; delays in completion of capital or other construction projects, maintenance, and other operations activities, including prolonged or delayed outages; impacts to Entergy's workforce availability, health, or safety; increased cybersecurity risks as a result of many employees telecommuting; increased late or uncollectible customer payments; regulatory delays; executive orders affecting, or increased regulation of, Entergy's business; changes in credit

FORWARD-LOOKING INFORMATION AND REGULATION G COMPLIANCE (Continued)

ratings or outlooks as a result of any of the foregoing; or other adverse impacts on Entergy's ability to execute on its business strategies and initiatives or, more generally, on Entergy's results of operations, financial condition, and liquidity;

- Entergy's ability to attract and retain talented management, directors, and employees with specialized skills;
- Entergy's ability to attract, retain, and manage an appropriately qualified workforce;
- changes in accounting standards and corporate governance;
- declines in the market prices of marketable securities and resulting funding requirements and the effects on benefits costs for Entergy's defined benefit pension and other postretirement benefit plans;
- future wage and employee benefit costs, including changes in discount rates and returns on benefit plan assets;
- changes in decommissioning trust fund values or earnings or in the timing of, requirements for, or cost to decommission Entergy's nuclear plant sites and the implementation of decommissioning of such sites following shutdown;
- the decision to cease merchant power generation at all Entergy Wholesale Commodities nuclear power plants by mid-2022, including the implementation of the planned shutdowns and sales of Indian Point 2, Indian Point 3, and Palisades;
- the effectiveness of Entergy's risk management policies and procedures and the ability and willingness of its counterparties to satisfy their financial and performance commitments;
- the potential for the factors listed herein to lead to the impairment of long-lived assets; and
- Entergy and its subsidiaries' ability to successfully execute on their business strategies, including their ability to complete strategic transactions that Entergy may undertake.

FORWARD-LOOKING INFORMATION AND REGULATION G COMPLIANCE (Concluded)

Regulation G Compliance

This report includes the non-GAAP financial measure of adjusted earnings per share. The reconciliation of this measure to the most directly comparable GAAP measure is below.

GAAP to Non-GAAP Reconciliation - Adjusted Earnings and Earnings Per Share	
	2020
(\$ in millions, except diluted average common shares outstanding)	
Net income attributable to ETR Corp	1,388
Less adjustments:	
Utility	
SERI regulatory liability for potential refund for rate base reduction retroactive to 2015	(25)
Income tax effect on Utility adjustment above	6
2014 / 2015 IRS settlement – E-LA business combination	396
Total Utility	377
Parent & Other	
2014 / 2015 IRS settlement – E-LA business combination	(61)
Total Parent & Other	(61)
EWC	(65)
Total adjustments	250
ETR Adjusted Earnings	1,138
Diluted average common shares outstanding (in millions)	201
(After-tax, \$ per share)(a)	
Net income attributable to ETR Corp	6.90
Less adjustments:	
Utility	
SERI regulatory liability for potential refund for rate base reduction retroactive to 2015	(0.09)
2014 / 2015 IRS settlement – E-LA business combination	1.96
Total Utility	1.87
Parent & Other	
2014 / 2015 IRS settlement – E-LA business combination	(0.31)
Total Parent & Other	(0.31)
EWC	(0.32)
Total adjustments	1.24
ETR Adjusted Earnings	5.66

Calculations may differ due to rounding

(a) Per share amounts are calculated by dividing the corresponding earnings (loss) by the diluted average number of common shares outstanding for the period.

ENTERGY CORPORATION AND SUBSIDIARIES
SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	2020	2019	2018	2017	2016
(In Thousands, Except Percentages and Per Share Amounts)					
Operating revenues	\$10,113,636	\$10,878,673	\$11,009,452	\$11,074,481	\$10,845,645
Net income (loss)	\$1,406,653	\$1,258,244	\$862,555	\$425,353	(\$564,503)
Earnings (loss) per share:					
Basic	\$6.94	\$6.36	\$4.68	\$2.29	(\$3.26)
Diluted	\$6.90	\$6.30	\$4.63	\$2.28	(\$3.26)
Dividends declared per share	\$3.74	\$3.66	\$3.58	\$3.50	\$3.42
Return on common equity	13.13%	13.02%	10.08%	5.12%	(6.73%)
Book value per share, year-end	\$54.56	\$51.34	\$46.78	\$44.28	\$45.12
Total assets	\$58,239,212	\$51,723,912	\$48,275,066	\$46,707,149	\$45,904,434
Long-term obligations (a)	\$21,477,974	\$17,351,449	\$15,758,083	\$14,535,077	\$14,695,422

(a) Includes long-term debt (excluding currently maturing debt), non-current finance lease obligations, and subsidiary preferred stock without sinking fund that is not presented as equity on the balance sheet.

	2020	2019	2018	2017	2016
(Dollars In Millions)					

Utility electric operating revenues:

Residential	\$3,550	\$3,532	\$3,566	\$3,355	\$3,288
Commercial	2,293	2,476	2,426	2,480	2,362
Industrial	2,331	2,541	2,499	2,584	2,327
Governmental	212	228	226	231	217
Total billed retail	8,386	8,777	8,717	8,650	8,194
Sales for resale	296	286	300	253	236
Other	365	367	367	376	437
Total	\$9,047	\$9,430	\$9,384	\$9,279	\$8,867

Utility billed electric energy sales (GWh):

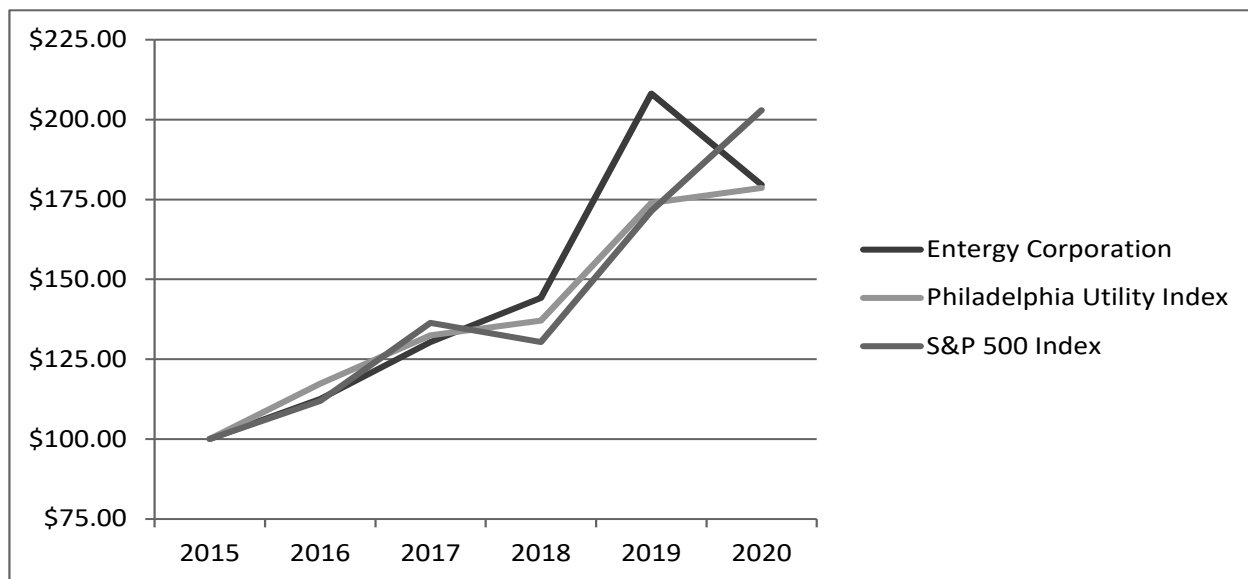
Residential	35,173	36,094	37,107	33,834	35,112
Commercial	26,466	28,755	29,426	28,745	29,197
Industrial	47,117	48,483	48,384	47,769	45,739
Governmental	2,414	2,579	2,581	2,511	2,547
Total retail	111,170	115,911	117,498	112,859	112,595
Sales for resale	13,658	13,210	11,715	11,550	11,054
Total	124,828	129,121	129,213	124,409	123,649

Entergy Wholesale Commodities:

Operating revenues	\$943	\$1,295	\$1,469	\$1,657	\$1,850
Billed electric energy sales (GWh)	20,581	28,088	29,875	30,501	35,881

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN

The following graph compares the performance of the common stock of Entergy Corporation with the Philadelphia Utility Index and the S&P 500 Index (each of which includes Entergy Corporation) for the last five years ended December 31.



	2015	2016	2017	2018	2019	2020
Entergy Corporation	\$100.00	\$112.52	\$130.40	\$144.22	\$208.16	\$179.62
Philadelphia Utility Index	\$100.00	\$117.40	\$132.45	\$137.11	\$173.87	\$178.61
S&P 500 Index	\$100.00	\$111.95	\$136.38	\$130.39	\$171.44	\$202.96

Assumes \$100 invested at the closing price on Dec. 31, 2015, in Entergy Corporation common stock, the Philadelphia Utility Index and the S&P 500 Index, and reinvestment of all dividends.

Source: Bloomberg

DEFINITIONS

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

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANO 1 and 2	Units 1 and 2 of Arkansas Nuclear One (nuclear), owned by Entergy Arkansas
APSC	Arkansas Public Service Commission
ASU	Accounting Standards Update issued by the FASB
Board	Board of Directors of Entergy Corporation
Cajun	Cajun Electric Power Cooperative, Inc.
capacity factor	Actual plant output divided by maximum potential plant output for the period
City Council	Council of the City of New Orleans, Louisiana
COVID-19	The novel coronavirus disease declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention in March 2020
D.C. Circuit	U.S. Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
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 Louisiana limited liability company formally created as part of 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. Effective October 1, 2015, the business of Entergy Gulf States Louisiana was combined with Entergy Louisiana.
Entergy Louisiana	Entergy Louisiana, LLC, a Texas limited liability company formally created as part of the combination of Entergy Gulf States Louisiana and the company formerly known as Entergy Louisiana, LLC (Old Entergy Louisiana) into a single public utility company and the successor to Old Entergy Louisiana for financial reporting purposes.
Entergy Texas	Entergy Texas, Inc., a Texas corporation formally created as part of 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 Wholesale Commodities	Entergy's non-utility business segment primarily comprised of the ownership, operation, and decommissioning of nuclear power plants, the ownership of interests in non-nuclear power plants, and the sale of the electric power produced by its operating power plants to wholesale customers
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FitzPatrick	James A. FitzPatrick Nuclear Power Plant (nuclear), previously owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which was sold in March 2017
Grand Gulf	Unit No. 1 of Grand Gulf Nuclear Station (nuclear), 90% owned or leased by System Energy

DEFINITIONS (Continued)

Abbreviation or Acronym	Term
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, LLC
Indian Point 2	Unit 2 of Indian Point Energy Center (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which ceased power production in April 2020
Indian Point 3	Unit 3 of Indian Point Energy Center (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
IRS	Internal Revenue Service
ISO	Independent System Operator
kV	Kilovolt
kW	Kilowatt, which equals one thousand watts
kWh	Kilowatt-hour(s)
LDEQ	Louisiana Department of Environmental Quality
LPSC	Louisiana Public Service Commission
Mcf	1,000 cubic feet of gas
MISO	Midcontinent Independent System Operator, Inc., a regional transmission organization
MMBtu	One million British Thermal Units
MPSC	Mississippi Public Service Commission
MW	Megawatt(s), which equals one thousand kilowatts
MWh	Megawatt-hour(s)
Nelson Unit 6	Unit No. 6 (coal) of the Nelson Steam Electric Generating Station, 70% of which is co-owned by Entergy Louisiana (57.5%) and Entergy Texas (42.5%) and 10.9% of which is owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
Net debt to net capital ratio	Gross debt less cash and cash equivalents divided by total capitalization less cash and cash equivalents
Net MW in operation	Installed capacity owned and operated
NRC	Nuclear Regulatory Commission
NYPA	New York Power Authority
Palisades	Palisades Nuclear Plant (nuclear), owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment
Parent & Other	The portions of Entergy not included in the Utility or Entergy Wholesale Commodities segments, primarily consisting of the activities of the parent company, Entergy Corporation
Pilgrim	Pilgrim Nuclear Power Station (nuclear), previously owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which ceased power production in May 2019 and was sold in August 2019
PPA	Purchased power agreement or power purchase agreement
PRP	Potentially responsible party (a person or entity that may be responsible for remediation of environmental contamination)
PUCT	Public Utility Commission of Texas

DEFINITIONS (Concluded)

Abbreviation or Acronym	Term
Registrant Subsidiaries	Entergy Arkansas, LLC, Entergy Louisiana, LLC, Entergy Mississippi, LLC, Entergy New Orleans, LLC, Entergy Texas, Inc., and System Energy Resources, Inc.
River Bend	River Bend Station (nuclear), owned by Entergy Louisiana
RTO	Regional transmission organization
SEC	Securities and Exchange Commission
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. The agreement terminated effective August 2016.
System Energy	System Energy Resources, Inc.
TWh	Terawatt-hour(s), which equals one billion kilowatt-hours
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended and approved by the 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 Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas
Vermont Yankee	Vermont Yankee Nuclear Power Station (nuclear), previously owned by an Entergy subsidiary in the Entergy Wholesale Commodities business segment, which ceased power production in December 2014 and was disposed of in January 2019
Waterford 3	Unit No. 3 (nuclear) of the Waterford Steam Electric Station, owned by Entergy Louisiana
weather-adjusted usage	Electric usage excluding the effects of deviations from normal weather
White Bluff	White Bluff Steam Electric Generating Station, 57% owned by Entergy Arkansas

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ENTERGY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Entergy operates primarily through two business segments: Utility and Entergy Wholesale Commodities.

- The **Utility** business segment includes the generation, transmission, distribution, and sale of electric power in portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operation of a small natural gas distribution business.
- The **Entergy Wholesale Commodities** business segment includes the ownership, operation, and decommissioning of nuclear power plants located in the northern United States and the sale of the electric power produced by its operating plants to wholesale customers. Entergy Wholesale Commodities also provides services to other nuclear power plant owners and owns interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers. See “**Entergy Wholesale Commodities Exit from the Merchant Power Business**” below for discussion of the operation and planned shutdown and sale of each of the Entergy Wholesale Commodities nuclear power plants.

Following are the percentages of Entergy’s consolidated revenues generated by its operating segments and the percentage of total assets held by them. Net income or loss generated by the operating segments is discussed in the sections that follow.

Segment	% of Revenue			% of Total Assets		
	2020	2019	2018	2020	2019	2018
Utility	91	88	87	96	96	93
Entergy Wholesale Commodities	9	12	13	7	8	11
Parent & Other (a)	—	—	—	(3)	(4)	(4)

See Note 13 to the financial statements for further financial information regarding Entergy’s business segments.

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

The COVID-19 Pandemic

The COVID-19 pandemic and the measures to control it have adversely affected economic activity and conditions worldwide and have affected the demand for the products and services of many businesses in Entergy’s service area. Entergy experienced a decline in sales volume in 2020 compared to 2019 due to the COVID-19 pandemic, especially in the commercial and industrial sectors. In addition, Entergy experienced negative changes to its customers’ payment patterns and its operating cash flow activity in 2020 compared to 2019 due to the COVID-19 pandemic. These negative changes include an increase in uncollectible accounts.

Entergy provides critical services to its customers and has implemented its comprehensive incident response plan, which contemplates major events such as storms or pandemics. Entergy’s focus during the COVID-19 pandemic has been on the safety and wellness of its employees; providing safe, reliable service for its customers; analyzing and addressing the financial effects of the COVID-19 pandemic; and continuing its plans for the future. Entergy implemented precautionary measures for safety on and off the job for employees and contractors working at plants and in the field and implemented telecommuting practices for employees who can work from home. Entergy temporarily suspended service disconnections for customers and is working with regulators to address routine and non-routine matters and allow continuation of capital spending plans. The Utility operating companies have received accounting orders to defer costs associated with COVID-19. To date, Entergy has not had material effects to its major projects or capital spending plans. Entergy is working with suppliers and contractors for continued availability of resources, equipment, and supplies to keep operations and major projects going forward and on schedule. Entergy implemented expense-related spending reductions in 2020, which did not affect safety or service reliability, in order to offset some of the financial effects of the COVID-19 pandemic.

Although Entergy has taken these actions in response to the COVID-19 pandemic, uncertainty exists regarding the full depth and length of the effects of COVID-19 on Entergy's sales volume, revenue, collections and cash flows, expenses, liquidity, and capital needs. Entergy will continue to monitor actively the COVID-19 pandemic and related developments affecting its workforce, customers, suppliers, operations, and financial condition.

Hurricane Laura, Hurricane Delta, and Hurricane Zeta

In August and October 2020, Hurricane Laura, Hurricane Delta, and Hurricane Zeta caused significant damage to portions of the Utility's service territories in Louisiana, including New Orleans, Texas, and to a lesser extent, in Arkansas and Mississippi. The storms resulted in widespread power outages, significant damage to distribution and transmission infrastructure, and the loss of sales during the outages. Additionally, as a result of Hurricane Laura's extensive damage to the grid infrastructure serving the impacted area, large portions of the underlying transmission system required nearly a complete rebuild. Total restoration costs for the repair and/or replacement of the electrical system damaged by Hurricane Laura, Hurricane Delta, and Hurricane Zeta are currently estimated to be approximately \$2.4 billion, including approximately \$1.98 billion in capital costs and approximately \$420 million in non-capital costs. The majority of the costs were incurred by Entergy Louisiana, with a substantial portion also incurred by Entergy Texas. The estimate includes all costs to restore power and repair or replace the damages from the hurricanes, except for the cost to repair or replace damage incurred to an Entergy Louisiana transmission line in southeast Louisiana, and the amount of that cost could be significant. The restoration plan for this transmission line and the related cost estimate is still being evaluated. Also, Utility revenues were adversely affected in 2020, primarily due to power outages resulting from the hurricanes.

Entergy recorded accounts payable and corresponding construction work in progress and regulatory assets for the estimated costs incurred that were necessary to return customers to service. Entergy recorded the regulatory assets in accordance with its accounting policies and based on the historic treatment of such costs in its service area because management believes that recovery through some form of regulatory mechanism is probable. There are well-established mechanisms and precedent for addressing these catastrophic events and providing for recovery of prudently incurred storm costs in accordance with applicable regulatory and legal principles. Because Entergy has not gone through the regulatory process regarding these storm costs, there is an element of risk, and Entergy is unable to predict with certainty the degree of success it may have in its recovery initiatives, the amount of restoration costs that it may ultimately recover, or the timing of such recovery.

The Utility operating companies are considering all available avenues to recover storm-related costs from Hurricane Laura, Hurricane Delta, and Hurricane Zeta, including accessing funded storm reserve escrows and securitization. In November 2020, Entergy Louisiana drew \$257 million from its funded storm reserves. Each Utility operating company is responsible for its restoration cost obligations and for recovering or financing its storm-related costs. Storm cost recovery or financing will be subject to review by applicable regulatory authorities.

In October 2020, Entergy Louisiana filed an application at the LPSC seeking approval of certain ratemaking adjustments to facilitate issuance of shorter-term bonds to provide interim financing for restoration costs associated with Hurricane Laura, Hurricane Delta, and Hurricane Zeta. Subsequently, Entergy Louisiana and the LPSC staff filed a joint motion seeking approval to exclude from the derivation of Entergy Louisiana's capital structure and cost rate of debt for ratemaking purposes, including the allowance for funds used during construction, shorter-term debt up to \$1.1 billion issued by Entergy Louisiana to fund costs associated with Hurricane Laura, Hurricane Delta, and Hurricane Zeta on an interim basis. In November 2020 the LPSC issued an order approving the joint motion, and Entergy Louisiana issued \$1.1 billion of 0.62% Series mortgage bonds due November 2023.

In December 2020, Entergy Louisiana provided the LPSC with notification that it intends to initiate a storm cost recovery proceeding in the near future, which will permit the LPSC to retain any outside consultants and counsel needed to review the storm cost recovery application. In February 2021 the LPSC voted to retain outside

counsel and consultants to assist in the review of Entergy Louisiana's upcoming storm cost recovery application, which is expected to be filed in March 2021.

February 2021 Winter Storms

In February 2021, the United States experienced winter storms and extreme cold temperatures, including in Entergy's service area. The impact of the storms and the extreme cold temperatures affected Entergy's operational assets and the availability of generation across the area. In order to balance the system, MISO directed Entergy to conduct rolling power outages. Entergy's system is now back to normal operations. The severe weather event also affected the market for natural gas due to the severe cold's effects on the gas supply system and increased demand for gas to support electricity loads. Entergy's preliminary estimate for the cost of mobilizing crews and restoring power is approximately \$125 million to \$140 million, primarily at Entergy Louisiana and Entergy Mississippi. Natural gas purchases for February 1st through 25th, 2021, for Entergy were approximately \$510 million, including \$105 million for Entergy Arkansas, \$190 million for Entergy Louisiana, \$45 million for Entergy Mississippi, \$15 million for Entergy New Orleans, and \$155 million for Entergy Texas. This compares to natural gas purchases for February 2020 for Entergy of \$80 million, including \$10 million for Entergy Arkansas, \$39 million for Entergy Louisiana, \$14 million for Entergy Mississippi, \$7 million for Entergy New Orleans, and \$10 million for Entergy Texas.

The Utility operating companies each have fuel recovery mechanisms in place to recover their natural gas costs. With the potential effect of the higher natural gas costs on customers, the Utility operating companies plan to work with their retail regulators to recover these costs in a manner that mitigates the effects on customer bills. The Utility operating companies also expect to work with their regulators as the regulators review other effects of the winter storm.

Results of Operations

2020 Compared to 2019

Following are income statement variances for Utility, Entergy Wholesale Commodities, Parent & Other, and Entergy comparing 2020 to 2019 showing how much the line item increased or (decreased) in comparison to the prior period.

	<u>Utility</u>	<u>Entergy Wholesale Commodities</u>	<u>Parent & Other (a)</u>	<u>Entergy</u>
	(In Thousands)			
2019 Net Income (Loss) Attributable to Entergy Corporation	\$1,410,813	\$146,682	(\$316,269)	\$1,241,226
Operating revenues	(413,271)	(351,850)	84	(765,037)
Fuel, fuel-related expenses, and gas purchased for resale	(434,394)	(30,900)	27	(465,267)
Purchased power	(297,505)	8,940	(27)	(288,592)
Other regulatory charges (credits)	40,829	—	—	40,829
Other operation and maintenance	(84,548)	(177,945)	(7,262)	(269,755)
Asset write-offs, impairments, and related charges	—	(263,404)	—	(263,404)
Taxes other than income taxes	15,743	(6,987)	339	9,095
Depreciation and amortization	179,298	(46,119)	(109)	133,070
Other income	(23,947)	(151,832)	37,047	(138,732)
Interest expense	59,456	(7,018)	(9,200)	43,238
Other expenses	(4,863)	(34,848)	—	(39,711)
Income taxes	(301,945)	266,232	84,032	48,319
Preferred dividend requirements of subsidiaries	1,301	—	—	1,301
2020 Net Income (Loss) Attributable to Entergy Corporation	<u>\$1,800,223</u>	<u>(\$64,951)</u>	<u>(\$346,938)</u>	<u>\$1,388,334</u>

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

Refer to “**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON OF ENTERGY CORPORATION AND SUBSIDIARIES**” which accompanies Entergy Corporation’s financial statements in this report for further information with respect to operating statistics.

Results of operations for 2020 include resolution of the 2014-2015 IRS audit, which resulted in a reduction in deferred income tax expense of \$230 million that includes a \$396 million reduction in deferred income tax expense at Utility related to the basis of assets contributed in the 2015 Entergy Louisiana and Entergy Gulf States Louisiana business combination, including the recognition of previously uncertain tax positions, and deferred income tax expense of \$105 million at Entergy Wholesale Commodities and \$61 million at Parent and Other resulting from the revaluation of net operating losses as a result of the release of the reserves. See Note 3 to the financial statements for further discussion of the IRS audit resolution.

Results of operations for 2019 include: 1) a loss of \$190 million (\$156 million net-of-tax) as a result of the sale of the Pilgrim plant in August 2019; 2) a \$156 million reduction in income tax expense recognized by Entergy Wholesale Commodities as a result of an internal restructuring; and 3) impairment charges of \$100 million (\$79 million net-of-tax) due to costs being charged directly to expense as incurred as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants’ long-lived assets due to the significantly reduced remaining

estimated operating lives associated with management's strategy to exit the Entergy Wholesale Commodities' merchant power business. See Note 3 to the financial statements for further discussion of the internal restructuring. See "**Entergy Wholesale Commodities Exit from the Merchant Power Business**" below for discussion of management's strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet and see Note 14 to the financial statements for further discussion of the impairment and related charges and the sale of the Pilgrim plant.

Operating Revenues

Utility

Following is an analysis of the change in operating revenues comparing 2020 to 2019:

	Amount
	(In Millions)
2019 operating revenues	\$9,584
Fuel, rider, and other revenues that do not significantly affect net income	(792)
Volume/weather	(164)
System Energy provision for rate refund	(25)
Return of unprotected excess accumulated deferred income taxes to customers	194
Retail electric price	374
2020 operating revenues	\$9,171

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

The volume/weather variance is primarily due to decreased commercial and industrial usage as a result of the COVID-19 pandemic and the effects of Hurricane Laura, Hurricane Delta, and Hurricane Zeta, in addition to the effect of less favorable weather on residential and commercial sales, partially offset by an increase in residential usage as a result of the COVID-19 pandemic. The decrease in industrial usage is partially offset by an increase in demand from expansion projects, primarily in the transportation and chemicals industries. See "**The COVID-19 Pandemic**" above for discussion of the COVID-19 pandemic. See "**Hurricane Laura, Hurricane Delta, and Hurricane Zeta**" above for discussion of the storms.

The System Energy provision for rate refund variance is due to a provision for rate refund recorded in 2020 to reflect a one-time credit of \$25 million provided for in the Federal Power Act section 205 filing made by System Energy in December 2020. See Note 2 to the financial statements for further discussion of the proceedings involving System Energy at the FERC.

The return of unprotected excess accumulated deferred income taxes to customers resulted from activity at the Utility operating companies in response to the enactment of the Tax Cuts and Jobs Act. The return of unprotected excess accumulated deferred income taxes began in second quarter 2018. In 2020, \$68 million was returned to customers through reductions in operating revenues as compared to \$262 million in 2019. There is no effect on net income as the reductions in operating revenues were offset by reductions in income tax expense. See Note 2 to the financial statements for further discussion of regulatory activity regarding the Tax Cuts and Jobs Act.

The retail electric price variance is primarily due to:

- interim increases in Entergy Louisiana's formula rate plan revenues effective June 2019 due to the inclusion of the first-year revenue requirement for the J. Wayne Leonard Power Station (formerly St. Charles Power Station) and effective April 2020 due to the inclusion of the first-year revenue requirement for the Lake Charles Power Station and increases in formula rate plan revenues effective September 2019 and September 2020;
- increases in Entergy Mississippi's formula rate plan rates effective with the first billing cycles of July 2019 and April 2020 and an interim capacity rate adjustment to the formula rate plan effective January 2020 to recover non-fuel related costs of acquiring and operating the Choctaw Generating Station;
- an increase in Entergy Arkansas's formula rate plan rates effective with the first billing cycle of January 2020;
- the implementation of a vegetation management rider at Entergy Mississippi effective with the April 2020 billing cycle; and
- increases in Entergy Texas's transmission cost recovery factor rider effective January 2020 and distribution cost recovery factor rider effective October 2020.

The increase was partially offset by the effects of Entergy New Orleans's rate reduction implemented with April 2020 bills that was effective August 2019 in accordance with the City Council resolution and related agreement in principle reached in the 2018 base rate case.

See Note 2 to the financial statements for further discussion of the regulatory proceedings discussed above.

Entergy Wholesale Commodities

Operating revenues for Entergy Wholesale Commodities decreased from \$1,295 million for 2019 to \$943 million for 2020 primarily due to the shutdown of Indian Point 2 in April 2020 and the shutdown of Pilgrim in May 2019.

Following are key performance measures for Entergy Wholesale Commodities for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Owned capacity (MW) (a)	2,246	3,274
GWh billed	20,581	28,088
<u>Entergy Wholesale Commodities Nuclear Fleet</u>		
Capacity factor	93%	93%
GWh billed	18,863	25,928
Average energy price (\$/MWh)	\$40.33	\$39.10
Average capacity price (\$/kW-month)	\$1.92	\$4.25
<u>Refueling outage days:</u>		
Indian Point 3	—	29
Palisades	52	—

- (a) The reduction in owned capacity is due to the shutdown of the 1,028 MW Indian Point 2 plant in April 2020.

Other Income Statement Items

Utility

Other operation and maintenance expenses decreased from \$2,563 million for 2019 to \$2,478 million for 2020 primarily due to:

- a decrease of \$42 million in nuclear generation expenses primarily due to lower nuclear labor costs, including contract labor, and a lower scope of work performed in 2020 as compared to 2019, in part as a result of the COVID-19 pandemic;
- a decrease of \$25 million primarily due to contract costs in 2019 related to initiatives to explore new customer products and services;
- a decrease of \$20 million in non-nuclear generation expenses due to a lower scope of work performed during plant outages in 2020 as compared to prior year, including a delay in plant outages as a result of the COVID-19 pandemic, and lower long-term service agreement expenses, partially offset by higher expenses associated with plants placed in service, including the J. Wayne Leonard Power Station (formerly St. Charles Power Station), which began commercial operation in May 2019, the Choctaw Generating Station, which was purchased in October 2019, and the Lake Charles Power Station, which began commercial operation in March 2020;
- higher nuclear insurance refunds of \$18 million; and
- an \$11 million write-off in 2019 of specific costs related to the potential construction of scrubbers at the White Bluff plant at Entergy Arkansas. See Note 2 to the financial statements for discussion of the write-off.

The decrease was partially offset by:

- an increase of \$10 million in compensation and benefits costs primarily due to an increase in net periodic pension and other postretirement benefits costs as a result of a decrease in the discount rate used to value the benefit liabilities, partially offset by lower incentive-based compensation accruals in 2020 as compared to prior year. See "**Critical Accounting Estimates**" below and Note 11 to the financial statements for further discussion of pension and other postretirement benefit costs;
- an increase of \$5 million primarily due to the 2019 deferral by Entergy New Orleans of costs related to its 2018 rate case and a system conversion for Algiers customers as a result of the 2018 combined rate case resolution approved by the City Council. See Note 2 to the financial statements for further discussion of the rate case resolution; and
- several individually insignificant items.

Depreciation and amortization expenses increased primarily due to additions to plant in service, including the J. Wayne Leonard Power Station (formerly St. Charles Power Station), the Lake Charles Power Station, and the Choctaw Generating Station, and new depreciation rates at Entergy Mississippi, as approved by the MPSC.

Other regulatory charges (credits) - net for 2020 included a provision of \$43.5 million to reflect the 2019 historical year netting adjustment included in the APSC's December 2020 order in Entergy Arkansas's 2020 formula rate plan proceeding. See Note 2 to the financial statements for discussion of Entergy Arkansas's 2020 formula rate plan proceedings.

Other income decreased primarily due to:

- a decrease in the allowance for equity funds used during construction due to higher construction work in progress in 2019, including the J. Wayne Leonard Power Station (formerly St. Charles Power Station) project and the Lake Charles Power Station project, partially offset by construction work in progress in 2020 related to the Montgomery County Power Station project; and

- an increase in net periodic pension and other postretirement benefits non-service pension costs as a result of a decrease in the discount rate used to value the benefits liabilities. See “**Critical Accounting Estimates**” below and Note 11 to the financial statements for further discussion of pension and other postretirement benefit costs.

The decrease was partially offset by changes in decommissioning trust fund activity.

Interest expense increased primarily due to:

- the issuances by Entergy Texas of \$300 million in September 2019 and \$175 million in March 2020 of 3.55% Series mortgage bonds;
- the issuances by Entergy Louisiana of \$300 million of 4.20% Series mortgage bonds and \$350 million of 2.90% Series mortgage bonds, each in March 2020, and \$525 million of 4.20% Series mortgage bonds in March 2019;
- the issuances by Entergy Arkansas of \$350 million of 4.20% Series mortgage bonds in March 2019 and \$100 million of 4.0% Series mortgage bonds in March 2020; and
- the issuances by Entergy Mississippi of \$135 million of 3.85% Series mortgage bonds in November 2019 and \$170 million of 3.50% Series mortgage bonds in May 2020.

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

Entergy Wholesale Commodities

Other operation and maintenance expenses decreased from \$678 million for 2019 to \$500 million for 2020 primarily due to:

- a decrease of \$154 million resulting from the absence of expenses from the Pilgrim plant after it was shut down in May 2019 and the Indian Point 2 plant after it was shut down in April 2020; and
- a decrease of \$23 million in severance and retention expenses. Severance and retention expenses were incurred in 2020 and 2019 due to management's strategy to exit the Entergy Wholesale Commodities merchant power business.

See “**Entergy Wholesale Commodities Exit from the Merchant Power Business**” below for a discussion of management's strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet. See Note 13 to the financial statements for further discussion of severance and retention expenses resulting from management's strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet. See Note 14 to the financial statements for further discussion of the sale of the Pilgrim plant.

Asset write-offs, impairments, and related charges for 2020 include impairment charges of \$19 million (\$15 million net-of-tax) primarily as a result of expenditures for capital assets. Asset write-offs, impairments, and related charges for 2019 include a loss of \$190 million (\$156 million net-of-tax) as a result of the sale of the Pilgrim plant in August 2019 and impairment charges of \$100 million (\$79 million net-of-tax) primarily related to nuclear refueling outage spending and expenditures for capital assets. These costs were charged to expense as incurred as a result of the impaired fair value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to exit the Entergy Wholesale Commodities merchant power business. See “**Entergy Wholesale Commodities Exit from the Merchant Power Business**” below for a discussion of management's strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet. See Note 14 to the financial statements for a discussion of the impairment of long-lived assets and the sale of the Pilgrim plant.

Depreciation and amortization expenses decreased primarily due to the absence of depreciation expense from the Indian Point 2 plant, after it was shut down in April 2020.

Other income decreased primarily due to lower gains on decommissioning trust fund investments and a decrease in intercompany interest income resulting from repayment in second quarter 2020 of an intercompany loan to Entergy Corporation. See Notes 15 and 16 to the financial statements for a discussion of decommissioning trust fund investments.

Other expenses decreased primarily due to the absence of decommissioning expense from the Pilgrim plant, after it was sold in August 2019. See Note 14 to the financial statements for a discussion of the sale of the Pilgrim plant.

Parent and Other

Other income increased primarily due to the absence of the elimination of other income at Entergy Wholesale Commodities after repayment of an intercompany loan in second quarter 2020 and a \$15 million charitable donation made in 2019 to fund the Entergy Charitable Foundation for three years.

Income Taxes

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

The effective income tax rate for 2020 was (9.5%). The difference in the effective income tax rate versus the federal statutory rate of 21% was primarily due to completion of the 2014-2015 IRS audit effectively settling the tax positions for those years. See Note 3 to the financial statements for a discussion of the 2014-2015 IRS audit.

The effective income tax rate for 2019 was (15.6%). The difference in the effective income tax rate versus the federal statutory rate of 21% was primarily due to amortization of excess accumulated deferred income taxes, recognition of a deferred tax asset associated with a previously unrecognized net operating loss carryover, a charitable tax deduction, and the effects of restructuring transactions within Entergy Wholesale Commodities, partially offset by valuation allowances recorded against deferred tax assets associated with the disposition of Vermont Yankee and the carryover of business interest expense. See Notes 2 and 3 to the financial statements for a discussion of the effects and regulatory activity regarding the Tax Cuts and Jobs Act. See Note 3 to the financial statements for a discussion of the internal restructuring at Entergy Wholesale Commodities. See Note 14 to the financial statements for a discussion of the tax effects of the Vermont Yankee disposition.

2019 Compared to 2018

See “**MANAGEMENT’S FINANCIAL DISCUSSION AND ANALYSIS - Results of Operations**” in Item 7 of Entergy’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020 for discussion of results of operations for 2019 compared to 2018.

Entergy Wholesale Commodities Exit from the Merchant Power Business

Entergy Wholesale Commodities includes the ownership of the following nuclear reactors as of December 31, 2020:

	Location	Market	Capacity	Status
Indian Point 2	Buchanan, NY	NYISO	1,028 MW	Shut down in April 2020
Indian Point 3	Buchanan, NY	NYISO	1,041 MW	Planned shutdown in April 2021
Palisades	Covert, MI	MISO	811 MW	Planned shutdown in May 2022

Entergy sold its FitzPatrick plant to Exelon in March 2017 and, as discussed below, transferred its Vermont Yankee plant to NorthStar in January 2019 and sold its Pilgrim plant to Holtec in August 2019. The Palisades and Indian Point plants are under contract to be sold, subject to certain conditions, after they are shut down. Entergy also sold the Rhode Island State Energy Center, a natural gas-fired combined cycle generating plant, in December 2015.

These plant sales and contracts to sell are the result of a strategy that Entergy has undertaken to manage and reduce the risk of the Entergy Wholesale Commodities business, including exiting the merchant power business. Management evaluated the challenges for each of the plants based on a variety of factors such as their market for both energy and capacity, their size, their contracted positions, and the amount of investment required to continue to operate and maintain the safety and integrity of the plants, including the estimated asset retirement costs. Changes to current assumptions regarding the remaining operating life of a plant, the decommissioning timeline and process, or the length of time that Entergy will continue to own a plant could result in revisions to the asset retirement obligations and affect compliance with certain NRC minimum financial assurance requirements for meeting obligations to decommission the plants. Increases in the asset retirement obligations are likely to result in an increase in operating expense in the period of a revision. The possibility that a plant may have an operating life shorter than previously assumed could result in the need for additional contributions to decommissioning trust funds, or the posting of parent guarantees, letters of credit, or other surety mechanisms.

Entergy Wholesale Commodities also includes the ownership of two non-operating nuclear facilities, Big Rock Point in Michigan and Indian Point 1 in New York, that were acquired when Entergy purchased the Palisades and Indian Point 2 nuclear plants, respectively. Big Rock Point is under contract to be sold with the Palisades plant and Indian Point 1 is under contract to be sold with the Indian Point 2 and Indian Point 3 plants. In addition, Entergy Wholesale Commodities provides operations and management services, including decommissioning-related services, to nuclear power plants owned by non-affiliated entities in the United States. A relatively minor portion of the Entergy Wholesale Commodities business is the ownership of interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers.

Shutdown and Disposition of Vermont Yankee

On December 29, 2014, the Vermont Yankee plant ceased power production and entered its decommissioning phase. In November 2016, Entergy entered into an agreement to transfer 100% of the membership interests in Entergy Nuclear Vermont Yankee, LLC to a subsidiary of NorthStar. Entergy Nuclear Vermont Yankee was the owner of the Vermont Yankee plant. The transaction included the transfer of the nuclear decommissioning trust fund and the asset retirement obligation for the spent fuel management and decommissioning of the plant.

In March 2018, Entergy and NorthStar entered into a settlement agreement and a Memorandum of Understanding with State of Vermont agencies and other interested parties that set forth the terms on which the agencies and parties supported the Vermont Public Utility Commission's approval of the transaction. The agreements provided additional financial assurance for decommissioning, spent fuel management and site restoration, and detailed the site restoration standards. In October 2018 the NRC issued an order approving the application to transfer Vermont Yankee's license to NorthStar for decommissioning. In December 2018 the Vermont Public Utility Commission issued an order approving the transaction consistent with the Memorandum of Understanding's terms. On January 11, 2019, Entergy and NorthStar closed the transaction.

Entergy Nuclear Vermont Yankee had an outstanding credit facility that was used to pay for dry fuel storage costs. This credit facility was guaranteed by Entergy Corporation. A subsidiary of Entergy assumed the obligations under the credit facility, and it remains outstanding. At the closing of the sale transaction, NorthStar caused Entergy Nuclear Vermont Yankee, renamed NorthStar Vermont Yankee, to issue a \$139 million promissory note to the Entergy subsidiary that assumed the credit facility obligations. The amount of the note includes the

balance outstanding on the credit facility, as well as borrowing fees and costs incurred by Entergy in connection with the credit facility.

With the receipt of the NRC and Vermont Public Utility Commission approvals and the resolution among the parties of the significant conditions of the sale, Entergy concluded that as of December 31, 2018 Vermont Yankee was in held for sale status. Entergy accordingly evaluated Vermont Yankee's asset retirement obligation in light of the terms of the transaction and evaluated the remaining values of the Vermont Yankee assets. These evaluations resulted in an increase in the asset retirement obligation and \$173 million of related asset impairment and other charges in the fourth quarter 2018. See Note 9 to the financial statements for additional discussion of the asset retirement obligation. See Note 14 to the financial statements for discussion of the closing of the Vermont Yankee transaction.

Shutdown and Sale of Pilgrim

In October 2015, Entergy determined that it would close the Pilgrim plant, and Pilgrim ceased operations in May 2019. See Note 14 to the financial statements for discussion of the impairment charges associated with the decision to cease operations earlier than expected.

On July 30, 2018, Entergy entered into a purchase and sale agreement with Holtec International to sell to a Holtec subsidiary 100% of the equity interests in Entergy Nuclear Generation Company, LLC, the owner of Pilgrim, for \$1,000 (subject to adjustments for net liabilities and other amounts). On August 22, 2019, the NRC approved the transfer of Pilgrim's facility licenses to Holtec. At that time, hearing requests filed by the Commonwealth of Massachusetts and Pilgrim Watch challenging Holtec's financial qualifications and the sufficiency of the NRC's review of the associated environmental impacts of the license transfer were pending with the NRC commissioners. The NRC approval order included a condition acknowledging the NRC's longstanding authority to modify, condition, or rescind the license transfer order as a result of any hearing that may be conducted. On August 26, 2019, as permitted by the August 22 order, Entergy and Holtec closed the transaction.

On September 25, 2019, Massachusetts filed a petition with the U.S. Court of Appeals for the District of Columbia Circuit, asking the court to vacate the NRC's August 22 license transfer approval order and related approvals. On November 22, 2019, Entergy and Holtec filed a motion to dismiss Massachusetts' petition; the NRC also filed a motion to dismiss on the same date. On January 22, 2020, Massachusetts filed a second petition with the D.C. Circuit asking the court to review the NRC's December 17, 2019 order denying its stay motion. On June 16, 2020, Holtec and Massachusetts reached a settlement to resolve issues related to the Pilgrim transaction. Pursuant to the settlement agreement, Massachusetts withdrew its hearing request pending before the NRC and withdrew both of its petitions for review before the D.C. Circuit, thereby terminating Massachusetts's pending legal challenges to the Pilgrim transfer. The NRC denied Pilgrim Watch's hearing request in November 2020, and Pilgrim Watch did not file a judicial appeal of the NRC's denial order.

The sale of Entergy Nuclear Generation Company, LLC to Holtec included the transfer of the nuclear decommissioning trust and obligation for spent fuel management and plant decommissioning. The transaction resulted in a loss of \$190 million (\$156 million net-of-tax) in 2019. See Note 14 to the financial statements for discussion of the closing of the Pilgrim transaction.

Planned Shutdown and Sale of Indian Point 2 and Indian Point 3

In April 2007, Entergy submitted to the NRC a joint application to renew the operating licenses for Indian Point 2 and Indian Point 3 for an additional 20 years. In January 2017, Entergy reached a settlement with New York State, several State agencies, and Riverkeeper, Inc., under which Indian Point 2 and Indian Point 3 would cease commercial operation by April 30, 2020 and April 30, 2021, respectively, subject to certain conditions, including New York State's withdrawal of opposition to Indian Point's license renewals and issuance of contested permits and similar authorizations. Operations could be extended up to four additional years for each unit by

mutual agreement of Entergy and New York State based on an exigent reliability need for Indian Point generation. In September 2018 the NRC issued renewed operating licenses for Indian Point 2 through April 2024 and for Indian Point 3 through April 2025. Pursuant to the January 2017 settlement agreement, Indian Point 2 ceased commercial operations on April 30, 2020, and Indian Point 3 is expected to cease commercial operations on April 30, 2021. See Note 14 to the financial statements for discussion of the impairment charges associated with the decision to shut down the Indian Point plants.

Other provisions of the settlement include termination of all then-existing investigations of Indian Point by the parties to the agreement, which include the New York State Department of Environmental Conservation, the New York State Department of State, the New York State Department of Public Service, the New York State Department of Health, and the New York State Attorney General. The settlement recognizes the right of New York State agencies to pursue new investigations and enforcement actions with respect to new circumstances or existing conditions that become materially exacerbated.

Another provision of the settlement obligates Entergy to establish a \$15 million fund for environmental projects and community support. Apportionment and allocation of funds to beneficiaries are to be determined by mutual agreement of New York State and Entergy. The settlement recognizes New York State's right to perform an annual inspection of Indian Point, with scope and timing to be determined by mutual agreement.

In April 2019, Entergy entered into an agreement to sell, directly or indirectly, 100% of the equity interests in the subsidiaries that own Indian Point 1, Indian Point 2, and Indian Point 3, after Indian Point 3 has been shut down and defueled, to a Holtec subsidiary for decommissioning the plants. The sale will include the transfer of the licenses, spent fuel, decommissioning liabilities, and nuclear decommissioning trusts for the three units.

The transaction is subject to closing conditions, including approval from the NRC. In November 2019, Entergy and Holtec submitted a license transfer application to the NRC. The NRC issued an order approving the application in November 2020, subject to the NRC's authority to condition, revise, or rescind the approval order based on the resolution of four pending hearing requests. A substantially identical condition was imposed in the NRC's August 2019 order approving the license transfer for Pilgrim. In January 2021 the NRC issued an order denying all four hearing requests challenging the license transfer application. In January 2021, New York State filed a petition for review with the D.C. Circuit asking the court to vacate the NRC's January 2021 order denying the State's hearing request, as well as the NRC's November 2020 order approving the license transfers. In January 2021 the D.C. Circuit issued a scheduling order, setting deadlines for initial procedural filings in March 2021. Any other petitioners seeking judicial review of the January 2021 NRC order must file their petitions by March 16, 2021.

Entergy and Holtec also submitted a petition to the New York State Public Service Commission in November 2019 seeking an order from the New York Public Service Commission disclaiming jurisdiction or abstaining from review of the transaction or, alternatively, approving the transaction. Closing is also conditioned on obtaining from the New York State Department of Environmental Conservation an agreement related to Holtec's decommissioning plan as being consistent with applicable standards. The transaction closing is targeted for May 2021, following the defueling of Indian Point 3.

As consideration for the transfer to Holtec of its interest in Indian Point, Entergy will receive nominal cash consideration. The Indian Point transaction is expected to result in a loss based on the difference between Entergy's adjusted net investment in the subsidiaries at closing and the sale price net of any agreed adjustments. As of December 31, 2020, Entergy's adjusted net investment in the Indian Point units was \$255 million. The primary variables in the ultimate loss that Entergy will incur are the values of the nuclear decommissioning trusts and the asset retirement obligations at closing, the financial results from plant operations until the closing, and the level of any unrealized deferred tax balances at closing. The terms of the transaction include limitations on withdrawals from the nuclear decommissioning trusts to fund decommissioning activities and controls on how Entergy manages the investment of nuclear decommissioning trust assets between signing and closing; however, the agreement does not require a minimum level of funding in the nuclear decommissioning trusts as a condition to closing.

Planned Shutdown and Sale of Palisades

Almost all of the Palisades output is sold under a power purchase agreement with Consumers Energy, entered into when the plant was acquired in 2007, that is scheduled to expire in 2022. The PPA prices currently exceed market prices. In December 2016, Entergy reached an agreement with Consumers Energy to amend the existing PPA to terminate early, on May 31, 2018. Pursuant to the agreement to amend the PPA, Consumers Energy would pay Entergy \$172 million for the early termination of the PPA. The PPA amendment agreement was subject to regulatory approvals, including approval by the Michigan Public Service Commission. Separately, Entergy intended to shut down the Palisades nuclear power plant permanently on October 1, 2018, after refueling in the spring of 2017 and operating through the end of that fuel cycle.

In September 2017 the Michigan Public Service Commission issued an order conditionally approving the PPA amendment transaction, but only granting Consumers Energy recovery of \$136.6 million of the \$172 million requested early termination payment. As a result, Entergy and Consumers Energy agreed to terminate the PPA amendment agreement. Entergy continues to operate Palisades under the existing PPA with Consumers Energy, instead of shutting down in the fall of 2018 as previously planned. Entergy intends to shut down the Palisades nuclear power plant permanently no later than May 31, 2022. As a result of the increase in the expected operating life of the plant, the expected probability-weighted undiscounted net cash flows as of September 30, 2017 exceeded the carrying value of the plant and related assets. Accordingly, nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets incurred at Palisades after September 30, 2017 are no longer charged to expense as incurred, but recorded as assets and depreciated or amortized, subject to the typical periodic impairment reviews prescribed in the accounting rules.

On July 30, 2018, Entergy entered into a purchase and sale agreement with Holtec International to sell to a Holtec subsidiary 100% of the equity interests in the subsidiary that owns Palisades and the Big Rock Point Site. The sale will include the transfer of the nuclear decommissioning trust and obligation for spent fuel management and plant decommissioning. In February 2020 the parties signed an amendment to the purchase and sale agreement to remove the closing condition that the nuclear decommissioning trust fund must have a specified amount and Entergy agreed to contribute \$20 million to the nuclear decommissioning trust fund at closing, among other amendments. At the closing of the sale transaction, the Holtec subsidiary will pay \$1,000 (subject to adjustment for net liabilities and other amounts) for the equity interests in the subsidiary that owns Palisades and the Big Rock Point Site.

The Palisades transaction is subject to certain closing conditions, including: the permanent shutdown of Palisades and the transfer of all nuclear fuel from the reactor vessel to the spent nuclear fuel pool; NRC regulatory approval for the transfer of the Palisades and Big Rock Point operating and independent spent fuel storage installation licenses; receipt of a favorable private letter ruling from the IRS; and, the Pilgrim transaction having closed. In December 2020, Entergy and Holtec submitted a license transfer application to the NRC requesting approval to transfer the Palisades and Big Rock Point licenses from Entergy to Holtec. The NRC has indicated that it expects to complete its review of the application by January 2022. In February 2021 the Michigan Attorney General; the Environmental Law & Policy Center; and Beyond Nuclear, Michigan Safe Energy Future, and Don't Waste Michigan filed with the NRC petitions to intervene and requests for hearing challenging the license transfer application.

Subject to the above conditions, the Palisades transaction is expected to close by the end of 2022. As of December 31, 2020, Entergy's adjusted net investment in Palisades was \$75 million. The primary variables in the ultimate loss or gain that Entergy will incur on the transaction are the values of the nuclear decommissioning trust and the asset retirement obligations at closing, the financial results from plant operations until the closing, and the level of any unrealized deferred tax balances at closing. Palisades completed its final refueling outage in October 2020.

Costs Associated with Exit of the Entergy Wholesale Commodities Business

Entergy incurred approximately \$71 million in costs in 2020, \$91 million in costs in 2019, and \$139 million in costs in 2018 associated with management's strategy to exit the Entergy Wholesale Commodities merchant power business, primarily employee retention and severance expenses and other benefits-related costs, and contracted economic development contributions. Entergy expects to incur employee retention and severance expenses of approximately \$40 million in 2021 and \$15 million in 2022 associated with the exit from the merchant power business. See Note 13 to the financial statements for further discussion of these costs.

Entergy Wholesale Commodities incurred \$19 million in 2020, \$100 million in 2019, and \$532 million in 2018 of impairment charges related to nuclear fuel spending, nuclear refueling outage spending, expenditures for capital assets, and asset retirement obligation revisions. These costs were charged to expense as incurred as a result of the impaired value of certain of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to exit the Entergy Wholesale Commodities merchant power business. Entergy expects to continue to charge Indian Point Energy Center capital asset costs to expense as incurred because Entergy expects its value to continue to be impaired. See Note 14 to the financial statements for further discussion of the impairment charges.

Liquidity and Capital Resources

This section discusses Entergy's capital structure, capital spending plans and other uses of capital, sources of capital, and the cash flow activity presented in the cash flow statement.

Capital Structure

Entergy's debt to capital ratio is shown in the following table. The increase in the debt to capital ratio is primarily due to the net issuance of debt in 2020. See Note 5 to the financial statements for a discussion of long-term debt.

	December 31, 2020	December 31, 2019
Debt to capital	68.3%	65.5%
Effect of excluding securitization bonds	(0.2%)	(0.4%)
Debt to capital, excluding securitization bonds (a)	68.1%	65.1%
Effect of subtracting cash	(1.7%)	(0.5%)
Net debt to net capital, excluding securitization bonds (a)	66.4%	64.6%

- (a) Calculation excludes the Arkansas, Louisiana, New Orleans, and Texas securitization bonds, which are non-recourse to Entergy Arkansas, Entergy Louisiana, Entergy New Orleans, and Entergy Texas, respectively.

21.4% of the debt outstanding at December 31, 2020 is at the parent company, Entergy Corporation, 78.0% is at the Utility, and 0.6% is at Entergy Wholesale Commodities. Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable and commercial paper, finance lease obligations, and long-term debt, including the currently maturing portion. Capital consists of debt, common shareholders' equity, and subsidiaries' preferred stock without sinking fund. Net capital consists of capital less cash and cash equivalents. Entergy uses the debt to capital ratios excluding securitization bonds in analyzing its financial condition and believes they provide useful information to its investors and creditors in evaluating Entergy's financial condition because the securitization bonds are non-recourse to Entergy, as more fully described in Note 5 to the financial statements. Entergy also uses the net debt to net capital ratio excluding securitization bonds in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy's financial condition because net debt indicates Entergy's outstanding debt position that could not be readily satisfied by cash and cash equivalents on hand.

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

Long-term debt, including the currently maturing portion, makes up most of Entergy's total debt outstanding. Following are Entergy's long-term debt principal maturities and estimated interest payments as of December 31, 2020. To estimate future interest payments for variable rate debt, Entergy used the rate as of December 31, 2020. The amounts below include payments on System Energy's Grand Gulf sale-leaseback transaction, which are included in long-term debt on the balance sheet.

Long-term debt maturities and estimated interest payments	2021	2022	2023	2024-2025	after 2025
	(In Millions)				
Utility	\$1,761	\$1,166	\$2,938	\$2,800	\$20,943
Entergy Wholesale Commodities	142	—	—	—	—
Parent and Other	99	737	73	1,102	2,589
Total	\$2,002	\$1,903	\$3,011	\$3,902	\$23,532

Note 5 to the financial statements provides more detail concerning long-term debt outstanding.

Entergy Corporation has in place a credit facility that has a borrowing capacity of \$3.5 billion and expires in September 2024. The facility includes fronting commitments for the issuance of letters of credit against \$20 million of the total borrowing capacity of the credit facility. The commitment fee is currently 0.225% of the undrawn commitment amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior unsecured debt ratings of Entergy Corporation. The weighted average interest rate for the year ended December 31, 2020 was 2.35% on the drawn portion of the facility.

As of December 31, 2020, amounts outstanding and capacity available under the \$3.5 billion credit facility are:

Capacity	Borrowings	Letters of Credit	Capacity Available
(In Millions)			
\$3,500	\$165	\$6	\$3,329

A covenant in Entergy Corporation's credit facility requires Entergy to maintain a consolidated debt ratio, as defined, of 65% or less of its total capitalization. The calculation of this debt ratio under Entergy Corporation's credit facility is different than the calculation of the debt to capital ratio above. One such difference is that it excludes the effects, among other things, of certain impairments related to the Entergy Wholesale Commodities nuclear generation assets. Entergy is currently in compliance with the covenant and expects to remain in compliance with this covenant. If Entergy fails to meet this ratio, or if Entergy or one of the Utility operating companies (except Entergy New Orleans) defaults on other indebtedness or is in bankruptcy or insolvency proceedings, an acceleration of the Entergy Corporation credit facility's maturity date may occur.

Entergy Corporation has a commercial paper program with a Board-approved program limit of up to \$2 billion. As of December 31, 2020, Entergy Corporation had \$1.627 billion of commercial paper outstanding. The weighted-average interest rate for the year ended December 31, 2020 was 1.39%.

Finance lease obligations are a minimal part of Entergy's overall capital structure. Following are Entergy's payment obligations under those leases.

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024-2025</u>	<u>after 2025</u>
	(In Millions)				
Finance lease payments	\$14	\$13	\$12	\$18	\$17

Leases are discussed in Note 10 to the financial statements.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each had credit facilities available as of December 31, 2020 as follows:

<u>Company</u>	<u>Expiration Date</u>	<u>Amount of Facility</u>	<u>Interest Rate (a)</u>	<u>Amount Drawn as of December 31, 2020</u>	<u>Letters of Credit Outstanding as of December 31, 2020</u>
Entergy Arkansas	April 2021	\$25 million (b)	1.27%	—	—
Entergy Arkansas	September 2024	\$150 million (c)	1.27%	—	—
Entergy Louisiana	September 2024	\$350 million (c)	1.27%	—	—
Entergy Mississippi	April 2021	\$10 million (d)	1.65%	—	—
Entergy Mississippi	April 2021	\$35 million (d)	1.65%	—	—
Entergy Mississippi	April 2021	\$37.5 million (d)	1.65%	—	—
Entergy New Orleans	November 2021	\$25 million (c)	1.42%	—	\$0.8 million
Entergy Texas	September 2024	\$150 million (c)	1.65%	—	\$1.3 million

- (a) The interest rate is the estimated interest rate as of December 31, 2020 that would have been applied to outstanding borrowings under the facility.
- (b) Borrowings under this Entergy Arkansas credit facility may be secured by a security interest in its accounts receivable at Entergy Arkansas's option.
- (c) The credit facility includes fronting commitments for the issuance of letters of credit against a portion of the borrowing capacity of the facility as follows: \$5 million for Entergy Arkansas; \$15 million for Entergy Louisiana; \$10 million for Entergy New Orleans; and \$30 million for Entergy Texas.
- (d) Borrowings under the Entergy Mississippi credit facilities may be secured by a security interest in its accounts receivable at Entergy Mississippi's option.

Each of the credit facilities requires the Registrant Subsidiary borrower to maintain a debt ratio, as defined, of 65% or less of its total capitalization. Each Registrant Subsidiary is in compliance with this covenant.

In addition, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each entered into one or more uncommitted standby letter of credit facilities as a means to post collateral to support its obligations to MISO. Following is a summary of the uncommitted standby letter of credit facilities as of December 31, 2020:

Company	Amount of Uncommitted Facility	Letter of Credit Fee	Letters of Credit Issued as of December 31, 2020 (a) (b)
Entergy Arkansas	\$25 million	0.78%	\$1 million
Entergy Louisiana	\$125 million	0.78%	\$2.2 million
Entergy Mississippi	\$65 million	0.78%	\$1 million
Entergy New Orleans	\$15 million	1.00%	\$1 million
Entergy Texas	\$50 million	0.70%	\$6.2 million

- (a) As of December 31, 2020, letters of credit posted with MISO covered financial transmission right exposure of \$0.3 million for Entergy Louisiana, \$0.2 million for Entergy Mississippi, \$0.2 million for Entergy New Orleans, and \$0.5 million for Entergy Texas. See Note 15 to the financial statements for discussion of financial transmission rights.
- (b) As of December 31, 2020, in addition to the \$1 million MISO letter of credit, Entergy Mississippi has \$1 million of non-MISO letters of credit outstanding under this facility.

Operating Lease Obligations and Guarantees of Unconsolidated Obligations

Entergy has a minimal amount of operating lease obligations and guarantees in support of unconsolidated obligations. Entergy's guarantees in support of unconsolidated obligations are not likely to have a material effect on Entergy's financial condition, results of operations, or cash flows. Following are Entergy's payment obligations as of December 31, 2020 on non-cancelable operating leases with a term over one year:

	2021	2022	2023	2024-2025	after 2025
	(In Millions)				
Operating lease payments	\$66	\$57	\$47	\$59	\$21

Leases are discussed in Note 10 to the financial statements.

Summary of Contractual Obligations of Consolidated Entities

Contractual Obligations	2021	2022-2023	2024-2025	after 2025	Total
	(In Millions)				
Long-term debt (a)	\$2,002	\$4,914	\$3,902	\$23,532	\$34,350
Finance lease payments (b)	\$14	\$25	\$18	\$17	\$74
Operating leases (b) (c)	\$66	\$104	\$59	\$21	\$250
Purchase obligations (d)	\$1,182	\$2,076	\$1,651	\$3,541	\$8,450

- (a) Includes estimated interest payments. Long-term debt is discussed in Note 5 to the financial statements.
- (b) Lease obligations are discussed in Note 10 to the financial statements.
- (c) Does not include power purchase agreements that are accounted for as leases that are included in purchase obligations.
- (d) Purchase obligations represent the minimum purchase obligation or cancellation charge for contractual obligations to purchase goods or services. Almost all of the total are fuel and purchased power obligations.

In addition to the contractual obligations stated above, Entergy currently expects to contribute approximately \$356 million to its pension plans and approximately \$39.9 million to other postretirement plans in 2021, although the 2021 required pension contributions will be known with more certainty when the January 1, 2021 valuations are completed, which is expected by April 1, 2021. See “**Critical Accounting Estimates - Qualified Pension and Other Postretirement Benefits**” below and Note 11 for a discussion of qualified pension and other postretirement benefits funding.

Also in addition to the contractual obligations, Entergy has \$979 million of unrecognized tax benefits and interest net of unused tax attributes for which the timing of payments beyond 12 months cannot be reasonably estimated due to uncertainties in the timing of effective settlement of tax positions. See Note 3 to the financial statements for additional information regarding unrecognized tax benefits.

Capital Expenditure Plans and Other Uses of Capital

Following are the amounts of Entergy's planned construction and other capital investments by operating segment for 2021 through 2023.

<u>Planned construction and capital investments</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(In Millions)		
Utility:			
Generation	\$1,080	\$1,155	\$2,030
Transmission	720	610	675
Distribution	1,180	1,350	1,560
Utility Support	495	440	335
Total	<u>3,475</u>	<u>3,555</u>	<u>4,600</u>
Entergy Wholesale Commodities and Other	10	5	5
Total	<u><u>\$3,485</u></u>	<u><u>\$3,560</u></u>	<u><u>\$4,605</u></u>

In addition to the planned spending in the table above, the Utility also expects to pay for \$1,055 million of capital investments in 2021 related to Hurricane Laura, Hurricane Delta, and Hurricane Zeta restoration work that have been accrued as of December 31, 2020.

Planned construction and capital investments refer to amounts Entergy plans to spend on routine capital projects that are necessary to support reliability of its service, equipment, or systems and to support normal customer growth. In addition to routine capital projects, they also refer to amounts Entergy plans to spend on non-routine capital investments for which Entergy is either contractually obligated, has Board approval, or otherwise expects to make to satisfy regulatory or legal requirements. Amounts include the following types of construction and capital investments:

- Investments in renewables and other generation, including the Sunflower Solar Facility, Searcy Solar Facility, Walnut Bend Solar Facility, West Memphis Solar Facility, Liberty County Solar Facility, and Hardin County Peaking Facility, and potential construction of additional generation.
- Investments in Entergy's Utility nuclear fleet.
- Transmission spending to enhance reliability, reduce congestion, and enable economic growth.
- Distribution spending to enhance reliability and improve service to customers, including investment to support advanced metering.
- Entergy Wholesale Commodities investments such as component replacements, software and security, and dry cask storage.

For the next several years, the Utility's owned generating capacity is projected to be adequate to meet MISO reserve requirements; however, in the longer-term additional supply resources will be needed, and its supply plan initiative

will continue to seek to transform its generation portfolio with new generation resources. Opportunities resulting from the supply plan initiative, including new projects or the exploration of alternative financing sources, could result in increases or decreases in the capital expenditure estimates given above. Estimated capital expenditures are also subject to periodic review and modification and may vary based on the ongoing effects of business restructuring, regulatory constraints and requirements, environmental regulations, business opportunities, market volatility, economic trends, changes in project plans, and the ability to access capital.

Renewables

Sunflower Solar Facility

In November 2018, Entergy Mississippi announced that it signed an agreement for the purchase of an approximately 100 MW solar photovoltaic facility that will be sited on approximately 1,000 acres in Sunflower County, Mississippi. The estimated base purchase price is approximately \$138.4 million. The estimated total investment, including the base purchase price and other related costs, for Entergy Mississippi to acquire the Sunflower Solar Facility is approximately \$153.2 million. The purchase is contingent upon, among other things, obtaining necessary approvals, including full cost recovery, from applicable federal and state regulatory and permitting agencies. The project is being built by Sunflower County Solar Project, LLC, an indirect subsidiary of Recurrent Energy, LLC. Entergy Mississippi will purchase the facility upon mechanical completion and after the other purchase contingencies have been met. In December 2018, Entergy Mississippi filed a joint petition with Sunflower Solar Project with the MPSC for Sunflower Solar Project to construct and for Entergy Mississippi to acquire and thereafter own, operate, improve, and maintain the solar facility. Entergy Mississippi proposed revisions to its formula rate plan that would provide for a mechanism, the interim capacity rate adjustment mechanism, in the formula rate plan to recover the non-fuel related costs of additional owned capacity acquired by Entergy Mississippi, including the annual ownership costs of the Sunflower Solar Facility. In December 2019 the MPSC approved Entergy Mississippi's proposed revisions to its formula rate plan to provide for an interim capacity rate adjustment mechanism. Recovery through the interim capacity rate adjustment requires MPSC approval for each new resource. In August 2019 consultants retained by the Mississippi Public Utilities Staff filed a report expressing concerns regarding the project economics. In March 2020, Entergy Mississippi filed supplemental testimony addressing questions and observations raised by the consultants retained by the Mississippi Public Utilities Staff and proposing an alternative structure for the transaction that would reduce its cost. A hearing before the MPSC was held in March 2020. In April 2020 the MPSC issued an order approving certification of the Sunflower Solar Facility and its recovery through the interim capacity rate adjustment mechanism, subject to certain conditions including: (i) that Entergy Mississippi pursue a partnership structure through which the partnership would acquire and own the facility under the build-own-transfer agreement and (ii) that if Entergy Mississippi does not consummate the partnership structure under the terms of the order, there will be a cap of \$136 million on the level of recoverable costs. Closing is targeted to occur by the end of 2021.

Searcy Solar Facility

In March 2019, Entergy Arkansas announced that it signed an agreement for the purchase of an approximately 100 MW solar energy facility that will be sited on approximately 800 acres in White County near Searcy, Arkansas. The purchase is contingent upon, among other things, obtaining necessary approvals from applicable federal and state regulatory and permitting agencies. The project is being constructed by a subsidiary of NextEra Energy Resources. Entergy Arkansas will purchase the facility upon mechanical completion and after the other purchase contingencies have been met. Closing is expected to occur by the end of 2021. In May 2019, Entergy Arkansas filed a petition with the APSC seeking a finding that the transaction is in the public interest and requesting all necessary approvals. In September 2019 other parties filed testimony largely supporting the resource acquisition but disputing Entergy Arkansas's proposed method of cost recovery. Entergy Arkansas filed its rebuttal testimony in October 2019. In February 2020, Entergy Arkansas, the Attorney General, and the APSC general staff filed a partial settlement agreement asking the APSC to approve, based on the record in the proceeding, all issues except certain issues that are submitted to the APSC for determination. In April 2020 the APSC issued an order

approving Entergy Arkansas's acquisition of the Searcy Solar facility as being in the public interest, but declined to approve Entergy Arkansas's preferred cost recovery rider mechanism, finding instead, based on the particular facts and circumstances presented, that the formula rate plan rider was a sufficient recovery mechanism for this resource.

Liberty County Solar Facility

In September 2020, Entergy Texas filed an application seeking PUCT approval to amend Entergy Texas's certificate of convenience and necessity to acquire the 100 MW Liberty County Solar Facility and a determination that Entergy Texas's acquisition of the facility through a tax equity partnership is in the public interest. In its preliminary order, the PUCT determined that, in considering Entergy Texas's application, it would not specifically address whether Entergy Texas's use of a tax equity partnership is in the public interest. A procedural schedule was established with a hearing on the merits scheduled in April 2021. Closing is expected to occur in 2023.

Walnut Bend Solar Facility

In October 2020, Entergy Arkansas filed a petition with the APSC seeking a finding that the purchase of the 100 MW Walnut Bend Solar Facility is in the public interest. Entergy Arkansas requested a decision by the APSC by June 15, 2021 and primarily requests cost recovery through the formula rate plan rider. A procedural schedule was established with a hearing scheduled in April 2021. Closing is expected to occur in 2022.

West Memphis Solar Facility

In January 2021, Entergy Arkansas filed a petition with the APSC seeking a finding that the purchase of the 180 MW West Memphis Solar Facility is in the public interest. Entergy Arkansas requested a decision by the APSC by September 7, 2021 and primarily requests cost recovery through the formula rate plan rider. Closing is expected to occur in 2023.

Dividends and Stock Repurchases

Declarations of dividends on Entergy's common stock are made at the discretion of the Board. Among other things, the Board evaluates the level of Entergy's common stock dividends based upon earnings per share from the Utility operating segment and the Parent and Other portion of the business, financial strength, and future investment opportunities. At its January 2021 meeting, the Board declared a dividend of \$0.95 per share. Entergy paid \$748 million in 2020, \$712 million in 2019, and \$648 million in 2018 in cash dividends on its common stock.

In accordance with Entergy's stock-based compensation plans, Entergy periodically grants stock options, restricted stock, performance units, and restricted stock unit awards to key employees, which may be exercised to obtain shares of Entergy's common stock. According to the plans, these shares can be newly issued shares, treasury stock, or shares purchased on the open market. Entergy's management has been authorized by the Board to repurchase on the open market shares up to an amount sufficient to fund the exercise of grants under the plans.

In addition to the authority to fund grant exercises, the Board has authorized share repurchase programs to enable opportunistic purchases in response to market conditions. In October 2010 the Board granted authority for a \$500 million share repurchase program. As of December 31, 2020, \$350 million of authority remains under the \$500 million share repurchase program. The amount of repurchases may vary as a result of material changes in business results or capital spending or new investment opportunities, or if limitations in the credit markets continue for a prolonged period.

Sources of Capital

Entergy's sources to meet its capital requirements and to fund potential investments include:

- internally generated funds;
- cash on hand (\$1,759 million as of December 31, 2020);
- storm reserve escrow accounts;
- debt and equity issuances in the capital markets, including debt issuances to refund or retire currently outstanding or maturing indebtedness;
- bank financing under new or existing facilities or commercial paper; and
- sales of assets.

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

Provisions within the organizational documents relating to preferred stock or membership interests of certain of Entergy Corporation's subsidiaries could restrict the payment of cash dividends or other distributions on their common and preferred equity. All debt and preferred equity issuances by the Registrant Subsidiaries require prior regulatory approval and their debt issuances are also subject to issuance tests set forth in bond indentures and other agreements. Entergy believes that the Registrant Subsidiaries have sufficient capacity under these tests to meet foreseeable capital needs.

The FERC has jurisdiction over securities issuances by the Utility operating companies and System Energy. The City Council has concurrent jurisdiction over Entergy New Orleans's securities issuances with maturities longer than one year. The APSC has concurrent jurisdiction over Entergy Arkansas's issuances of securities secured by Arkansas property, including first mortgage bond issuances. No regulatory approvals are necessary for Entergy Corporation to issue securities. The current FERC-authorized short-term borrowing limits and long-term financing authorization for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy are effective through July 2022. Entergy Arkansas has obtained first mortgage bond/secured financing authorization from the APSC that extends through December 2022. Entergy New Orleans also has obtained long-term financing authorization from the City Council that extends through July 2022. Entergy Arkansas, Entergy Louisiana, and System Energy each have obtained long-term financing authorization from the FERC that extends through July 2022 for issuances by the nuclear fuel company variable interest entities. In addition to borrowings from commercial banks, the Registrant Subsidiaries may also borrow from the Entergy System money pool and from other internal short-term borrowing arrangements. The money pool and the other internal borrowing arrangements are inter-company borrowing arrangements designed to reduce Entergy's subsidiaries' dependence on external short-term borrowings. Borrowings from internal and external short-term borrowings combined may not exceed the FERC-authorized limits. See Notes 4 and 5 to the financial statements for further discussion of Entergy's borrowing limits, authorizations, and amounts outstanding.

Equity Issuances and Equity Distribution Program

Entergy Corporation currently expects to issue approximately \$2.5 billion of equity through 2024. Entergy is considering various methods, including, among others, at the market distributions, block trades, and preferred equity issuances. In January 2021, Entergy entered into an equity distribution sales agreement with several counterparties establishing an at the market equity distribution program, pursuant to which Entergy may offer and sell from time to time shares of its common stock. The sales agreement provides that, in addition to the issuance and sale of shares of Entergy common stock, Entergy may also enter into forward sale agreements for the sale of its

common stock. The aggregate number of shares of common stock sold under this sales agreement and under any forward sale agreement may not exceed an aggregate gross sales price of \$1 billion.

Cash Flow Activity

As shown in Entergy's Consolidated Statements of Cash Flows, cash flows for the years ended December 31, 2020, 2019, and 2018 were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Millions)		
Cash and cash equivalents at beginning of period	\$426	\$481	\$781
Net cash provided by (used in):			
Operating activities	2,690	2,817	2,385
Investing activities	(4,772)	(4,510)	(4,106)
Financing activities	3,415	1,638	1,421
Net increase (decrease) in cash and cash equivalents	<u>1,333</u>	<u>(55)</u>	<u>(300)</u>
Cash and cash equivalents at end of period	<u>\$1,759</u>	<u>\$426</u>	<u>\$481</u>

2020 Compared to 2019

Operating Activities

Net cash flow provided by operating activities decreased by \$127 million in 2020 primarily due to:

- an increase of \$224 million in storm spending in 2020 as compared to 2019 primarily due to spending in 2020 on Hurricane Laura, Hurricane Delta, and Hurricane Zeta restoration. See "**Hurricane Laura, Hurricane Delta, and Hurricane Zeta**" above for discussion of storm restoration efforts;
- the timing of recovery of fuel and purchased power costs in 2020 as compared to the prior year. See Note 2 to the financial statements for a discussion of fuel and purchased power cost recovery;
- lower collections of receivables from customers, in part due to the COVID-19 pandemic;
- the effect of less favorable weather on billed Utility sales in 2020; and
- an increase of \$32 million in incentive-based compensation payments in 2020.

The decrease was partially offset by:

- the decrease in the return of unprotected excess accumulated deferred income taxes to Utility customers. See Note 2 to the financial statements for a discussion of the regulatory activity regarding the Tax Cuts and Jobs Act;
- a decrease of \$86 million in severance and retention payments in 2020 as compared to 2019. See "**Entergy Wholesale Commodities Exit from the Merchant Power Business**" above for a discussion of management's strategy to exit the Entergy Wholesale Commodities' merchant power business;
- a decrease of \$83 million in pension contributions in 2020 as compared to 2019. See "**Critical Accounting Estimates**" below and Note 11 to the financial statements for discussion of qualified pension and other postretirement benefits funding;
- an increase of \$71 million in proceeds received from the DOE resulting from litigation regarding spent nuclear fuel storage costs that were previously expensed. See Note 8 to the financial statements for discussion of the spent nuclear fuel litigation;
- the timing of payments to vendors;
- a decrease of \$34 million in spending on nuclear refueling outages; and

- an increase of \$25 million of nuclear insurance refunds.

Investing Activities

Net cash flow used in investing activities increased by \$262 million in 2020 primarily due to:

- an increase of \$942 million in storm spending in 2020, primarily on Hurricane Laura, Hurricane Delta, and Hurricane Zeta restoration. See "**Hurricane Laura, Hurricane Delta, and Hurricane Zeta**" above for discussion of storm restoration efforts;
- the purchase of Washington Parish Energy Center by Entergy Louisiana in November 2020 for approximately \$222 million. See Note 14 to the financial statements for further discussion of the Washington Parish Energy Center purchase;
- an increase of \$140 million in distribution construction expenditures primarily due to investment in the reliability and infrastructure of the distribution system, including increased spending on advanced metering infrastructure;
- an increase of \$87 million in nuclear fuel purchases due to variations from year to year in the timing and pricing of fuel reload requirements, materials and services deliveries, and the timing of cash payments during the nuclear fuel cycle;
- an increase of \$43 million primarily due to changes in collateral posted to provide credit support to secure its obligations under agreements to sell power produced by Entergy Wholesale Commodities' power plants; and
- \$25 million in plant upgrades for the Choctaw Generating Station in March 2020. See Note 14 to the financial statements for discussion of the Choctaw Generating Station purchase.

The increase was partially offset by:

- a decrease of \$309 million of non-nuclear generation construction expenditures primarily due to higher spending in 2019 on the Montgomery County Power Station, Lake Charles Power Station, and J. Wayne Leonard Power Station (formerly St. Charles Power Station) projects;
- the purchase of the Choctaw Generating Station in October 2019 for approximately \$305 million;
- an increase of \$303 million in net receipts from storm reserve escrow accounts;
- a decrease of \$141 million in transmission construction expenditures primarily due to the timing of work performed in 2020 as compared to 2019;
- an increase of \$70 million in proceeds received from the DOE in 2020 as compared to the prior year resulting from litigation regarding spent nuclear fuel storage costs that were previously capitalized. See Note 8 to the financial statements for discussion of the spent nuclear fuel litigation;
- a decrease of \$44 million in information technology construction expenditures primarily due to decreased spending on various technology projects; and
- a decrease of \$23 million in nuclear construction expenditures primarily due to a lower scope of work performed on various nuclear projects in 2020 as compared to 2019.

Financing Activities

Net cash flow provided by financing activities increased by \$1,777 million in 2020 primarily due to:

- long-term debt activity providing approximately \$4,467 million of cash in 2020 compared to providing approximately \$1,685 million in 2019; and
- the repurchase in first quarter 2019 of \$50 million of Class A mandatorily redeemable preferred membership units in Entergy Holdings Company LLC, a wholly-owned Entergy subsidiary, that were held by a third party.

The increase was partially offset by:

- proceeds of \$608 million from the issuance of common stock in May 2019 as a result of the settlement of equity forwards. See Note 7 to the financial statements for discussion of the equity forward sale agreements;
- an increase of \$324 million in net repayments of commercial paper in 2020 compared to 2019;
- a decrease of \$52 million in treasury stock issuances in 2020 due to a larger amount of previously repurchased Entergy Corporation common stock issued in 2019 to satisfy stock option exercises;
- an increase of \$37 million in common stock dividends paid as a result of an increase in the number of shares outstanding and an increase in the dividend paid per share in 2020 compared to 2019; and
- the issuance of \$35 million aggregate liquidation value 5.375% Series A preferred stock in September 2019 by Entergy Texas.

For the details of Entergy's commercial paper program, see Note 4 to the financial statements. See Note 5 to the financial statements for details of long-term debt.

2019 Compared to 2018

See "MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - Liquidity and Capital Resources - Cash Flow Activity" in Item 7 of Entergy's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020 for discussion of operating, investing, and financing cash flow activities for 2019 compared to 2018.

Rate, Cost-recovery, and Other Regulation

State and Local Rate Regulation and Fuel-Cost Recovery

The rates that the Utility operating companies charge for their services significantly influence Entergy's financial position, results of operations, and liquidity. These companies are regulated and the rates charged to their customers are determined in regulatory proceedings. Governmental agencies, including the APSC, the LPSC, the MPSC, the City Council, and the PUCT, are primarily responsible for approval of the rates charged to customers. Following is a summary of the Utility operating companies' authorized returns on common equity:

<u>Company</u>	<u>Authorized Return on Common Equity</u>
Entergy Arkansas	9.25% - 10.25%
Entergy Louisiana	9.2% - 10.4% Electric; 9.3% - 10.3% Gas
Entergy Mississippi	8.89% - 10.93%
Entergy New Orleans	8.85% - 9.85%
Entergy Texas	9.65%

The Utility operating companies' base rate, fuel and purchased power cost recovery, and storm cost recovery proceedings are discussed in Note 2 to the financial statements.

Federal Regulation

The FERC regulates wholesale sales of electricity rates and interstate transmission of electricity, including rates for System Energy's sales of capacity and energy from Grand Gulf to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans pursuant to the Unit Power Sales Agreement. The current return on equity and capital structure of System Energy are currently the subject of complaints filed by certain of the operating companies' retail regulators. The current return on equity under the Unit Power Sales Agreement is 10.94%. Prior to each operating company's termination of participation in the System Agreement (Entergy

Arkansas in December 2013, Entergy Mississippi in November 2015, and Entergy Louisiana, Entergy New Orleans, and Entergy Texas each in August 2016), the Utility operating companies engaged in the coordinated planning, construction, and operation of generating and bulk transmission facilities under the terms of the System Agreement, which was a rate schedule approved by the FERC. Certain of the Utility operating companies' retail regulators are pursuing litigation involving the System Agreement at the FERC and in federal courts. See Note 2 to the financial statements for discussion of the complaints filed with the FERC challenging System Energy's return on equity and capital structure, System Energy's treatment of uncertain tax positions and the Grand Gulf sale leaseback arrangement, and a separate request for the FERC to initiate a broader investigation of rates under the Unit Power Sales Agreement.

Market and Credit Risk Sensitive Instruments

Market risk is the risk of changes in the value of commodity and financial instruments, or in future net income or cash flows, in response to changing market conditions. Entergy holds commodity and financial instruments that are exposed to the following significant market risks.

- The commodity price risk associated with the sale of electricity by the Entergy Wholesale Commodities business.
- The interest rate and equity price risk associated with Entergy's investments in pension and other postretirement benefit trust funds. See Note 11 to the financial statements for details regarding Entergy's pension and other postretirement benefit trust funds.
- The interest rate and equity price risk associated with Entergy's investments in nuclear plant decommissioning trust funds, particularly in the Entergy Wholesale Commodities business. See Note 16 to the financial statements for details regarding Entergy's decommissioning trust funds.
- The interest rate risk associated with changes in interest rates as a result of Entergy's outstanding indebtedness. Entergy manages its interest rate exposure by monitoring current interest rates and its debt outstanding in relation to total capitalization. See Notes 4 and 5 to the financial statements for the details of Entergy's debt outstanding.

The Utility has limited exposure to the effects of market risk because it operates primarily under cost-based rate regulation. To the extent approved by their retail regulators, the Utility operating companies use commodity and financial instruments to hedge the exposure to price volatility inherent in their purchased power, fuel, and gas purchased for resale costs that are recovered from customers.

Entergy's commodity and financial instruments are also exposed to credit risk. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract or agreement. Entergy is also exposed to a potential demand on liquidity due to credit support requirements within its supply or sales agreements.

Commodity Price Risk

Power Generation

As a wholesale generator, Entergy Wholesale Commodities' core business is selling energy, measured in MWh, to its customers. Entergy Wholesale Commodities enters into forward contracts with its customers and also sells energy in the day ahead or spot markets. Entergy Wholesale Commodities also sells unforced capacity, which allows load-serving entities to meet specified reserve and related requirements placed on them by the ISOs in their respective areas. Entergy Wholesale Commodities' forward physical power contracts consist of contracts to sell energy only, contracts to sell capacity only, and bundled contracts in which it sells both capacity and energy. While the terminology and payment mechanics vary in these contracts, each of these types of contracts requires Entergy Wholesale Commodities to deliver MWh of energy, make capacity available, or both. In addition to its forward physical power contracts, Entergy Wholesale Commodities may also use a combination of financial contracts,

including swaps, collars, and options, to manage forward commodity price risk. The sensitivities may not reflect the total maximum upside potential from higher market prices. The information contained in the following table represents projections at a point in time and will vary over time based on numerous factors, such as future market prices, contracting activities, and generation. Following is a summary of Entergy Wholesale Commodities' current forward capacity and generation contracts as well as total revenue projections based on market prices as of December 31, 2020.

Entergy Wholesale Commodities Nuclear Portfolio

	<u>2021</u>	<u>2022</u>
<u>Energy</u>		
Percent of planned generation under contract (a):		
Unit-contingent (b)	98%	99%
Planned generation (TWh) (c) (d)	9.6	2.8
Average revenue per MWh on contracted volumes:		
Expected based on market prices as of December 31, 2020	\$54.5	\$47.1
<u>Capacity</u>		
Percent of capacity sold forward (e):		
Bundled capacity and energy contracts (f)	68%	97%
Capacity contracts (g)	29%	—%
Total	97%	97%
Planned net MW in operation (average) (d)	1,158	338
Average revenue under contract per kW per month (applies to capacity contracts only)	\$0.1	\$—
<u>Total Energy and Capacity Revenues (h)</u>		
Expected sold and market total revenue per MWh	\$54.0	\$46.8
Sensitivity: +/- \$10 per MWh market price change	\$53.8 - \$54.2	\$46.7 - \$47.0

- (a) Percent of planned generation output sold or purchased forward under contracts, forward physical contracts, forward financial contracts, or options that mitigate price uncertainty. Positions that are not classified as hedges are netted in the planned generation under contract.
- (b) Transaction under which power is supplied from a specific generation asset; if the asset is not operating, the seller is generally not liable to the buyer for any damages. Certain unit-contingent sales include a guarantee of availability. Availability guarantees provide for the payment to the power purchaser of contract damages, if incurred, in the event the seller fails to deliver power as a result of the failure of the specified generation unit to generate power at or above a specified availability threshold. All of Entergy's outstanding guarantees of availability provide for dollar limits on Entergy's maximum liability under such guarantees.
- (c) Amount of output expected to be generated by Entergy Wholesale Commodities nuclear resources considering plant operating characteristics and outage schedules.
- (d) Assumes the planned shutdown of Indian Point 3 on April 30, 2021 and planned shutdown of Palisades on May 31, 2022. For a discussion regarding the planned shutdown of the Indian Point 3 and Palisades plants, see "**Entergy Wholesale Commodities Exit from the Merchant Power Business**" above.
- (e) Percent of planned qualified capacity sold to mitigate price uncertainty under physical or financial transactions.
- (f) A contract for the sale of installed capacity and related energy, priced per megawatt-hour sold.
- (g) A contract for the sale of an installed capacity product in a regional market.

- (h) Includes assumptions on converting a portion of the portfolio to contracted with fixed price and excludes non-cash revenue from the amortization of the Palisades below-market purchased power agreement, mark-to-market activity, and service revenues.

Some of the agreements to sell the power produced by Entergy Wholesale Commodities' power plants contain provisions that require an Entergy subsidiary to provide credit support to secure its obligations under the agreements. The Entergy subsidiary is required to provide credit support based upon the difference between the current market prices and contracted power prices in the regions where Entergy Wholesale Commodities sells power. The primary form of credit support to satisfy these requirements is an Entergy Corporation guarantee. Cash and letters of credit are also acceptable forms of credit support. At December 31, 2020, based on power prices at that time, Entergy had liquidity exposure of \$62 million under the guarantees in place supporting Entergy Wholesale Commodities transactions and \$6 million of posted cash collateral. In the event of a decrease in Entergy Corporation's credit rating to below investment grade, based on power prices as of December 31, 2020, Entergy would have been required to provide approximately \$30 million of additional cash or letters of credit under some of the agreements. As of December 31, 2020, the liquidity exposure associated with Entergy Wholesale Commodities assurance requirements, including return of previously posted collateral from counterparties, would increase by \$22 million for a \$1 per MMBtu increase in gas prices in both the short- and long-term markets.

As of December 31, 2020, substantially all the credit exposure associated with the planned energy output under contract for Entergy Wholesale Commodities nuclear plants through 2022 is with counterparties or their guarantors that have public investment grade credit ratings.

Nuclear Matters

Entergy's Utility and Entergy Wholesale Commodities businesses include the ownership and operation of nuclear generating plants and are, therefore, subject to the risks related to such ownership and operation. These include risks related to: the use, storage, and handling and disposal of high-level and low-level radioactive materials; the substantial financial requirements, both for capital investments and operational needs, including the financial requirements to address emerging issues like stress corrosion cracking of certain materials within the plant systems to position Entergy's nuclear fleet to meet its operational goals; the performance and capacity factors of these nuclear plants; the risk of an adverse outcome to an expected challenge to the prudence of operations at Grand Gulf; the implementation of plans to exit the Entergy Wholesale Commodities merchant power business by 2022 and the post-shutdown decommissioning of these plants; regulatory requirements and potential future regulatory changes, including changes affecting the regulations governing nuclear plant ownership, operations, license amendments, and decommissioning; the availability of interim or permanent sites for the disposal of spent nuclear fuel and nuclear waste, including the fees charged for such disposal; the sufficiency of nuclear decommissioning trust fund assets and earnings to complete decommissioning of each site when required; and limitations on the amounts and types of insurance commercially available for losses in connection with nuclear plant operations and catastrophic events such as a nuclear accident.

NRC Reactor Oversight Process

The NRC's Reactor Oversight Process is a program to collect information about plant performance, assess the information for its safety significance, and provide for appropriate licensee and NRC response. The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings resulting from the NRC's inspection program and performance indicators reported by the licensee. The evaluations result in the placement of each plant in one of the NRC's Reactor Oversight Process Action Matrix columns: "licensee response column," or Column 1, "regulatory response column," or Column 2, "degraded cornerstone column," or Column 3, and "multiple/repetitive degraded cornerstone column," or Column 4. Plants in Column 1 are subject to normal NRC inspection activities. Plants in Column 2, Column 3, or Column 4 are subject to progressively increasing levels of inspection by the NRC with, in general, progressively increasing levels of associated costs. Nuclear generating

plants owned and operated by Entergy's Utility and Entergy Wholesale Commodities businesses are currently in Column 1, except for Grand Gulf, which is in Column 2.

In November 2020 the NRC placed Grand Gulf in Column 2 based on the incidence of three unplanned plant scrams during the second and third quarters of 2020. Two of the scram events related to new turbine control system components that failed, and a third related to a feedwater valve positioner that failed, all of which had been replaced in a refueling outage that ended in May 2020. The NRC plans to conduct a supplemental inspection of Grand Gulf in accordance with its inspection procedures for nuclear plants in Column 2. As a consequence of two additional Grand Gulf scrams during the fourth quarter 2020, System Energy expects Grand Gulf to be placed into Column 3 based on plant performance indicators for the four quarters ended December 31, 2020. This will involve an additional supplemental NRC inspection of Grand Gulf in accordance with its inspection procedures for nuclear plants in Column 3.

Critical Accounting Estimates

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

Nuclear Decommissioning Costs

Entergy subsidiaries own nuclear generation facilities in both the Utility and Entergy Wholesale Commodities operating segments. Regulations require Entergy subsidiaries to decommission the nuclear power plants after each facility is taken out of service, and cash is deposited in trust funds during the facilities' operating lives in order to provide for this obligation. Entergy conducts periodic decommissioning cost studies to estimate the costs that will be incurred to decommission the facilities. The following key assumptions have a significant effect on these estimates.

- **Timing** - In projecting decommissioning costs, two assumptions must be made to estimate the timing of plant decommissioning. First, the date of the plant's retirement must be estimated for those plants that do not have an announced shutdown date. The estimate may include assumptions regarding the possibility that the plant may have an operating life shorter than the operating license expiration. Second, an assumption must be made regarding whether all decommissioning activity will proceed immediately upon plant retirement, or whether the plant will be placed in SAFSTOR status. SAFSTOR is decommissioning a facility by placing it in a safe, stable condition that is maintained until it is subsequently decontaminated and dismantled to levels that permit license termination, normally within 60 years from permanent cessation of operations. A change of assumption regarding either the period of continued operation, the use of a SAFSTOR period, or whether Entergy will continue to hold the plant or the plant is held for sale can change the present value of the asset retirement obligation.
- **Cost Escalation Factors** - Entergy's current decommissioning cost studies include an assumption that decommissioning costs will escalate over present cost levels by factors ranging from approximately 2% to 3% annually. A 50-basis point change in this assumption could change the estimated present value of the decommissioning liabilities by approximately 6% to 18%. The timing assumption influences the significance of the effect of a change in the estimated inflation or cost escalation rate because the effect increases with the length of time assumed before decommissioning activity ends.
- **Spent Fuel Disposal** - Federal law requires the DOE to provide for the permanent storage of spent nuclear fuel, and legislation has been passed by Congress to develop a repository at Yucca Mountain, Nevada. The DOE has not yet begun accepting spent nuclear fuel and is in non-compliance with federal law. The DOE

continues to delay meeting its obligation and Entergy's nuclear plant owners are continuing to pursue damage claims against the DOE for its failure to provide timely spent fuel storage. Until a federal site is available, however, nuclear plant operators must provide for interim spent fuel storage on the nuclear plant site, which can require the construction and maintenance of dry cask storage sites or other facilities. The costs of developing and maintaining these facilities during the decommissioning period can have a significant effect (as much as an average of 20% to 30% of total estimated decommissioning costs). Entergy's decommissioning studies include cost estimates for spent fuel storage. These estimates could change in the future, however, based on the expected timing of when the DOE begins to fulfill its obligation to receive and store spent nuclear fuel. See Note 8 to the financial statements for further discussion of Entergy's spent nuclear fuel litigation.

- **Technology and Regulation** - Over the past several years, more practical experience with the actual decommissioning of nuclear facilities has been gained and that experience has been incorporated into Entergy's current decommissioning cost estimates. Given the long duration of decommissioning projects, additional experience, including technological advancements in decommissioning, could be gained and affect current cost estimates. In addition, if regulations regarding nuclear decommissioning were to change, this could affect cost estimates.
- **Interest Rates** - The estimated decommissioning costs that are the basis for the recorded decommissioning liability are discounted to present value using a credit-adjusted risk-free rate. When the decommissioning liability is revised, increases in cash flows are discounted using the current credit-adjusted risk-free rate. Decreases in estimated cash flows are discounted using the credit-adjusted risk-free rate used previously in estimating the decommissioning liability that is being revised. Therefore, to the extent that a revised cost study results in an increase in estimated cash flows, a change in interest rates from the time of the previous cost estimate will affect the calculation of the present value of the revised decommissioning liability.

Revisions of estimated decommissioning costs that decrease the liability also result in a decrease in the asset retirement cost asset. For the non-rate-regulated portions of Entergy's business for which the plant's value is impaired, these reductions will immediately reduce operating expenses in the period of the revision if the reduction of the liability exceeds the amount of the undepreciated plant asset at the date of the revision. Revisions of estimated decommissioning costs that increase the liability result in an increase in the asset retirement cost asset, which is then depreciated over the asset's remaining economic life. For a plant in the non-rate-regulated portions of Entergy's business for which the plant's value is impaired, however, including a plant that is shutdown, or is nearing its shutdown date, the increase in the liability is likely to immediately increase operating expense in the period of the revision and not increase the asset retirement cost asset. See Note 14 to the financial statements for further discussion of impairment of long-lived assets and Note 9 to the financial statements for further discussion of asset retirement obligations.

Utility Regulatory Accounting

Entergy's Utility operating companies and System Energy are subject to retail regulation by their respective state and local regulators and to wholesale regulation by the FERC. Because these regulatory agencies set the rates the Utility operating companies and System Energy are allowed to charge customers based on allowable costs, including a reasonable return on equity, the Utility operating companies and System Energy apply accounting standards that require the financial statements to reflect the effects of rate regulation, including the recording of regulatory assets and liabilities. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs that have been deferred because it is probable such amounts will be returned to customers through future regulated rates. See Note 2 to the financial statements for a discussion of rate and regulatory matters, including details of Entergy's and the Registrant Subsidiaries' regulatory assets and regulatory liabilities.

For each regulatory jurisdiction in which they conduct business, the Utility operating companies and System Energy assess whether the regulatory assets and regulatory liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This

assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs, and factors such as changes in applicable regulatory and political environments. If the assessments made by the Utility operating companies and System Energy are ultimately different than actual regulatory outcomes, it could materially affect the results of operations, financial position, and cash flows of Entergy or the Registrant Subsidiaries.

Impairment of Long-lived Assets

Entergy has significant investments in long-lived assets in both of its operating segments, and Entergy evaluates these assets against the market economics and under the accounting rules for impairment when there are indications that an impairment may exist. This evaluation involves a significant degree of estimation and uncertainty. In the Entergy Wholesale Commodities business, Entergy's investments in merchant generation assets are subject to impairment if adverse market or regulatory conditions arise, particularly if it leads to a decision or an expectation that Entergy will operate or own a plant for a shorter period than previously expected; if there is a significant adverse change in the physical condition of a plant; or, if capital investment in a plant significantly exceeds previously-expected amounts.

If an asset is considered held for use, and Entergy concludes that events and circumstances are present indicating that an impairment analysis should be performed under the accounting standards, the sum of the expected undiscounted future cash flows from the asset are compared to the asset's carrying value. The carrying value of the asset includes any capitalized asset retirement cost associated with the decommissioning liability; therefore, changes in assumptions that affect the decommissioning liability can increase or decrease the carrying value of the asset subject to impairment. If the expected undiscounted future cash flows exceed the carrying value, no impairment is recorded. If the expected undiscounted future cash flows are less than the carrying value and the carrying value exceeds the fair value, Entergy is required to record an impairment charge to write the asset down to its fair value. If an asset is considered held for sale, an impairment is required to be recognized if the fair value (less costs to sell) of the asset is less than its carrying value.

The expected future cash flows are based on a number of key assumptions, including:

- Future power and fuel prices - Electricity and gas prices can be very volatile. This volatility increases the imprecision inherent in the long-term forecasts of commodity prices that are a key determinant of estimated future cash flows.
- Market value of generation assets - Valuing assets held for sale requires estimating the current market value of generation assets. While market transactions provide evidence for this valuation, these transactions are relatively infrequent, the market for such assets is volatile, and the value of individual assets is affected by factors unique to those assets.
- Future operating costs - Entergy assumes relatively minor annual increases in operating costs. Technological or regulatory changes that have a significant effect on operations could cause a significant change in these assumptions.
- Timing and the life of the asset - Entergy assumes an expected life of the asset. A change in the timing assumption, whether due to management decisions regarding operation of the plant, the regulatory process, or operational or other factors, could have a significant effect on the expected future cash flows and result in a significant effect on operations.

See Note 14 to the financial statements for a discussion of impairment conclusions related to the Entergy Wholesale Commodities nuclear plants.

Taxation and Uncertain Tax Positions

Management exercises significant judgment in evaluating the potential tax effects of Entergy's operations, transactions, and other events. Entergy accounts for uncertain income tax positions using a recognition model under

a two-step approach with a more likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. Management evaluates each tax position based on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant judgment is required to determine whether available information supports the assertion that the recognition threshold has been met. Additionally, measurement of unrecognized tax benefits to be recorded in the consolidated financial statements is based on the probability of different potential outcomes. Income tax expense and tax positions recorded could be significantly affected by events such as additional transactions contemplated or consummated by Entergy as well as audits by taxing authorities of the tax positions taken in transactions. Management believes that the financial statement tax balances are accounted for and adjusted appropriately each quarter as necessary in accordance with applicable authoritative guidance; however, the ultimate outcome of tax matters could result in favorable or unfavorable effects on the consolidated financial statements. Entergy's income taxes, including unrecognized tax benefits, open audits, and other significant tax matters are discussed in Note 3 to the financial statements.

Included in the IRS examination of Entergy's 2015 tax returns is the tax effect of the October 2015 combination of two Entergy utility companies, Entergy Gulf States Louisiana and Entergy Louisiana. Entergy Louisiana maintained a carryover tax basis in the assets received and the tax consequences provided for an increase in tax basis as well. This resulted in recognition in 2015 of a \$334 million permanent difference and income tax benefit, net of the uncertain tax position recorded on the transaction. As discussed in Note 3 to the financial statements, the IRS completed its examination of the 2014 and 2015 tax years and issued its 2014-2015 Revenue Agent Report in November 2020. Entergy Louisiana reversed the provision for uncertain tax positions with respect to the business combination. See additional discussion of the 2014 and 2015 IRS audit in Note 3 to the financial statements.

In addition, as discussed in Note 3 to the financial statements, in 2015, System Energy and Entergy Louisiana adopted a new method of accounting for income tax return purposes in which nuclear decommissioning liabilities are treated as production costs of electricity includable in cost of goods sold. The new method resulted in a reduction of taxable income of \$1.2 billion for System Energy and \$2.2 billion for Entergy Louisiana in 2015. In the third quarter 2020 the IRS issued Notices of Proposed Adjustment concerning this uncertain tax position allowing System Energy to include \$102 million of its decommissioning liability in cost of goods sold and Entergy Louisiana to include \$221 million of its decommissioning liability in cost of goods sold. The Notices of Proposed Adjustment will not be appealed.

As a result of System Energy being allowed to include part of its decommissioning liability in cost of goods sold, System Energy and Entergy recorded a deferred tax liability of \$26 million. System Energy also recorded federal and state taxes payable of \$402 million; on a consolidated basis, however, Entergy utilized tax loss carryovers to offset the federal taxable income adjustment and accordingly did not record federal taxes payable as a result of the outcome of this uncertain tax position.

As a result of Entergy Louisiana being allowed to include part of its decommissioning liability in cost of goods sold, Entergy Louisiana and Entergy recorded a deferred tax liability of \$60 million. Both Entergy Louisiana and Entergy utilized tax loss carryovers to offset the taxable income adjustment and accordingly did not record taxes payable as a result of the outcome of this uncertain tax position.

The partial disallowance of the uncertain tax position to include the decommissioning liability in cost of goods sold resulted in a \$1.5 billion decrease in the balance of unrecognized tax benefits related to federal and state taxes for Entergy. Additionally, both System Energy and Entergy Louisiana recorded a reduction to their balances of unrecognized tax benefits for federal and state taxes of \$461 million and \$1.1 billion, respectively.

The tax treatment of Entergy Louisiana's accrued regulatory liabilities associated with the Vidalia purchased power agreement and business combination guaranteed customer credits, which are discussed in Note 2

to the financial statements, has been resolved in a manner that results in a \$190 million increase to previously reported taxable income. Entergy Louisiana and Entergy utilized tax loss carryovers to offset the taxable income adjustment, however, which allowed both Entergy Louisiana and Entergy to reduce their balances of federal and state unrecognized tax benefits by \$74 million.

See Note 3 to the financial statements for discussion of the effects of the Tax Cuts and Jobs Act, the federal income tax legislation enacted in December 2017.

Qualified Pension and Other Postretirement Benefits

Entergy sponsors qualified, defined benefit pension plans that cover substantially all employees, including cash balance plans and final average pay plans. Additionally, Entergy currently provides other postretirement health care and life insurance benefits for substantially all full-time employees whose most recent date of hire or rehire is before July 1, 2014 and who reach retirement age and meet certain eligibility requirements while still working for Entergy.

Entergy's reported costs of providing these benefits, as described in Note 11 to the financial statements, are affected by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate for the Utility and Entergy Wholesale Commodities segments.

Assumptions

Key actuarial assumptions utilized in determining qualified pension and other postretirement health care and life insurance costs include discount rates, projected healthcare cost rates, expected long-term rate of return on plan assets, rate of increase in future compensation levels, retirement rates, expected timing and form of payments, and mortality rates.

Annually, Entergy reviews and, when necessary, adjusts the assumptions for the pension and other postretirement plans. Every three-to-five years, a formal actuarial assumption experience study that compares assumptions to the actual experience of the pension and other postretirement health care and life insurance plans is conducted. The interest rate environment over the past few years and volatility in the financial equity markets have affected Entergy's funding and reported costs for these benefits.

Discount rates

In selecting an assumed discount rate to calculate benefit obligations, Entergy uses a yield curve based on high-quality corporate debt with cash flows matching the expected plan benefit payments. In estimating the service cost and interest cost components of net periodic benefit cost, Entergy discounts the expected cash flows by the applicable spot rates.

Projected health care cost trend rates

Entergy's health care cost trend is affected by both medical cost inflation, and with respect to capped costs under the plan, the effects of general inflation. Entergy reviews actual recent cost trends and projected future trends in establishing its health care cost trend rates.

Expected long-term rate of return on plan assets

In determining its expected long-term rate of return on plan assets used in the calculation of benefit plan costs, Entergy reviews past performance, current and expected future asset allocations, and capital market

assumptions of its investment consultant and some of its investment managers. Entergy conducts periodic asset/liability studies in order to set its target asset allocations.

In 2017, Entergy confirmed its liability-driven investment strategy for its pension assets, which recommended that the target asset allocation adjust dynamically over time, based on the funded status of the plan, to an ultimate allocation of 35% equity securities and 65% fixed income securities. The ultimate asset allocation is expected to be attained when the plan is 100% funded. The target pension asset allocation for 2020 was 58% equity and 42% fixed income securities.

In 2017, Entergy implemented a new asset allocation strategy for its non-taxable and taxable other postretirement assets, based on the funded status of each sub-account within each trust. The new strategy no longer focuses on targeting an overall asset allocation for each trust, but rather a target asset allocation for each sub-account within each trust that adjusts dynamically based on the funded status. The 2020 weighted average target postretirement asset allocation is 44% equity and 56% fixed income securities. See Note 11 to the financial statements for discussion of the current asset allocations for Entergy's pension and other postretirement assets.

Costs and Sensitivities

The estimated 2021 and actual 2020 qualified pension and other postretirement costs and related underlying assumptions and sensitivities are shown below:

Costs	Estimated 2021	2020
(In millions)		
Qualified pension cost	\$360.1	\$373.8 (a)
Other postretirement income	(\$25.6)	(\$17.2)
<hr/>		
Assumptions	2021	2020
Discount rates		
Qualified pension		
Service cost	2.81%	3.42%
Interest cost	2.08%	2.99%
<hr/>		
Other postretirement		
Service cost	2.98%	3.27%
Interest cost	1.86%	2.41%
<hr/>		
Expected long-term rates of return		
Qualified pension assets	6.75%	7.00%
Other postretirement - non-taxable assets	6.00% - 6.75%	6.25% - 7.00%
Other postretirement - taxable assets - after tax rate	5.00%	5.25%
<hr/>		
Weighted-average rate of increase in future compensation		
	3.98% - 4.40%	3.98% - 4.40%
<hr/>		
Assumed health care cost trend rates		
Pre-65 retirees	5.87%	6.13%
Post-65 retirees	6.31%	6.25%
Ultimate rate	4.75%	4.75%
<hr/>		
Year ultimate rate is reached and beyond		
Pre-65 retirees	2030	2027
Post-65 retirees	2028	2027

(a) In 2020 qualified pension cost included settlement costs of \$36.9 million.

Actual asset returns have an effect on Entergy's qualified pension and other postretirement costs. In 2020, Entergy's actual annual return on qualified pension assets was approximately 16% and for other postretirement assets was approximately 12%, as compared with the 2020 expected long-term rates of return discussed above.

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

Actuarial Assumption	Change in Assumption	Impact on 2021 Qualified Pension Cost	Impact on 2020 Qualified Projected Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	\$25	\$260
Rate of return on plan assets	(0.25%)	\$16	\$—
Rate of increase in compensation	0.25%	\$9	\$46

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

Actuarial Assumption	Change in Assumption	Impact on 2021 Postretirement Benefit Cost	Impact on 2020 Accumulated Postretirement Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	\$2	\$39
Health care cost trend	0.25%	\$2	\$26

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

Accounting Mechanisms

In accordance with pension accounting standards, Entergy utilizes a number of accounting mechanisms that reduce the volatility of reported pension costs. Differences between actuarial assumptions and actual plan results are deferred and are amortized into expense only when the accumulated differences exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees or the average remaining life expectancy of plan participants if almost all are inactive. Additionally, accounting standards allow for the deferral of prior service costs/credits arising from plan amendments that attribute an increase or decrease in benefits to employee service in prior periods. Prior service costs/credits are then amortized into expense over the average future working life of active employees. Certain decisions, including workforce reductions, plan amendments, and plant shutdowns may significantly reduce the expense amortization period and result in immediate recognition of certain previously-deferred costs and gains/losses in the form of curtailment gains or losses. Similarly, payments made to settle benefit obligations, including lump sum benefit payments, can also result in accelerated recognition in the form of settlement losses or gains.

Entergy calculates the expected return on pension and other postretirement benefit plan assets by multiplying the long-term expected rate of return on assets by the market-related value (MRV) of plan assets. In general, Entergy determines the MRV of its pension plan assets by calculating a value that uses a 20-quarter phase-in of the difference between actual and expected returns and for its other postretirement benefit plan assets Entergy uses fair value.

Accounting standards require an employer to recognize in its balance sheet the funded status of its benefit plans. See Note 11 to the financial statements for a further discussion of Entergy's funded status.

Employer Contributions

Entergy contributed \$316.3 million to its qualified pension plans in 2020. Entergy estimates pension contributions will be approximately \$356 million in 2021; although the 2021 required pension contributions will be known with more certainty when the January 1, 2021 valuations are completed, which is expected by April 1, 2021.

Minimum required funding calculations as determined under Pension Protection Act guidance are performed annually as of January 1 of each year and are based on measurements of the assets and funding liabilities as measured at that date. Any excess of the funding liability over the calculated fair market value of assets results in a funding shortfall that, under the Pension Protection Act, must be funded over a seven-year rolling period. The Pension Protection Act also imposes certain plan limitations if the funded percentage, which is based on calculated fair market values of assets divided by funding liabilities, does not meet certain thresholds. For funding purposes, asset gains and losses are smoothed in to the calculated fair market value of assets. The funding liability is based upon a weighted average 24-month corporate bond rate published by the U.S. Treasury which is generally subject to a corridor of the 25-year average of prior segment rates. Periodic changes in asset returns and interest rates can affect funding shortfalls and future cash contributions.

Entergy contributed \$48.2 million to its postretirement plans in 2020 and plans to contribute \$39.9 million in 2021.

Other Contingencies

As a company with multi-state utility operations, Entergy is subject to a number of federal and state laws and regulations and other factors and conditions in the areas in which it operates, which potentially subjects it to environmental, litigation, and other risks. Entergy periodically evaluates its exposure for such risks and records a provision for those matters which are considered probable and estimable in accordance with generally accepted accounting principles.

Environmental

Entergy must comply with environmental laws and regulations applicable to air emissions, water discharges, solid waste (including coal combustion residuals), hazardous waste, toxic substances, protected species, and other environmental matters. Under these various laws and regulations, Entergy could incur substantial costs to comply or address any impacts to the environment. Entergy conducts studies to determine the extent of any required remediation and has recorded liabilities based upon its evaluation of the likelihood of loss and expected dollar amount for each issue. Additional sites or issues could be identified which require environmental remediation or corrective action for which Entergy could be liable. The amounts of environmental liabilities recorded can be significantly affected by the following external events or conditions.

- Changes to existing federal, state, or local regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters.
- The identification of additional impacts, sites, issues, or the filing of other complaints in which Entergy may be asserted to be a potentially responsible party.
- The resolution or progression of existing matters through the court system or resolution by the EPA or relevant state or local authority.

Litigation

Entergy is regularly named as a defendant in a number of lawsuits involving employment, customers, and injuries and damages issues, among other matters. Entergy periodically reviews the cases in which it has been named as defendant and assesses the likelihood of loss in each case as probable, reasonably possible, or remote and records liabilities for cases that have a probable likelihood of loss and the loss can be estimated. Given the environment in which Entergy operates, and the unpredictable nature of many of the cases in which Entergy is named as a defendant, the ultimate outcome of the litigation to which Entergy is exposed has the potential to materially affect the results of operations, financial position, and cash flows of Entergy or the Registrant Subsidiaries.

New Accounting Pronouncements

See Note 1 to the financial statements for discussion of new accounting pronouncements.

ENERGY CORPORATION AND SUBSIDIARIES REPORT OF MANAGEMENT

Management of Entergy Corporation and its subsidiaries has prepared and is responsible for the financial statements and related financial information included in this document. To meet this responsibility, management establishes and maintains a system of internal controls over financial reporting designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles. This system includes communication through written policies and procedures, an employee Code of Entegrity, and an organizational structure that provides for appropriate division of responsibility and training of personnel. This system is also tested by a comprehensive internal audit program.

Entergy management assesses the design and effectiveness of Entergy's internal control over financial reporting on an annual basis. In making this assessment, management uses the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. The 2013 COSO Framework was utilized for management's assessment. Management acknowledges, however, that all internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and presentation.

Entergy Corporation's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the effectiveness of Entergy Corporation's internal control over financial reporting as of December 31, 2020.

In addition, the Audit Committee of the Board of Directors, composed solely of independent Directors, meets with the independent auditors, internal auditors, management, and internal accountants periodically to discuss internal controls, and auditing and financial reporting matters. The Audit Committee appoints the independent auditors annually, seeks shareholder ratification of the appointment, and reviews with the independent auditors the scope and results of the audit effort. The Audit Committee also meets periodically with the independent auditors and the chief internal auditor without management present, providing free access to the Audit Committee.

Based on management's assessment of internal controls using the 2013 COSO criteria, management believes that Entergy maintained effective internal control over financial reporting as of December 31, 2020. Management further believes that this assessment, combined with the policies and procedures noted above, provides reasonable assurance that Entergy's financial statements are fairly and accurately presented in accordance with generally accepted accounting principles.

LEO P. DENAULT
Chairman of the Board and Chief Executive Officer of
Entergy Corporation

ANDREW S. MARSH
Executive Vice President and Chief Financial Officer of
Entergy Corporation

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Entergy Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Entergy Corporation and Subsidiaries (the “Corporation”) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2020, and the related notes (collectively, referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Corporation’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2021, expressed an unqualified opinion on the Corporation’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on the Corporation’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Rate and Regulatory Matters—Entergy Corporation and Subsidiaries—Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Corporation is subject to rate regulation by the Arkansas Public Service Commission, Louisiana Public Service Commission, Mississippi Public Service Commission, City Council of New Orleans, Louisiana, and Public Utility Commission of Texas (the “Commissions”), which have jurisdiction with respect to the rates of electric companies in Arkansas, Louisiana, Mississippi, Texas, and the City of New Orleans, and to wholesale rate regulation by the Federal Energy Regulatory Commission (“FERC”). Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying

the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; income taxes; operating revenues; operation and maintenance expense; and depreciation and amortization expense.

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

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management to support its assertions about impacted account balances and disclosures and the high degree of subjectivity involved in assessing the impact of future regulatory orders on the financial statements. Management judgments include assessing the (1) likelihood of recovery in future rates of incurred costs, (2) likelihood of refunds to customers, and (3) ongoing complaints filed with the FERC against System Energy. Auditing management's judgments regarding the outcome of future decisions by the Commissions and the FERC involved especially subjective judgment and specialized knowledge of accounting for rate regulation and the rate-setting process.

How the Critical Audit Matter Was Addressed in the Audit

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

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

Uncertain Tax Positions—Entergy Wholesale Commodities—Refer to Note 3 to the financial statements

Critical Audit Matter Description

The Corporation accounts for uncertain income tax positions under a two-step approach with a more likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than fifty percent likely of being realized upon settlement. The Corporation has uncertain tax positions which require management to make significant judgments and assumptions to determine whether available information supports the assertion that the recognition threshold is met, particularly related to the technical merits and facts and circumstances of each position, as well as the probability of different potential outcomes. These uncertain tax positions could be significantly affected by events such as additional transactions contemplated or consummated by the Corporation as well as audits by taxing authorities of the tax positions. The net unrecognized tax benefit of \$979 million at December 31, 2020, includes uncertain tax positions related to Entergy Wholesale Commodities.

Given the subjectivity of estimating these uncertain tax positions, auditing the uncertain tax positions involved especially subjective judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertain tax positions included the following, among others:

- We tested the effectiveness of controls related to uncertain tax positions, including those over the recognition and measurement of the income tax benefits.
- We evaluated the Corporation's disclosures, and the balances recorded, related to uncertain tax positions.
- We evaluated the methods and assumptions used by management to estimate the uncertain tax positions by testing the underlying data that served as the basis for the uncertain tax position.
- With the assistance of our income tax specialists, we tested the technical merits of the uncertain tax positions and management's key estimates and judgments made by:
 - Assessing the technical merits of the uncertain tax positions by comparing to similar cases filed with the Internal Revenue Service.
 - Evaluating the reasonableness and consistency of the probabilities applied to the uncertain tax position by comparing to probabilities used on similar uncertain tax positions.
 - Considering the impact of changes or settlements in the tax environment on management's methods and assumptions used to estimate the uncertain tax positions.

Nuclear Decommissioning Costs—Entergy Wholesale Commodities—Refer to Note 9 to the financial statements

Critical Audit Matter Description

The Corporation owns nuclear generation facilities in the Entergy Wholesale Commodities operating segment where regulation requires the Corporation to decommission its nuclear power plants after each facility is taken out of service. The Corporation periodically conducts decommissioning cost studies, which requires management to make significant judgments and assumptions, specifically related to future dismantlement, site restoration, spent fuel management, and license termination costs. The liability for Entergy Wholesale Commodities nuclear decommissioning was \$2.6 billion at December 31, 2020.

Auditing management's judgments regarding the nuclear decommissioning costs, including estimates for future dismantlement, site restoration, spent fuel management, and license termination costs, involved especially subjective judgment in evaluating the appropriateness of the estimates and assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the underlying costs for nuclear decommissioning included the following, among others:

- We tested the effectiveness of the control over nuclear decommissioning where management evaluates whether estimates and assumptions need to be updated for each of the nuclear power plants.
- We evaluated the Corporation's disclosures related to the estimated nuclear decommissioning costs, including the balances recorded.
- We evaluated management's ability to accurately estimate the costs for nuclear decommissioning by comparing the cost estimates to actual nuclear decommissioning costs of similar asset retirement obligations at the Corporation.
- With the assistance of our environmental specialists, we completed a search of environmental regulations to evaluate any regulatory changes that may affect the nuclear decommissioning cost estimates.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
February 26, 2021

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

Attestation Report of Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of
Entergy Corporation and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Entergy Corporation and Subsidiaries (the “Corporation”) as of December 31, 2020, based on criteria established in *Internal Control —Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020 of the Corporation and our report dated February 26, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Corporation’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9A, Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
February 26, 2021

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31,

2020 2019 2018

(In Thousands, Except Share Data)

OPERATING REVENUES

Electric	\$9,046,643	\$9,429,978	\$9,384,111
Natural gas	124,008	153,954	156,436
Competitive businesses	942,985	1,294,741	1,468,905
TOTAL	10,113,636	10,878,673	11,009,452

OPERATING EXPENSES

Operation and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	1,564,371	2,029,638	2,147,793
Purchased power	904,268	1,192,860	1,658,799
Nuclear refueling outage expenses	184,157	204,927	153,826
Other operation and maintenance	3,002,626	3,272,381	3,346,397
Asset write-offs, impairments, and related charges	26,623	290,027	532,321
Decommissioning	381,861	400,802	388,508
Taxes other than income taxes	652,840	643,745	641,952
Depreciation and amortization	1,613,086	1,480,016	1,369,442
Other regulatory charges (credits) - net	14,609	(26,220)	301,049
TOTAL	8,344,441	9,488,176	10,540,087

OPERATING INCOME	1,769,195	1,390,497	469,365
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OTHER INCOME

Allowance for equity funds used during construction	119,430	144,974	129,602
Interest and investment income	392,818	547,912	63,864
Miscellaneous - net	(210,633)	(252,539)	(129,754)
TOTAL	301,615	440,347	63,712

INTEREST EXPENSE

Interest expense	837,981	807,382	768,322
Allowance for borrowed funds used during construction	(52,318)	(64,957)	(60,974)
TOTAL	785,663	742,425	707,348

INCOME (LOSS) BEFORE INCOME TAXES	1,285,147	1,088,419	(174,271)
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Income taxes	(121,506)	(169,825)	(1,036,826)
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CONSOLIDATED NET INCOME	1,406,653	1,258,244	862,555
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Preferred dividend requirements of subsidiaries	18,319	17,018	13,894
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NET INCOME ATTRIBUTABLE TO ENTERGY CORPORATION	\$1,388,334	\$1,241,226	\$848,661
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Earnings per average common share:

Basic	\$6.94	\$6.36	\$4.68
Diluted	\$6.90	\$6.30	\$4.63

Basic average number of common shares outstanding	200,106,945	195,195,858	181,409,597
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Diluted average number of common shares outstanding	201,102,220	196,999,284	183,378,513
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See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,

2020 2019 2018

(In Thousands)

Net Income	\$1,406,653	\$1,258,244	\$862,555
Other comprehensive income (loss)			
Cash flow hedges net unrealized gain (loss)			
(net of tax expense (benefit) of (\$14,776), \$28,516, and \$5,830)	(55,487)	115,026	22,098
Pension and other postretirement liabilities			
(net of tax expense (benefit) of \$5,600, (\$6,539), and \$30,299)	22,496	(25,150)	90,143
Net unrealized investment gains (losses)			
(net of tax expense of \$17,586, \$14,023, and \$6,393)	30,704	27,183	(28,771)
Other comprehensive income (loss)	(2,287)	117,059	83,470
Comprehensive Income	1,404,366	1,375,303	946,025
Preferred dividend requirements of subsidiaries	18,319	17,018	13,894
Comprehensive Income Attributable to Entergy Corporation	<u>\$1,386,047</u>	<u>\$1,358,285</u>	<u>\$932,131</u>

See Notes to Financial Statements.

ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

2020 2019 2018

(In Thousands)

OPERATING ACTIVITIES

Consolidated net income	\$1,406,653	\$1,258,244	\$862,555
Adjustments to reconcile consolidated net income to net cash flow provided by operating activities:			
Depreciation, amortization, and decommissioning, including nuclear fuel amortization	2,257,750	2,182,313	2,040,555
Deferred income taxes, investment tax credits, and non-current taxes accrued	(131,114)	193,950	(256,848)
Asset write-offs, impairments, and related charges	26,379	226,678	491,739
Changes in working capital:			
Receivables	(139,296)	(101,227)	98,546
Fuel inventory	(27,458)	(28,173)	45,839
Accounts payable	137,457	(71,898)	97,312
Taxes accrued	207,556	(20,784)	39,272
Interest accrued	7,662	937	5,220
Deferred fuel costs	(49,484)	172,146	(25,829)
Other working capital accounts	(143,451)	(3,108)	(164,173)
Changes in provisions for estimated losses	(291,193)	19,914	35,706
Changes in other regulatory assets	(784,494)	(545,559)	189,193
Changes in other regulatory liabilities	238,669	(14,781)	(803,323)
Changes in pensions and other postretirement liabilities	50,379	187,124	(304,941)
Other	(76,149)	(639,149)	34,424
Net cash flow provided by operating activities	2,689,866	2,816,627	2,385,247

INVESTING ACTIVITIES

Construction/capital expenditures	(4,694,076)	(4,197,667)	(3,942,010)
Allowance for equity funds used during construction	119,430	144,862	130,195
Nuclear fuel purchases	(215,664)	(128,366)	(302,584)
Payment for purchase of plant or assets	(247,121)	(305,472)	(26,623)
Proceeds from sale of assets	—	28,932	24,902
Insurance proceeds received for property damages	—	7,040	18,270
Changes in securitization account	5,099	3,298	(5,844)
Payments to storm reserve escrow account	(2,273)	(8,038)	(6,551)
Receipts from storm reserve escrow account	297,588	—	—
Decrease (increase) in other investments	(12,755)	30,319	(54,500)
Litigation proceeds for reimbursement of spent nuclear fuel storage costs	72,711	2,369	59,643
Proceeds from nuclear decommissioning trust fund sales	3,107,812	4,121,351	6,484,791
Investment in nuclear decommissioning trust funds	(3,203,057)	(4,208,870)	(6,485,676)
Net cash flow used in investing activities	(4,772,306)	(4,510,242)	(4,105,987)

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

2020 2019 2018

(In Thousands)

FINANCING ACTIVITIES

Proceeds from the issuance of:			
Long-term debt	12,619,201	9,304,396	8,035,536
Preferred stock of subsidiary	—	33,188	73,330
Treasury stock	42,600	93,862	103,315
Common stock	—	607,650	499,272
Retirement of long-term debt	(8,152,378)	(7,619,380)	(6,965,738)
Repurchase / redemptions of preferred stock	—	(50,000)	(53,868)
Changes in credit borrowings and commercial paper - net	(319,238)	4,389	364,031
Other	(7,524)	(7,732)	26,453
Dividends paid:			
Common stock	(748,342)	(711,573)	(647,704)
Preferred stock	(18,502)	(16,438)	(14,185)
Net cash flow provided by financing activities	3,415,817	1,638,362	1,420,442
Net increase (decrease) in cash and cash equivalents	1,333,377	(55,253)	(300,298)
Cash and cash equivalents at beginning of period	425,722	480,975	781,273
Cash and cash equivalents at end of period	\$1,759,099	\$425,722	\$480,975
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$803,923	\$778,209	\$734,845
Income taxes	(\$31,228)	(\$40,435)	\$19,825

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 31,	
	2020	2019
	(In Thousands)	
CURRENT ASSETS		
Cash and cash equivalents:		
Cash	\$128,851	\$34,242
Temporary cash investments	1,630,248	391,480
Total cash and cash equivalents	1,759,099	425,722
Accounts receivable:		
Customer	833,478	595,509
Allowance for doubtful accounts	(117,794)	(7,404)
Other	135,208	219,870
Accrued unbilled revenues	434,835	400,617
Total accounts receivable	1,285,727	1,208,592
Deferred fuel costs	4,380	—
Fuel inventory - at average cost	172,934	145,476
Materials and supplies - at average cost	962,185	824,989
Deferred nuclear refueling outage costs	179,150	157,568
Prepayments and other	196,424	283,645
TOTAL	4,559,899	3,045,992
OTHER PROPERTY AND INVESTMENTS		
Decommissioning trust funds	7,253,215	6,404,030
Non-utility property - at cost (less accumulated depreciation)	343,328	332,864
Other	214,222	496,452
TOTAL	7,810,765	7,233,346
PROPERTY, PLANT, AND EQUIPMENT		
Electric	59,696,443	54,271,467
Natural gas	610,768	547,110
Construction work in progress	2,012,030	2,823,291
Nuclear fuel	601,281	677,181
TOTAL PROPERTY, PLANT, AND EQUIPMENT	62,920,522	58,319,049
Less - accumulated depreciation and amortization	24,067,745	23,136,356
PROPERTY, PLANT, AND EQUIPMENT - NET	38,852,777	35,182,693
DEFERRED DEBITS AND OTHER ASSETS		
Regulatory assets:		
Other regulatory assets (includes securitization property of \$119,238 as of December 31, 2020 and \$239,219 as of December 31, 2019)	6,076,549	5,292,055
Deferred fuel costs	240,422	239,892
Goodwill	377,172	377,172
Accumulated deferred income taxes	76,289	64,461
Other	245,339	288,301
TOTAL	7,015,771	6,261,881
TOTAL ASSETS	\$58,239,212	\$51,723,912

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND EQUITY

	December 31,	
	2020	2019
	(In Thousands)	
CURRENT LIABILITIES		
Currently maturing long-term debt	\$1,164,015	\$795,012
Notes payable and commercial paper	1,627,489	1,946,727
Accounts payable	2,739,437	1,499,861
Customer deposits	401,512	409,171
Taxes accrued	441,011	233,455
Interest accrued	201,791	194,129
Deferred fuel costs	153,113	197,687
Pension and other postretirement liabilities	61,815	66,184
Current portion of unprotected excess accumulated deferred income taxes	63,683	76,457
Other	206,640	201,780
TOTAL	7,060,506	5,620,463
NON-CURRENT LIABILITIES		
Accumulated deferred income taxes and taxes accrued	4,361,772	4,401,190
Accumulated deferred investment tax credits	212,494	207,113
Regulatory liability for income taxes-net	1,521,757	1,633,159
Other regulatory liabilities	2,323,851	1,961,005
Decommissioning and asset retirement cost liabilities	6,469,452	6,159,212
Accumulated provisions	242,835	534,028
Pension and other postretirement liabilities	2,853,013	2,798,265
Long-term debt (includes securitization bonds of \$174,635 as of December 31, 2020 and \$297,981 as of December 31, 2019)	21,205,761	17,078,643
Other	807,219	852,749
TOTAL	39,998,154	35,625,364
Commitments and Contingencies		
Subsidiaries' preferred stock without sinking fund	219,410	219,410
EQUITY		
Common stock, \$0.01 par value, authorized 500,000,000 shares; issued 270,035,180 shares in 2020 and in 2019	2,700	2,700
Paid-in capital	6,549,923	6,564,436
Retained earnings	9,897,182	9,257,609
Accumulated other comprehensive loss	(449,207)	(446,920)
Less - treasury stock, at cost (69,790,346 shares in 2020 and 70,886,400 shares in 2019)	5,074,456	5,154,150
Total common shareholders' equity	10,926,142	10,223,675
Subsidiaries' preferred stock without sinking fund	35,000	35,000
TOTAL	10,961,142	10,258,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 58,239,212	\$ 51,723,912

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020, 2019, and 2018

Common Shareholders' Equity

	Common Shareholders' Equity						Total
	Subsidiaries' Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
	(In Thousands)						
Balance at December 31, 2017	\$ —	\$ 2,548	\$ (5,397,637)	\$ 5,433,433	\$ 7,977,702	\$ (23,531)	\$ 7,992,515
Implementation of accounting standards					576,257	(632,617)	(56,360)
Balance at January 1, 2018	\$—	\$2,548	(\$5,397,637)	\$5,433,433	\$8,553,959	(\$656,148)	\$7,936,155
Consolidated net income (a)	13,894	—	—	—	848,661	—	862,555
Other comprehensive income	—	—	—	—	—	83,470	83,470
Settlement of equity forwards through common stock issuance	—	68	—	499,932	—	—	500,000
Common stock issuance costs	—	—	—	(728)	—	—	(728)
Common stock issuances related to stock plans	—	—	123,918	18,794	—	—	142,712
Common stock dividends declared	—	—	—	—	(647,704)	—	(647,704)
Subsidiaries' capital stock redemptions	—	—	—	—	(1,723)	—	(1,723)
Preferred dividend requirements of subsidiaries (a)	(13,894)	—	—	—	—	—	(13,894)
Reclassification pursuant to ASU 2018-02	—	—	—	—	(32,043)	15,505	(16,538)
Balance at December 31, 2018	<u>—</u>	<u>2,616</u>	<u>(5,273,719)</u>	<u>5,951,431</u>	<u>8,721,150</u>	<u>(557,173)</u>	<u>8,844,305</u>
Implementation of accounting standards	—	—	—	—	6,806	(6,806)	—
Balance at January 1, 2019	—	2,616	(5,273,719)	5,951,431	8,727,956	(563,979)	8,844,305
Consolidated net income (a)	17,018	—	—	—	1,241,226	—	1,258,244
Other comprehensive income	—	—	—	—	—	117,059	117,059
Settlement of equity forwards through common stock issuance	—	84	—	607,566	—	—	607,650
Common stock issuance costs	—	—	—	(7)	—	—	(7)
Common stock issuances related to stock plans	—	—	119,569	5,446	—	—	125,015
Common stock dividends declared	—	—	—	—	(711,573)	—	(711,573)
Subsidiary's preferred stock issuance	35,000	—	—	—	—	—	35,000
Preferred dividend requirements of subsidiaries (a)	(17,018)	—	—	—	—	—	(17,018)
Balance at December 31, 2019	<u>35,000</u>	<u>2,700</u>	<u>(5,154,150)</u>	<u>6,564,436</u>	<u>9,257,609</u>	<u>(446,920)</u>	<u>10,258,675</u>
Implementation of accounting standards	—	—	—	—	(419)	—	(419)
Balance at January 1, 2020	35,000	2,700	(5,154,150)	6,564,436	9,257,190	(446,920)	10,258,256
Consolidated net income (a)	18,319	—	—	—	1,388,334	—	1,406,653
Other comprehensive loss	—	—	—	—	—	(2,287)	(2,287)
Common stock issuances related to stock plans	—	—	79,694	(14,513)	—	—	65,181
Common stock dividends declared	—	—	—	—	(748,342)	—	(748,342)
Preferred dividend requirements of subsidiaries (a)	(18,319)	—	—	—	—	—	(18,319)
Balance at December 31, 2020	<u>\$35,000</u>	<u>\$2,700</u>	<u>(\$5,074,456)</u>	<u>\$6,549,923</u>	<u>\$9,897,182</u>	<u>(\$449,207)</u>	<u>\$10,961,142</u>

See Notes to Financial Statements.

(a) Consolidated net income and preferred dividend requirements of subsidiaries include \$16.5 million for 2020, \$16.5 million for 2019, and \$13.9 million for 2018 of preferred dividends on subsidiaries' preferred stock without sinking fund that is not presented as equity.

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ENTERGY CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its subsidiaries. As required by generally accepted accounting principles in the United States of America, all intercompany transactions have been eliminated in the consolidated financial statements. Entergy's Registrant Subsidiaries (Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy) and many other Entergy subsidiaries also maintain accounts in accordance with FERC and other regulatory guidelines.

Use of Estimates in the Preparation of Financial Statements

In conformity with generally accepted accounting principles in the United States of America, the preparation of Entergy Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. Adjustments to the reported amounts of assets and liabilities may be necessary in the future to the extent that future estimates or actual results are different from the estimates used.

Revenues and Fuel Costs

See Note 19 to the financial statements for a discussion of Entergy's revenues and fuel costs.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Depreciation is computed on the straight-line basis at rates based on the applicable estimated service lives of the various classes of property. For the Registrant Subsidiaries, the original cost of plant retired or removed, less salvage, is charged to accumulated depreciation. Normal maintenance, repairs, and minor replacement costs are charged to operating expenses. Certain combined-cycle gas turbine generating units are maintained under long-term service agreements with third-party service providers. The costs under these agreements are split between operating expenses and capital additions based upon the nature of the work performed. Substantially all of the Registrant Subsidiaries' plant is subject to mortgage liens.

Electric plant includes the portion of Grand Gulf that was sold and leased back in a prior period. For financial reporting purposes, this sale and leaseback arrangement is reported as a financing transaction.

Net property, plant, and equipment for Entergy (including property under lease and associated accumulated amortization) by business segment and functional category, as of December 31, 2020 and 2019, is shown below:

2020	Entergy	Utility	Entergy Wholesale Commodities	Parent & Other
(In Millions)				
Production				
Nuclear	\$7,526	\$7,493	\$33	\$—
Other	6,346	6,270	76	—
Transmission	8,758	8,758	—	—
Distribution	10,805	10,805	—	—
Other	2,804	2,792	5	7
Construction work in progress	2,012	2,008	4	—
Nuclear fuel	601	548	53	—
Property, plant, and equipment - net	<u>\$38,853</u>	<u>\$38,674</u>	<u>\$171</u>	<u>\$7</u>

2019	Entergy	Utility	Entergy Wholesale Commodities	Parent & Other
(In Millions)				
Production				
Nuclear	\$7,439	\$7,369	\$70	\$—
Other	5,253	5,139	114	—
Transmission	7,383	7,383	—	—
Distribution	8,972	8,972	—	—
Other	2,636	2,620	8	8
Construction work in progress	2,823	2,814	9	—
Nuclear fuel	677	614	63	—
Property, plant, and equipment - net	<u>\$35,183</u>	<u>\$34,911</u>	<u>\$264</u>	<u>\$8</u>

Depreciation rates on average depreciable property for Entergy approximated 2.8% in 2020, 2.8% in 2019, and 2.8% in 2018. Included in these rates are the depreciation rates on average depreciable Utility property of 2.7% in 2020, 2.6% in 2019, and 2.6% in 2018, and the depreciation rates on average depreciable Entergy Wholesale Commodities property of 12.7% in 2020, 18.3% in 2019, and 18.6% in 2018. The depreciation rates for Entergy Wholesale Commodities reflect the significantly reduced remaining estimated operating lives associated with management's strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet. The decrease in the depreciation rate in 2020 for Entergy Wholesale Commodities is due to the shutdown of Indian Point 2 in April 2020.

Entergy amortizes nuclear fuel using a units-of-production method. Nuclear fuel amortization is included in fuel expense in the income statements. Because the values of their long-lived assets are impaired, and their remaining estimated operating lives significantly reduced, the Entergy Wholesale Commodities nuclear plants, except for Palisades, charge nuclear fuel costs directly to expense when incurred because their undiscounted cash flows are insufficient to recover the carrying amount of these capital additions.

Non-utility property - at cost (less accumulated depreciation) for Entergy is reported net of accumulated depreciation of \$191 million as of December 31, 2020 and \$184 million as of December 31, 2019.

Construction expenditures included in accounts payable is \$745 million as of December 31, 2020 and \$406 million as of December 31, 2019.

Jointly-Owned Generating Stations

Certain Entergy subsidiaries jointly own electric generating facilities with affiliates or third parties. All parties are required to provide their own financing. The investments, fuel expenses, and other operation and maintenance expenses associated with these generating stations are recorded by the Entergy subsidiaries to the extent of their respective undivided ownership interests. As of December 31, 2020, the subsidiaries' investment and accumulated depreciation in each of these generating stations were as follows:

Generating Stations		Fuel Type	Total Megawatt Capability (a)	Ownership	Investment	Accumulated Depreciation
(In Millions)						
Utility business:						
Entergy Arkansas -						
Independence	Unit 1	Coal	822	31.50%	\$142	\$105
Independence	Common Facilities	Coal		15.75%	\$43	\$30
White Bluff	Units 1 and 2	Coal	1,640	57.00%	\$585	\$383
Ouachita (b)	Common Facilities	Gas		66.67%	\$173	\$154
Union (c)	Common Facilities	Gas		25.00 %	\$29	\$7
Entergy Louisiana -						
Roy S. Nelson	Unit 6	Coal	524	40.25%	\$291	\$209
Roy S. Nelson	Unit 6 Common Facilities	Coal		20.98%	\$21	\$9
Big Cajun 2	Unit 3	Coal	558	24.15%	\$151	\$128
Big Cajun 2	Unit 3 Common Facilities	Coal		8.05%	\$5	\$3
Ouachita (b)	Common Facilities	Gas		33.33%	\$90	\$77
Acadia	Common Facilities	Gas		50.00%	\$21	\$1
Union (c)	Common Facilities	Gas		50.00 %	\$59	\$8
Entergy Mississippi -						
Independence	Units 1 and 2 and Common Facilities	Coal	1,664	25.00%	\$284	\$173
Entergy New Orleans -						
Union (c)	Common Facilities	Gas		25.00 %	\$29	\$7
Entergy Texas -						
Roy S. Nelson	Unit 6	Coal	524	29.75%	\$206	\$119
Roy S. Nelson	Unit 6 Common Facilities	Coal		15.52%	\$7	\$3
Big Cajun 2	Unit 3	Coal	558	17.85%	\$113	\$82
Big Cajun 2	Unit 3 Common Facilities	Coal		5.95%	\$4	\$1
System Energy -						
Grand Gulf (d)	Unit 1	Nuclear	1,396	90.00 %	\$5,310	\$3,280
Entergy Wholesale Commodities:						
Independence	Unit 2	Coal	842	14.37%	\$74	\$55
Independence	Common Facilities	Coal		7.18%	\$20	\$14
Roy S. Nelson	Unit 6	Coal	524	10.90%	\$117	\$67
Roy S. Nelson	Unit 6 Common Facilities	Coal		5.68%	\$3	\$1

- (a) “Total Megawatt Capability” is the dependable load carrying capability as demonstrated under actual operating conditions based on the primary fuel (assuming no curtailments) that each station was designed to utilize.

- (b) Ouachita Units 1 and 2 are owned 100% by Entergy Arkansas and Ouachita Unit 3 is owned 100% by Entergy Louisiana. The investment and accumulated depreciation numbers above are only for the common facilities and not for the generating units.
- (c) Union Unit 1 is owned 100% by Entergy New Orleans, Union Unit 2 is owned 100% by Entergy Arkansas, Union Units 3 and 4 are owned 100% by Entergy Louisiana. The investment and accumulated depreciation numbers above are only for the specified common facilities and not for the generating units.
- (d) Includes a leasehold interest held by System Energy. System Energy's Grand Gulf lease obligations are discussed in Note 5 to the financial statements.

Nuclear Refueling Outage Costs

Nuclear refueling outage costs are deferred during the outage and amortized over the estimated period to the next outage because these refueling outage expenses are incurred to prepare the units to operate for the next operating cycle without having to be taken off line. Because the value of their long-lived assets are impaired, and their remaining estimated operating lives significantly reduced, the Entergy Wholesale Commodities nuclear plants, except for Palisades, charge nuclear refueling outage costs directly to expense when incurred because their undiscounted cash flows are insufficient to recover the carrying amount of these costs.

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction by the Registrant Subsidiaries. AFUDC increases both the plant balance and earnings and is realized in cash through depreciation provisions included in the rates charged to customers.

Income Taxes

Entergy Corporation and the majority of its subsidiaries file a United States consolidated federal income tax return. In September 2019, Entergy Utility Holding Company, LLC and its regulated wholly-owned subsidiaries including Entergy Arkansas, LLC, Entergy Louisiana, LLC, Entergy Mississippi, LLC, and Entergy New Orleans, LLC became eligible to join and joined the Entergy Corporation consolidated federal income tax group. These changes do not affect the accrual or allocation of income taxes for the Registrant Subsidiaries. Each tax-paying entity records income taxes as if it were a separate taxpayer and consolidating adjustments are allocated to the tax filing entities in accordance with Entergy's intercompany income tax allocation agreements. Deferred income taxes are recorded for temporary differences between the book and tax basis of assets and liabilities, and for certain losses and credits available for carryforward.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates in the period in which the tax or rate was enacted. See the "**Other Tax Matters - Tax Cuts and Jobs Act**" section in Note 3 to the financial statements for discussion of the effects of the enactment of the Tax Cuts and Jobs Act in December 2017.

The benefits of investment tax credits are deferred and amortized over the average useful life of the related property, as a reduction of income tax expense, for such credits associated with rate-regulated operations in accordance with ratemaking treatment.

Earnings (Loss) per Share

The following table presents Entergy's basic and diluted earnings per share calculation included on the consolidated statements of operations:

	For the Years Ended December 31,					
	2020		2019		2018	
	(In Millions, Except Per Share Data)					
	\$/share		\$/share		\$/share	
Net income attributable to Entergy Corporation	\$1,388.3		\$1,241.2		\$848.7	
Basic shares and earnings per average common share	200.1	\$6.94	195.2	\$6.36	181.4	\$4.68
Average dilutive effect of:						
Stock options	0.5	(0.02)	0.6	(0.02)	0.3	(0.01)
Other equity plans	0.5	(0.02)	0.8	(0.03)	0.7	(0.02)
Equity forwards	—	—	0.4	(0.01)	1.0	(0.02)
Diluted shares and earnings per average common shares	201.1	\$6.90	197.0	\$6.30	183.4	\$4.63

The calculation of diluted earnings per share excluded 523,999 options outstanding at December 31, 2020, 173,290 options outstanding at December 31, 2019, and 956,550 options outstanding at December 31, 2018 because they were antidilutive.

Stock-based Compensation Plans

Entergy grants stock options, restricted stock, performance units, and restricted stock unit awards to key employees of the Entergy subsidiaries under its Equity Ownership Plans, which are shareholder-approved stock-based compensation plans. These plans are described more fully in Note 12 to the financial statements. The cost of the stock-based compensation is charged to income over the vesting period. Awards under Entergy's plans generally vest over three years. Entergy accounts for forfeitures of stock-based compensation when they occur. Entergy recognizes all income tax effects related to share-based payments through the income statement.

Accounting for the Effects of Regulation

Entergy's Utility operating companies and System Energy are rate-regulated enterprises whose rates meet three criteria specified in accounting standards. The Utility operating companies and System Energy have rates that (i) are approved by a body (its regulator) empowered to set rates that bind customers; (ii) are cost-based; and (iii) can be charged to and collected from customers. These criteria may also be applied to separable portions of a utility's business, such as the generation or transmission functions, or to specific classes of customers. Because the Utility operating companies and System Energy meet these criteria, each of them capitalizes costs that would otherwise be charged to expense if the rate actions of its regulator make it probable that those costs will be recovered in future revenue. Such capitalized costs are reflected as regulatory assets in the accompanying financial statements. When an enterprise concludes that recovery of a regulatory asset is no longer probable, the regulatory asset must be removed from the entity's balance sheet.

An enterprise that ceases to meet the three criteria for all or part of its operations should report that event in its financial statements. In general, the enterprise no longer meeting the criteria should eliminate from its balance sheet all regulatory assets and liabilities related to the applicable operations. Additionally, if it is determined that a regulated enterprise is no longer recovering all of its costs, it is possible that an impairment may exist that could require further write-offs of plant assets.

Entergy Louisiana does not apply regulatory accounting standards to the Louisiana retail deregulated portion of River Bend, the 30% interest in River Bend formerly owned by Cajun, or its steam business, unless specific cost recovery is provided for in tariff rates. The Louisiana retail deregulated portion of River Bend is operated under a deregulated asset plan representing a portion (approximately 15%) of River Bend plant costs, generation, revenues, and expenses established under a 1992 LPSC order. The plan allows Entergy Louisiana to sell the electricity from the deregulated assets to Louisiana retail customers at 4.6 cents per kWh or off-system at higher prices, with certain provisions for sharing incremental revenue above 4.6 cents per kWh between customers and shareholders.

Regulatory Asset or Liability for Income Taxes

Accounting standards for income taxes provide that a regulatory asset or liability be recorded if it is probable that the currently determinable future increase or decrease in regulatory income tax expense will be recovered from or returned to customers through future rates. There are two main sources of Entergy's regulatory asset or liability for income taxes. There is a regulatory asset related to the ratemaking treatment of the tax effects of book depreciation for the equity component of AFUDC that has been capitalized to property, plant, and equipment but for which there is no corresponding tax basis. Equity-AFUDC is a component of property, plant, and equipment that is included in rate base when the plant is placed in service. There is a regulatory liability related to the adjustment of Entergy's net deferred income taxes that was required by the enactment in December 2017 of a change in the federal corporate income tax rate, which is discussed in Note 2 and 3 to the financial statements.

Cash and Cash Equivalents

Entergy considers all unrestricted highly liquid debt instruments with an original maturity of three months or less at date of purchase to be cash equivalents.

Securitization Recovery Trust Accounts

The funds that Entergy Arkansas, Entergy Louisiana, Entergy New Orleans, and Entergy Texas hold in their securitization recovery trust accounts are not classified as cash and cash equivalents or restricted cash and cash equivalents because of their nature, uses, and restrictions. These funds are classified as part of other current assets and other investments, depending on the timeframe within which the Registrant Subsidiary expects to use the funds.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects Entergy's best estimate of losses on the accounts receivable balances. The allowance is calculated as the historical rate of customer write-offs multiplied by the current accounts receivable balance, taking into account the length of time the receivable balances have been outstanding. Although the rate of customer write-offs has historically experienced minimal variation, management monitors the current condition of individual customer accounts to manage collections and ensure bad debt expense is recorded in a timely manner. Utility operating company customer accounts receivable are written off consistent with approved regulatory requirements. See Note 19 to the financial statements for further details on the allowance for doubtful accounts.

Investments

Entergy records decommissioning trust funds on the balance sheet at their fair value. Unrealized gains and losses on investments in equity securities held by the nuclear decommissioning trust funds are recorded in earnings as they occur rather than in other comprehensive income. Because of the ability of the Registrant Subsidiaries to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, the Registrant Subsidiaries have recorded an offsetting amount of unrealized gains/(losses) on investment securities in other regulatory liabilities/assets. For the 30% interest in River Bend formerly owned by Cajun,

Entergy Louisiana records an offsetting amount in other deferred credits for the unrealized trust earnings not currently expected to be needed to decommission the plant. Decommissioning trust funds for the Entergy Wholesale Commodities nuclear plants do not meet the criteria for regulatory accounting treatment. Accordingly, unrealized gains/(losses) recorded on the equity securities in the trust funds are recognized in earnings. Unrealized gains recorded on the available-for-sale debt securities in the trust funds are recognized in the accumulated other comprehensive income component of shareholders' equity. Unrealized losses (where cost exceeds fair market value) on the available-for-sale debt securities in the trust funds are also recorded in the accumulated other comprehensive income component of shareholders' equity unless the unrealized loss is other than temporary and therefore recorded in earnings. A portion of Entergy's decommissioning trust funds were held in a wholly-owned registered investment company, and unrealized gains and losses on both the equity and debt securities held in the registered investment company were recognized in earnings. In December 2020, Entergy liquidated its interest in the registered investment company. The assessment of whether an investment in an available-for-sale debt security has suffered an other-than-temporary impairment is based on whether Entergy has the intent to sell or more likely than not will be required to sell the debt security before recovery of its amortized costs. Further, if Entergy does not expect to recover the entire amortized cost basis of the debt security, an other-than-temporary impairment is considered to have occurred and it is measured by the present value of cash flows expected to be collected less the amortized cost basis (credit loss). Effective January 1, 2020, with the adoption of ASU 2016-13, Entergy estimates the expected credit losses for its available for sale securities based on the current credit rating and remaining life of the securities. To the extent an expected credit loss is realized, the individual security comprising the loss is written off against this allowance. Entergy's trusts are managed by third parties who operate in accordance with agreements that define investment guidelines and place restrictions on the purchases and sales of investments. See Note 16 to the financial statements for details on the decommissioning trust funds.

Equity Method Investments

Entergy owns investments that are accounted for under the equity method of accounting because Entergy's ownership level results in significant influence, but not control, over the investee and its operations. Entergy records its share of the investee's comprehensive earnings and losses in income and as an increase or decrease to the investment account. Any cash distributions are charged against the investment account. Entergy discontinues the recognition of losses on equity investments when its share of losses equals or exceeds its carrying amount for an investee plus any advances made or commitments to provide additional financial support.

Derivative Financial Instruments and Commodity Derivatives

The accounting standards for derivative instruments and hedging activities require that all derivatives be recognized at fair value on the balance sheet, either as assets or liabilities, unless they meet various exceptions including the normal purchase/normal sale criteria. The changes in the fair value of recognized derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. Due to regulatory treatment, an offsetting regulatory asset or liability is recorded for changes in fair value of recognized derivatives for the Registrant Subsidiaries.

Contracts for commodities that will be physically delivered in quantities expected to be used or sold in the ordinary course of business, including certain purchases and sales of power and fuel, meet the normal purchase, normal sales criteria and are not recognized on the balance sheet. Revenues and expenses from these contracts are reported on a gross basis in the appropriate revenue and expense categories as the commodities are received or delivered.

For other contracts for commodities in which Entergy is hedging the variability of cash flows related to a variable-rate asset, liability, or forecasted transactions that qualify as cash flow hedges, the changes in the fair value of such derivative instruments are reported in other comprehensive income. To qualify for hedge accounting, the relationship between the hedging instrument and the hedged item must be documented to include the risk

management objective and strategy and, at inception and on an ongoing basis, the effectiveness of the hedge in offsetting the changes in the cash flows of the item being hedged. Gains or losses accumulated in other comprehensive income are reclassified to earnings in the periods when the underlying transactions actually occur. Prior to 2019, the ineffective portions of all hedges are recognized in current-period earnings. Effective January 1, 2019 with the adoption of ASU 2017-12 there will no longer be separate recognition of the ineffective portion of highly effective hedges. Changes in the fair value of derivative instruments that are not designated as cash flow hedges are recorded in current-period earnings on a mark-to-market basis.

Entergy has determined that contracts to purchase uranium do not meet the definition of a derivative under the accounting standards for derivative instruments because they do not provide for net settlement and the uranium markets are not sufficiently liquid to conclude that forward contracts are readily convertible to cash. If the uranium markets do become sufficiently liquid in the future and Entergy begins to account for uranium purchase contracts as derivative instruments, the fair value of these contracts would be accounted for consistent with Entergy's other derivative instruments. See Note 15 to the financial statements for further details on Entergy's derivative instruments and hedging activities.

Fair Values

The estimated fair values of Entergy's financial instruments and derivatives are determined using historical prices, bid prices, market quotes, and financial modeling. Considerable judgment is required in developing the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. Gains or losses realized on financial instruments other than those instruments held by the Entergy Wholesale Commodities business are reflected in future rates and therefore do not affect net income. Entergy considers the carrying amounts of most financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. See Note 15 to the financial statements for further discussion of fair value.

Impairment of Long-lived Assets

Entergy periodically reviews long-lived assets held in all of its business segments whenever events or changes in circumstances indicate that recoverability of these assets is uncertain. Generally, the determination of recoverability is based on the undiscounted net cash flows expected to result from such operations and assets. Projected net cash flows depend on the expected operating life of the assets, the future operating costs associated with the assets, the efficiency and availability of the assets and generating units, and the future market and price for energy and capacity over the remaining life of the assets. Because the values of the long-lived assets are impaired, and the remaining estimated operating lives significantly reduced, the Entergy Wholesale Commodities nuclear plants, except for Palisades, are charging additional expenditures for capital assets directly to expense when incurred. See Note 14 to the financial statements for further discussions of the impairments of the Entergy Wholesale Commodities nuclear plants.

River Bend AFUDC

The River Bend AFUDC gross-up is a regulatory asset that represents the incremental difference imputed by the LPSC between the AFUDC actually recorded by Entergy Louisiana on a net-of-tax basis during the construction of River Bend and what the AFUDC would have been on a pre-tax basis. The imputed amount was only calculated on that portion of River Bend that the LPSC allowed in rate base and is being amortized through August 2025.

Reacquired Debt

The premiums and costs associated with reacquired debt of Entergy's Utility operating companies and System Energy (except that portion allocable to the deregulated operations of Entergy Louisiana) are included in

regulatory assets and are being amortized over the life of the related new issuances, or over the life of the original debt issuance if the debt is not refinanced, in accordance with ratemaking treatment.

Taxes Imposed on Revenue-Producing Transactions

Governmental authorities assess taxes that are both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, including, but not limited to, sales, use, value added, and some excise taxes. Entergy presents these taxes on a net basis, excluding them from revenues, unless required to report them differently by a regulatory authority.

New Accounting Pronouncements

In December 2019 the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” The ASU removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation, and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including allocating taxes to members of a consolidated group. Entergy adopted ASU 2019-12 in the first quarter 2021 on a prospective basis. Entergy does not expect that the adoption of ASU 2019-12 will materially affect its results of operations, financial position, or cash flows.

NOTE 2. RATE AND REGULATORY MATTERS

Regulatory Assets and Regulatory Liabilities

Regulatory assets represent probable future revenues associated with costs that Entergy expects to recover from customers through the regulatory ratemaking process under which the Utility business operates. Regulatory liabilities represent probable future reductions in revenues associated with amounts that Entergy expects to benefit customers through the regulatory ratemaking process under which the Utility business operates. In addition to the regulatory assets and liabilities that are specifically disclosed on the face of the balance sheets, the tables below provide detail of “Other regulatory assets” and “Other regulatory liabilities” that are included on Entergy’s balance sheet as of December 31, 2020 and 2019:

Other Regulatory Assets

Entergy

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Pension & postretirement costs (Note 11 - Qualified Pension Plans, Other Postretirement Benefits, and Non-Qualified Pension Plans) (a)	\$3,027.5	\$2,942.4
Asset retirement obligation - recovery dependent upon timing of decommissioning of nuclear units or dismantlement of non-nuclear power plants (Note 9) (a)	1,018.9	920.4
Removal costs (Note 9)	893.8	421.0
Storm damage costs, including hurricane costs - recovered through securitization and retail rates (Note 2 - Hurricane Laura, Hurricane Delta, and Hurricane Zeta and Storm Cost Recovery Filings with Retail Regulators and Note 5 - Securitization Bonds)	379.2	372.8
Retired electric and gas meters - recovered through retail rates as determined by retail regulators	192.1	205.6
Opportunity Sales - recovery will be determined after final order in proceeding (Note 2 - Entergy Arkansas Opportunity Sales Proceeding) (b)	131.8	116.3
Deferred COVID-19 costs recovery period to be determined (Note 2 - Retail Rate Proceedings) (b)	105.7	—
Unamortized loss on reacquired debt - recovered over term of debt	79.2	66.6
Retail rate deferrals - recovered through rate riders as rates are redetermined by retail regulators	66.0	15.7
Attorney General litigation costs - recovered over a six-year period through March 2026 (b)	25.3	29.5
New nuclear generation development costs - recovery through formula rate plan December 2014 through November 2022 (b)	14.2	21.6
Little Gypsy costs – recovered through securitization (Note 5 - Entergy Louisiana Securitization Bonds - Little Gypsy)	7.5	29.9
Other	135.3	150.3
Entergy Total	<u>\$6,076.5</u>	<u>\$5,292.1</u>

(a) Does not earn a return on investment, but is offset by related liabilities.

(b) Does not earn a return on investment.

Hurricane Laura, Hurricane Delta, and Hurricane Zeta

In August and October 2020, Hurricane Laura, Hurricane Delta, and Hurricane Zeta caused significant damage to portions of the Utility's service territories in Louisiana, including New Orleans, Texas, and, to a lesser extent, in Arkansas and Mississippi. The storms resulted in widespread power outages, significant damage to distribution and transmission infrastructure, and the loss of sales during the outages. Additionally, as a result of Hurricane Laura's extensive damage to the grid infrastructure serving the impacted area, large portions of the underlying transmission system required nearly a complete rebuild. Total restoration costs for the repair and/or replacement of the electrical system damaged by Hurricane Laura, Hurricane Delta, and Hurricane Zeta are currently estimated to be approximately \$2.4 billion, including \$2.0 billion at Entergy Louisiana, \$300 million at Entergy Texas, and \$40 million at Entergy New Orleans. The estimate includes approximately \$1.98 billion in capital costs, including \$1.67 billion at Entergy Louisiana, \$245 million at Entergy Texas, and \$30 million at Entergy New Orleans and approximately \$420 million in non-capital costs, including \$330 million at Entergy Louisiana, \$55 million at Entergy Texas, and \$10 million at Entergy New Orleans. This estimate includes all costs to restore power and repair or replace the damages from the hurricanes, except for the cost to repair or replace damage incurred to an Entergy Louisiana transmission line in southeast Louisiana, and the amount of that cost could be significant. The restoration plan for this transmission line and the related cost estimate is still being evaluated.

Entergy recorded accounts payable and corresponding construction work in progress and regulatory assets for the estimated costs incurred that were necessary to return customers to service. Entergy recorded the regulatory assets in accordance with its accounting policies and based on the historic treatment of such costs in its service area because management believes that recovery through some form of regulatory mechanism is probable. There are well-established mechanisms and precedent for addressing these catastrophic events and providing for recovery of prudently incurred storm costs in accordance with applicable regulatory and legal principles. Because Entergy has not gone through the regulatory process regarding these storm costs, there is an element of risk, and Entergy is unable to predict with certainty the degree of success it may have in its recovery initiatives, the amount of restoration costs that it may ultimately recover, or the timing of such recovery.

The Utility operating companies are considering all available avenues to recover storm-related costs from Hurricane Laura, Hurricane Delta, and Hurricane Zeta including accessing funded storm reserve escrows and securitization. In November 2020, Entergy Louisiana drew \$257 million from its funded storm reserves. Each Utility operating company is responsible for its restoration cost obligations and for recovering or financing its storm-related costs. Storm cost recovery or financing will be subject to review by applicable regulatory authorities.

In October 2020, Entergy Louisiana filed an application at the LPSC seeking approval of certain ratemaking adjustments to facilitate issuance of shorter-term bonds to provide interim financing for restoration costs associated with Hurricane Laura, Hurricane Delta, and Hurricane Zeta. Subsequently, Entergy Louisiana and the LPSC staff filed a joint motion seeking approval to exclude from the derivation of Entergy Louisiana's capital structure and cost rate of debt for ratemaking purposes, including the allowance for funds used during construction, shorter-term debt up to \$1.1 billion issued by Entergy Louisiana to fund costs associated with Hurricane Laura, Hurricane Delta, and Hurricane Zeta costs on an interim basis. In November 2020 the LPSC issued an order approving the joint motion, and Entergy Louisiana issued \$1.1 billion of 0.62% Series mortgage bonds due November 2023.

In December 2020, Entergy Louisiana provided the LPSC with notification that it intends to initiate a storm cost recovery proceeding in the near future, which will permit the LPSC to retain any outside consultants and counsel needed to review the storm cost recovery application. In February 2021 the LPSC voted to retain outside counsel and consultants to assist in the review of Entergy Louisiana's upcoming storm cost recovery application, which is expected to be filed in March 2021.

Other Regulatory Liabilities

Entergy

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Unrealized gains on nuclear decommissioning trust funds (Note 16) (a)	\$1,694.1	\$1,300.1
Louisiana Act 55 financing savings obligation (Note 3) (b)	144.3	97.1
Vidalia purchased power agreement (Note 8) (b)	115.7	127.3
Retail rate rider over-recovery - refunded through rate riders as rates are redetermined annually	75.1	62.3
Grand Gulf sale-leaseback - (Note 5 - Grand Gulf Sale-Leaseback Transactions)	55.6	55.6
Entergy Arkansas's accumulated accelerated Grand Gulf amortization - will be returned to customers when approved by the APSC and the FERC	44.4	44.4
Future formula rate plan revenue reductions (Note 2 - Retail Rate Proceedings)	43.5	51.1
Asset retirement obligation - return to customers dependent upon timing of decommissioning (Note 9) (a)	29.7	37.2
Internal restructuring guaranteed tax credits (Note 2 - Internal Restructuring)	26.4	33.0
Business combination guaranteed customer benefits - returned to customers through retail rates and fuel rates December 2015 through November 2024	21.5	35.7
Advanced metering system (AMS) surcharge - return to customers dependent upon AMS spend	20.1	25.3
Excess decommissioning recovery for Willow Glen - (Note 14 - Dispositions)	—	21.2
Entergy Mississippi's accumulated accelerated Grand Gulf amortization - amortized and credited through the Unit Power Sales Agreement	10.7	17.8
Income tax rate change - returned to electric and gas customers through retail rates (Note 2 - Retail Rate Proceedings)	7.3	13.9
Other	35.5	39.0
Entergy Total	<u>\$2,323.9</u>	<u>\$1,961.0</u>

- (a) Offset by related asset.
- (b) As a result of the enactment of the Tax Cuts and Jobs Act, in December 2017, and the lowering of the federal corporate income tax rate from 35% to 21% effective January 2018, the Vidalia purchased power agreement regulatory liability was reduced by \$30.5 million and the Louisiana Act 55 financing savings obligation regulatory liabilities were reduced by \$25 million, with corresponding increases to Other regulatory credits on the income statement. The effects of the Tax Cuts and Jobs Act are discussed further in Note 3 to the financial statements.

Regulatory activity regarding the Tax Cuts and Jobs Act

See the "**Other Tax Matters - Tax Cuts and Jobs Act**" section in Note 3 to the financial statements for discussion of the effects of the December 2017 enactment of the Tax Cuts and Jobs Act, including its effects on Entergy's and the Registrant Subsidiaries' regulatory asset/liability for income taxes.

Entergy Arkansas

Consistent with its previously stated intent to return unprotected excess accumulated deferred income taxes to customers as expeditiously as possible, Entergy Arkansas initiated a tariff proceeding in February 2018 proposing to establish a tax adjustment rider to provide retail customers with certain tax benefits of \$467 million associated

with the Tax Act. For the residential customer class, unprotected excess accumulated deferred income taxes were returned to customers over a 21-month period from April 2018 through December 2019. For all other customer classes, unprotected excess accumulated deferred income taxes were returned to customers over a nine-month period from April 2018 through December 2018. A true-up provision also was included in the rider, with any over- or under-returned unprotected excess accumulated deferred income taxes credited or billed to customers during the billing month of January 2020, with any residual amounts of over- or under-returned unprotected excess accumulated deferred income taxes to be flowed through Entergy Arkansas's energy cost recovery rider. In March 2018 the APSC approved the tax adjustment rider effective with the first billing cycle of April 2018.

As discussed below, in July 2018, Entergy Arkansas made its formula rate plan filing to set its formula rate for the 2019 calendar year. A hearing was held in May 2018 regarding the APSC's inquiries into the effects of the Tax Act, including Entergy Arkansas's proposal to utilize its formula rate plan rider for its customers to realize the remaining benefits of the Tax Act. Entergy Arkansas's formula rate plan rider included a netting adjustment that compared actual annual results to the allowed rate of return on common equity. In July 2018 the APSC issued an order agreeing with Entergy Arkansas's proposal to have the effects of the Tax Act on current income tax expense flow through Entergy Arkansas's formula rate plan rider and with Entergy Arkansas's treatment of protected and unprotected excess accumulated deferred income taxes. The APSC also directed Entergy Arkansas to submit in the tax adjustment rider proceeding, discussed above, the adjustments to all other riders affected by the Tax Act and to include an amendment for a true up mechanism where a rider affected by the Tax Act does not already contain a true-up mechanism. Pursuant to a 2018 settlement agreement in Entergy Arkansas's formula rate plan proceeding, Entergy Arkansas also removed the net operating loss accumulated deferred income tax asset caused by the Tax Act from Entergy Arkansas's tax adjustment rider. Entergy Arkansas's compliance tariff filings were accepted by the APSC in October 2018. In February 2021, pursuant to its 2020 formula rate plan evaluation report settlement, Entergy Arkansas flowed \$5.6 million in credits to customers through the tax adjustment rider based on the outcome of certain federal tax positions and a decrease in the state tax rate; the tax adjustment rider will be closed after the credits are issued.

Entergy Louisiana

In an electric formula rate plan settlement approved by the LPSC in April 2018 the parties agreed that Entergy Louisiana would return to customers one-half of its eligible unprotected excess deferred income taxes from May 2018 through December 2018 and return to customers the other half from January 2019 through August 2022. In addition, the settlement provided that in order to flow back to customers certain other tax benefits created by the Tax Act, Entergy Louisiana established a regulatory liability effective January 1, 2018 in the amount of \$9.1 million per month to reflect these tax benefits already included in retail rates until new base rates under the formula rate plan were established in September 2018, and this regulatory liability was returned to customers over the September 2018 through August 2019 formula rate plan rate-effective period. The LPSC staff and intervenors in the settlement reserved the right to obtain data from Entergy Louisiana to confirm the determination of excess accumulated deferred income taxes resulting from the Tax Act and the analysis thereof as part of the formula rate plan review proceeding for the 2017 test year filing which, as discussed below, Entergy Louisiana filed in June 2018.

Entergy Mississippi

Entergy Mississippi filed its 2018 formula rate plan in March 2018 and included a proposal to return all of its unprotected excess accumulated deferred income taxes to customers through rates or in exchange for other assets, or a combination of both, by the end of 2018. In June 2018 the MPSC approved a stipulation filed by Entergy Mississippi and the Mississippi Public Utilities Staff in Entergy Mississippi's formula rate plan filing that addressed Entergy Mississippi's 2018 formula rate plan evaluation report and the ratemaking effects of the Tax Act. The stipulation provided for incorporating the reduction of the statutory federal income tax rate through Entergy Mississippi's formula rate plan. The stipulation approved in June 2018 provided for the flow-back of protected excess accumulated deferred income taxes over the remaining lives of the assets through the formula rate plan. The stipulation also provided for the offset of unprotected excess accumulated deferred income taxes of \$127.2 million

against net utility plant and \$2.2 million against other regulatory assets, and the return to customers of the remaining balance of unprotected excess accumulated deferred income taxes as recovery of a portion of fuel oil inventory and customer bill credits over a three-month period from July 2018 through September 2018, with an insignificant true-up reflected in the November 2018 power management rider filing. Entergy Mississippi recorded the reduction against net utility plant and other regulatory assets in June 2018. In third quarter 2018, Entergy Mississippi returned unprotected excess accumulated deferred income taxes of \$25.8 million through customer bill credits and \$5.8 million through the sale of fuel oil inventory.

Entergy New Orleans

After enactment of the Tax Act the City Council passed a resolution ordering Entergy New Orleans to, effective January 1, 2018, record deferred regulatory liabilities to account for the Tax Act's effect on Entergy New Orleans's revenue requirement and to make a filing by mid-March 2018 regarding the Tax Act's effects on Entergy New Orleans's operating income and rate base and potential mechanisms for customers to receive benefits of the Tax Act. The City Council's resolution also directed Entergy New Orleans to request that Entergy Services file with the FERC for revisions of the Unit Power Sales Agreement and MSS-4 replacement tariffs to address the return of excess accumulated deferred income taxes. Entergy submitted filings of this type to the FERC.

In March 2018, Entergy New Orleans filed its response to the resolution stating that the Tax Act reduced income tax expense from what was then reflected in rates by approximately \$8.2 million annually for electric operations and by approximately \$1.3 million annually for gas operations. In the filing, Entergy New Orleans proposed to return to customers from June 2018 through August 2019 the benefits of the reduction in income tax expense and its unprotected excess accumulated deferred income taxes through a combination of bill credits and investments in energy efficiency programs, grid modernization, and Smart City projects. Entergy New Orleans submitted supplemental information in April 2018 and May 2018. Shortly thereafter, Entergy New Orleans and the City Council's advisors reached an agreement in principle that provides for benefits that will be realized by Entergy New Orleans customers through bill credits that started in July 2018 and offsets to future investments in energy efficiency programs, grid modernization, and Smart City projects, as well as additional benefits related to the filings made at the FERC. The agreement in principle was approved by the City Council in June 2018.

Entergy Texas

After enactment of the Tax Act the PUCT issued an order requiring most utilities, including Entergy Texas, beginning January 25, 2018, to record a regulatory liability for the difference between revenues collected under existing rates and revenues that would have been collected had existing rates been set using the new federal income tax rates and also for the balance of excess accumulated deferred income taxes. Entergy Texas had previously provided information to the PUCT staff and stated that it expected the PUCT to address the lower tax expense as part of Entergy Texas's rate case expected to be filed in May 2018.

In May 2018, Entergy Texas filed its 2018 base rate case with the PUCT. Entergy Texas's proposed rates and revenues reflected the inclusion of the federal income tax reductions due to the Tax Act. The PUCT issued an order in December 2018 establishing that 1) \$25 million be credited to customers through a rider to reflect the lower federal income tax rate applicable to Entergy Texas from January 2018 through the date new rates were implemented, 2) \$242.5 million of protected excess accumulated deferred income taxes be returned to customers through base rates under the average rate assumption method over the lives of the associated assets, and 3) \$185.2 million of unprotected excess accumulated deferred income taxes be returned to customers through a rider. The unprotected excess accumulated deferred income taxes rider includes carrying charges and is in effect over a period of 12 months for larger customers and over a period of four years for other customers.

System Energy

In a filing made with the FERC in March 2018, System Energy proposed revisions to the Unit Power Sales Agreement to reflect the effects of the Tax Act. In the filing System Energy proposed to return identified quantities of unprotected excess accumulated deferred income taxes to its customers by the end of 2018. In May 2018 the FERC accepted System Energy's proposed tax revisions with an effective date of June 1, 2018, subject to refund and the outcome of settlement and hearing procedures. Settlement discussions were terminated in April 2019, and a hearing was held in March 2020. The retail regulators of the Utility operating companies that are parties to the Unit Power Sales Agreement challenged the treatment and amount of excess accumulated deferred income tax liabilities associated with uncertain tax positions related to nuclear decommissioning. In July 2020 the presiding ALJ in the proceeding issued an initial decision finding that there is an additional \$147 million in unprotected excess accumulated deferred income taxes related to System Energy's uncertain decommissioning tax deduction. The initial decision determined that System Energy should have included the \$147 million in its March 2018 filing. System Energy had not included credits related to the effect of the Tax Act on the uncertain decommissioning tax position because it was uncertain whether the IRS would allow the deduction. The initial decision rejected both System Energy's alternative argument that any crediting should occur over a ten-year period and the retail regulators' argument that any crediting should occur over a two-year period. Instead, the initial decision concluded that System Energy should credit the additional unprotected excess accumulated deferred income taxes in a single lump sum revenue requirement reduction following a FERC order addressing the initial decision.

The ALJ initial decision is an interim step in the FERC litigation process. In September 2020, System Energy filed a brief on exceptions with the FERC, re-urging its positions and requesting the reversal of the ALJ's initial decision. In December 2020, the LPSC, APSC, MPSC, City Council, and FERC trial staff filed briefs opposing exceptions. The FERC will review the case and issue an order in the proceeding, and the FERC may accept, reject, or modify the ALJ's initial decision in whole or in part. Credits, if any, that might be required will only become due after the FERC issues its order reviewing the initial decision.

As discussed below in "**Grand Gulf Sale-leaseback Renewal Complaint and Uncertain Tax Position Rate Base Issue**," in September 2020 the IRS issued a Notice of Proposed Adjustment (NOPA) and Entergy executed it. In September 2020, System Energy filed a motion to lodge the NOPA into the record in the FERC proceeding. In October 2020 the LPSC, APSC, MPSC, City Council, and FERC trial staff filed oppositions to System Energy's motion. As a result of the NOPA, System Energy filed, in October 2020, a new Federal Power Act section 205 filing at the FERC to credit the excess accumulated deferred income taxes resulting from the decommissioning uncertain tax position. System Energy proposes to credit the entire amount of the excess accumulated deferred income taxes arising from the successful portion of the decommissioning uncertain tax position by issuing a one-time credit of \$17.8 million. In November 2020, the LPSC, APSC, MPSC, and City Council filed a protest to the filing, and System Energy responded.

In November 2020 the IRS issued the Revenue Agent's Report (RAR) for the 2014-2015 tax years and in December 2020 Entergy executed it. In December 2020, System Energy filed a motion to lodge the RAR into the record in the FERC proceeding addressing the Tax Cuts and Jobs Act. In January 2021 the LPSC, APSC, MPSC, and City Council filed a joint answer opposing System Energy's motion, and the FERC trial staff also filed an answer opposing System Energy's motion.

As a result of the RAR, in December 2020, System Energy also filed an amendment to its Federal Power Act section 205 filing to credit excess accumulated deferred income taxes arising from the successful portion of the decommissioning uncertain tax position. The amendment proposed the inclusion of the RAR as support for the filing. In December 2020, the LPSC, APSC, and City Council filed a protest in response to the amendment, reiterating objections to the filing to credit excess accumulated deferred income taxes arising from the successful portion of the decommissioning uncertain tax position. In February 2021 the FERC issued an order accepting System Energy's Federal Power Act section 205 filing subject to refund, setting it for hearing, and holding the hearing in abeyance.

In November 2020, System Energy filed a motion to vacate the ALJ’s decision, arguing that it had been overtaken by changed circumstances because of the IRS’s determination resulting from the NOPA and RAR. In January 2021 the LPSC, APSC, MPSC, and City Council filed a joint answer opposing System Energy’s motion, and the FERC trial staff also filed an answer opposing System Energy’s motion. There is no formal deadline for FERC to rule on the motion.

Fuel and purchased power cost recovery

The Utility operating companies are allowed to recover fuel and purchased power costs through fuel mechanisms included in electric and gas rates that are recorded as fuel cost recovery revenues. The difference between revenues collected and the current fuel and purchased power costs is generally recorded as “Deferred fuel costs” on the Utility operating companies’ financial statements. The table below shows the amount of deferred fuel costs as of December 31, 2020 and 2019 that Entergy expects to recover (or return to customers) through fuel mechanisms, subject to subsequent regulatory review.

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Entergy Arkansas (a)	\$15.2	\$14.0
Entergy Louisiana (b)	\$170.4	\$112.5
Entergy Mississippi	(\$14.7)	(\$70.4)
Entergy New Orleans (b)	\$6.2	(\$0.8)
Entergy Texas	(\$85.4)	(\$13.0)

- (a) Includes \$68.2 million in 2020 and \$67.7 million in 2019 of fuel and purchased power costs whose recovery periods are indeterminate but are expected to be recovered over a period greater than twelve months.
- (b) Includes \$168.1 million in both years for Entergy Louisiana and \$4.1 million in both years for Entergy New Orleans of fuel, purchased power, and capacity costs, which do not currently earn a return on investment and whose recovery periods are indeterminate but are expected to be recovered over a period greater than twelve months.

Entergy Arkansas

Energy Cost Recovery Rider

Entergy Arkansas’s retail rates include an energy cost recovery rider to recover fuel and purchased energy costs in monthly customer bills. The rider utilizes the prior calendar-year energy costs and projected energy sales for the twelve-month period commencing on April 1 of each year to develop an energy cost rate, which is redetermined annually and includes a true-up adjustment reflecting the over- or under-recovery, including carrying charges, of the energy costs for the prior calendar year. The energy cost recovery rider tariff also allows an interim rate request depending upon the level of over- or under-recovery of fuel and purchased energy costs.

In January 2014, Entergy Arkansas filed a motion with the APSC relating to its upcoming energy cost rate redetermination filing that was made in March 2014. In that motion, Entergy Arkansas requested that the APSC authorize Entergy Arkansas to exclude from the redetermination of its 2014 energy cost rate \$65.9 million of incremental fuel and replacement energy costs incurred in 2013 as a result of the ANO stator incident. Entergy Arkansas requested that the APSC authorize Entergy Arkansas to retain that amount in its deferred fuel balance, with recovery to be reviewed in a later period after more information was available regarding various claims associated with the ANO stator incident. In February 2014 the APSC approved Entergy Arkansas’s request to retain that amount in its deferred fuel balance. In July 2017, Entergy Arkansas filed for a change in rates pursuant to its

formula rate plan rider. In that proceeding, the APSC approved a settlement agreement agreed upon by the parties, including a provision that requires Entergy Arkansas to initiate a regulatory proceeding for the purpose of recovering funds currently withheld from rates and related to the stator incident, including the \$65.9 million of deferred fuel and purchased energy costs previously noted, subject to certain timelines and conditions set forth in the settlement agreement. See the “**ANO Damage, Outage, and NRC Reviews**” section in Note 8 to the financial statements for further discussion of the ANO stator incident.

In March 2017, Entergy Arkansas filed its annual redetermination of its energy cost rate pursuant to the energy cost recovery rider, which reflected an increase in the rate from \$0.01164 per kWh to \$0.01547 per kWh. The APSC staff filed testimony in March 2017 recommending that the redetermined rate be implemented with the first billing cycle of April 2017 under the normal operation of the tariff. Accordingly, the redetermined rate went into effect on March 31, 2017 pursuant to the tariff. In July 2017 the Arkansas Attorney General requested additional information to support certain of the costs included in Entergy Arkansas’s 2017 energy cost rate redetermination.

In March 2018, Entergy Arkansas filed its annual redetermination of its energy cost rate pursuant to the energy cost recovery rider, which reflected an increase in the rate from \$0.01547 per kWh to \$0.01882 per kWh. The Arkansas Attorney General filed a response to Entergy Arkansas’s annual redetermination filing requesting that the APSC suspend the proposed tariff to investigate the amount of the redetermination or, alternatively, to allow recovery subject to refund. Among the reasons the Attorney General cited for suspension were questions pertaining to how Entergy Arkansas forecasted sales and potential implications of the Tax Act. Entergy Arkansas replied to the Attorney General’s filing and stated that, to the extent there are questions pertaining to its load forecasting or the operation of the energy cost recovery rider, those issues exceed the scope of the instant rate redetermination. Entergy Arkansas also stated that potential effects of the Tax Act are appropriately considered in the APSC’s separate proceeding regarding potential implications of the tax law. The APSC general staff filed a reply to the Attorney General’s filing and agreed that Entergy Arkansas’s filing complied with the terms of the energy cost recovery rider. The redetermined rate became effective with the first billing cycle of April 2018. Subsequently in April 2018 the APSC issued an order declining to suspend Entergy Arkansas’s energy cost recovery rider rate and declining to require further investigation at that time of the issues suggested by the Attorney General in the proceeding. Following a period of discovery, the Attorney General filed a supplemental response in October 2018 raising new issues with Entergy Arkansas’s March 2018 rate redetermination and asserting that \$45.7 million of the increase should be collected subject to refund pending further investigation. Entergy Arkansas filed to dismiss the Attorney General’s supplemental response, the APSC general staff filed a motion to strike the Attorney General’s filing, and the Attorney General filed a supplemental response disputing Entergy Arkansas and the APSC staff’s filing. Applicable APSC rules and processes authorize its general staff to initiate periodic audits of Entergy Arkansas’s energy cost recovery rider. In late-2018 the APSC general staff notified Entergy Arkansas it has initiated an audit of the 2017 fuel costs. The time in which the audit will be complete is uncertain at this time.

In March 2019, Entergy Arkansas filed its annual redetermination of its energy cost rate pursuant to the energy cost recovery rider, which reflected a decrease from \$0.01882 per kWh to \$0.01462 per kWh and became effective with the first billing cycle in April 2019. In March 2019 the Arkansas Attorney General filed a response to Entergy Arkansas’s annual adjustment and included with its filing a motion for investigation of alleged overcharges to customers in connection with the FERC’s October 2018 order in the opportunity sales proceeding. Entergy Arkansas filed its response to the Attorney General’s motion in April 2019 in which Entergy Arkansas stated its intent to initiate a proceeding to address recovery issues related to the October 2018 FERC order. In May 2019, Entergy Arkansas initiated the opportunity sales recovery proceeding, discussed below, and requested that the APSC establish that proceeding as the single designated proceeding in which interested parties may assert claims related to the appropriate retail rate treatment of the FERC October 2018 order and related FERC orders in the opportunity sales proceeding. In June 2019 the APSC granted Entergy Arkansas’s request and also denied the Attorney General’s motion in the energy cost recovery proceeding seeking an investigation into Entergy Arkansas’s annual energy cost recovery rider adjustment and referred the evaluation of such matters to the opportunity sales recovery proceeding.

In March 2020, Entergy Arkansas filed its annual redetermination of its energy cost rate pursuant to the energy cost recovery rider, which reflected a decrease from \$0.01462 per kWh to \$0.01052 per kWh. The redetermined rate became effective with the first billing cycle in April 2020 through the normal operation of the tariff.

Entergy Louisiana

Entergy Louisiana recovers electric fuel and purchased power costs for the billing month based upon the level of such costs incurred two months prior to the billing month. Entergy Louisiana's purchased gas adjustments include estimates for the billing month adjusted by a surcharge or credit that arises from an annual reconciliation of fuel costs incurred with fuel cost revenues billed to customers, including carrying charges.

In July 2014 the LPSC authorized its staff to initiate an audit of the fuel adjustment clause filings by Entergy Gulf States Louisiana, whose business was combined with Entergy Louisiana in 2015. The audit includes a review of the reasonableness of charges flowed through Entergy Gulf States Louisiana's fuel adjustment clause for the period from 2010 through 2013. In January 2019 the LPSC staff consultant issued its audit report. In its report, the LPSC staff consultant recommended that Entergy Louisiana refund approximately \$900,000, plus interest, to customers based upon the imputation of a claim of vendor fault in servicing its nuclear plant. Entergy Louisiana recorded a provision in the first quarter 2019 for the potential outcome of the audit. In August 2019, Entergy Louisiana filed direct testimony challenging the basis for the LPSC staff's recommended disallowance and providing an alternative calculation of replacement power costs should it be determined that a disallowance is appropriate. Entergy Louisiana's calculation would require no refund to customers.

In July 2014 the LPSC authorized its staff to initiate an audit of Entergy Louisiana's fuel adjustment clause filings. The audit includes a review of the reasonableness of charges flowed by Entergy Louisiana through its fuel adjustment clause for the period from 2010 through 2013. In January 2019 the LPSC staff issued its audit report recommending that Entergy Louisiana refund approximately \$7.3 million, plus interest, to customers based upon the imputation of a claim of vendor fault in servicing its nuclear plant. Entergy Louisiana recorded a provision in the first quarter 2019 for the potential outcome of the audit. In August 2019, Entergy Louisiana filed direct testimony challenging the basis for the LPSC staff's recommended disallowance and providing an alternative calculation of replacement power costs should it be determined that a disallowance is appropriate. Entergy Louisiana's calculation would require a refund to customers of approximately \$4.3 million, plus interest, as compared to the LPSC staff's recommendation of \$7.3 million, plus interest. Responsive testimony was filed by the LPSC staff and intervenors in September 2019; all parties either agreed with or did not oppose Entergy Louisiana's alternative calculation of replacement power costs.

In November 2019 the pending LPSC proceedings for the 2010-2013 Entergy Louisiana and Entergy Gulf States Louisiana audits were consolidated to facilitate a settlement of both fuel audits. In December 2019 an unopposed settlement was reached that requires a refund to legacy Entergy Louisiana customers of approximately \$2.3 million, including interest, and no refund to legacy Entergy Gulf States Louisiana customers. The LPSC approved the settlement in January 2020. A one-time refund was made in February 2020.

In June 2016 the LPSC issued notice of audits of Entergy Louisiana's fuel adjustment clause filings for the period 2014 through 2015 and purchased gas adjustment clause filings for the period 2012 through 2015. In recognition of the business combination that occurred in 2015, the audit notice was issued to Entergy Louisiana and also includes a review of charges to legacy Entergy Gulf States Louisiana customers prior to the business combination. The audits include a review of the reasonableness of charges flowed through Entergy Louisiana's fuel adjustment clause for the period from 2014 through 2015 and charges flowed through Entergy Louisiana's purchased gas adjustment clause for the period from 2012 through 2015. Regarding the fuel adjustment clause filing, the LPSC staff issued a report in January 2021 that did not recommend a disallowance for the period 2014 through 2015 recoveries, but did propose various reporting requirements. Entergy Louisiana is currently reviewing

the LPSC staff recommendations regarding reporting requirements. Regarding the purchased gas adjustment clause filings, the LPSC staff issued a report in February 2020 that did not recommend a disallowance for the period 2012 through 2015 recoveries. The LPSC issued an order in September 2020 accepting the LPSC staff's report.

In May 2018 the LPSC staff provided notice of audits of Entergy Louisiana's purchased gas adjustment clause filings. The audit includes a review of the reasonableness of charges flowed through Entergy Louisiana's purchased gas adjustment clause for the period from 2016 through 2017. In February 2020 the LPSC staff issued an audit report recommending a disallowance of approximately \$29 thousand. Entergy Louisiana submitted a letter disputing the basis of the proposed disallowance but indicated that due to the amount at issue it would not oppose the recommended refund. The LPSC staff and Entergy Louisiana submitted a joint report noting each party's position on the substantive issues in the matter and recommending resolution of the matters. The LPSC issued an order in September 2020 resolving the matter and ordering a refund of approximately \$29 thousand. In January 2021 the LPSC issued a notice closing the matter.

In March 2020 the LPSC staff provided notice of an audit of Entergy Louisiana's fuel adjustment clause filings. The audit includes a review of the reasonableness of charges flowed through Entergy Louisiana's fuel adjustment clause for the period from 2016 through 2019. Discovery commenced in September 2020 and is ongoing.

Entergy Mississippi

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

In January 2017 the MPSC certified to the Mississippi Legislature the audit reports of its independent auditors for the fuel year ending September 30, 2016. In November 2017 the Mississippi Public Utilities Staff separately engaged a consultant to review the September 2016 outage at the Grand Gulf Nuclear Station and to review ongoing operations at Grand Gulf. This engagement continues, and subsequently, was expanded to include all outages at Grand Gulf that occurred through 2019.

In November 2017, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation of the annual factor included an under-recovery of approximately \$61.5 million as of September 30, 2017. In January 2018 the MPSC approved the proposed energy cost factors effective for February 2018 bills.

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

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

In November 2020, Entergy Mississippi filed its annual redetermination of the annual factor to be applied under the energy cost recovery rider. The calculation of the annual factor included an over-recovery of

approximately \$24.4 million as of September 30, 2020. In January 2021 the MPSC approved the proposed energy cost factor effective for February 2021 bills.

Entergy New Orleans

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

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

Entergy Texas

Entergy Texas's rate schedules include a fixed fuel factor to recover fuel and purchased power costs, including interest, not recovered in base rates. Semi-annual revisions of the fixed fuel factor are made in March and September based on the market price of natural gas and changes in fuel mix. The amounts collected under Entergy Texas's fixed fuel factor and any interim surcharge or refund are subject to fuel reconciliation proceedings before the PUCT. A fuel reconciliation is required to be filed at least once every three years and outside of a base rate case filing.

In December 2017, Entergy Texas filed an application for a fuel refund of approximately \$30.5 million for the months of May 2017 through October 2017. Also in December 2017, the PUCT's ALJ approved the refund on an interim basis. For most customers, the refunds flowed through bills from January 2018 through March 2018. The fuel refund was approved by the PUCT in March 2018.

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

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

In February 2021, Entergy Texas filed an application to implement a fuel refund for a cumulative over-recovery of approximately \$75 million that is primarily attributable to settlements received by Entergy Texas from MISO related to Hurricane Laura. Entergy Texas planned to issue the refund over the period of March through August 2021. On February 22, 2021, Entergy Texas filed a motion to abate its fuel refund proceeding to assess how the February 2021 winter storm impacted Entergy Texas's fuel over-recovery position.

Retail Rate Proceedings

Filings with the APSC (Entergy Arkansas)

Retail Rates

2018 Formula Rate Plan Filing

In July 2018, Entergy Arkansas filed with the APSC its 2018 formula rate plan filing to set its formula rate for the 2019 calendar year. The filing showed Entergy Arkansas's projected earned return on common equity for the twelve months ended December 31, 2019 test period to be below the formula rate plan bandwidth. Additionally, the filing included the first netting adjustment under the current formula rate plan for the historical test year 2017, reflecting the change in formula rate plan revenues associated with actual 2017 results when compared to the allowed rate of return on equity. The filing included a projected \$73.4 million revenue deficiency for 2019 and a \$95.6 million revenue deficiency for the 2017 historical test year, for a total revenue requirement of \$169 million for this filing. By operation of the formula rate plan, Entergy Arkansas's recovery of the revenue requirement is subject to a four percent annual revenue constraint. Because Entergy Arkansas's revenue requirement in this filing exceeded the constraint, the resulting increase was limited to four percent of total revenue, which originally was \$65.4 million but was increased to \$66.7 million based upon the APSC staff's updated calculation of 2018 revenue. In October 2018, Entergy Arkansas and the parties to the proceeding filed joint motions to approve a partial settlement agreement as to certain factual issues and agreed to brief contested legal issues. In November 2018 the APSC held a hearing and was briefed on a contested legal issue. In December 2018 the APSC issued a decision related to the initial legal brief, approved the partial settlement agreement and \$66.7 million revenue requirement increase, as well as Entergy Arkansas's formula rate plan, with updated rates going into effect for the first billing cycle of January 2019.

2019 Formula Rate Plan Filing

In July 2019, Entergy Arkansas filed with the APSC its 2019 formula rate plan filing to set its formula rate for the 2020 calendar year. The filing contained an evaluation of Entergy Arkansas's earnings for the projected year 2020 and a netting adjustment for the historical year 2018. The total proposed formula rate plan rider revenue change designed to produce a target rate of return on common equity of 9.75% is \$15.3 million, which is based upon a deficiency of approximately \$61.9 million for the 2020 projected year, netted with a credit of approximately \$46.6 million in the 2018 historical year netting adjustment. During 2018 Entergy Arkansas experienced higher-than expected sales volume, and actual costs were lower than forecasted. These changes, coupled with a reduced income tax rate resulting from the Tax Cuts and Jobs Act, resulted in the credit for the historical year netting adjustment. In the fourth quarter 2018, Entergy Arkansas recorded a provision of \$35.1 million that reflected the estimate of the historical year netting adjustment that was expected to be included in the 2019 filing. In 2019, Entergy Arkansas recorded additional provisions totaling \$11.5 million to reflect the updated estimate of the historical year netting adjustment included in the 2019 filing. In October 2019 other parties in the proceeding filed their errors and objections requesting certain adjustments to Entergy Arkansas's filing that would reduce or eliminate Entergy Arkansas's proposed revenue change. Entergy Arkansas filed its response addressing the requested adjustments in October 2019. In its response, Entergy Arkansas accepted certain of the adjustments recommended by the General Staff of the APSC that would reduce the proposed formula rate plan rider revenue change to \$14 million. Entergy Arkansas disputed the remaining adjustments proposed by the parties. In October 2019, Entergy Arkansas filed a unanimous settlement agreement with the other parties in the proceeding seeking APSC approval of a revised total formula rate plan rider revenue change of \$10.1 million. In its July 2019 formula rate plan filing, Entergy Arkansas proposed to recover an \$11.2 million regulatory asset, amortized over five years, associated with specific costs related to the potential construction of scrubbers at the White Bluff plant. Although Entergy Arkansas does not concede that the regulatory asset lacks merit, for purposes of reaching a settlement on the total formula rate plan rider amount, Entergy Arkansas agreed not to include the White Bluff scrubber regulatory asset cost in the 2019 formula rate plan filing or future filings. Entergy Arkansas recorded a write-off in 2019 of the \$11.2 million White Bluff scrubber regulatory asset. In December 2019 the APSC approved the settlement as being

in the public interest and approved Entergy Arkansas's compliance tariff effective with the first billing cycle of January 2020.

2020 Formula Rate Plan Filing

In July 2020, Entergy Arkansas filed with the APSC its 2020 formula rate plan filing to set its formula rate for the 2021 calendar year. The filing contained an evaluation of Entergy Arkansas's earnings for the projected year 2021, as amended through subsequent filings in the proceeding, and a netting adjustment for the historical year 2019. The filing showed that Entergy Arkansas's earned rate of return on common equity for the 2021 projected year is 8.22% resulting in a revenue deficiency of \$64.3 million. The earned rate of return on common equity for the 2019 historical year was 9.07% resulting in a \$23.9 million netting adjustment. The total proposed revenue change for the 2021 projected year and 2019 historical year netting adjustment was \$88.2 million. By operation of the formula rate plan, Entergy Arkansas's recovery of the revenue requirement is subject to a four percent annual revenue constraint. Because Entergy Arkansas's revenue requirement in this filing exceeded the constraint, the resulting increase was limited to \$74.3 million. In October 2020 other parties in the proceeding filed their errors and objections recommending certain adjustments, and Entergy Arkansas filed responsive testimony disputing these adjustments. As part of the formula rate plan tariff the calculation for the revenue constraint was updated based on actual revenues which had the effect of reducing the initially-proposed \$74.3 million revenue requirement increase to \$72.6 million. In October 2020, Entergy Arkansas filed with the APSC a unanimous settlement agreement reached with the other parties that resolved all but one issue. As a result of the settlement agreement, Entergy Arkansas's requested revenue increase was \$68.4 million, including a \$44.5 million increase for the projected 2021 year and a \$23.9 million netting adjustment. The remaining issue litigated concerned the methodology used to calculate the netting adjustment within the formula rate plan. In December 2020 the APSC issued an order rejecting the netting adjustment method used by Entergy Arkansas. Applying the approach ordered by the APSC changed the netting adjustment for the 2019 historical year from a \$23.9 million deficiency to \$43.5 million excess. Overall, the decision reduced Entergy Arkansas's revenue adjustment for 2021 to \$1 million. In December 2020, Entergy Arkansas filed a petition for rehearing of the APSC's decision, and in January 2021 the APSC granted further consideration of Entergy Arkansas's petition. Based on the progress of the proceeding to date, in December 2020, Entergy Arkansas recorded a regulatory liability of \$43.5 million to reflect the netting adjustment for 2019, as included in the APSC's December 2020 order, which would be returned to customers in 2021. Also with the formula rate plan filing, Entergy Arkansas is requesting an extension of the formula rate plan rider for a second five-year term. Decisions by the APSC on the netting adjustment rehearing and the extension are expected in March 2021.

COVID-19 Orders

In April 2020, in light of the COVID-19 pandemic, the APSC issued an order requiring utilities, to the extent they had not already done so, to suspend service disconnections during the remaining pendency of the Arkansas Governor's emergency declaration or until the APSC rescinds the directive. The order also authorizes utilities to establish a regulatory asset to record costs resulting from the suspension of service disconnections, directs that in future proceedings the APSC will consider whether the request for recovery of these regulatory assets is reasonable and necessary, and requires utilities to track and report the costs and any savings directly attributable to suspension of disconnects. In May 2020 the APSC approved Entergy Arkansas expanding deferred payment agreements to assist customers during the COVID-19 pandemic. Quarterly reporting began in August 2020 and the APSC ordered additional reporting in October 2020 regarding utilities' transitional plans for ending the moratorium on service disconnects. In February 2021 the APSC issued an order finding that it is not in the public interest to immediately lift the moratorium on service disconnects, but to announce a target date of May 3, 2021. In March 2021 the APSC will issue an order either confirming the lifting of the moratorium on service disconnects or extending the moratorium. As of December 31, 2020, Entergy Arkansas recorded a regulatory asset of \$10.5 million for costs associated with the COVID-19 pandemic.

Internal Restructuring

In November 2017, Entergy Arkansas filed an application with the APSC seeking authorization to undertake a restructuring that would result in the transfer of substantially all of the assets and operations of Entergy Arkansas to a new entity, which would ultimately be owned by an existing Entergy subsidiary holding company. In July 2018, Entergy Arkansas filed a settlement, reached by all parties in the APSC proceeding, resolving all issues. The APSC approved the settlement agreement and restructuring in August 2018. Pursuant to the settlement agreement, Entergy Arkansas will credit retail customers \$39.6 million over six years, beginning in 2019. Entergy Arkansas also received the required FERC and NRC approvals.

In November 2018, Entergy Arkansas undertook a multi-step restructuring, including the following:

- Entergy Arkansas, Inc. redeemed its outstanding preferred stock at the aggregate redemption price of approximately \$32.7 million.
- Entergy Arkansas, Inc. converted from an Arkansas corporation to a Texas corporation.
- Under the Texas Business Organizations Code (TXBOC), Entergy Arkansas, Inc. allocated substantially all of its assets to a new subsidiary, Entergy Arkansas Power, LLC, a Texas limited liability company (Entergy Arkansas Power), and Entergy Arkansas Power assumed substantially all of the liabilities of Entergy Arkansas, Inc., in a transaction regarded as a merger under the TXBOC. Entergy Arkansas, Inc. remained in existence and held the membership interests in Entergy Arkansas Power.
- Entergy Arkansas, Inc. contributed the membership interests in Entergy Arkansas Power to an affiliate (Entergy Utility Holding Company, LLC, a Texas limited liability company and subsidiary of Entergy Corporation). As a result of the contribution, Entergy Arkansas Power is a wholly-owned subsidiary of Entergy Utility Holding Company, LLC.

In December 2018, Entergy Arkansas, Inc. changed its name to Entergy Utility Property, Inc., and Entergy Arkansas Power then changed its name to Entergy Arkansas, LLC. Entergy Arkansas, LLC holds substantially all of the assets, and assumed substantially all of the liabilities, of Entergy Arkansas, Inc. The transaction was accounted for as a transaction between entities under common control.

Filings with the LPSC (Entergy Louisiana)

Retail Rates - Electric

2017 Formula Rate Plan Filing

In June 2018, Entergy Louisiana filed its formula rate plan evaluation report for its 2017 calendar year operations. The 2017 test year evaluation report produced an earned return on equity of 8.16%, due in large part to revenue-neutral realignments to other recovery mechanisms. Without these realignments, the evaluation report produces an earned return on equity of 9.88% and a resulting base rider formula rate plan revenue increase of \$4.8 million. Excluding the Tax Act credits provided for by the tax reform adjustment mechanisms, total formula rate plan revenues were further increased by a total of \$98 million as a result of the evaluation report due to adjustments to the additional capacity and MISO cost recovery mechanisms of the formula rate plan, and implementation of the transmission recovery mechanism. In August 2018, Entergy Louisiana filed a supplemental formula rate plan evaluation report to reflect changes from the 2016 test year formula rate plan proceedings, a decrease to the transmission recovery mechanism to reflect lower actual capital additions, and a decrease to evaluation period expenses to reflect the terms of a new power sales agreement. Based on the August 2018 update, Entergy Louisiana recognized a total decrease in formula rate plan revenue of approximately \$17.6 million. Results of the updated 2017 evaluation report filing were implemented with the September 2018 billing month subject to refund and review by the LPSC staff and intervenors. In accordance with the terms of the formula rate plan, in September 2018 the LPSC staff and intervenors submitted their responses to Entergy Louisiana's original formula rate plan evaluation report and supplemental compliance updates. The LPSC staff asserted objections/reservations

regarding 1) Entergy Louisiana's proposed rate adjustments associated with the return of excess accumulated deferred income taxes pursuant to the Tax Act and the treatment of accumulated deferred income taxes related to reductions of rate base; 2) Entergy Louisiana's reservation regarding treatment of a regulatory asset related to certain special orders by the LPSC; and 3) test year expenses billed from Entergy Services to Entergy Louisiana. Intervenor also objected to Entergy Louisiana's treatment of the regulatory asset related to certain special orders by the LPSC. A procedural schedule has not yet been established to resolve these issues.

Entergy Louisiana also included in its filing a presentation of an initial proposal to combine the legacy Entergy Louisiana and legacy Entergy Gulf States Louisiana residential rates, which combination, if approved, would be accomplished on a revenue-neutral basis intended not to affect the rates of other customer classes.

Commercial operation at J. Wayne Leonard Power Station (formerly St. Charles Power Station) commenced in May 2019. In May 2019, Entergy Louisiana filed an update to its 2017 formula rate plan evaluation report to include the estimated first-year revenue requirement of \$109.5 million associated with the J. Wayne Leonard Power Station. The resulting interim adjustment to rates became effective with the first billing cycle of June 2019. In June 2020, Entergy Louisiana submitted information to the LPSC to review the prudence of Entergy Louisiana's management of the project. In August 2020 discovery commenced and a procedural schedule was established with a hearing in July 2021.

2018 Formula Rate Plan Filing

In May 2019, Entergy Louisiana filed its formula rate plan evaluation report for its 2018 calendar year operations. The 2018 test year evaluation report produced an earned return on common equity of 10.61% leading to a base rider formula rate plan revenue decrease of \$8.9 million. While base rider formula rate plan revenue will decrease as a result of this filing, overall formula rate plan revenues will increase by approximately \$118.7 million. This outcome is primarily driven by a reduction to the credits previously flowed through the tax reform adjustment mechanism and an increase in the transmission recovery mechanism, partially offset by reductions in the additional capacity mechanism revenue requirements and extraordinary cost items. The filing is subject to review by the LPSC. Resulting rates were implemented in September 2019, subject to refund.

Entergy Louisiana also included in its filing a presentation of an initial proposal to combine the legacy Entergy Louisiana and legacy Entergy Gulf States Louisiana residential rates, which combination, if approved, would be accomplished on a revenue-neutral basis intended not to affect the rates of other customer classes. Entergy Louisiana contemplates that any combination of residential rates resulting from this request would be implemented with the results of the 2019 test year formula rate plan filing.

Several parties intervened in the proceeding and the LPSC staff filed its report of objections/reservations in accordance with the applicable provisions of the formula rate plan. In its report the LPSC staff re-urged reservations with respect to the outstanding issues from the 2017 test year formula rate plan filing and disputed the inclusion of certain affiliate costs for test years 2017 and 2018. The LPSC staff objected to Entergy Louisiana's proposal to combine residential rates but proposed the setting of a status conference to establish a procedural schedule to more fully address the issue. The LPSC staff also reserved its right to object to the treatment of the sale of Willow Glen reflected in the evaluation report and to the August 2019 compliance update, which was made primarily to update the capital additions reflected in the formula rate plan's transmission recovery mechanism, based on limited time to review it. Additionally, since the completion of certain transmission projects, the LPSC staff issued supplemental data requests addressing the prudence of Entergy Louisiana's expenditures in connection with those projects. Entergy Louisiana has responded to all such requests.

Commercial operation at Lake Charles Power Station commenced in March 2020. In March 2020, Entergy Louisiana filed an update to its 2018 formula rate plan evaluation report to include the estimated first-year revenue requirement of \$108 million associated with the Lake Charles Power Station. The resulting interim adjustment to rates became effective with the first billing cycle of April 2020.

In an effort to narrow the remaining issues in formula rate plan test years 2017 and 2018, Entergy Louisiana provided notice to the parties in October 2020 that it was withdrawing its request to combine residential rates. Entergy Louisiana noted that the withdrawal is without prejudice to Entergy Louisiana's right to seek to combine residential rates in a future proceeding.

2019 Formula Rate Plan Filing

In May 2020, Entergy Louisiana filed with the LPSC its formula rate plan evaluation report for its 2019 calendar year operations. The 2019 test year evaluation report produced an earned return on common equity of 9.66%. As such, no change to base rider formula rate plan revenue is required. Although base rider formula rate plan revenue will not change as a result of this filing, overall formula rate plan revenues will increase by approximately \$103 million. This outcome is driven by the removal of prior year credits associated with the sale of the Willow Glen Power Station and an increase in the transmission recovery mechanism. Also contributing to the overall change is an increase in legacy formula rate plan revenue requirements driven by legacy Entergy Louisiana capacity cost true-ups and higher annualized legacy Entergy Gulf States Louisiana revenues due to higher billing determinants, offset by reductions in MISO cost recovery mechanism and tax reform adjustment mechanism revenue requirements. In August 2020 the LPSC staff submitted a list of items for which it needs additional information to confirm the accuracy and compliance of the 2019 test year evaluation report. The LPSC staff objected to a proposed revenue neutral adjustment regarding a certain rider as being beyond the scope of permitted formula rate plan adjustments. Rates reflected in the May 2020 filing, with the exception of the revenue neutral rider adjustment, and as updated in an August 2020 filing, were implemented in September 2020, subject to refund. Entergy Louisiana is in the process of providing additional information and details on the May 2020 filing as requested by the LPSC staff.

In November 2020, Entergy Louisiana accepted ownership of the Washington Parish Energy Center and filed an update to its 2019 formula rate plan evaluation report to include the estimated first-year revenue requirement of \$35 million associated with the Washington Parish Energy Center. The resulting interim adjustment to rates became effective with the first billing cycle of December 2020. In January 2021, Entergy Louisiana filed an update to its 2019 formula rate plan evaluation report to include the implementation of a scheduled step-up in its nuclear decommissioning revenue requirement and a true-up for under-collections of nuclear decommissioning expenses. The total rate adjustment would increase formula rate plan revenues by approximately \$1.2 million. The resulting interim adjustment to rates became effective with the first billing cycle of February 2021.

Request for Extension and Modification of Formula Rate Plan

In May 2020, Entergy Louisiana filed with the LPSC its application for authority to extend its formula rate plan. In its application, Entergy Louisiana seeks to maintain a 9.8% return on equity, with a bandwidth of 60 basis points above and below the midpoint, with a first-year midpoint reset. Entergy Louisiana also seeks to maintain its existing additional capacity mechanism, tax reform adjustment mechanism, transmission recovery mechanism, and the MISO cost recovery mechanism. Entergy Louisiana also seeks to add a distribution cost recovery mechanism which operates in substantially the same manner as the transmission recovery mechanism, seeks to utilize end of period rate base to calculate cost of service, and requests a deferral of certain expenses incurred for outside of right-of-way vegetation programs. Settlement discussions are ongoing.

Investigation of Costs Billed by Entergy Services

In November 2018 the LPSC issued a notice of proceeding initiating an investigation into costs incurred by Entergy Services that are included in the retail rates of Entergy Louisiana. As stated in the notice of proceeding, the LPSC observed an increase in capital construction-related costs incurred by Entergy Services. Discovery was issued and included efforts to seek highly detailed information on a broad range of matters unrelated to the scope of the audit. There has been no further activity in the investigation since May 2019.

COVID-19 Orders

In April 2020 the LPSC issued an order authorizing utilities to record as a regulatory asset expenses incurred from the suspension of disconnections and collection of late fees imposed by LPSC orders associated with the COVID-19 pandemic. In addition, utilities may seek future recovery, subject to LPSC review and approval, of losses and expenses incurred due to compliance with the LPSC's COVID-19 orders. The suspension of late fees and disconnects for non-pay was extended until the first billing cycle after July 16, 2020. In January 2021, Entergy Louisiana resumed disconnections for customers in all customer classes with past-due balances that have not made payment arrangements. Utilities seeking to recover the regulatory asset must formally petition the LPSC to do so, identifying the direct and indirect costs for which recovery is sought. Any such request is subject to LPSC review and approval. As of December 31, 2020, Entergy Louisiana recorded a regulatory asset of \$48.8 million for costs associated with the COVID-19 pandemic.

Filings with the MPSC (Entergy Mississippi)

Retail Rates

2018 Formula Rate Plan Filing

In March 2018, Entergy Mississippi submitted its formula rate plan 2018 test year filing and 2017 look-back filing showing Entergy Mississippi's earned return for the historical 2017 calendar year and projected earned return for the 2018 calendar year, in large part as a result of the lower federal corporate income tax rate effective in 2018, to be within the formula rate plan bandwidth, resulting in no change in rates. In June 2018, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a stipulation that confirmed that Entergy Mississippi's earned returns for both the 2017 look-back filing and 2018 test year were within the respective formula rate plan bandwidths. In June 2018 the MPSC approved the stipulation, which resulted in no change in rates. See "Regulatory activity regarding the Tax Cuts and Jobs Act" above for additional discussion regarding the treatment of the effects of the lower federal corporate income tax rate.

Formula Rate Plan Revisions

In October 2018, Entergy Mississippi proposed revisions to its formula rate plan that would provide for a mechanism in the formula rate plan, the interim capacity rate adjustment mechanism, to recover the non-fuel related costs of additional owned capacity acquired by Entergy Mississippi, including the non-fuel annual ownership costs of the Choctaw Generating Station, as well as to allow similar cost recovery treatment for other future capacity acquisitions, such as the Sunflower Solar Facility, that are approved by the MPSC. In December 2019 the MPSC approved Entergy Mississippi's proposed revisions to its formula rate plan to provide for an interim capacity rate adjustment mechanism to recover the \$59 million first-year annual revenue requirement associated with the non-fuel ownership costs of the Choctaw Generating Station, which Entergy Mississippi began billing in January 2020. The MPSC must approve recovery through the interim capacity rate adjustment for each new resource. In addition, the MPSC approved revisions to the formula rate plan which allows Entergy Mississippi to begin billing rate adjustments effective April 1 of the filing year on a temporary basis subject to refund or credit to customers, subject to final MPSC order. The MPSC also authorized Entergy Mississippi to remove vegetation management costs from the formula rate plan and recover these costs through the establishment of a vegetation management rider. Effective with the April 2020 billing cycle, Entergy Mississippi implemented a rider to recover \$22 million in vegetation management costs.

2019 Formula Rate Plan Filing

In March 2019, Entergy Mississippi submitted its formula rate plan 2019 test year filing and 2018 look-back filing showing Entergy Mississippi's earned return for the historical 2018 calendar year to be above the

formula rate plan bandwidth and projected earned return for the 2019 calendar year to be below the formula rate plan bandwidth. The 2019 test year filing shows a \$36.8 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.94% return on rate base, within the formula rate plan bandwidth. The 2018 look-back filing compares actual 2018 results to the approved benchmark return on rate base and shows a \$10.1 million interim decrease in formula rate plan revenues is necessary. In the fourth quarter 2018, Entergy Mississippi recorded a provision of \$9.3 million that reflected the estimate of the difference between the 2018 expected earned rate of return on rate base and an established performance-adjusted benchmark rate of return under the formula rate plan performance-adjusted bandwidth mechanism. In the first quarter 2019, Entergy Mississippi recorded a \$0.8 million increase in the provision to reflect the amount shown in the look-back filing. In June 2019, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a joint stipulation that confirmed that the 2019 test year filing showed that a \$32.8 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.93% return on rate base, within the formula rate plan bandwidth. Additionally, pursuant to the joint stipulation, Entergy Mississippi's 2018 look-back filing reflected an earned return on rate base of 7.81% in calendar year 2018 which is above the look-back benchmark return on rate base of 7.13%, resulting in an \$11 million decrease in formula rate plan revenues on an interim basis through May 2020. In the second quarter 2019, Entergy Mississippi recorded an additional \$0.9 million increase in the provision to reflect the \$11 million shown in the look-back filing. In June 2019 the MPSC approved the joint stipulation with rates effective for the first billing cycle of July 2019.

2020 Formula Rate Plan Filing

In March 2020, Entergy Mississippi submitted its formula rate plan 2020 test year filing and 2019 look-back filing showing Entergy Mississippi's earned return for the historical 2019 calendar year to be below the formula rate plan bandwidth and projected earned return for the 2020 calendar year to be below the formula rate plan bandwidth. The 2020 test year filing shows a \$24.6 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.51% return on rate base, within the formula rate plan bandwidth. The 2019 look-back filing compares actual 2019 results to the approved benchmark return on rate base and reflects the need for a \$7.3 million interim increase in formula rate plan revenues. In accordance with the MPSC-approved revisions to the formula rate plan, Entergy Mississippi implemented a \$24.3 million interim rate increase, reflecting a cap equal to 2% of 2019 retail revenues, effective with the April 2020 billing cycle, subject to refund. In June 2020, Entergy Mississippi and the Mississippi Public Utilities Staff entered into a joint stipulation that confirmed that the 2020 test year filing showed that a \$23.8 million rate increase is necessary to reset Entergy Mississippi's earned return on common equity to the specified point of adjustment of 6.51% return on rate base, within the formula rate plan bandwidth. Pursuant to the joint stipulation, Entergy Mississippi's 2019 look-back filing reflected an earned return on rate base of 6.75% in calendar year 2019, which is within the look-back bandwidth. As a result, there is no change in formula rate plan revenues in the 2019 look-back filing. In June 2020 the MPSC approved the joint stipulation with rates effective for the first billing cycle of July 2020. In the June 2020 order the MPSC directed Entergy Mississippi to submit revisions to its formula rate plan to realign recovery of costs from its energy efficiency cost recovery rider to its formula rate plan. In November 2020 the MPSC approved Entergy Mississippi's revisions to its formula rate plan providing for the realignment of energy efficiency costs to its formula rate plan, the deferral of energy efficiency expenditures into a regulatory asset, and the elimination of its energy efficiency cost recovery rider effective with the January 2022 billing cycle.

COVID-19 Orders

In March 2020 the MPSC issued an order suspending disconnections for a period of sixty days. The MPSC extended the order on disconnections through May 26, 2020. In April 2020 the MPSC issued an order authorizing utilities to defer incremental costs and expenses associated with COVID-19 compliance and to seek future recovery through rates of the prudently incurred incremental costs and expenses. In December 2020, Entergy Mississippi resumed disconnections to commercial, industrial, and governmental customers with past-due balances that have not made payment arrangements. In January 2021, Entergy Mississippi resumed disconnecting service for residential

customers with past-due balances that have not made arrangements with the company. As of December 31, 2020, Entergy Mississippi recorded a regulatory asset of \$19.2 million for costs associated with the COVID-19 pandemic.

Internal Restructuring

In March 2018, Entergy Mississippi filed an application with the MPSC seeking authorization to undertake a restructuring that would result in the transfer of substantially all of the assets and operations of Entergy Mississippi to a new entity, which would ultimately be held by an existing Entergy subsidiary holding company. In September 2018, Entergy Mississippi and the Mississippi Public Utilities Staff entered into and filed a joint stipulation regarding the restructuring filing. In September 2018 the MPSC issued an order accepting the stipulation in its entirety and approving the restructuring and credits of \$27 million to retail customers over six years, consisting of annual payments of \$4.5 million for the years 2019-2024. Entergy Mississippi also received the required FERC approval.

In November 2018, Entergy Mississippi undertook a multi-step restructuring, including the following:

- Entergy Mississippi, Inc. redeemed its outstanding preferred stock, at the aggregate redemption price of approximately \$21.2 million.
- Entergy Mississippi, Inc. converted from a Mississippi corporation to a Texas corporation.
- Under the Texas Business Organizations Code (TXBOC), Entergy Mississippi, Inc. allocated substantially all of its assets to a new subsidiary, Entergy Mississippi Power and Light, LLC, a Texas limited liability company (Entergy Mississippi Power and Light), and Entergy Mississippi Power and Light assumed substantially all of the liabilities of Entergy Mississippi, Inc., in a transaction regarded as a merger under the TXBOC. Entergy Mississippi, Inc. remained in existence and held the membership interests in Entergy Mississippi Power and Light.
- Entergy Mississippi, Inc. contributed the membership interests in Entergy Mississippi Power and Light to an affiliate (Entergy Utility Holding Company, LLC, a Texas limited liability company and subsidiary of Entergy Corporation). As a result of the contribution, Entergy Mississippi Power and Light is a wholly-owned subsidiary of Entergy Utility Holding Company, LLC.

In December 2018, Entergy Mississippi, Inc. changed its name to Entergy Utility Enterprises, Inc., and Entergy Mississippi Power and Light then changed its name to Entergy Mississippi, LLC. Entergy Mississippi, LLC holds substantially all of the assets, and assumed substantially all of the liabilities, of Entergy Mississippi, Inc. The restructuring was accounted for as a transaction between entities under common control.

In December 2018, Entergy Mississippi filed its notice of intent to implement the restructuring credit rider to allow Entergy Mississippi to return credits of \$27 million to retail customers over six years. In January 2019 the MPSC approved the proposed restructuring credit adjustment factor, which is effective for bills rendered beginning February 2019.

Filings with the City Council (Entergy New Orleans)

Retail Rates

Energy Efficiency

In December 2019, Entergy New Orleans filed an application with the City Council seeking approval of an implementation plan for the Energy Smart program from April 2020 through December 2022. Entergy New Orleans proposed to recover the costs of the program through mechanisms previously approved by the City Council or through the energy efficiency cost recovery rider, which was approved in the 2018 combined rate case resolution. In January 2020 the City Council's advisors recommended that, beginning with Program Year 10, the City Council allow Entergy New Orleans to earn a utility performance incentive of 7% of Energy Smart costs for each year in

which Entergy New Orleans achieves 100% of the City Council's savings targets for Energy Smart. In February 2020 the City Council approved Entergy New Orleans's application.

2018 Base Rate Case

In September 2018, Entergy New Orleans filed an electric and gas base rate case with the City Council. The filing requested a 10.5% return on equity for electric operations with opportunity to earn a 10.75% return on equity through a performance adder provision of the electric formula rate plan in subsequent years under a formula rate plan and requested a 10.75% return on equity for gas operations. The proposed electric rates in the revised filing reflect a net reduction of \$20.3 million. The reduction in electric rates includes a base rate increase of \$135.2 million, of which \$131.5 million is associated with moving costs currently collected through fuel and other riders into base rates, plus a request for an advanced metering surcharge to recover \$7.1 million associated with advanced metering infrastructure, offset by a net decrease of \$31.1 million related to fuel and other riders. The filing also included a proposed gas rate decrease of \$142 thousand. Entergy New Orleans's rates reflected the inclusion of federal income tax reductions due to the Tax Act and the provisions of a previously-approved agreement in principle determining how the benefits of the Tax Act would flow. Entergy New Orleans included cost of service studies for electric and gas operations for the twelve months ended December 31, 2017 and the projected twelve months ending December 31, 2018. In addition, Entergy New Orleans included capital additions expected to be placed into service for the period through December 31, 2019. Entergy New Orleans based its request for a change in rates on the projected twelve months ending December 31, 2018.

The filing's major provisions included: (1) a new electric rate structure, which realigns the revenue requirement associated with capacity and long-term service agreement expense from certain existing riders to base revenue, provides for the recovery of the cost of advanced metering infrastructure, and partially blends rates for Entergy New Orleans's customers residing in Algiers with customers residing in the remainder of Orleans Parish through a three-year phase-in; (2) contemporaneous cost recovery riders for investments in energy efficiency/demand response, incremental changes in capacity/long-term service agreement costs, grid modernization investment, and gas infrastructure replacement investment; and (3) formula rate plans for both electric and gas operations. In February 2019 the City Council's advisors and several intervenors filed testimony in response to Entergy New Orleans's application. The City Council's advisors recommended, among other things, overall rate reductions of approximately \$33 million in electric rates and \$3.8 million in gas rates. Certain intervenors recommended overall rate reductions of up to approximately \$49 million in electric rates and \$5 million in gas rates. An evidentiary hearing was held in June 2019, and the record and post-hearing briefs were submitted in July 2019.

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

The resolution directed Entergy New Orleans to submit a compliance filing within 30 days of the date of the resolution to facilitate the eventual implementation of rates, including all necessary calculations and conforming rate schedules and riders. The electric formula rate plan rider includes, among other things, 1) a provision for forward-looking adjustments to include known and measurable changes realized up to 12 months after the evaluation period; 2) a decoupling mechanism; and 3) recognition that Entergy New Orleans is authorized to make an in-service adjustment to the formula rate plan to include the non-fuel cost of the New Orleans Power Station in

rates, unless the two pending appeals in the New Orleans Power Station proceeding have not concluded. Under this circumstance, Entergy New Orleans shall be permitted to defer the New Orleans Power Station non-fuel costs, including the cost of capital, until Entergy New Orleans commences non-fuel cost recovery. After taking into account the requirements for submission of the compliance filing, the total annual revenue requirement reduction required by the resolution was refined to approximately \$45 million (\$42 million electric, including \$29 million in rider reductions; \$3 million gas). In January 2020 the City Council's advisors found that the rates calculated by Entergy New Orleans and reflected in the December 2019 compliance filing should be implemented, except with respect to the City Council-approved energy efficiency cost recovery rider, which rider calculation should take into account events to be determined by the City Council in the future. Also in response to the resolution, Entergy New Orleans filed timely a petition for appeal and judicial review and for stay of or injunctive relief alleging that the resolution is unlawful in failing to produce just and reasonable rates. A hearing on the requested injunction was scheduled in Civil District Court for February 2020, but by joint motion of the City Council and Entergy New Orleans, the Civil District Court issued an order for a limited remand to the City Council to consider a potential agreement in principle/stipulation at its February 20, 2020 meeting. On February 17, 2020, Entergy New Orleans filed with the City Council an agreement in principle between Entergy New Orleans and the City Council's advisors. On February 20, 2020, the City Council voted to approve the proposed agreement in principle and issued a resolution modifying the required treatment of certain accumulated deferred income taxes. As a result of the agreement in principle, the total annual revenue requirement reduction will be approximately \$45 million (\$42 million electric, including \$29 million in rider reductions; and \$3 million gas). Entergy New Orleans fully implemented the new rates in April 2020. In January 2021, pursuant to the agreement in principle approved by the City Council in October 2020, Entergy New Orleans filed with Civil District Court a motion seeking to dismiss its petition for judicial review of the City Council's resolution in the 2018 combined rate case.

Commercial operation of the New Orleans Power Station commenced in May 2020. In accordance with the City Council resolution issued in the 2018 base rate case proceeding, Entergy New Orleans had been deferring the New Orleans Power Station non-fuel costs pending the conclusion of the appellate proceedings. In October 2020 the Louisiana Supreme Court denied all writ applications relating to the New Orleans Power Station. With those denials, Entergy New Orleans began recovering New Orleans Power Station costs in rates in November 2020. As of December 31, 2020 the regulatory asset for the deferral of New Orleans Power Station non-fuel costs was \$5 million. Entergy New Orleans is recovering the costs over a five-year period that began in November 2020. In December 2020 the Alliance for Affordable Energy and Sierra Club filed a joint motion with the City Council to institute a prudence review to investigate the costs of the New Orleans Power Station. On January 28, 2021, the City Council passed a resolution giving parties 30 days to respond to the motion. Entergy New Orleans plans to respond to the motion.

2020 Formula Rate Plan Filing

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

COVID-19 Orders

In March 2020, Entergy New Orleans voluntarily suspended customer disconnections for non-payment of utility bills through May 2020. Subsequently, the City Council ordered that the moratorium be extended to August 1, 2020. In May 2020 the City Council issued an accounting order authorizing Entergy New Orleans to establish a regulatory asset for incremental COVID-19-related expenses. In January 2021, Entergy New Orleans resumed disconnecting service to commercial and small business customers with past-due balances that have not made payment arrangements. In February 2021 the City Council adopted a resolution suspending residential customer disconnections for non-payment of utility bills and suspending the assessment and accumulation of late fees on residential customers with past-due balances through May 15, 2021. As of December 31, 2020, Entergy New Orleans recorded a regulatory asset of \$14.3 million for costs associated with the COVID-19 pandemic.

In June 2020 the City Council established the City Council Cares Program and directed Entergy New Orleans to use the approximately \$7 million refund received from the Entergy Arkansas opportunity sales FERC proceeding, currently being held in escrow, and approximately \$15 million of non-securitized storm reserves to fund this program, which is intended to provide temporary bill relief to customers who become unemployed during the COVID-19 pandemic. The program became effective July 1, 2020, and offers qualifying residential customers bill credits of \$100 per month for up to four months, for a maximum of \$400 in residential customer bill credits. As of December 31, 2020, credits of \$3.4 million have been applied to customer bills under the City Council Cares Program.

Filings with the PUCT and Texas Cities (Entergy Texas)

Retail Rates

2018 Base Rate Case

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

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

Distribution Cost Recovery Factor (DCRF) Rider

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

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

In October 2020, Entergy Texas filed with the PUCT a request to amend its DCRF rider. The proposed rider is designed to collect from Entergy Texas's retail customers approximately \$26.3 million annually, or \$6.8 million in incremental annual revenues beyond Entergy Texas's currently effective DCRF rider based on its capital invested in distribution between January 1, 2020 and August 31, 2020. In February 2021 the administrative law judge with the State Office of Administrative Hearings approved Entergy Texas's agreed motion for interim rates, which will go into effect in March 2021. The administrative law judge also adopted a procedural schedule setting a hearing on the merits, if necessary, in April 2021.

Transmission Cost Recovery Factor (TCRF) Rider

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

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

In October 2020, Entergy Texas filed with the PUCT a request to amend its TCRF rider. The proposed rider is designed to collect from Entergy Texas's retail customers approximately \$51 million annually, or \$31.6 million in incremental annual revenues beyond Entergy Texas's currently effective TCRF rider based on its capital invested in transmission between July 1, 2019 and August 31, 2020. A procedural schedule was established with a hearing scheduled in March 2021. In February 2021, Entergy Texas filed an agreed motion to abate the procedural schedule, noting that the parties had reached a settlement in principle, and the administrative law judge granted the motion to abate.

COVID-19 Orders

In March 2020 the PUCT authorized electric utilities to record as a regulatory asset expenses resulting from the effects of COVID-19. In future proceedings the PUCT will consider whether each utility's request for recovery of these regulatory assets is reasonable and necessary, the appropriate period of recovery, and any amount of carrying costs thereon. In March 2020 the PUCT ordered a moratorium on disconnections for nonpayment for all customer classes, but, in April 2020, revised the disconnect moratorium to apply only to residential customers. The PUCT allowed the moratorium to expire on June 13, 2020, but on July 17, 2020, the PUCT re-established the disconnect moratorium for residential customers until August 31, 2020. In January 2021, Entergy Texas resumed disconnections for customers with past-due balances that have not made payment arrangements. As of December 31, 2020, Entergy Texas recorded a regulatory asset of \$12.9 million for costs associated with the COVID-19 pandemic.

Generation Cost Recovery Rider

In October 2020, Entergy Texas filed an application to establish a generation cost recovery rider with an initial annual revenue requirement of approximately \$91 million to begin recovering a return of and on its capital investment in the Montgomery County Power Station through August 31, 2020. In December 2020, Entergy Texas filed an unopposed settlement supporting a generation cost recovery rider with an annual revenue requirement of approximately \$86 million. The settlement revenue requirement is based on a depreciation rate intended to fully depreciate Montgomery County Power Station over 38 years and the removal of certain costs from Entergy Texas's request. Under the settlement, Entergy Texas retains the right to propose a different depreciation rate and seek recovery of a majority of the costs removed from its request in its next base rate proceeding. On January 14, 2021, the PUCT approved the generation cost recovery rider settlement rates on an interim basis and abated the proceeding. Within 60 days of Montgomery County Power Station being placed in service on January 1, 2021, Entergy Texas will file to update its generation cost recovery rider to include investment in Montgomery County Power Station after August 31, 2020. The current estimated cost of Montgomery County Power Station, including transmission interconnection and network upgrades, is approximately \$921 million. Of this investment, approximately \$765 million is eligible to begin being recovered through the generation cost recovery rider. Entergy Texas will address recovery of the remainder of its Montgomery County Power Station investment through other rate mechanisms.

In December 2020, Entergy Texas filed an application to amend its generation cost recovery rider to reflect its acquisition of the Hardin County Peaking Facility, which is expected to close in April 2021. The initial generation cost recovery rider rates proposed in the application represent no change from the generation cost recovery rider rates to be established in Entergy Texas' previous generation cost recovery rider proceeding. Once Entergy Texas has acquired the Hardin County Peaking Facility, its investment in the facility will be reflected in the updated filing to Entergy Texas' application, which will be made within 60 days of the acquisition's closing.

Entergy Arkansas Opportunity Sales Proceeding

In June 2009 the LPSC filed a complaint requesting that the FERC determine that certain of Entergy Arkansas's sales of electric energy to third parties: (a) violated the provisions of the System Agreement that allocated the energy generated by Entergy System resources; (b) imprudently denied the Entergy System and its ultimate consumers the benefits of low-cost Entergy System generating capacity; and (c) violated the provision of the System Agreement that prohibited sales to third parties by individual companies absent an offer of a right-of-first-refusal to other Utility operating companies. The LPSC's complaint challenged sales made beginning in 2002 and requested refunds. In July 2009 the Utility operating companies filed a response to the complaint arguing among other things that the System Agreement contemplates that the Utility operating companies may make sales to third parties for their own account, subject to the requirement that those sales be included in the load (or load shape) for the applicable Utility operating company. The FERC subsequently ordered a hearing in the proceeding.

After a hearing, the ALJ issued an initial decision in December 2010. The ALJ found that the System Agreement allowed for Entergy Arkansas to make the sales to third parties but concluded that the sales should be accounted for in the same manner as joint account sales. The ALJ concluded that "shareholders" should make refunds of the damages to the Utility operating companies, along with interest. Entergy disagreed with several aspects of the ALJ's initial decision and in January 2011 filed with the FERC exceptions to the decision.

The FERC issued a decision in June 2012 and held that, while the System Agreement is ambiguous, it does provide authority for individual Utility operating companies to make opportunity sales for their own account and Entergy Arkansas made and priced these sales in good faith. The FERC found, however, that the System Agreement does not provide authority for an individual Utility operating company to allocate the energy associated with such opportunity sales as part of its load but provides a different allocation authority. The FERC further found that the after-the-fact accounting methodology used to allocate the energy used to supply the sales was inconsistent with the System Agreement. The FERC in its decision established further hearing procedures to quantify the effect of repricing the opportunity sales in accordance with the FERC's June 2012 decision. The hearing was held in May 2013 and the ALJ issued an initial decision in August 2013. The LPSC, the APSC, the City Council, and FERC staff filed briefs on exceptions and/or briefs opposing exceptions. Entergy filed a brief on exceptions requesting that the FERC reverse the initial decision and a brief opposing certain exceptions taken by the LPSC and FERC staff.

In April 2016 the FERC issued orders addressing requests for rehearing filed in July 2012 and the ALJ's August 2013 initial decision. The first order denied Entergy's request for rehearing and affirmed the FERC's earlier rulings that Entergy's original methodology for allocating energy costs to the opportunity sales was incorrect and, as a result, Entergy Arkansas must make payments to the other Utility operating companies to put them in the same position that they would have been in absent the incorrect allocation. The FERC clarified that interest should be included with the payments. The second order affirmed in part, and reversed in part, the rulings in the ALJ's August 2013 initial decision regarding the methodology that should be used to calculate the payments Entergy Arkansas is to make to the other Utility operating companies. The FERC affirmed the ALJ's ruling that a full re-run of intra-system bills should be performed but required that methodology be modified so that the sales have the same priority for purposes of energy allocation as joint account sales. The FERC reversed the ALJ's decision that any payments by Entergy Arkansas should be reduced by 20%. The FERC also reversed the ALJ's decision that adjustments to other System Agreement service schedules and excess bandwidth payments should not be taken into account when calculating the payments to be made by Entergy Arkansas. The FERC held that such adjustments and excess bandwidth payments should be taken into account but ordered further proceedings before an ALJ to address whether a cap on any reduction due to bandwidth payments was necessary and to implement the other adjustments to the calculation methodology.

In May 2016, Entergy Services filed a request for rehearing of the FERC's April 2016 order arguing that payments made by Entergy Arkansas should be reduced as a result of the timing of the LPSC's approval of certain contracts. Entergy Services also filed a request for clarification and/or rehearing of the FERC's April 2016 order

addressing the ALJ’s August 2013 initial decision. The APSC and the LPSC also filed requests for rehearing of the FERC’s April 2016 order. In September 2017 the FERC issued an order denying the request for rehearing on the issue of whether any payments by Entergy Arkansas to the other Utility operating companies should be reduced due to the timing of the LPSC’s approval of Entergy Arkansas’s wholesale baseload contract with Entergy Louisiana. In November 2017 the FERC issued an order denying all of the remaining requests for rehearing of the April 2016 order. In November 2017, Entergy Services filed a petition for review in the D.C. Circuit of the FERC’s orders in the first two phases of the opportunity sales case. In December 2017 the D.C. Circuit granted Entergy Services’ request to hold the appeal in abeyance pending final resolution of the related proceeding before the FERC. In January 2018 the APSC and the LPSC filed separate petitions for review in the D.C. Circuit, and the D.C. Circuit consolidated the appeals with Entergy Services’ appeal.

The hearing required by the FERC’s April 2016 order was held in May 2017. In July 2017 the ALJ issued an initial decision addressing whether a cap on any reduction due to bandwidth payments was necessary and whether to implement the other adjustments to the calculation methodology. In August 2017 the Utility operating companies, the LPSC, the APSC, and FERC staff filed individual briefs on exceptions challenging various aspects of the initial decision. In September 2017 the Utility operating companies, the LPSC, the APSC, the MPSC, the City Council, and FERC staff filed separate briefs opposing exceptions taken by various parties.

Based on testimony previously submitted in the case and its assessment of the April 2016 FERC orders, in the first quarter 2016, Entergy Arkansas recorded a liability of \$87 million, which included interest, for its estimated increased costs and payment to the other Utility operating companies, and a deferred fuel regulatory asset of \$75 million. Following its assessment of the course of the proceedings, including the FERC’s denial of rehearing in November 2017 described above, in the fourth quarter 2017, Entergy Arkansas recorded an additional liability of \$35 million and a regulatory asset of \$31 million.

In October 2018 the FERC issued an order addressing the ALJ’s July 2017 initial decision. The FERC reversed the ALJ’s decision to cap the reduction in Entergy Arkansas’s payment to account for the increased bandwidth payments that Entergy Arkansas made to the other operating companies. The FERC also reversed the ALJ’s decision that Grand Gulf sales from January through September 2000 should be included in the calculation of Entergy Arkansas’s payment. The FERC affirmed on other grounds the ALJ’s rejection of the LPSC’s claim that certain joint account sales should be accounted for as part of the calculation of Entergy Arkansas’s payment. In November 2018 the LPSC requested rehearing of the FERC’s October 2018 decision. In December 2019 the FERC denied the LPSC’s request for rehearing. In January 2020 the LPSC appealed the December 2019 decision to the D.C. Circuit.

In December 2018, Entergy made a compliance filing in response to the FERC’s October 2018 order. The compliance filing provided a final calculation of Entergy Arkansas’s payments to the other Utility operating companies, including interest. No protests were filed in response to the December 2018 compliance filing. The December 2018 compliance filing is pending FERC action. Refunds and interest in the following amounts were paid by Entergy Arkansas to the other operating companies in December 2018:

	Total refunds including interest		
	Payment/(Receipt)		
	(In Millions)		
	Principal	Interest	Total
Entergy Arkansas	\$68	\$67	\$135
Entergy Louisiana	(\$30)	(\$29)	(\$59)
Entergy Mississippi	(\$18)	(\$18)	(\$36)
Entergy New Orleans	(\$3)	(\$4)	(\$7)
Entergy Texas	(\$17)	(\$16)	(\$33)

Entergy Arkansas previously recognized a regulatory asset with a balance of \$116 million as of December 31, 2018 for a portion of the payments due as a result of this proceeding.

As described above, the FERC's opportunity sales orders have been appealed to the D.C. Circuit. In February 2020 all of the appeals were consolidated and in April 2020 the D.C. Circuit established a briefing schedule. Briefing was completed in September 2020 and oral argument was heard in December 2020.

In February 2019 the LPSC filed a new complaint relating to two issues that were raised in the opportunity sales proceeding, but that, in its October 2018 order, the FERC held were outside the scope of the proceeding. In March 2019, Entergy Services filed an answer and motion to dismiss the new complaint. In November 2019 the FERC issued an order denying the LPSC's complaint. The order concluded that the settlement agreement approved by the FERC in December 2015 terminating the System Agreement barred the LPSC's new complaint. In December 2019 the LPSC requested rehearing of the FERC's November 2019 order, and in July 2020 the FERC issued an order dismissing the LPSC's request for rehearing. In September 2020 the LPSC appealed to the D.C. Circuit the FERC's orders dismissing the new opportunity sales complaint. In November 2020 the D.C. Circuit issued an order establishing that briefing will occur in January 2021 through April 2021.

In May 2019, Entergy Arkansas filed an application and supporting testimony with the APSC requesting approval of a special rider tariff to recover the costs of these payments from its retail customers over a 24-month period. The application requested that the APSC approve the rider to take effect within 30 days or, if suspended by the APSC as allowed by commission rule, approve the rider to take effect in the first billing cycle of the first month occurring 30 days after issuance of the APSC's order approving the rider. In June 2019 the APSC suspended Entergy Arkansas's tariff and granted Entergy Arkansas's motion asking the APSC to establish the proceeding as the single designated proceeding in which interested parties may assert claims related to the appropriate retail rate treatment of the FERC's October 2018 order and related FERC orders in the opportunity sales proceeding. In January 2020 the APSC adopted a procedural schedule with a hearing in April 2020. In January 2020 the Attorney General and Arkansas Electric Energy Consumers, Inc. filed a joint motion seeking to dismiss Entergy Arkansas's application alleging that the APSC, in a prior proceeding, ruled on the issues addressed in the application and determined that Entergy Arkansas's requested relief violates the filed rate doctrine and the prohibition against retroactive ratemaking. Entergy Arkansas responded to the joint motion in February 2020 rebutting these arguments, including demonstrating that the claims in this proceeding differ substantially from those the APSC addressed previously and that the payment resulting from a FERC tariff violation for which Entergy Arkansas seeks retail cost recovery in this proceeding differs materially from the refunds resulting from a FERC tariff amendment that the APSC previously rejected on filed rate doctrine and the retroactive ratemaking grounds. In addition, in January 2020 the Attorney General and Arkansas Electric Energy Consumers, Inc. filed testimony opposing the recovery by Entergy Arkansas of the opportunity sales payment but also claiming that certain components of the payment should be segregated and refunded to customers. In March 2020, Entergy Arkansas filed rebuttal testimony.

In July 2020 the APSC issued a decision finding that Entergy Arkansas's application is not in the public interest. The order also directed Entergy Arkansas to refund to its retail customers within 30 days of the order the FERC-determined over-collection of \$13.7 million, plus interest, associated with a recalculated bandwidth remedy. In addition to these primary findings, the order also denied the Attorney General's request for Entergy Arkansas to prepare a compliance filing detailing all of the retail impacts from the opportunity sales and denied a request by the Arkansas Electric Energy Consumers to recalculate all costs using the revised responsibility ratio. Entergy Arkansas filed a motion for temporary stay of the 30-day requirement to allow Entergy Arkansas a reasonable opportunity to seek rehearing of the APSC order, but in July 2020 the APSC denied Entergy Arkansas's request for a stay and directed Entergy Arkansas to refund to its retail customers the component of the total FERC-determined opportunity sales payment that was associated with increased bandwidth remedy payments of \$13.7 million, plus interest. The refunds were issued in the August 2020 billing cycle. While the APSC denied Entergy Arkansas's stay request, Entergy Arkansas believes its actions were prudent and, therefore, the costs, including the \$13.7 million, plus interest, are recoverable. In July 2020, Entergy Arkansas requested rehearing of the APSC

order, which rehearing was denied by the APSC in August 2020. In September 2020, Entergy Arkansas filed a complaint in the U. S. District Court for the Eastern District of Arkansas challenging the APSC's order denying Entergy Arkansas's request to recover the costs of these payments. In October 2020 the APSC filed a motion to dismiss Entergy Arkansas's complaint, to which Entergy Arkansas responded. Also in December 2020, Entergy Arkansas and the APSC held a pre-trial conference, and filed a report with the court in January 2021. The court scheduled a hearing for February 26, 2021 regarding issues addressed in the pre-trial conference report.

Complaints Against System Energy

Return on Equity and Capital Structure Complaints

In January 2017 the APSC and MPSC filed a complaint with the FERC against System Energy. The complaint seeks a reduction in the return on equity component of the Unit Power Sales Agreement pursuant to which System Energy sells its Grand Gulf capacity and energy to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. Entergy Arkansas also sells some of its Grand Gulf capacity and energy to Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans under separate agreements. The current return on equity under the Unit Power Sales Agreement is 10.94%, which was established in a rate proceeding that became final in July 2001.

The APSC and MPSC complaint alleges that the return on equity is unjust and unreasonable because capital market and other considerations indicate that it is excessive. The complaint requests proceedings to investigate the return on equity and establish a lower return on equity, and also requests that the FERC establish January 23, 2017 as a refund effective date. The complaint includes return on equity analysis that purports to establish that the range of reasonable return on equity for System Energy is between 8.37% and 8.67%. System Energy answered the complaint in February 2017 and disputes that a return on equity of 8.37% to 8.67% is just and reasonable. The LPSC and the City Council intervened in the proceeding expressing support for the complaint. In September 2017 the FERC established a refund effective date of January 23, 2017 and directed the parties to engage in settlement proceedings before an ALJ. The parties have been unable to settle the return on equity issue and a FERC hearing judge was assigned in July 2018. The 15-month refund period in connection with the APSC/MPSC complaint expired on April 23, 2018.

In April 2018 the LPSC filed a complaint with the FERC against System Energy seeking an additional 15-month refund period. The LPSC complaint requests similar relief from the FERC with respect to System Energy's return on equity and also requests the FERC to investigate System Energy's capital structure. The APSC, MPSC, and City Council intervened in the proceeding, filed an answer expressing support for the complaint, and asked the FERC to consolidate this proceeding with the proceeding initiated by the complaint of the APSC and MPSC in January 2017. System Energy answered the LPSC complaint in May 2018 and also filed a motion to dismiss the complaint. In August 2018 the FERC issued an order dismissing the LPSC's request to investigate System Energy's capital structure and setting for hearing the return on equity complaint, with a refund effective date of April 27, 2018. The 15-month refund period in connection with the LPSC return on equity complaint expired on July 26, 2019.

The portion of the LPSC's complaint dealing with return on equity was subsequently consolidated with the APSC and MPSC complaint for hearing. The parties addressed an order (issued in a separate proceeding involving New England transmission owners) that proposed modifying the FERC's standard methodology for determining return on equity. In September 2018, System Energy filed a request for rehearing and the LPSC filed a request for rehearing or reconsideration of the FERC's August 2018 order. The LPSC's request referenced an amended complaint that it filed on the same day raising the same capital structure claim the FERC had earlier dismissed. The FERC initiated a new proceeding for the amended capital structure complaint, and System Energy submitted a response in October 2018. In January 2019 the FERC set the amended complaint for settlement and hearing proceedings. Settlement proceedings in the capital structure proceeding commenced in February 2019. As noted below, in June 2019 settlement discussions were terminated and the amended capital structure complaint was

consolidated with the ongoing return on equity proceeding. The 15-month refund period in connection with the capital structure complaint was from September 24, 2018 to December 23, 2019.

In January 2019 the LPSC and the APSC and MPSC filed direct testimony in the return on equity proceeding. For the refund period January 23, 2017 through April 23, 2018, the LPSC argues for an authorized return on equity for System Energy of 7.81% and the APSC and MPSC argue for an authorized return on equity for System Energy of 8.24%. For the refund period April 27, 2018 through July 27, 2019, and for application on a prospective basis, the LPSC argues for an authorized return on equity for System Energy of 7.97% and the APSC and MPSC argue for an authorized return on equity for System Energy of 8.41%. In March 2019, System Energy submitted answering testimony. For the first refund period, System Energy's testimony argues for a return on equity of 10.10% (median) or 10.70% (midpoint). For the second refund period, System Energy's testimony shows that the calculated returns on equity for the first period fall within the range of presumptively just and reasonable returns on equity, and thus the second complaint should be dismissed (and the first period return on equity used going forward). If the FERC nonetheless were to set a new return on equity for the second period (and going forward), System Energy argues the return on equity should be either 10.32% (median) or 10.69% (midpoint).

In May 2019 the FERC trial staff filed its direct and answering testimony in the return on equity proceeding. For the first refund period, the FERC trial staff calculates an authorized return on equity for System Energy of 9.89% based on the application of FERC's proposed methodology. The FERC trial staff's direct and answering testimony noted that an authorized return on equity of 9.89% for the first refund period was within the range of presumptively just and reasonable returns on equity for the second refund period, as calculated using a study period ending January 31, 2019 for the second refund period.

In June 2019, System Energy filed testimony responding to the testimony filed by the FERC trial staff. Among other things, System Energy's testimony rebutted arguments raised by the FERC trial staff and provided updated calculations for the second refund period based on the study period ending May 31, 2019. For that refund period, System Energy's testimony shows that strict application of the return on equity methodology proposed by the FERC staff indicates that the second complaint would not be dismissed, and the new return on equity would be set at 9.65% (median) or 9.74% (midpoint). System Energy's testimony argues that these results are insufficient in light of benchmarks such as state returns on equity and treasury bond yields, and instead proposes that the calculated returns on equity for the second period should be either 9.91% (median) or 10.3% (midpoint). System Energy's testimony also argues that, under application of its proposed modified methodology, the 10.10% return on equity calculated for the first refund period would fall within the range of presumptively just and reasonable returns on equity for the second refund period.

Also in June 2019, the FERC's Chief ALJ issued an order terminating settlement discussions in the amended complaint addressing System Energy's capital structure. The ALJ consolidated the amended capital structure complaint with the ongoing return on equity proceeding and set new procedural deadlines for the consolidated hearing.

In August 2019 the LPSC and the APSC and MPSC filed rebuttal testimony in the return on equity proceeding and direct and answering testimony relating to System Energy's capital structure. The LPSC re-argues for an authorized return on equity for System Energy of 7.81% for the first refund period and 7.97% for the second refund period. The APSC and MPSC argue for an authorized return on equity for System Energy of 8.26% for the first refund period and 8.32% for the second refund period. With respect to capital structure, the LPSC proposes that the FERC establish a hypothetical capital structure for System Energy for ratemaking purposes. Specifically, the LPSC proposes that System Energy's common equity ratio be set to Entergy Corporation's equity ratio of 37% equity and 63% debt. In the alternative, the LPSC argues that the equity ratio should be no higher than 49%, the composite equity ratio of System Energy and the other Entergy operating companies who purchase under the Unit Power Sales Agreement. The APSC and MPSC recommend that 35.98% be set as the common equity ratio for System Energy. As an alternative, the APSC and MPSC propose that System Energy's common equity be set at 46.75% based on the median equity ratio of the proxy group for setting the return on equity.

In September 2019 the FERC trial staff filed its rebuttal testimony in the return on equity proceeding. For the first refund period, the FERC trial staff calculates an authorized return on equity for System Energy of 9.40% based on the application of the FERC's proposed methodology and an updated proxy group. For the second refund period, based on the study period ending May 31, 2019, the FERC trial staff rebuttal testimony argues for a return on equity of 9.63%. In September 2019 the FERC trial staff also filed direct and answering testimony relating to System Energy's capital structure. The FERC trial staff argues that the average capital structure of the proxy group used to develop System Energy's return on equity should be used to establish the capital structure. Using this approach, the FERC trial staff calculates the average capital structure for its proposed proxy group of 46.74% common equity, and 53.26% debt.

In October 2019, System Energy filed answering testimony disputing the FERC trial staff's, the LPSC's, and the APSC's and MPSC's arguments for the use of a hypothetical capital structure and arguing that the use of System Energy's actual capital structure is just and reasonable.

In November 2019, in a proceeding that did not involve System Energy, the FERC issued an order addressing the methodology for determining the return on equity applicable to transmission owners in MISO. Thereafter, the procedural schedule in the System Energy proceeding was amended to allow the participants to file supplemental testimony addressing the order in the MISO transmission owner proceeding (Opinion No. 569).

In February 2020 the LPSC, the MPSC and APSC, and the FERC trial staff filed supplemental testimony addressing Opinion No. 569 and how it would affect the return on equity evaluation for the two complaint periods concerning System Energy. For the first refund period, based on their respective interpretations and applications of the Opinion No. 569 methodology, the LPSC argues for an authorized return on equity for System Energy of 8.44%; the MPSC and APSC argue for an authorized return on equity of 8.41%; and the FERC trial staff argues for an authorized return on equity of 9.22%. For the second refund period and on a prospective basis, based on their respective interpretations and applications of the Opinion No. 569 methodology, the LPSC argues for an authorized return on equity for System Energy of 7.89%; the MPSC and APSC argue that an authorized return on equity of 8.01% may be appropriate; and the FERC trial staff argues for an authorized return on equity of 8.66%.

In April 2020, System Energy filed supplemental answering testimony addressing Opinion No. 569. System Energy argues that the Opinion No. 569 methodology is conceptually and analytically defective for purposes of establishing just and reasonable authorized return on equity determinations and proposes an alternative approach. As its primary recommendation, System Energy continues to support the return on equity determinations in its March 2019 testimony for the first refund period and its June 2019 testimony for the second refund period. Under the Opinion No. 569 methodology, System Energy calculates a "presumptively just and reasonable range" for the authorized return on equity for the first refund period of 8.57% to 9.52%, and for the second refund period of 8.28% to 9.11%. System Energy argues that these ranges are not just and reasonable results. Under its proposed alternative methodology, System Energy calculates an authorized return on equity of 10.26% for the first refund period, which also falls within the presumptively just and reasonable range calculated for the second refund period and prospectively.

In May 2020 the FERC issued an order on rehearing of Opinion No. 569 (Opinion No. 569-A). In June 2020 the procedural schedule in the System Energy proceeding was further revised in order to allow parties to address the Opinion No. 569-A methodology. Pursuant to the revised schedule, in June 2020, the LPSC, MPSC and APSC, and the FERC trial staff filed supplemental testimony addressing Opinion No. 569-A and how it would affect the return on equity evaluation for the two complaint periods concerning System Energy. For the first refund period, based on their respective interpretations and applications of the Opinion No. 569-A methodology, the LPSC argues for an authorized return on equity for System Energy of 7.97%; the MPSC and APSC argue for an authorized return on equity of 9.24%; and the FERC trial staff argues for an authorized return on equity of 9.49%. For the second refund period and on a prospective basis, based on their respective interpretations and applications of the

Opinion No. 569-A methodology, the LPSC argues for an authorized return on equity for System Energy of 7.78%; the MPSC and APSC argue that an authorized return on equity of 9.15% may be appropriate if the second complaint is not dismissed; and the FERC trial staff argues for an authorized return on equity of 9.09% if the second complaint is not dismissed.

Pursuant to the revised procedural schedule, in July 2020, System Energy filed supplemental testimony addressing Opinion No. 569-A. System Energy argues that strict application of the Opinion No. 569-A methodology produces results inconsistent with investor requirements and does not provide a sound basis on which to evaluate System Energy's authorized return on equity. As its primary recommendation, System Energy argues for the use of a methodology that incorporates four separate financial models, including the constant growth form of the discounted cash flow model and the empirical capital asset pricing model. Based on application of its recommended methodology, System Energy argues for an authorized return on equity of 10.12% for the first refund period, which also falls within the presumptively just and reasonable range calculated for the second refund period and prospectively. Under the Opinion No. 569-A methodology, System Energy calculates an authorized return on equity of 9.44% for the first refund period, which also falls within the presumptively just and reasonable range calculated for the second refund period and prospectively.

The parties and FERC trial staff filed final rounds of testimony in August 2020. The hearing before a FERC ALJ occurred in late-September through early-October 2020, post-hearing briefing took place in November and December 2020, and the initial decision is due in March 2021. System Energy recorded a provision against revenue for the potential outcome of this proceeding.

Grand Gulf Sale-leaseback Renewal Complaint and Uncertain Tax Position Rate Base Issue

In May 2018 the LPSC filed a complaint against System Energy and Entergy Services related to System Energy's renewal of a sale-leaseback transaction originally entered into in December 1988 for an 11.5% undivided interest in Grand Gulf Unit 1. The complaint alleges that System Energy violated the filed rate and the FERC's ratemaking and accounting requirements when it included in Unit Power Sales Agreement billings the cost of capital additions associated with the sale-leaseback interest, and that System Energy is double-recovering costs by including both the lease payments and the capital additions in Unit Power Sales Agreement billings. The complaint also claims that System Energy was imprudent in entering into the sale-leaseback renewal because the Utility operating companies that purchase Grand Gulf's output from System Energy could have obtained cheaper capacity and energy in the MISO markets. The complaint further alleges that System Energy violated various other reporting and accounting requirements and should have sought prior FERC approval of the lease renewal. The complaint seeks various forms of relief from the FERC. The complaint seeks refunds for capital addition costs for all years in which they were recorded in allegedly non-formula accounts or, alternatively, the disallowance of the return on equity for the capital additions in those years plus interest. The complaint also asks that the FERC disallow and refund the lease costs of the sale-leaseback renewal on grounds of imprudence, investigate System Energy's treatment of a DOE litigation payment, and impose certain forward-looking procedural protections, including audit rights for retail regulators of the Unit Power Sales Agreement formula rates. The APSC, MPSC, and City Council intervened in the proceeding.

In June 2018, System Energy and Entergy Services filed a motion to dismiss and an answer to the LPSC complaint denying that System Energy's treatment of the sale-leaseback renewal and capital additions violated the terms of the filed rate or any other FERC ratemaking, accounting, or legal requirements or otherwise constituted double recovery. The response also argued that the complaint is inconsistent with a FERC-approved settlement to which the LPSC is a party and that explicitly authorizes System Energy to recover its lease payments. Finally, the response argued that both the capital additions and the sale-leaseback renewal were prudent investments and the LPSC complaint fails to justify any disallowance or refunds. The response also offered to submit formula rate protocols for the Unit Power Sales Agreement similar to the procedures used for reviewing transmission rates under the MISO tariff. In September 2018 the FERC issued an order setting the complaint for hearing and settlement proceedings. The FERC established a refund effective date of May 18, 2018.

In February 2019 the presiding ALJ ruled that the hearing ordered by the FERC includes the issue of whether specific subcategories of accumulated deferred income tax should be included in, or excluded from, System Energy's formula rate. In March 2019 the LPSC, MPSC, APSC and City Council filed direct testimony. The LPSC testimony sought refunds that include the renewal lease payments (approximately \$17.2 million per year since July 2015), rate base reductions for accumulated deferred income tax associated with uncertain tax positions, and the cost of capital additions associated with the sale-leaseback interest, as well as interest on those amounts.

In June 2019 System Energy filed answering testimony arguing that the FERC should reject all claims for refunds. Among other things, System Energy argued that claims for refunds of the costs of lease renewal payments and capital additions should be rejected because those costs were recovered consistent with the Unit Power Sales Agreement formula rate, System Energy was not over or double recovering any costs, and ratepayers will save costs over the initial and renewal terms of the leases. System Energy argued that claims for refunds associated with liabilities arising from uncertain tax positions should be rejected because the liabilities do not provide cost-free capital, the repayment timing of the liabilities is uncertain, and the outcome of the underlying tax positions is uncertain. System Energy's testimony also challenged the refund calculations supplied by the other parties.

In August 2019 the FERC trial staff filed direct and answering testimony seeking refunds for rate base reductions for liabilities associated with uncertain tax positions. The FERC trial staff also argued that System Energy recovered \$32 million more than it should have in depreciation expense for capital additions. In September 2019, System Energy filed cross-answering testimony disputing the FERC trial staff's arguments for refunds, stating that the FERC trial staff's position regarding depreciation rates for capital additions is not unreasonable, but explaining that any change in depreciation expense is only one element of a Unit Power Sales Agreement re-billing calculation. Adjustments to depreciation expense in any re-billing under the Unit Power Sales Agreement formula rate will also involve changes to accumulated depreciation, accumulated deferred income taxes, and other formula elements as needed. In October 2019 the LPSC filed rebuttal testimony increasing the amount of refunds sought for liabilities associated with uncertain tax positions. The LPSC seeks approximately \$512 million plus interest, which is approximately \$191 million through December 31, 2020. The FERC trial staff also filed rebuttal testimony in which it seeks refunds of a similar amount as the LPSC for the liabilities associated with uncertain tax positions. The LPSC testimony also argued that adjustments to depreciation rates should affect rate base on a prospective basis only.

A hearing was held before a FERC ALJ in November 2019. In April 2020 the ALJ issued an initial decision. Among other things, the ALJ determined that refunds were due on three main issues. First, with regard to the lease renewal payments, the ALJ determined that System Energy is recovering an unjust acquisition premium through the lease renewal payments, and that System Energy's recovery from customers through rates should be limited to the cost of service based on the remaining net book value of the leased assets, which is approximately \$70 million. The ALJ found that the remedy for this issue should be the refund of lease payments (approximately \$17.2 million per year since July 2015) with interest determined at the FERC quarterly interest rate, which would be offset by the addition of the net book value of the leased assets in the cost of service. The ALJ did not calculate a value for the refund expected as a result of this remedy. In addition, System Energy would no longer recover the lease payments in rates prospectively. Second, with regard to the liabilities associated with uncertain tax positions, the ALJ determined that the liabilities are accumulated deferred income taxes and System Energy's rate base should have been reduced for those liabilities. If the ALJ's initial decision is upheld, the estimated refund for this issue through December 31, 2020, is approximately \$422 million, plus interest, which is approximately \$110 million through December 31, 2020. The ALJ also found that System Energy should include liabilities associated with uncertain tax positions as a rate base reduction going forward. Third, with regard to the depreciation expense adjustments, the ALJ found that System Energy should correct for the error in re-billings retroactively and prospectively, but that System Energy should not be permitted to recover interest on any retroactive return on enhanced rate base resulting from such corrections. If the initial decision is affirmed on this issue, System Energy estimates refunds of approximately \$19 million, which includes interest through December 31, 2020.

The ALJ initial decision is an interim step in the FERC litigation process, and an ALJ's determinations made in an initial decision are not controlling on the FERC. The ALJ in the initial decision acknowledges that these are issues of first impression before the FERC. In June 2020, System Energy, the LPSC, and the FERC trial staff filed briefs on exceptions, challenging several of the initial decision's findings. System Energy's brief on exceptions challenged the initial decision's limitations on recovery of the lease renewal payments, its proposed rate base refund for the liabilities associated with uncertain tax positions, and its proposal to asymmetrically treat interest on bill corrections for depreciation expense adjustments. The LPSC's and the FERC trial staff's briefs on exceptions each challenged the initial decision's allowance for recovery of the cost of service associated with the lease renewal based on the remaining net book value of the leased assets, its calculation of the remaining net book value of the leased assets, and the amount of the initial decision's proposed rate base refund for the liabilities associated with uncertain tax positions. The LPSC's brief on exceptions also challenged the initial decision's proposal that depreciation expense adjustments include retroactive adjustments to rate base and its finding that section 203 of the Federal Power Act did not apply to the lease renewal. The FERC trial staff's brief on exceptions also challenged the initial decision's finding that the FERC need not institute a formal investigation into System Energy's tariff. In October 2020, System Energy, the LPSC, the MPSC, the APSC, and the City Council filed briefs opposing exceptions. System Energy opposed the exceptions filed by the LPSC and the FERC trial staff. The LPSC, MPSC, APSC, City Council, and the FERC trial staff opposed the exceptions filed by System Energy. Also in October 2020 the MPSC, APSC, and the City Council filed briefs adopting the exceptions of the LPSC and the FERC trial staff. The case is pending before the FERC, which will review the case and issue an order on the proceeding, and the FERC may accept, reject, or modify the ALJ's initial decision in whole or in part. Refunds, if any, that might be required will only become due after the FERC issues its order reviewing the initial decision.

In addition, in September 2020, the IRS issued a Notice of Proposed Adjustment (NOPA) and Entergy executed it. The NOPA memorializes the IRS's decision to adjust the 2015 consolidated federal income tax return of Entergy Corporation and certain of its subsidiaries, including System Energy, with regard to the uncertain decommissioning tax position. Pursuant to the audit resolution documented in the NOPA, the IRS allowed System Energy's inclusion of \$102 million of future nuclear decommissioning costs in System Energy's cost of goods sold for the 2015 tax year, roughly 10% of the requested deduction, but disallowed the balance of the position. In September 2020, System Energy filed a motion to lodge the NOPA into the record in the FERC proceeding. In October 2020 the LPSC, the APSC, the MPSC, the City Council, and the FERC trial staff filed oppositions to System Energy's motion. As a result of the NOPA issued by the IRS in September 2020, System Energy filed, in October 2020, a new Federal Power Act section 205 filing at FERC to establish an ongoing rate base credit for the accumulated deferred income taxes resulting from the decommissioning uncertain tax position. On a prospective basis beginning with the October 2020 bill, System Energy proposes to include the accumulated deferred income taxes arising from the successful portion of the decommissioning uncertain tax position as a credit to rate base under the Unit Power Sales Agreement. In November 2020 the LPSC, APSC, MPSC, and City Council filed a protest to the filing, and System Energy responded.

In November 2020 the IRS issued a Revenue Agent's Report (RAR) for the 2014/2015 tax year and in December 2020 Entergy executed it. The RAR contained the same adjustment to the uncertain nuclear decommissioning tax position as that which the IRS had announced in the NOPA. In December 2020, System Energy filed a motion to lodge the RAR into the record in the FERC proceeding addressing the uncertain tax position rate base issue. In January 2021 the LPSC, APSC, MPSC, and City Council filed a protest to the motion.

As a result of the RAR, in December 2020, System Energy filed amendments to its new Federal Power Act section 205 filings to establish an ongoing rate base credit for the accumulated deferred income taxes resulting from the decommissioning uncertain tax position and to credit excess accumulated deferred income taxes arising from the successful portion of the decommissioning uncertain tax position. The amendments both propose the inclusion of the RAR as support for the filings. In December 2020 the LPSC, APSC, and City Council filed a protest in response to the amendments, reiterating their prior objections to the filings. In February 2021 the FERC issued an

order accepting System Energy's Federal Power Act section 205 filings subject to refund, setting them for hearing, and holding the hearing in abeyance.

In December 2020, System Energy filed a new Federal Power Act section 205 filing to provide a one-time, historical credit of \$25.2 million for the accumulated deferred income taxes that would have been created by the decommissioning uncertain tax position if the IRS's decision had been known in 2016. In January 2021 the LPSC, APSC, MPSC, and City Council filed a protest to the filing.

LPSC Authorization of Additional Complaints

In May 2020 the LPSC authorized its staff to file additional complaints at the FERC related to the rates charged by System Energy for Grand Gulf energy and capacity supplied to Entergy Louisiana under the Unit Power Sales Agreement. The LPSC directive notes that the initial decision issued by the presiding ALJ in the Grand Gulf sale-leaseback complaint proceeding did not address, for procedural reasons, certain rate issues raised by the LPSC and declined to order further investigation of rates charged by System Energy. The LPSC directive authorizes its staff to file complaints at the FERC "necessary to address these rate issues, to request a full investigation into the rates charged by System Energy for Grand Gulf power, and to seek rate refund, rate reduction, and such other remedies as may be necessary and appropriate to protect Louisiana ratepayers." The LPSC directive further stated that the LPSC has seen "information suggesting that the Grand Gulf plant has been significantly underperforming compared to other nuclear plants in the United States, has had several extended and unexplained outages, and has been plagued with serious safety concerns." The LPSC expressed concern that the costs paid by Entergy Louisiana's retail customers may have been detrimentally impacted, and authorized "the filing of a FERC complaint to address these performance issues and to seek appropriate refund, rate reduction, and other remedies as may be appropriate."

The first of the additional complaints was filed at the FERC by the LPSC, the APSC, the MPSC, and the City Council in September 2020. The new complaint raises two sets of rate allegations: violations of the filed rate and a corresponding request for refunds for prior periods; and elements of the Unit Power Sales Agreement are unjust and unreasonable and a corresponding request for refunds for the 15-month refund period and changes to the Unit Power Sales Agreement prospectively. Several of the filed rate allegations overlap with the previous complaints. The filed rate allegations not previously raised are that System Energy: failed to provide a rate base credit to customers for the "time value" of sale-leaseback lease payments collected from customers in advance of the time those payments were due to the owner-lessors; improperly included certain lease refinancing costs in rate base as prepayments; improperly included nuclear decommissioning outage costs in rate base; failed to include categories of accumulated deferred income taxes as a reduction to rate base; charged customers based on a higher equity ratio than would be appropriate due to excessive retained earnings; and did not correctly reflect money pool investments and imprudently invested cash into the money pool. The elements of the Unit Power Sales Agreement that the complaint alleges are unjust and unreasonable include: incentive and executive compensation, lack of an equity re-opener, lobbying, and private airplane travel. The new complaint also requests a rate investigation into the Unit Power Sales Agreement and System Energy's billing practices pursuant to section 206 of the Federal Power Act, including any issue relevant to the Unit Power Sales Agreement and its inputs. System Energy filed its answer opposing the new complaint in November 2020. In its answer, System Energy argued that all of the claims raised in the complaint should be dismissed and agreed that bill adjustment with respect to two discrete issues were justified. System Energy argued that dismissal is warranted because all claims fall into one or more of the following categories: the claims have been raised and are being litigated in another proceeding; the claims do not present a *prima facie* case and do not satisfy the threshold burden to establish a complaint proceeding; the claims are premised on a theory or request relief that is incompatible with federal law or FERC policy; the claims request relief that is inconsistent with the filed rate; the claims are barred or waived by the legal doctrine of laches; and/or the claims have been fully addressed and do not warrant further litigation. In December 2020, System Energy filed a bill adjustment report indicating that \$3.4 million had been credited to customers in connection with the two discrete issues concerning the inclusion of certain accumulated deferred income taxes balances in rates. In January 2021 the

complainants filed a response to System Energy's November 2020 answer, and in February 2021, System Energy filed a response to the complainant's response.

The operational prudence-related complaint has not been filed as of this date, and the LPSC directive did not set a date for the filing.

Unit Power Sales Agreement

In August 2017, System Energy submitted to the FERC proposed amendments to the Unit Power Sales Agreement pursuant to which System Energy sells its Grand Gulf capacity and energy to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. The filing proposes limited amendments to the Unit Power Sales Agreement to adopt (1) updated rates for use in calculating Grand Gulf plant depreciation and amortization expenses and (2) updated nuclear decommissioning cost annual revenue requirements, both of which are recovered through the Unit Power Sales Agreement rate formula. The amendments result in lower charges to the Utility operating companies that buy capacity and energy from System Energy under the Unit Power Sales Agreement. The changes were based on updated depreciation and nuclear decommissioning studies that take into account the renewal of Grand Gulf's operating license for a term through November 1, 2044.

In September 2017 the FERC accepted System Energy's proposed Unit Power Sales Agreement amendments, subject to further proceedings to consider the justness and reasonableness of the amendments. Because the amendments proposed a rate decrease, the FERC also initiated an investigation under section 206 of the Federal Power Act to determine if the rate decrease should be lower than proposed. The FERC accepted the proposed amendments effective October 1, 2017, subject to refund pending the outcome of the further settlement and/or hearing proceedings, and established a refund effective date of October 11, 2017 with respect to the rate decrease. In June 2018, System Energy filed with the FERC an uncontested settlement relating to the updated depreciation rates and nuclear decommissioning cost annual revenue requirements. In August 2018 the FERC issued an order accepting the settlement. In the third quarter 2018, System Energy recorded a reduction in depreciation expense of approximately \$26 million, representing the cumulative difference in depreciation expense resulting from the depreciation rates used from October 11, 2017 through September 30, 2018 and the depreciation rates included in the settlement filing accepted by the FERC.

Storm Cost Recovery Filings with Retail Regulators

Entergy Louisiana

Hurricane Isaac

In August 2012, Hurricane Isaac caused extensive damage to Entergy Louisiana's service area. In June 2014 the LPSC authorized Entergy Louisiana to utilize Louisiana Act 55 financing for Hurricane Isaac system restoration costs. Entergy Louisiana committed to pass on to customers a minimum of \$30.8 million of customer benefits through annual customer credits of approximately \$6.2 million for five years. Approvals for the Act 55 financings were obtained from the Louisiana Utilities Restoration Corporation (LURC) and the Louisiana State Bond Commission.

In August 2014 the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) issued \$314.85 million in bonds under Louisiana Act 55. From the \$309 million of bond proceeds loaned by the LCDA to the LURC, the LURC deposited \$16 million in a restricted escrow account as a storm damage reserve for Entergy Louisiana and transferred \$293 million directly to Entergy Louisiana. Entergy Louisiana used the \$293 million received from the LURC to acquire 2,935,152.69 Class C preferred, non-voting, membership interest units of Entergy Holdings Company LLC, a company wholly-owned and consolidated by Entergy, that carry a 7.5% annual distribution rate. Distributions are payable quarterly commencing on September 15, 2014, and the membership interests have a liquidation price of \$100 per unit. The preferred membership

interests are callable at the option of Entergy Holdings Company LLC after ten years under the terms of the LLC agreement. The terms of the membership interests include certain financial covenants to which Entergy Holdings Company LLC is subject, including the requirement to maintain a net worth of at least \$1.75 billion.

Entergy and Entergy Louisiana do not report the bonds issued by the LCDA on their balance sheets because the bonds are the obligation of the LCDA and there is no recourse against Entergy or Entergy Louisiana in the event of a bond default. To service the bonds, Entergy Louisiana collects a system restoration charge on behalf of the LURC and remits the collections to the bond indenture trustee. Entergy and Entergy Louisiana do not report the collections as revenue because Entergy Louisiana is merely acting as the billing and collection agent for the state.

In the first quarter 2020, Entergy and the IRS agreed upon and settled on the treatment of funds received by Entergy Louisiana in conjunction with the Act 55 financing of Hurricane Isaac storm costs, which resulted in a net reduction of income tax expense of approximately \$32 million. As a result of the settlement, the position was partially sustained and Entergy Louisiana recorded a reduction of income tax expense of approximately \$58 million primarily due to the reversal of liabilities for uncertain tax positions in excess of the agreed-upon settlement. Entergy recorded an increase to income tax expense of \$26 million primarily resulting from the reduction of the deferred tax asset, associated with utilization of the net operating loss as a result of the settlement. This adjustment recorded by Entergy also accounted for the tax rate change of the Tax Cuts and Jobs Act. As a result of the IRS settlement, Entergy Louisiana recorded a \$29 million (\$21 million net-of-tax) regulatory charge and a corresponding regulatory liability to reflect its obligation to customers pursuant to the LPSC Hurricane Isaac Act 55 financing order.

Hurricane Gustav and Hurricane Ike

In September 2008, Hurricane Gustav and Hurricane Ike caused catastrophic damage to Entergy Louisiana's service territory. In December 2009, Entergy Louisiana entered into a stipulation agreement with the LPSC staff regarding its storm costs. In March and April 2010, Entergy Louisiana and other parties to the proceeding filed with the LPSC an uncontested stipulated settlement that included Entergy Louisiana's proposal to utilize Act 55 financing, which included a commitment to pass on to customers a minimum of \$43.3 million of customer benefits through a prospective annual rate reduction of \$8.7 million for five years. In April 2010 the LPSC approved the settlement and subsequently issued financing orders and a ratemaking order intended to facilitate the implementation of the Act 55 financings. In June 2010 the Louisiana State Bond Commission approved the Act 55 financing. The settlement agreement allowed for an adjustment to the credits if there was a change in the applicable federal or state income tax rate. As a result of the enactment of the Tax Cuts and Jobs Act, in December 2017, and the lowering of the federal corporate income tax rate from 35% to 21%, the Louisiana Act 55 financing savings obligation regulatory liability related to Hurricane Gustav and Hurricane Ike was reduced by \$2.7 million, with a corresponding increase to Other regulatory credits on the income statement. The effects of the Tax Cuts and Jobs Act are discussed further in Note 3 to the financial statements.

In July 2010, the LCDA issued two series of bonds totaling \$713.0 million under Act 55. From the \$702.7 million of bond proceeds loaned by the LCDA to the LURC, the LURC deposited \$290 million in a restricted escrow account as a storm damage reserve for Entergy Louisiana and transferred \$412.7 million directly to Entergy Louisiana. From the bond proceeds received by Entergy Louisiana from the LURC, Entergy Louisiana used \$412.7 million to acquire 4,126,940.15 Class B preferred, non-voting, membership interest units of Entergy Holdings Company LLC, a company wholly-owned and consolidated by Entergy, that carry a 9% annual distribution rate. Distributions are payable quarterly commencing on September 15, 2010, and the membership interests have a liquidation price of \$100 per unit. The preferred membership interests are callable at the option of Entergy Holdings Company LLC after ten years under the terms of the LLC agreement. The terms of the membership interests include certain financial covenants to which Entergy Holdings Company LLC is subject, including the requirement to maintain a net worth of at least \$1 billion.

Entergy and Entergy Louisiana do not report the bonds issued by the LCDA on their balance sheets because the bonds are the obligation of the LCDA, and there is no recourse against Entergy or Entergy Louisiana in the event of a bond default. To service the bonds, Entergy Louisiana collects a system restoration charge on behalf of the LURC and remits the collections to the bond indenture trustee. Entergy and Entergy Louisiana do not report the collections as revenue because Entergy Louisiana is merely acting as the billing and collection agent for the state.

Hurricane Katrina and Hurricane Rita

In August and September 2005, Hurricanes Katrina and Rita caused catastrophic damage to Entergy Louisiana's service territory. In March 2008, Entergy Louisiana and the LURC filed at the LPSC an application requesting that the LPSC grant a financing order authorizing the financing of Entergy Louisiana storm costs, storm reserves, and issuance costs pursuant to Louisiana Act 55. Entergy Louisiana also filed an application requesting LPSC approval for ancillary issues including the mechanism to flow charges and savings to customers via a storm cost offset rider. In April 2008 the Louisiana Public Facilities Authority (LPFA), which is the issuer of the bonds pursuant to the Act 55 financing, approved requests for the Act 55 financing. Also in April 2008, Entergy Louisiana and the LPSC staff filed with the LPSC an uncontested stipulated settlement that included Entergy Louisiana's proposal under the Act 55 financing, which included a commitment to pass on to customers a minimum of \$40 million of customer benefits through a prospective annual rate reduction of \$8 million for five years. The LPSC subsequently approved the settlement and issued two financing orders and one ratemaking order intended to facilitate implementation of the Act 55 financing. In May 2008 the Louisiana State Bond Commission granted final approval of the Act 55 financing. The settlement agreement allowed for an adjustment to the credits if there was a change in the applicable federal or state income tax rate. As a result of the enactment of the Tax Cuts and Jobs Act, in December 2017, and the lowering of the federal corporate income tax rate from 35% to 21%, the Louisiana Act 55 financing savings obligation regulatory liability related to Hurricanes Katrina and Rita was reduced by \$22.3 million, with a corresponding increase to Other regulatory credits on the income statement. The effects of the Tax Cuts and Jobs Act are discussed further in Note 3 to the financial statements.

In July 2008 the LPFA issued \$687.7 million in bonds under the aforementioned Act 55. From the \$679 million of bond proceeds loaned by the LPFA to the LURC, the LURC deposited \$152 million in a restricted escrow account as a storm damage reserve for Entergy Louisiana and transferred \$527 million directly to Entergy Louisiana. From the bond proceeds received by Entergy Louisiana from the LURC, Entergy Louisiana invested \$545 million, including \$17.8 million that was withdrawn from the restricted escrow account as approved by the April 16, 2008 LPSC orders, in exchange for 5,449,861.85 Class A preferred, non-voting, membership interest units of Entergy Holdings Company LLC, a company wholly-owned and consolidated by Entergy, that carry a 10% annual distribution rate. In August 2008, the LPFA issued \$278.4 million in bonds under the aforementioned Act 55. From the \$274.7 million of bond proceeds loaned by the LPFA to the LURC, the LURC deposited \$87 million in a restricted escrow account as a storm damage reserve for Entergy Louisiana and transferred \$187.7 million directly to Entergy Louisiana. From the bond proceeds received by Entergy Louisiana from the LURC, Entergy Louisiana invested \$189.4 million, including \$1.7 million that was withdrawn from the restricted escrow account as approved by the April 16, 2008 LPSC orders, in exchange for 1,893,918.39 Class A preferred, non-voting, membership interest units of Entergy Holdings Company LLC that carry a 10% annual distribution rate. Distributions are payable quarterly commencing on September 15, 2008 and have a liquidation price of \$100 per unit. The preferred membership interests are callable at the option of Entergy Holdings Company LLC after ten years under the terms of the LLC agreement. The terms of the membership interests include certain financial covenants to which Entergy Holdings Company LLC is subject, including the requirement to maintain a net worth of at least \$1 billion.

The bonds were repaid in 2018. Entergy and Entergy Louisiana did not report the bonds issued by the LPFA on their balance sheets because the bonds are the obligation of the LPFA, and there was no recourse against Entergy or Entergy Louisiana in the event of a bond default. To service the bonds, Entergy Louisiana collected a system restoration charge on behalf of the LURC and remitted the collections to the bond indenture trustee. Entergy

and Entergy Louisiana did not report the collections as revenue because Entergy Louisiana was merely acting as the billing and collection agent for the state.

Entergy Mississippi

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

NOTE 3. INCOME TAXES

Income taxes for 2020, 2019, and 2018 for Entergy Corporation and Subsidiaries consist of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Thousands)		
Current:			
Federal	\$5,807	(\$14,416)	\$36,848
State	57,939	6,535	7,274
Total	<u>63,746</u>	<u>(7,881)</u>	<u>44,122</u>
Deferred and non-current - net	(190,635)	(155,956)	(1,074,416)
Investment tax credit adjustments - net	5,383	(5,988)	(6,532)
Income taxes	<u><u>(\$121,506)</u></u>	<u><u>(\$169,825)</u></u>	<u><u>(\$1,036,826)</u></u>

Total income taxes for Entergy Corporation and Subsidiaries differ from the amounts computed by applying the statutory income tax rate to income before income taxes. The reasons for the differences for the years 2020, 2019, and 2018 are:

	2020	2019	2018
	(In Thousands)		
Net income attributable to Entergy Corporation	\$1,388,334	\$1,241,226	\$848,661
Preferred dividend requirements of subsidiaries	18,319	17,018	13,894
Consolidated net income	1,406,653	1,258,244	862,555
Income taxes	(121,506)	(169,825)	(1,036,826)
Income (loss) before income taxes	<u>\$1,285,147</u>	<u>\$1,088,419</u>	<u>(\$174,271)</u>
Computed at statutory rate (21%)	\$269,881	\$228,568	(\$36,597)
Increases (reductions) in tax resulting from:			
State income taxes net of federal income tax effect	60,087	61,791	21,398
Regulatory differences - utility plant items	(53,229)	(45,336)	(37,507)
Equity component of AFUDC	(25,080)	(30,444)	(27,216)
Amortization of investment tax credits	(8,386)	(8,093)	(8,304)
Flow-through / permanent differences	11,099	(2,059)	439
Amortization of excess ADIT (a)	(59,629)	(205,614)	(577,082)
Revisions of the 2017 tax legislation enactment regulatory liability accrual, including the effect of the Entergy Texas 2018 base rate proceeding	—	—	(40,494)
Utility restructuring (b)	—	—	(169,918)
Settlement on treatment of regulatory obligations (c)	—	—	(52,320)
State income tax audit conclusion	—	—	(23,425)
IRS audit adjustment (e)	(301,041)	—	(8,404)
Entergy Wholesale Commodities nuclear decommissioning trust restructuring (d)	—	—	(106,833)
Entergy Wholesale Commodities restructuring (d)	(9,223)	(173,725)	—
Stock compensation (f)	(25,591)	—	—
Charitable contribution (d)	—	(19,101)	—
Net operating loss recognition	—	(41,427)	—
Provision for uncertain tax positions	15,208	7,332	24,569
Valuation allowance	—	59,345	2,211
Other - net	4,398	(1,062)	2,657
Total income taxes as reported	<u>(\$121,506)</u>	<u>(\$169,825)</u>	<u>(\$1,036,826)</u>
Effective Income Tax Rate	(9.5%)	(15.6)%	595.0 %

- (a) See “**Other Tax Matters - Tax Cuts and Jobs Act**” below for discussion of the amortization of excess accumulated deferred income taxes (ADIT) in 2018, 2019, and 2020 and the tax legislation enactment in 2017.
- (b) See “**Other Tax Matters - Entergy Arkansas and Entergy Mississippi Internal Restructuring**” below for discussion of the Utility restructuring.
- (c) See “**Income Tax Audits - 2012-2013 IRS Audit**” below for discussion of the resolution of the audit.
- (d) See “**Other Tax Matters - Entergy Wholesale Commodities Restructuring**” below for discussion of the Entergy Wholesale Commodities nuclear decommissioning trust restructuring in 2018, the Entergy Wholesale Commodities restructurings in 2017 and 2019, the ownership of Palisades restructuring in 2020, and the charitable contribution in 2019.
- (e) See “**Income Tax Audits - 2014-2015 IRS Audit**” below for discussion of the resolution of the audit in 2020.

(f) See “**Other Tax Matters - Stock Compensation**” below for discussion of excess tax deductions

Significant components of accumulated deferred income taxes and taxes accrued for Entergy Corporation and Subsidiaries as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Deferred tax liabilities:		
Plant basis differences - net	(\$4,795,422)	(\$4,111,761)
Regulatory assets	(429,996)	(389,573)
Nuclear decommissioning trusts/receivables	(1,188,235)	(1,015,542)
Pension, net funding	(327,445)	(348,260)
Combined unitary state taxes	(7,723)	(11,519)
Unbilled/deferred revenues	(9,152)	(10,218)
Deferred fuel	(7,667)	(8,360)
Other	(549,355)	(445,378)
Total	<u>(7,314,995)</u>	<u>(6,340,611)</u>
Deferred tax assets:		
Nuclear decommissioning liabilities	968,464	929,251
Regulatory liabilities	791,927	806,777
Pension and other post-employment benefits	278,486	297,272
Sale and leaseback	102,477	102,420
Compensation	89,279	87,355
Accumulated deferred investment tax credit	57,379	56,013
Provision for allowances and contingencies	71,598	126,886
Power purchase agreements	352,019	231,502
Net operating loss carryforwards	1,580,109	1,133,197
Capital losses and miscellaneous tax credits	21,291	22,597
Valuation allowance	(328,581)	(303,307)
Other	230,291	289,557
Total	<u>4,214,739</u>	<u>3,779,520</u>
Non-current accrued taxes (including unrecognized tax benefits)	<u>(1,185,227)</u>	<u>(1,775,638)</u>
Accumulated deferred income taxes and taxes accrued	<u><u>(\$4,285,483)</u></u>	<u><u>(\$4,336,729)</u></u>

Entergy's estimated tax attributes carryovers and their expiration dates as of December 31, 2020 are as follows:

<u>Carryover Description</u>	<u>Carryover Amount</u>	<u>Year(s) of expiration</u>
Federal net operating losses before 1/1/2018	\$6.1 billion	2023-2037
Federal net operating losses - 1/1/2018 forward	\$14.6 billion	N/A
State net operating losses	\$19.7 billion	2021-2040
Federal and state charitable contributions	\$449 million	2021-2025
Miscellaneous federal and state credits	\$77.5 million	2021-2040

As a result of the accounting for uncertain tax positions, the amount of the deferred tax assets reflected in the financial statements is less than the amount of the tax effect of the federal and state net operating loss carryovers, tax credit carryovers, and other tax attributes reflected on income tax returns. Entergy evaluates the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate character will be generated to realize the benefits of existing deferred tax assets. When the evaluation indicates that Entergy will not be able to realize the existing benefits, a valuation allowance is recorded to reduce deferred tax assets to the realizable amount.

Because it is more likely than not that the benefits from certain state net operating loss and other deferred tax assets will not be utilized, valuation allowances totaling \$329 million as of December 31, 2020 and \$303 million as of December 31, 2019 have been provided on the deferred tax assets related to federal and state jurisdictions in which Entergy does not currently expect to be able to utilize certain separate company tax return attributes, preventing realization of such deferred tax assets.

Unrecognized tax benefits

Accounting standards establish a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. If a tax deduction is taken on a tax return but does not meet the more-likely-than-not recognition threshold, an increase in income tax liability, above what is payable on the tax return, is required to be recorded. A reconciliation of Entergy's beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Thousands)		
Gross balance at January 1	\$7,383,154	\$7,181,482	\$4,871,846
Additions based on tax positions related to the current year	669,207	731,276	2,276,614
Additions for tax positions of prior years	98,591	151,628	506,142
Reductions for tax positions of prior years	(935,735)	(681,232)	(274,600)
Settlements	(1,515,878)	—	(198,520)
Gross balance at December 31	5,699,339	7,383,154	7,181,482
Offsets to gross unrecognized tax benefits:			
Carryovers and refund claims	(4,710,214)	(5,831,587)	(5,957,992)
Cash paid to taxing authorities	(10,000)	(10,000)	(10,000)
Unrecognized tax benefits net of unused tax attributes, refund claims and payments (a)	<u>\$979,125</u>	<u>\$1,541,567</u>	<u>\$1,213,490</u>

(a) Potential tax liability above what is payable on tax returns

The balances of unrecognized tax benefits include \$2,208 million, \$2,421 million, and \$2,161 million as of December 31, 2020, 2019, and 2018, respectively, which, if recognized, would lower the effective income tax rates. Because of the effect of deferred tax accounting, the remaining balances of unrecognized tax benefits of \$3,491 million, \$4,962 million, and \$5,020 million as of December 31, 2020, 2019, and 2018, respectively, if disallowed, would not affect the annual effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

Entergy accrues interest expense, if any, related to unrecognized tax benefits in income tax expense. Entergy's December 31, 2020, 2019, and 2018 accrued balance for the possible payment of interest is approximately \$44 million, \$48 million, and \$44 million, respectively. Interest (net-of-tax) of (\$4) million, \$4 million, and \$7 million was recorded in 2020, 2019, and 2018, respectively.

Income Tax Audits

Entergy and its subsidiaries file U.S. federal and various state income tax returns. IRS examinations are complete for years before 2016. All state taxing authorities' examinations are complete for years before 2015. Entergy regularly defends its positions and works with the IRS to resolve audits. The resolution of audit issues could result in significant changes to the amounts of unrecognized tax benefits in the next twelve months.

2012-2013 IRS Audit

The IRS completed its examination of the 2012 and 2013 tax years and issued its 2012-2013 Revenue Agent Report (RAR) in June 2018. Entergy agreed to all proposed adjustments contained in the RAR. Entergy and the Registrant Subsidiaries recorded the effects of these adjustments in June 2018.

As a result of the issuance of the RAR, Entergy Louisiana was able to recognize previously unrecognized tax benefits of \$52 million related to the Hurricane Katrina and Hurricane Rita contingent sharing obligation associated with the Louisiana Act 55 financing.

2014-2015 IRS Audit

The IRS completed its examination of the 2014 and 2015 tax years and issued its 2014-2015 RAR in November 2020. Entergy agreed to all proposed adjustments contained in the RAR. Entergy and the Registrant Subsidiaries recorded the effects of the adjustments associated with the audit in 2020.

In October 2015 two of Entergy's Louisiana utilities, Entergy Gulf States Louisiana and Entergy Louisiana, combined their businesses into a legal entity which is identified as Entergy Louisiana herein. The structure of the business combination required Entergy to recognize a gain for income tax purposes which resulted in an increase in the tax basis of the assets for Entergy Louisiana. This resulted in recognition in 2015 of a \$334 million permanent difference and income tax benefit, net of the uncertain tax position recorded on the transaction.

Primarily related to resolution of the business combination issues, completion of the 2014-2015 IRS audit in 2020 resulted in a \$230 million reduction to deferred income tax expense for Entergy. This reduction to deferred income tax expense includes: Entergy Louisiana reversing its provision for uncertain tax position with respect to the business combination, which resulted in a reduction to deferred income tax expense of \$383 million; Entergy Corporation recording an increase to deferred tax expense of \$61 million and Entergy Wholesale Commodities recording an increase to deferred tax expense of \$105 million from the re-measurement of deferred tax assets associated with the resolved uncertain tax position; and miscellaneous other individually insignificant benefits totaling \$13 million.

The completion of the 2014-2015 tax audit also resulted in a \$31 million reduction to income tax expense associated with Entergy Louisiana's method of accounting related to the adoption of tangible property regulations.

As a result of the settlement of the tangible property regulation tax position, Entergy Louisiana was required to record a \$33 million (\$24 million net-of-tax) regulatory charge and a corresponding regulatory liability to reflect its obligation to customers pursuant to a prior regulatory settlement.

Finally, upon completion of the 2014-2015 tax audit, Entergy New Orleans recorded a reduction to income tax expense of \$8 million associated with claims for mark-to-market deductions.

In the first quarter 2020, Entergy and the IRS agreed on the treatment of funds received by Entergy Louisiana in conjunction with the Act 55 financing of Hurricane Isaac storm costs, which resulted in a net reduction of income tax expense of approximately \$32 million. As a result of the settlement, the position was partially sustained, and Entergy Louisiana recorded a reduction of income tax expense of approximately \$58 million primarily due to the reversal of a provision for uncertain tax positions in excess of the agreed-upon settlement. As a result of the IRS settlement, Entergy Louisiana recorded a \$29 million (\$21 million net-of-tax) regulatory charge and a corresponding regulatory liability to reflect its obligation to customers pursuant to the LPSC Hurricane Isaac Act 55 financing order.

Additional effects of the completion of the 2014-2015 IRS tax audit are discussed below within Tax Accounting Methods.

Other Tax Matters

Tax Cuts and Jobs Act (TCJA)

Deferred tax liabilities and assets have been adjusted for the effect of the enactment of the TCJA, signed by President Trump on December 22, 2017. The most significant effect of the TCJA for Entergy was the change in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Other significant provisions and their effect on Entergy are summarized below.

The TCJA limited the deduction for net business interest expense to 30 percent of adjusted taxable income, which is similar to earnings before interest, taxes, depreciation, and amortization. The limitation does not apply to interest expense that is properly allocable to a trade or business classified as a regulated public utility. This was further modified by a temporary provision of the CARES Act resulting in an increase of the adjusted taxable income limitation from 30% to 50% for tax years that begin in 2019 or 2020.

The IRS issued proposed regulations relating to this limitation in November 2018 and July 2020. The IRS issued certain final regulations in July 2020 and January 2021, which were published in the Federal Register in September 2020 and January 2021, respectively. The proposed regulations are generally to be effective for taxable years ending after the date Treasury adopted the regulations as final. The final regulations will be effective for Entergy beginning with the 2021 tax year. Taxpayers may apply the rules of the proposed regulations to a taxable year beginning after December 31, 2017, as long as taxpayers consistently apply the rules of the proposed regulations. The proposed and final regulations provide that if 90% of a tax group's consolidated assets consist of regulated utility property, the entire consolidated tax group will be treated as a regulated public utility and all of the consolidated group's interest expense will be currently tax deductible.

As a result of the limitation under TCJA, Entergy recorded limitations in 2018 and 2019 and recorded a deferred tax asset on the nondeductible portion, as it has an unlimited carryover period. Entergy recorded a valuation allowance of \$24 million due to a lack of earnings from sources other than the Utility. No limitation was recorded in 2020.

The TCJA limited the net operating loss (NOL) deduction for a given year to 80% of taxable income, effective with respect to losses arising in tax years beginning after December 31, 2017. Only NOLs generated after December 31, 2017 are subject to the 80% limitation. A temporary provision of the CARES Act (discussed below) removes this limitation and allows corporate taxpayers to fully offset taxable income with NOLs carried to tax years

beginning before 2021. Prior law generally provided a two-year carryback and 20-year carryforward for NOLs. The TCJA does not allow a carryback period but does provide for the indefinite carryforward of NOLs arising in tax years ending after December 31, 2017. However, with the enactment of the CARES Act, a temporary provision allows for a five-year carryback of 2018-2020 NOLs. Because of the indefinite carryforward, the new limitations on NOL utilization are not expected to have a material effect on Entergy.

The TCJA also modified Internal Revenue Code section 162(m), which limits the deduction for compensation with respect to certain covered employees to no more than \$1 million per year. The IRS issued proposed regulations relating to this limitation in December 2019 and final regulations in December 2020. The significant provisions of the TCJA and associated proposed and final regulations require inclusion of performance-based compensation and an expanded definition of “covered employees” in the annual computation of the section 162 limitation. The TCJA amendments and associated proposed regulations resulted in an increase in disallowed compensation expense, but this limitation does not have a material effect on Entergy.

With respect to the federal corporate income tax rate change from 35% to 21% in 2017, Entergy and the Registrant Subsidiaries recorded a regulatory liability associated with the decrease in the net accumulated deferred income tax liability, which is often referred to as “excess ADIT,” a significant portion of which has been paid to customers in 2019 and 2020 in the form of lower rates. Entergy’s December 31, 2020 and December 31, 2019 balance sheets reflect a regulatory liability of \$1.6 billion and \$1.7 billion, respectively, as a result of the re-measurement of deferred tax assets and liabilities from the income tax rate change, amortization of excess ADIT, and payments to customers during 2019 and 2020. Entergy’s regulatory liability for income taxes includes a gross-up at the applicable tax rate because of the effect that excess ADIT has on the ratemaking formula. The regulatory liability for income taxes includes the effect of a) the reduction of the net deferred tax liability resulting in excess ADIT, b) the tax gross-up of excess ADIT, and c) the effect of the new tax rate on the previous net regulatory asset for income taxes. For the same reasons, the Registrant Subsidiaries’ December 31, 2020 and December 31, 2019 balance sheets reflect net regulatory liabilities for income taxes as follows:

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Entergy Arkansas	\$467	\$487
Entergy Louisiana	\$479	\$531
Entergy Mississippi	\$224	\$237
Entergy New Orleans	\$59	\$59
Entergy Texas	\$205	\$253
System Energy	\$152	\$143

Excess ADIT is generally classified into two categories: 1) the portion that is subject to the normalization requirements of the TCJA, i.e., “protected”, and 2) the portion that is not subject to such normalization provisions, referred to as “unprotected”. The TCJA provides that the normalization method of accounting for income taxes is required for excess ADIT associated with public utility property. The TCJA provides for the use of the average rate assumption method (ARAM) for the determination of the timing of the return of excess ADIT associated with such property. Under ARAM, the excess ADIT is reduced over the remaining life of the asset. Remaining asset lives vary for each Registrant Subsidiary, but the average life of public utility property is typically 30 years or longer. Entergy will amortize the protected portion of the excess ADIT in conformity with the normalization requirements. The Registrant Subsidiaries’ net regulatory liability for income taxes as of December 31, 2020 and December 31, 2019, includes protected excess ADIT as follows:

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Entergy Arkansas	\$490	\$490
Entergy Louisiana	\$721	\$797
Entergy Mississippi	\$248	\$261
Entergy New Orleans	\$61	\$62
Entergy Texas	\$215	\$228
System Energy	\$173	\$186

During the second quarter of 2018, the Registrant Subsidiaries began paying unprotected excess accumulated deferred income taxes, associated with the effects of the Act, to their customers through rate riders and other means approved by their respective regulatory commissions. Payment of the unprotected excess accumulated deferred income taxes results in a reduction in the regulatory liability for income taxes and a corresponding reduction in income tax expense. This has a significant effect on the effective tax rate for the period as compared to the statutory tax rate. The Registrant Subsidiaries' net regulatory liability for income taxes as of December 31, 2020 and December 31, 2019, includes unprotected excess ADIT as follows:

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Entergy Arkansas	\$11	\$9
Entergy Louisiana	\$223	\$242
Entergy New Orleans	\$3	\$9
Entergy Texas	\$54	\$83
System Energy	\$16	\$—

The return of unprotected excess accumulated deferred income taxes reduced Entergy's and the Registrant Subsidiaries' regulatory liability for income taxes as follows for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Entergy	\$74	\$273
Entergy Arkansas	\$8	\$126
Entergy Louisiana	\$31	\$39
Entergy New Orleans	\$6	\$14
Entergy Texas	\$29	\$87
System Energy	\$—	\$7

In addition to the protected and unprotected excess ADIT amounts, the net regulatory liability for income taxes includes other regulatory assets and liabilities for income taxes associated with AFUDC, which is described in Note 1 to the financial statements.

For a discussion of the proceedings commenced or other responses by Entergy's regulators to the Act, see Note 2 to the financial statements.

Included in the effect of the computation of the changes in deferred tax assets and liabilities is the recognition threshold and measurement of uncertain tax positions resulting in unrecognized tax benefits. The final economic outcome of such unrecognized tax benefits is generally the result of a negotiated settlement with the IRS that often differs from the amount that is recorded as realizable under GAAP. The intrinsic uncertainty with respect to all such tax positions means that the difference between current estimates of such amounts likely to be realized

and actual amounts realized upon settlement may have an effect on income tax expense and the regulatory liability for income taxes in future periods.

Entergy anticipates that the TCJA, including the federal corporate income tax rate change, may continue to have ramifications that require adjustments in the future as certain events occur. These events include: 1) the evaluation by regulators in all of Entergy's jurisdictions regarding the ratemaking treatment of TCJA and excess ADIT; 2) IRS audit adjustments to or amendments of federal and state income tax returns that include modifications to the computation of taxable income resulting from TCJA; and 3) additional guidance, interpretations, or rulings by the U.S. Department of the Treasury or the IRS. The potential exists for these types of events to result in future tax expense adjustments because of the difference in the federal corporate income tax rate between past and future periods and the effect of the tax rate change on ratemaking. In turn, these items also could potentially affect the regulatory liability for income taxes.

Coronavirus Aid, Relief, and Economic Security Act

In response to the economic impacts of the COVID-19 pandemic, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) into law on March 27, 2020. The CARES Act provisions that result in the most significant opportunities for tax relief to Entergy and the Registrant Subsidiaries are (i) permitting a five-year carryback of 2018-2020 NOLs, (ii) removing the 80 percent limitation on NOLs carried to tax years beginning before 2021, (iii) increasing the limitation on interest expense deductibility for 2019 and 2020, (iv) accelerating available refunds for minimum tax credit carryforwards, modifying limitations on charitable contributions during 2020, and (v) delaying the payment of employer payroll taxes. Entergy deferred approximately \$64 million of 2020 payroll tax payments, which will be payable in two installments of \$32 million on December 31, 2021 and December 31, 2022.

Entergy Wholesale Commodities Restructuring

In the third quarter 2018, Entergy completed a restructuring of the investment holdings in one of the Entergy Wholesale Commodities nuclear plant decommissioning trusts that resulted in an adjustment to tax basis for the trust. The accounting standards provide that a taxable temporary difference does not exist if the tax law provides a means by which an amount can be recovered without incurrence of tax. The restructuring allows Entergy to recover assets from the trust without incurring tax. As such, the tax basis recognized resulted in the reversal of a deferred tax liability and reduction of income tax expense of approximately \$107 million.

In the fourth quarter 2019, two separate events occurred resulting in a reduction of tax expense of \$174 million. In November 2019 an Entergy Wholesale Commodities subsidiary recognized a reduction in income tax expense of \$18 million in connection with the accounting method on power contracts associated with the Palisades nuclear power station. Additionally, Entergy's ownership of Indian Point 2 and Indian Point 3 was restructured. The restructuring required Entergy to recognize Indian Point 2 and Indian Point 3 nuclear decommissioning liabilities for income tax purposes resulting in a tax accounting permanent difference that reduced income tax expense, net of unrecognized tax benefits, by \$156 million. The accrual of the nuclear decommissioning liabilities also required Entergy to recognize a gain for income tax purposes, a portion of which resulted in an increase in the tax basis of the assets. Recognition of the gain and the increase in the tax basis of the assets represents a tax accounting temporary difference.

Immediately prior to the restructuring, through its ownership of Indian Point 2 and Indian Point 3, Entergy donated property to Stony Brook University and recognized an associated tax deduction resulting in a decrease to tax expense of \$19 million.

In the fourth quarter 2020, Entergy's ownership of Palisades was restructured. The restructuring required Entergy to recognize Palisades' nuclear decommissioning liability for income tax purposes resulting in a tax accounting permanent difference that reduced income tax expense, net of unrecognized tax benefits, by

\$9.2 million. The accrual of the nuclear decommissioning liability also required Entergy to recognize a gain for income tax purposes, a portion of which resulted in an increase in the tax basis of the assets. Recognition of the gain and the increase in the tax basis of the assets represents a tax accounting temporary difference.

Entergy Wholesale Commodities Tax Audit

A state income tax audit involving Entergy Wholesale Commodities was concluded during the third quarter 2018. Upon conclusion of the audit, subsidiaries within Entergy Wholesale Commodities reversed a portion of the provision for uncertain tax positions totaling approximately \$23 million, net of tax and interest paid.

Tax Accounting Methods

In the fourth quarter 2015, System Energy and Entergy Louisiana adopted a new method of accounting for income tax return purposes in which their nuclear decommissioning costs will be treated as production costs of electricity includable in cost of goods sold. The new method resulted in a reduction of taxable income of \$1.2 billion for System Energy and \$2.2 billion for Energy Louisiana.

In conjunction with the 2014-2015 IRS audit discussed above, the IRS issued proposed adjustments concerning the nuclear decommissioning tax position allowing System Energy to include \$102 million of its decommissioning liability in cost of goods sold, and Entergy Louisiana to include \$221 million of its decommissioning liability in cost of goods sold. Entergy, System Energy, and Entergy Louisiana agreed to the proposed adjustments included in the RAR.

As a result of System Energy being allowed to include part of its decommissioning liability in cost of goods sold, System Energy and Entergy recorded a deferred tax liability of \$26 million. System Energy also recorded federal and state taxes payable of \$402 million. However, on a consolidated basis, Entergy utilized tax loss carryovers to offset the federal taxable income adjustment and did not record federal taxes payable as a result of the outcome of this uncertain tax position.

As a result of Entergy Louisiana being allowed to include part of its decommissioning liability in cost of goods sold, Entergy Louisiana and Entergy recorded a deferred tax liability of \$60 million. Both Entergy Louisiana and Entergy utilized tax loss carryovers to offset the taxable income adjustment and accordingly did not record taxes payable as a result of the outcome of this uncertain tax position.

The partial disallowance of this uncertain tax position to include the decommissioning liability in cost of goods sold resulted in a \$1.5 billion decrease in the balance of unrecognized tax benefits related to federal and state taxes for Entergy. Additionally, both System Energy and Entergy Louisiana recorded a reduction to their balances of unrecognized tax benefits for federal and state taxes of \$461 million and \$1.1 billion, respectively.

Entergy Arkansas adopted the same method of accounting for its nuclear decommissioning costs which resulted in a \$1.8 billion reduction in taxable income on its 2018 tax return.

The tax treatment of Entergy Louisiana's accrued regulatory liabilities associated with the Vidalia purchased power agreement and business combination guaranteed customer credits, which are discussed further in Note 2, has been resolved with the IRS in a manner that results in a \$190 million increase to previously reported taxable income. Entergy Louisiana and Entergy utilized tax loss carryovers to offset the taxable income adjustment, however, which allowed both Entergy Louisiana and Entergy to reduce their balances of federal and state unrecognized tax benefits by \$74 million.

In 2016, Entergy Louisiana elected mark-to-market income tax treatment for various wholesale electric power purchase and sale agreements, including Entergy Louisiana's contract to purchase electricity from the Vidalia hydroelectric facility and from System Energy under the Unit Power Sales Agreement. The election resulted in a

\$2.2 billion deductible temporary difference. In 2017, Entergy New Orleans also elected mark-to-market income tax treatment for wholesale electric contracts which resulted in a \$1.1 billion deductible temporary difference. In 2018, Entergy Arkansas and Entergy Mississippi accrued deductible temporary differences related to mark-to-market tax accounting for wholesale electric contracts of \$2.1 billion and \$1.9 billion, respectively. Additionally, in 2020, Entergy Texas elected mark-to-market income tax treatment for wholesale electric power purchase and sale agreements which resulted in a \$2.5 billion deductible temporary difference.

Entergy Arkansas and Entergy Mississippi Internal Restructuring

In the fourth quarter 2018, Entergy Arkansas and Entergy Mississippi became wholly-owned subsidiaries of Entergy Utility Holding Company, LLC. The change in ownership required Entergy to recognize Entergy Arkansas's nuclear decommissioning liabilities for income tax purposes resulting in a tax accounting permanent difference that reduced income tax expense, net of unrecognized tax benefits, by \$165 million. The accrual of the nuclear decommissioning liabilities also required Entergy to recognize a gain for income tax purposes, a portion of which resulted in an increase in the tax basis of the assets. Recognition of the gain and the increase in the tax basis of the assets represents a tax accounting temporary difference. Additionally, Entergy recorded a \$5 million reduction of income tax expense associated with state income tax effects resulting in a total reduction of income tax expense of \$170 million from the restructuring. Entergy recorded a regulatory liability of \$40 million (\$30 million net-of-tax) which partially offsets the reduction of income tax expense. Entergy Arkansas's member's equity increased by \$94 million as a result of the restructuring. See Note 2 to the financial statements for further discussion of the internal restructuring.

Arkansas Corporate Income Tax Rate Reduction

In April 2019 the State of Arkansas enacted corporate income tax law changes that phase in an Arkansas tax rate reduction from the current rate of 6.5% to 6.2% in 2021 and 5.9% in 2022. The rate reduction will eventually reduce Entergy Arkansas's combined federal and state applicable tax rate by less than 0.5% once fully adopted. As a result of the rate reduction, Entergy Arkansas computed a final regulatory liability for income taxes of approximately \$21 million, which includes a tax gross-up related to the treatment of income taxes in the retail and wholesale ratemaking formulas. During the first quarter of 2021, Entergy Arkansas refunded \$7.5 million to Arkansas retail customers which represents the retail portion of the \$21 million referenced above offset by the effect of adjustments to the regulatory liability for TCJA excess accumulated deferred income taxes. The Arkansas tax law enactment also phases in an increase to the net operating loss carryover period from five to ten years.

Consolidated Income Tax Return of Entergy Corporation

In September 2019, Entergy Utility Holding Company, LLC and its regulated, wholly-owned subsidiaries including Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, became eligible to and joined the Entergy Corporation consolidated federal income tax group. As a result of these four Utility operating companies re-joining the Entergy Corporation consolidated tax return group, Entergy was able to recognize a \$41 million deferred tax asset associated with a previously unrecognized Arkansas net operating loss carryover.

Additionally, in September 2019, Entergy Texas issued \$35 million of 5.375% Series A preferred stock with a liquidation value of \$25 per share resulting in the disaffiliation and de-consolidation of Entergy Texas from the consolidated federal income tax return of Entergy Corporation. These changes will not affect the accrual or allocation of income taxes for the Registrant Subsidiaries. See Note 6 to the financial statements for discussion of the preferred stock issuance.

Vermont Yankee

The Vermont Yankee transaction resulted in Entergy generating a net deferred tax asset in January 2019. The deferred tax asset could not be fully realized by Entergy in the first quarter 2019; accordingly, Entergy accrued a net tax expense of \$29 million on the disposition of Vermont Yankee. See Note 14 to the financial statements for discussion of the Vermont Yankee transaction.

Stock Compensation

In accordance with stock compensation accounting rules, Entergy recognized excess tax deductions as a reduction of income tax expense in the first quarter 2020. Due to the vesting and exercise of certain Entergy stock-based awards, Entergy recorded a permanent tax reduction of approximately \$24.7 million.

NOTE 4. REVOLVING CREDIT FACILITIES, LINES OF CREDIT, AND SHORT-TERM BORROWINGS

Entergy Corporation has in place a credit facility that has a borrowing capacity of \$3.5 billion and expires in September 2024. The facility includes fronting commitments for the issuance of letters of credit against \$20 million of the total borrowing capacity of the credit facility. The commitment fee is currently 0.225% of the undrawn commitment amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior unsecured debt ratings of Entergy Corporation. The weighted average interest rate for the year ended December 31, 2020 was 2.35% on the drawn portion of the facility. Following is a summary of the borrowings outstanding and capacity available under the facility as of December 31, 2020.

<u>Capacity</u>	<u>Borrowings</u>	<u>Letters of Credit</u>	<u>Capacity Available</u>
(In Millions)			
\$3,500	\$165	\$6	\$3,329

Entergy Corporation's credit facility requires Entergy to maintain a consolidated debt ratio, as defined, of 65% or less of its total capitalization. Entergy is in compliance with this covenant. If Entergy fails to meet this ratio, or if Entergy Corporation or one of the Utility operating companies (except Entergy New Orleans) defaults on other indebtedness or is in bankruptcy or insolvency proceedings, an acceleration of the facility maturity date may occur.

Entergy Corporation has a commercial paper program with a Board-approved program limit of up to \$2 billion. As of December 31, 2020, Entergy Corporation had \$1.627 billion of commercial paper outstanding. The weighted-average interest rate for the year ended December 31, 2020 was 1.39%.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each had credit facilities available as of December 31, 2020 as follows:

Company	Expiration Date	Amount of Facility	Interest Rate (a)	Amount Drawn as of December 31, 2020	Letters of Credit Outstanding as of December 31, 2020
Entergy Arkansas	April 2021	\$25 million (b)	1.27%	—	—
Entergy Arkansas	September 2024	\$150 million (c)	1.27%	—	—
Entergy Louisiana	September 2024	\$350 million (c)	1.27%	—	—
Entergy Mississippi	April 2021	\$10 million (d)	1.65%	—	—
Entergy Mississippi	April 2021	\$35 million (d)	1.65%	—	—
Entergy Mississippi	April 2021	\$37.5 million (d)	1.65%	—	—
Entergy New Orleans	November 2021	\$25 million (c)	1.42%	—	\$0.8 million
Entergy Texas	September 2024	\$150 million (c)	1.65%	—	\$1.3 million

- (a) The interest rate is the estimated interest rate as of December 31, 2020 that would have been applied to outstanding borrowings under the facility.
- (b) Borrowings under this Entergy Arkansas credit facility may be secured by a security interest in its accounts receivable at Entergy Arkansas's option.
- (c) The credit facility includes fronting commitments for the issuance of letters of credit against a portion of the borrowing capacity of the facility as follows: \$5 million for Entergy Arkansas; \$15 million for Entergy Louisiana; \$10 million for Entergy New Orleans; and \$30 million for Entergy Texas.
- (d) Borrowings under the Entergy Mississippi credit facilities may be secured by a security interest in its accounts receivable at Entergy Mississippi's option.

The commitment fees on the credit facilities range from 0.075% to 0.275% of the undrawn commitment amount. Each of the credit facilities requires the Registrant Subsidiary borrower to maintain a debt ratio, as defined, of 65% or less of its total capitalization. Each Registrant Subsidiary is in compliance with this covenant.

In addition, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas each entered into one or more uncommitted standby letter of credit facilities as a means to post collateral to support its obligations to MISO. Following is a summary of the uncommitted standby letter of credit facilities as of December 31, 2020:

Company	Amount of Uncommitted Facility	Letter of Credit Fee	Letters of Credit Issued as of December 31, 2020 (a) (b)
Entergy Arkansas	\$25 million	0.78%	\$1 million
Entergy Louisiana	\$125 million	0.78%	\$2.2 million
Entergy Mississippi	\$65 million	0.78%	\$1 million
Entergy New Orleans	\$15 million	1.00%	\$1 million
Entergy Texas	\$50 million	0.70%	\$6.2 million

- (a) As of December 31, 2020, letters of credit posted with MISO covered financial transmission right exposure of \$0.3 million for Entergy Louisiana, \$0.2 million for Entergy Mississippi, \$0.2 million for Entergy New Orleans, and \$0.5 million for Entergy Texas. See Note 15 to the financial statements for discussion of financial transmission rights.
- (b) As of December 31, 2020, in addition to the \$1 million MISO letter of credit, Entergy Mississippi has \$1 million of non-MISO letters of credit outstanding under this facility.

The short-term borrowings of the Registrant Subsidiaries are limited to amounts authorized by the FERC. The current FERC-authorized limits for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy are effective through July 14, 2022. In addition to borrowings from commercial banks, these companies may also borrow from the Entergy System money pool and from other internal short-term borrowing arrangements. The money pool and the other internal borrowing arrangements are inter-company borrowing arrangements designed to reduce the Utility subsidiaries' dependence on external short-term borrowings. Borrowings from internal and external short-term borrowings combined may not exceed the FERC-authorized limits. The following are the FERC-authorized limits for short-term borrowings and the outstanding short-term borrowings as of December 31, 2020 (aggregating both internal and external short-term borrowings) for the Registrant Subsidiaries:

	<u>Authorized</u>	<u>Borrowings</u>
	(In Millions)	
Entergy Arkansas	\$250	\$—
Entergy Louisiana	\$450	\$—
Entergy Mississippi	\$175	\$17
Entergy New Orleans	\$150	\$10
Entergy Texas	\$200	\$—
System Energy	\$200	\$—

Vermont Yankee Credit Facility (Entergy Corporation)

In January 2019, Entergy Nuclear Vermont Yankee was transferred to NorthStar and its credit facility was assumed by Entergy Assets Management Operations, LLC (formerly Vermont Yankee Asset Retirement, LLC), Entergy Nuclear Vermont Yankee's parent company that remains an Entergy subsidiary after the transfer. The credit facility has a borrowing capacity of \$139 million and expires in December 2021. The commitment fee is currently 0.20% of the undrawn commitment amount. As of December 31, 2020, \$139 million in cash borrowings were outstanding under the credit facility. The weighted average interest rate for the year ended December 31, 2020 was 2.46% on the drawn portion of the facility. See Note 14 to the financial statements for discussion of the transfer of Entergy Nuclear Vermont Yankee to NorthStar.

Variable Interest Entities (Entergy Corporation, Entergy Arkansas, Entergy Louisiana, and System Energy)

See Note 17 to the financial statements for a discussion of the consolidation of the nuclear fuel company variable interest entities (VIE). To finance the acquisition and ownership of nuclear fuel, the nuclear fuel company VIEs have credit facilities and three of the four VIEs also issue commercial paper, details of which follow as of December 31, 2020:

<u>Company</u>	<u>Expiration Date</u>	<u>Amount of Facility</u>	<u>Weighted Average Interest Rate on Borrowings (a)</u>	<u>Amount Outstanding as of December 31, 2020</u>
(Dollars in Millions)				
Entergy Arkansas VIE	September 2022	\$80	1.94%	\$12.2
Entergy Louisiana River Bend VIE	September 2022	\$105	1.95%	\$18.9
Entergy Louisiana Waterford VIE	September 2022	\$105	1.72%	\$39.3
System Energy VIE	September 2022	\$120	1.63%	\$—

- (a) Includes letter of credit fees and bank fronting fees on commercial paper issuances by the nuclear fuel company variable interest entities for Entergy Arkansas, Entergy Louisiana, and System Energy. The

nuclear fuel company variable interest entity for Entergy Louisiana River Bend does not issue commercial paper, but borrows directly on its bank credit facility.

The commitment fees on the credit facilities are 0.125% of the undrawn commitment amount for the Entergy Arkansas, Entergy Louisiana, and System Energy VIEs. Each credit facility requires the respective lessee of nuclear fuel (Entergy Arkansas, Entergy Louisiana, or Entergy Corporation as guarantor for System Energy) to maintain a consolidated debt ratio, as defined, of 70% or less of its total capitalization. Each lessee is in compliance with this covenant.

The nuclear fuel company variable interest entities had notes payable that are included in debt on the respective balance sheets as of December 31, 2020 as follows:

Company	Description	Amount
Entergy Arkansas VIE	3.65% Series L due July 2021	\$90 million
Entergy Arkansas VIE	3.17% Series M due December 2023	\$40 million
Entergy Louisiana River Bend VIE	2.51% Series V due June 2027	\$70 million
Entergy Louisiana Waterford VIE	3.92% Series H due February 2021 (a)	\$40 million
Entergy Louisiana Waterford VIE	3.22% Series I due December 2023	\$20 million
System Energy VIE	3.42% Series J due April 2021 (a)	\$100 million
System Energy VIE	2.05% Series K due September 2027	\$90 million

(a) Redeemed in February 2021.

In accordance with regulatory treatment, interest on the nuclear fuel company variable interest entities' credit facilities, commercial paper, and long-term notes payable is reported in fuel expense.

Entergy Arkansas, Entergy Louisiana, and System Energy each have obtained financing authorizations from the FERC that extend through July 14, 2022 for issuances by its nuclear fuel company variable interest entities.

NOTE 5. LONG - TERM DEBT

Long-term debt for Entergy Corporation and subsidiaries as of December 31, 2020 and 2019 consisted of:

Type of Debt and Maturity	Weighted Average Interest Rate December 31, 2020	Interest Rate Ranges at December 31,		Outstanding at December 31,	
		2020	2019	2020	2019
(In Thousands)					
Mortgage Bonds					
2020-2024	3.23%	0.62% - 5.59%	2.55% - 5.59%	\$4,400,000	\$3,575,000
2025-2029	3.35%	2.14% - 4.44%	2.4% - 4.44%	4,113,000	3,735,000
2030-2040	3.38%	1.6% - 4.52%	3.05% - 4.52%	2,552,000	1,590,000
2044-2066	4.12%	2.65% - 5.5%	3.55% - 5.625%	6,380,000	5,170,000
Governmental Bonds (a)					
2021-2022	2.50%	2.375% - 2.5%	2.375% - 2.5%	179,000	179,000
2028-2030	3.45%	3.375% - 3.5%	3.375% - 3.5%	198,680	198,680
Securitization Bonds					
2022-2027	3.59%	2.04% - 5.93%	2.04% - 5.93%	177,522	302,145
Variable Interest Entities Notes Payable (Note 4)					
2021-2027	2.45%	2.05% - 3.92%	3.17% - 3.92%	450,000	360,000
Entergy Corporation Notes					
due September 2020	n/a	—%	5.125%	—	450,000
due July 2022	n/a	4.00%	4.00%	650,000	650,000
due September 2025	n/a	0.9%	—	800,000	—
due September 2026	n/a	2.95%	2.95%	750,000	750,000
due June 2030	n/a	2.80%	—	600,000	—
due June 2050	n/a	3.75%	—	600,000	—
Entergy New Orleans Unsecured Term Loan due May 2022	n/a	3.00%	3.00%	70,000	70,000
5 Year Credit Facility (Note 4)	n/a	2.35%	3.77%	165,000	440,000
Entergy New Orleans Credit Facility (Note 4)	n/a	—	2.92%	—	20,000
Vermont Yankee Credit Facility (Note 4)	n/a	2.46%	3.93%	139,000	139,000
Entergy Arkansas VIE Credit Facility (Note 4)	n/a	1.94%	3.33%	12,200	15,100
Entergy Louisiana River Bend VIE Credit Facility (Note 4)	n/a	1.95%	3.23%	18,900	70,300
Entergy Louisiana Waterford VIE Credit Facility (Note 4)	n/a	1.72%	3.30%	39,300	49,900
System Energy VIE Credit Facility (Note 4)	n/a	1.63%	3.34%	—	31,600
Long-term DOE Obligation (b)	—	—	—	192,018	191,114
Grand Gulf Sale-Leaseback Obligation	n/a	—	—	34,336	34,346
Unamortized Premium and Discount - Net				3,665	(16,124)
Unamortized Debt Issuance Costs				(160,420)	(143,502)
Other				5,575	12,096
Total Long-Term Debt				22,369,776	17,873,655
Less Amount Due Within One Year				1,164,015	795,012
Long-Term Debt Excluding Amount Due Within One Year				\$21,205,761	\$17,078,643
Fair Value of Long-Term Debt				\$24,813,818	\$19,059,950

- (a) Consists of pollution control revenue bonds and environmental revenue bonds, some of which are secured by collateral mortgage bonds.
- (b) Pursuant to the Nuclear Waste Policy Act of 1982, Entergy’s nuclear owner/licensee subsidiaries have contracts with the DOE for spent nuclear fuel disposal service. The contracts include a one-time fee for generation prior to April 7, 1983. Entergy Arkansas is the only Entergy company that generated electric power with nuclear fuel prior to that date and includes the one-time fee, plus accrued interest, in long-term debt.

The annual long-term debt maturities (excluding lease obligations and long-term DOE obligations) for debt outstanding as of December 31, 2020, for the next five years are as follows:

	<u>Amount</u>
	(In Thousands)
2021	\$1,164,000
2022	\$1,141,878
2023	\$2,452,194
2024	\$1,340,000
2025	\$1,378,000

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy have obtained long-term financing authorizations from the FERC that extend through July 2022. Entergy New Orleans has obtained long-term financing authorization from the City Council that extends through July 2022. Entergy Arkansas has also obtained first mortgage bond/secured financing authorization from the APSC that extends through December 2022.

Securitization Bonds

Entergy Arkansas Securitization Bonds

In June 2010 the APSC issued a financing order authorizing the issuance of bonds to recover Entergy Arkansas’s January 2009 ice storm damage restoration costs, including carrying costs of \$11.5 million and \$4.6 million of up-front financing costs. In August 2010, Entergy Arkansas Restoration Funding, LLC, a company wholly-owned and consolidated by Entergy Arkansas, issued \$124.1 million of storm cost recovery bonds, with a coupon of 2.30%. Although the principal amount was not due until August 2021, Entergy Arkansas Restoration Funding made principal payments on the bonds in the amount of \$7.3 million in 2020, after which the bonds were fully repaid.

Entergy Louisiana Securitization Bonds – Little Gypsy

In August 2011 the LPSC issued a financing order authorizing the issuance of bonds to recover Entergy Louisiana’s investment recovery costs associated with the canceled Little Gypsy repowering project. In September 2011, Entergy Louisiana Investment Recovery Funding I, L.L.C., a company wholly-owned and consolidated by Entergy Louisiana, issued \$207.2 million of senior secured investment recovery bonds. The bonds have an interest rate of 2.04%. Although the principal amount is not due until September 2023, Entergy Louisiana Investment Recovery Funding expects to make principal payments on the bonds in the amount of \$11 million for 2021, after which the bonds will be fully repaid. With the proceeds, Entergy Louisiana Investment Recovery Funding purchased from Entergy Louisiana the investment recovery property, which is the right to recover from customers through an investment recovery charge amounts sufficient to service the bonds. In accordance with the financing order, Entergy Louisiana will apply the proceeds it received from the sale of the investment recovery property as a reimbursement for previously-incurred investment recovery costs. The investment recovery property is reflected as a regulatory asset on the consolidated Entergy Louisiana balance sheet. The creditors of Entergy Louisiana do not

have recourse to the assets or revenues of Entergy Louisiana Investment Recovery Funding, including the investment recovery property, and the creditors of Entergy Louisiana Investment Recovery Funding do not have recourse to the assets or revenues of Entergy Louisiana. Entergy Louisiana has no payment obligations to Entergy Louisiana Investment Recovery Funding except to remit investment recovery charge collections.

Entergy New Orleans Securitization Bonds - Hurricane Isaac

In May 2015 the City Council issued a financing order authorizing the issuance of securitization bonds to recover Entergy New Orleans's Hurricane Isaac storm restoration costs of \$31.8 million, including carrying costs, the costs of funding and replenishing the storm recovery reserve in the amount of \$63.9 million, and approximately \$3 million of up-front financing costs associated with the securitization. In July 2015, Entergy New Orleans Storm Recovery Funding I, L.L.C., a company wholly owned and consolidated by Entergy New Orleans, issued \$98.7 million of storm cost recovery bonds. The bonds have a coupon of 2.67%. Although the principal amount is not due until June 2027, Entergy New Orleans Storm Recovery Funding expects to make principal payments on the bonds over the next four years in the amounts of \$11.9 million for 2021, \$12.2 million for 2022, \$12.5 million for 2023, and \$6.2 million for 2024. With the proceeds, Entergy New Orleans Storm Recovery Funding purchased from Entergy New Orleans the storm recovery property, which is the right to recover from customers through a storm recovery charge amounts sufficient to service the securitization bonds. The storm recovery property is reflected as a regulatory asset on the consolidated Entergy New Orleans balance sheet. The creditors of Entergy New Orleans do not have recourse to the assets or revenues of Entergy New Orleans Storm Recovery Funding, including the storm recovery property, and the creditors of Entergy New Orleans Storm Recovery Funding do not have recourse to the assets or revenues of Entergy New Orleans. Entergy New Orleans has no payment obligations to Entergy New Orleans Storm Recovery Funding except to remit storm recovery charge collections.

Entergy Texas Securitization Bonds - Hurricane Rita

In April 2007 the PUCT issued a financing order authorizing the issuance of securitization bonds to recover \$353 million of Entergy Texas's Hurricane Rita reconstruction costs and up to \$6 million of transaction costs, offset by \$32 million of related deferred income tax benefits. In June 2007, Entergy Gulf States Reconstruction Funding I, LLC, a company that is now wholly-owned and consolidated by Entergy Texas, issued \$329.5 million of senior secured transition bonds (securitization bonds). As of December 31, 2020, \$17.5 million at 5.93% remain outstanding. Entergy Gulf States Reconstruction Funding expects to make principal payments on the bonds in the amount of \$17.5 million for 2021.

With the proceeds, Entergy Gulf States Reconstruction Funding purchased from Entergy Texas the transition property, which is the right to recover from customers through a transition charge amounts sufficient to service the securitization bonds. The transition property is reflected as a regulatory asset on the consolidated Entergy Texas balance sheet. The creditors of Entergy Texas do not have recourse to the assets or revenues of Entergy Gulf States Reconstruction Funding, including the transition property, and the creditors of Entergy Gulf States Reconstruction Funding do not have recourse to the assets or revenues of Entergy Texas. Entergy Texas has no payment obligations to Entergy Gulf States Reconstruction Funding except to remit transition charge collections.

Entergy Texas Securitization Bonds - Hurricane Ike and Hurricane Gustav

In September 2009 the PUCT authorized the issuance of securitization bonds to recover \$566.4 million of Entergy Texas's Hurricane Ike and Hurricane Gustav restoration costs, plus carrying costs and transaction costs, offset by insurance proceeds. In November 2009, Entergy Texas Restoration Funding, LLC (Entergy Texas Restoration Funding), a company wholly-owned and consolidated by Entergy Texas, issued \$545.9 million of senior secured transition bonds (securitization bonds). As of December 31, 2020, \$106.2 million at 4.38% remain outstanding. Entergy Texas Restoration Funding expects to make principal payments on the bonds over the next two years in the amount of \$52 million for 2021 and \$54.3 million for 2022.

With the proceeds, Entergy Texas Restoration Funding purchased from Entergy Texas the transition property, which is the right to recover from customers through a transition charge amounts sufficient to service the securitization bonds. The transition property is reflected as a regulatory asset on the consolidated Entergy Texas balance sheet. The creditors of Entergy Texas do not have recourse to the assets or revenues of Entergy Texas Restoration Funding, including the transition property, and the creditors of Entergy Texas Restoration Funding do not have recourse to the assets or revenues of Entergy Texas. Entergy Texas has no payment obligations to Entergy Texas Restoration Funding except to remit transition charge collections.

Grand Gulf Sale-Leaseback Transactions

In 1988, in two separate but substantially identical transactions, System Energy sold and leased back undivided ownership interests in Grand Gulf for the aggregate sum of \$500 million. The initial term of the leases expired in July 2015. System Energy renewed the leases for fair market value with renewal terms expiring in July 2036. At the end of the new lease renewal terms, System Energy has the option to repurchase the leased interests in Grand Gulf or renew the leases at fair market value. In the event that System Energy does not renew or purchase the interests, System Energy would surrender such interests and their associated entitlement of Grand Gulf's capacity and energy.

System Energy is required to report the sale-leaseback as a financing transaction in its financial statements. As such, it has recognized debt for the lease obligation and retained the portion of the plant subject to the sale-leaseback on its balance sheet. For financial reporting purposes, System Energy has recognized interest expense on the debt balance and depreciation on the applicable plant balance. The lease payments are recognized as principal and interest payments on the debt balance. However, operating revenues include the recovery of the lease payments because the transactions are accounted for as a sale and leaseback for ratemaking purposes. Consistent with a recommendation contained in a FERC audit report, System Energy initially recorded as a net regulatory asset the difference between the recovery of the lease payments and the amounts expensed for interest and depreciation and continues to record this difference as a regulatory asset or liability on an ongoing basis, resulting in a zero net balance for the regulatory asset at the end of the lease term. The amount was a net regulatory liability of \$55.6 million as of December 31, 2020 and 2019.

As of December 31, 2020, System Energy, in connection with the Grand Gulf sale and leaseback transactions, had future minimum lease payments that are recorded as long-term debt, as follows, which reflects the effect of the December 2013 renewal:

	<u>Amount</u> (In Thousands)
2021	\$17,188
2022	17,188
2023	17,188
2024	17,188
2025	17,188
Years thereafter	189,063
Total	<u>275,003</u>
Less: Amount representing interest	240,667
Present value of net minimum lease payments	<u><u>\$34,336</u></u>

NOTE 6. PREFERRED EQUITY

The number of shares and units authorized and outstanding and dollar value of preferred stock, preferred membership interests, and non-controlling interest for Entergy Corporation subsidiaries as of December 31, 2020 and 2019 are presented below.

	Shares/Units Authorized		Shares/Units Outstanding		2020	2019	
	2020	2019	2020	2019			
Entergy Corporation						(Dollars in Thousands)	
Utility:							
Preferred Stock or Preferred Membership Interests without sinking fund:							
Entergy Utility Holding Company, LLC, 7.5% Series (a)	110,000	110,000	110,000	110,000	\$107,425	\$107,425	
Entergy Utility Holding Company, LLC, 6.25% Series (b)	15,000	15,000	15,000	15,000	14,366	14,366	
Entergy Utility Holding Company, LLC, 6.75% Series (c)	75,000	75,000	75,000	75,000	73,370	73,370	
Entergy Texas, 5.375% Series	1,400,000	1,400,000	1,400,000	1,400,000	35,000	35,000	
Total Utility Preferred Stock or Preferred Membership Interests without sinking fund	1,600,000	1,600,000	1,600,000	1,600,000	230,161	230,161	
Entergy Wholesale Commodities:							
Preferred Stock without sinking fund:							
Entergy Finance Holding, Inc. 8.75% (d)	250,000	250,000	250,000	250,000	24,249	24,249	
Total Subsidiaries' Preferred Stock or Preferred Membership Interests without sinking fund	1,850,000	1,850,000	1,850,000	1,850,000	\$254,410	\$254,410	

- (a) In October 2015, Entergy Utility Holding Company, LLC issued 110,000 units of \$1,000 liquidation value 7.5% Series A Preferred Membership Interests, all of which are outstanding as of December 31, 2020. The distributions are cumulative and payable quarterly. These units are redeemable on or after January 1, 2036, at Entergy Utility Holding Company, LLC's option, at the fixed redemption price of \$1,000 per unit. Dollar amount outstanding is net of \$2,575 thousand of preferred stock issuance costs.
- (b) In November 2017, Entergy Utility Holding Company, LLC issued 15,000 units of \$1,000 liquidation value 6.25% Series B Preferred Membership Interests, all of which are outstanding as of December 31, 2020. The distributions are cumulative and payable quarterly. These units are redeemable on or after February 28, 2038, at Entergy Utility Holding Company, LLC's option, at the fixed redemption price of \$1,000 per unit. Dollar amount outstanding is net of \$634 thousand of preferred stock issuance costs.
- (c) In November 2018, Entergy Utility Holding Company, LLC issued 75,000 units of \$1,000 liquidation value 6.75% Series C Preferred Membership Interests, all of which are outstanding as of December 31, 2020. The distributions are cumulative and payable quarterly. These units are redeemable on or after February 28, 2039, at Entergy Utility Holding Company, LLC's option, at the fixed redemption price of \$1,000 per unit. Dollar amount outstanding is net of \$1,630 thousand of preferred stock issuance costs.
- (d) In December 2013, Entergy Finance Holding, Inc. issued 250,000 shares of \$100 par value 8.75% Series Preferred Stock, all of which are outstanding as of December 31, 2020. The dividends are cumulative and payable quarterly. The preferred stock is redeemable on or after December 16, 2023, at Entergy Finance Holding, Inc.'s option, at the fixed redemption price of \$100 per share. Dollar amount outstanding is net of \$751 thousand of preferred stock issuance costs.

Dividends and distributions paid on all of Entergy Corporation's subsidiaries' preferred stock and membership interests series may be eligible for the dividends received deduction.

Presentation of Preferred Stock without Sinking Fund

Accounting standards regarding non-controlling interests and the classification and measurement of redeemable securities require the classification of preferred securities between liabilities and shareholders' equity on the balance sheet if the holders of those securities have protective rights that allow them to gain control of the board of directors in certain circumstances. These rights would have the effect of giving the holders the ability to potentially redeem their securities, even if the likelihood of occurrence of these circumstances is considered remote. The outstanding preferred stock of Entergy Texas has protective rights with respect to unpaid dividends but provides for the election of board members that would not constitute a majority of the board, and the preferred stock of Entergy Texas is therefore classified as a component of equity.

The outstanding preferred securities of Entergy Utility Holding Company (a Utility subsidiary) and Entergy Finance Holding (an Entergy Wholesale Commodities subsidiary), whose preferred holders have protective rights, are presented between liabilities and equity on Entergy's consolidated balance sheets. The preferred dividends or distributions paid by all subsidiaries are reflected for all periods presented outside of consolidated net income.

NOTE 7. COMMON EQUITY

Common Stock

Common stock and treasury stock shares activity for Entergy for 2020, 2019, and 2018 is as follows:

	2020		2019		2018	
	Common Shares Issued	Treasury Shares	Common Shares Issued	Treasury Shares	Common Shares Issued	Treasury Shares
Beginning Balance, January 1	270,035,180	70,886,400	261,587,009	72,530,866	254,752,788	74,235,135
Issuances:						
Equity forwards settled	—	—	8,448,171	—	6,834,221	—
Employee Stock-Based Compensation Plans	—	(1,076,511)	—	(1,624,358)	—	(1,683,174)
Directors' Plan	—	(19,543)	—	(20,108)	—	(21,095)
Ending Balance, December 31	<u>270,035,180</u>	<u>69,790,346</u>	<u>270,035,180</u>	<u>70,886,400</u>	<u>261,587,009</u>	<u>72,530,866</u>

Entergy Corporation reissues treasury shares to meet the requirements of the Stock Plan for Outside Directors (Directors' Plan), the four equity plans of Entergy Corporation and Subsidiaries, and certain other stock benefit plans. The Directors' Plan awards to non-employee directors a portion of their compensation in the form of a fixed dollar value of shares of Entergy Corporation common stock.

In October 2010 the Board granted authority for a \$500 million share repurchase program. As of December 31, 2020, \$350 million of authority remains under the \$500 million share repurchase program.

Dividends declared per common share were \$3.74 in 2020, \$3.66 in 2019, and \$3.58 in 2018.

Equity Forward Sale Agreements

In June 2018, Entergy marketed an equity offering of 15.3 million shares of common stock. In lieu of issuing equity at the time of the offering, Entergy entered into forward sale agreements with various investment banks. The equity forwards required Entergy to, at its election prior to June 7, 2019, either (i) physically settle the transactions by issuing the total of 15.3 million shares of its common stock to the investment banks in exchange for net proceeds at the then-applicable forward sale price specified by the agreements (initially \$74.45 per share) or (ii) net settle the transactions in whole or in part through the delivery or receipt of cash or shares. The forward sale price was subject to adjustment on a daily basis based on a floating interest rate factor and decreased by other fixed amounts specified in the agreements.

In December 2018, Entergy physically settled a portion of its obligations under the forward sale agreements by delivering 6,834,221 shares of common stock in exchange for cash proceeds of \$500 million. The forward sale price used to determine the cash proceeds received by Entergy was calculated based on the initial forward sale price of \$74.45 per share as adjusted in accordance with the forward sale agreements. Entergy incurred approximately \$728 thousand of common stock issuance costs with the settlement.

In May 2019, Entergy physically settled its remaining obligations under the forward sale agreements by delivering 8,448,171 shares of common stock in exchange for cash proceeds of \$608 million. The forward sale price used to determine the cash proceeds received by Entergy was calculated based on the initial forward sale price of \$74.45 per share as adjusted in accordance with the forward sale agreements. Entergy incurred approximately \$7 thousand of common stock issuance costs with the settlement.

Entergy used the net proceeds for general corporate purposes, which included repayment of commercial paper, outstanding loans under Entergy's revolving credit facility, and other debt.

Retained Earnings and Dividends

Entergy implemented ASU No. 2016-01 "Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" effective January 1, 2018. The ASU requires investments in equity securities, excluding those accounted for under the equity method or resulting in consolidation of the investee, to be measured at fair value with changes recognized in net income. Entergy implemented this standard using a modified retrospective method, and recorded an adjustment increasing retained earnings and reducing accumulated other comprehensive income by \$633 million as of January 1, 2018 for the cumulative effect of the unrealized gains and losses on investments in equity securities held by the decommissioning trust funds that do not meet the criteria for regulatory accounting treatment. See Note 16 to the financial statements for further discussion of effects of the new standard.

Entergy implemented ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" effective January 1, 2018. The ASU requires entities to recognize the income tax consequences of intra-entity asset transfers, other than inventory, at the time the transfer occurs. Entergy implemented this standard using a modified retrospective method, and recorded an adjustment decreasing retained earnings by \$56 million as of January 1, 2018 for the cumulative effect of recording deferred tax assets on previously-recognized intra-entity asset transfers.

Entergy adopted ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," in the first quarter 2018. The ASU allows a one-time reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act that would otherwise be stranded in accumulated other comprehensive income. Entergy's policy for releasing income tax effects from accumulated other comprehensive income for available-for-sale securities is to use the portfolio approach. Entergy elected to reclassify the \$15.5 million of stranded tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs

Act to retained earnings (\$32 million decrease) or the regulatory liability for income taxes (\$16.5 million increase). Entergy's reclassification only includes the effect of the change in the federal corporate income tax rate on accumulated other comprehensive income.

Entergy implemented ASU No. 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" effective January 1, 2019. The ASU makes a number of amendments to hedge accounting, most significantly changing the recognition and presentation of highly effective hedges. Entergy implemented this standard using a modified retrospective method, and recorded an adjustment increasing retained earnings and increasing accumulated other comprehensive loss by approximately \$8 million as of January 1, 2019 for the cumulative effect of the ineffectiveness portion of designated hedges on nuclear power sales.

Entergy implemented ASU 2017-08 "Receivables (Topic 310): Nonrefundable Fees and Other Costs" effective January 1, 2019. The ASU amends the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Entergy implemented this standard using the modified retrospective approach, and recorded an adjustment decreasing retained earnings and decreasing accumulated other comprehensive loss by approximately \$1 million as of January 1, 2019 for the cumulative effect of the amended amortization period.

Entergy Corporation received dividend payments and distributions from subsidiaries totaling \$113 million in 2020, \$124 million in 2019, and \$27 million in 2018.

Comprehensive Income

Accumulated other comprehensive income (loss) is included in the equity section of the balance sheet of Entergy. The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the year ended December 31, 2020 by component:

	Cash flow hedges net unrealized gain (loss)	Pension and other postretirement liabilities	Net unrealized investment gain (loss)	Total Accumulated Other Comprehensive Income (Loss)
	(In Thousands)			
Beginning balance, January 1, 2020	\$84,206	(\$557,072)	\$25,946	(\$446,920)
Other comprehensive income (loss) before reclassifications	60,928	(49,113)	41,354	53,169
Amounts reclassified from accumulated other comprehensive income (loss)	(116,415)	71,609	(10,650)	(55,456)
Net other comprehensive income (loss) for the period	(55,487)	22,496	30,704	(2,287)
Ending balance, December 31, 2020	<u>\$28,719</u>	<u>(\$534,576)</u>	<u>\$56,650</u>	<u>(\$449,207)</u>

The following table presents changes in accumulated other comprehensive income (loss) for Entergy for the year ended December 31, 2019 by component:

	Cash flow hedges net unrealized gain (loss)	Pension and other postretirement liabilities	Net unrealized investment gain (loss)	Total Accumulated Other Comprehensive Income (Loss)
	(In Thousands)			
Ending balance, December 31, 2018	(\$23,135)	(\$531,922)	(\$2,116)	(\$557,173)
Implementation of accounting standards	(7,685)	—	879	(6,806)
Beginning balance, January 1, 2019	(\$30,820)	(\$531,922)	(\$1,237)	(\$563,979)
Other comprehensive income (loss) before reclassifications	191,147	(93,696)	32,914	130,365
Amounts reclassified from accumulated other comprehensive income (loss)	(76,121)	68,546	(5,731)	(13,306)
Net other comprehensive income (loss) for the period	115,026	(25,150)	27,183	117,059
Ending balance, December 31, 2019	\$84,206	(\$557,072)	\$25,946	(\$446,920)

Total reclassifications out of accumulated other comprehensive income (loss) (AOCI) for Entergy for the years ended December 31, 2020 and 2019 are as follows:

	Amounts reclassified from AOCI		Income Statement Location
	2020	2019	
(In Thousands)			
Cash flow hedges net unrealized gain (loss)			
Power contracts	\$147,554	\$96,549	Competitive business operating revenues
Interest rate swaps	(194)	(194)	Miscellaneous - net
Total realized gain (loss) on cash flow hedges	147,360	96,355	
Income taxes	(30,945)	(20,234)	Income taxes
Total realized gain (loss) on cash flow hedges (net of tax)	\$116,415	\$76,121	
Pension and other postretirement liabilities			
Amortization of prior-service costs	\$20,769	\$21,300	(a)
Amortization of loss	(110,185)	(83,246)	(a)
Settlement loss	(243)	(25,155)	(a)
Total amortization and settlement loss	(89,659)	(87,101)	
Income taxes	18,050	18,555	Income taxes
Total amortization and settlement loss (net of tax)	(\$71,609)	(\$68,546)	
Net unrealized investment gain (loss)			
Realized gain (loss)	\$16,851	\$9,069	Interest and investment income
Income taxes	(6,201)	(3,338)	Income taxes
Total realized investment gain (loss) (net of tax)	\$10,650	\$5,731	
Total reclassifications for the period (net of tax)	\$55,456	\$13,306	

- (a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other postretirement cost. See Note 11 to the financial statements for additional details.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Entergy and the Registrant Subsidiaries are involved in a number of legal, regulatory, and tax proceedings before various courts, regulatory commissions, and governmental agencies in the ordinary course of business. While management is unable to predict with certainty the outcome of such proceedings, management does not believe that the ultimate resolution of these matters will have a material adverse effect on Entergy's results of operations, cash flows, or financial condition. Entergy discusses regulatory proceedings in Note 2 to the financial statements and discusses tax proceedings in Note 3 to the financial statements.

Vidalia Purchased Power Agreement

Entergy Louisiana has an agreement extending through the year 2031 to purchase energy generated by a hydroelectric facility known as the Vidalia project. Entergy Louisiana made payments under the contract of approximately \$132.7 million in 2020, \$135.5 million in 2019, and \$137.6 million in 2018. If the maximum

percentage (94%) of the energy is made available to Entergy Louisiana, current production projections would require estimated payments of approximately \$141 million in 2021, and a total of \$1.41 billion for the years 2022 through 2031. Entergy Louisiana currently recovers the costs of the purchased energy through its fuel adjustment clause.

In an LPSC-approved settlement related to tax benefits from the tax treatment of the Vidalia contract, Entergy Louisiana agreed to credit rates by \$11 million each year for up to 10 years, beginning in October 2002. In October 2011 the LPSC approved a settlement under which Entergy Louisiana agreed to provide credits to customers by crediting billings an additional \$20.235 million per year for 15 years beginning January 2012. Entergy Louisiana recorded a regulatory charge and a corresponding regulatory liability to reflect this obligation. The settlement agreement allowed for an adjustment to the credits if, among other things, there was a change in the applicable federal or state income tax rate. As a result of the enactment of the Tax Cuts and Jobs Act, in December 2017, and the lowering of the federal corporate income tax rate from 35% to 21%, the Vidalia purchased power regulatory liability was reduced by \$30.5 million, with a corresponding increase to Other regulatory credits on the income statement. The effects of the Tax Cuts and Jobs Act are discussed further in Note 3 to the financial statements.

ANO Damage, Outage, and NRC Reviews

In March 2013, during a scheduled refueling outage at ANO 1, a contractor-owned and operated heavy-lifting apparatus collapsed while moving the generator stator out of the turbine building. The collapse resulted in the death of an ironworker and injuries to several other contract workers, caused ANO 2 to shut down, and damaged the ANO turbine building. The total cost of assessment, restoration of off-site power, site restoration, debris removal, and replacement of damaged property and equipment was approximately \$95 million. Entergy Arkansas has pursued its options for recovering damages that resulted from the stator drop, including its insurance coverage and legal action. Entergy Arkansas collected \$50 million in 2014 from Nuclear Electric Insurance Limited (NEIL), a mutual insurance company that provides property damage coverage to the members' nuclear generating plants. Entergy Arkansas also collected a total of \$21 million in 2018 as a result of stator-related settlements.

In addition, Entergy Arkansas incurred replacement power costs for ANO 2 power during its outage and incurred incremental replacement power costs for ANO 1 power because the outage extended beyond the originally-planned duration of the refueling outage. In February 2014 the APSC authorized Entergy Arkansas to retain the \$65.9 million in its deferred fuel balance with recovery to be reviewed in a later period after more information regarding various claims associated with the ANO stator incident is available.

In March 2015, after several NRC inspections and regulatory conferences, arising from the stator incident, the NRC placed ANO into the "multiple/repetitive degraded cornerstone column," or Column 4, of the NRC's Reactor Oversight Process Action Matrix. Entergy Arkansas incurred incremental costs of approximately \$53 million in 2015 to prepare for the NRC inspections that began in early 2016 in order to address the issues required to move ANO back to "licensee response" or Column 1 of the NRC's Reactor Oversight Process Action Matrix. Excluding remediation and response costs that resulted from the additional NRC inspection activities, Entergy Arkansas incurred approximately \$44 million in 2016 and \$7 million in 2017 in support of NRC inspection activities and to implement Entergy Arkansas's performance improvement initiatives developed in 2015. In June 2018 the NRC moved ANO 1 and ANO 2 into the "licensee response column," or Column 1, of the NRC's Reactor Oversight Process Action Matrix.

In July 2017, Entergy Arkansas filed for a change in rates pursuant to its formula rate plan rider. In that proceeding, the APSC approved a settlement agreement agreed upon by the parties, including a provision that requires Entergy Arkansas to initiate a regulatory proceeding for the purpose of recovering funds currently withheld from rates and related to the stator incident, including the \$65.9 million of deferred fuel and purchased energy costs and costs related to the incremental oversight previously noted, subject to certain timelines and conditions set forth in the settlement agreement.

Spent Nuclear Fuel Litigation

Under the Nuclear Waste Policy Act of 1982, the DOE is required, for a specified fee, to construct storage facilities for, and to dispose of, all spent nuclear fuel and other high-level radioactive waste generated by domestic nuclear power reactors. Entergy's nuclear owner/licensee subsidiaries have been charged fees for the estimated future disposal costs of spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. The affected Entergy companies entered into contracts with the DOE, whereby the DOE is to furnish disposal services at a cost of one mill per net kWh generated and sold after April 7, 1983, plus a one-time fee for generation prior to that date. Entergy considers all costs incurred for the disposal of spent nuclear fuel, except accrued interest, to be proper components of nuclear fuel expense. Provisions to recover such costs have been or will be made in applications to regulatory authorities for the Utility plants. Following the defunding of the Yucca Mountain spent fuel repository program, the National Association of Regulatory Utility Commissioners and others sued the government seeking cessation of collection of the one mill per net kWh generated and sold after April 7, 1983 fee. In November 2013 the D.C. Circuit Court of Appeals ordered the DOE to submit a proposal to Congress to reset the fee to zero until the DOE complies with the Nuclear Waste Policy Act or Congress enacts an alternative waste disposal plan. In January 2014 the DOE submitted the proposal to Congress under protest, and also filed a petition for rehearing with the D.C. Circuit. The petition for rehearing was denied. The zero spent fuel fee went into effect prospectively in May 2014.

Because the DOE has not begun accepting spent fuel, it is in non-compliance with the Nuclear Waste Policy Act of 1982 and has breached its spent fuel disposal contracts. As a result of the DOE's failure to begin disposal of spent nuclear fuel in 1998 pursuant to the Nuclear Waste Policy Act of 1982 and the spent fuel disposal contracts, Entergy's nuclear owner/licensee subsidiaries have incurred and will continue to incur damages. Beginning in November 2003 these subsidiaries have pursued litigation to recover the damages caused by the DOE's delay in performance. Following are details of final judgments recorded by Entergy in 2018, 2019, and 2020 related to Entergy's nuclear owner licensee subsidiaries' litigation with the DOE.

In September 2018 the DOE submitted an offer of judgment to resolve claims in the second round Entergy Nuclear Generation Company case involving Pilgrim. The \$62 million offer was accepted by Entergy Nuclear Generation Company, and the U.S. Court of Federal Claims issued a judgment in that amount in favor of Entergy Nuclear Generation Company. Entergy received payment from the U.S. Treasury in October 2018. The effect in 2018 of recording the judgment was a reduction to plant and other operation and maintenance expenses. The Pilgrim damages awarded included \$60 million related to costs previously capitalized and \$2 million related to costs previously recorded as other operation and maintenance expense. Of the \$60 million, Entergy recorded \$4 million as a reduction to previously-recorded depreciation expense, a \$10 million reduction to bring its remaining Pilgrim plant asset balance to zero, and the excess \$46 million as a reduction to other operation and maintenance expense because Pilgrim's plant asset balance is fully impaired.

In August 2019 the U.S. Court of Federal Claims issued a final judgment in the amount of \$19 million in favor of Entergy Louisiana against the DOE in the second round River Bend damages case. Entergy Louisiana received payment from the U.S. Treasury in September 2019. The effects in 2019 of recording the judgment were reductions to plant, nuclear fuel expense, and other operation and maintenance expense. The River Bend damages awarded included \$12 million related to costs previously recorded as nuclear fuel expense, \$5 million related to costs previously recorded as other operation and maintenance expense, and \$2 million in costs previously capitalized.

In December 2019 the DOE submitted an offer of judgment to resolve claims in the third round ANO damages case. The \$80 million offer was accepted by Entergy Arkansas, and the U.S. Court of Federal Claims issued a judgment in that amount in favor of Entergy Arkansas and against the DOE. Entergy Arkansas received payment from the U.S. Treasury in January 2020. The effects in 2019 of recording the judgment were reductions to plant, nuclear fuel expense, other operation and maintenance expense, depreciation expense, and taxes other than income taxes. The ANO damages awarded included \$55 million in costs previously capitalized, \$12 million related

to costs previously recorded as nuclear fuel expense, \$12 million related to costs previously recorded as other operation and maintenance expense, and \$1 million related to costs previously recorded as taxes other than income taxes. Of the \$55 million, Entergy Arkansas, recorded \$5 million as a reduction to previously-recorded depreciation expense.

In December 2019 the Entergy FitzPatrick Properties (formerly Entergy Nuclear FitzPatrick) and the DOE entered into a settlement agreement and the U.S. Court of Federal Claims issued a judgment in the amount of \$7 million in favor of Entergy FitzPatrick Properties against the DOE in the second round FitzPatrick damages case. Entergy received payment from the U.S. Treasury in January 2020. Substantially all of the FitzPatrick damages awarded relate to costs previously expensed as asset write-offs, impairments, and related charges, and in December 2019 Entergy recorded \$7 million as a reduction to asset write-offs, impairments, and related charges.

In April 2020 the U.S. Court of Federal Claims issued a final judgment in the amount of \$33 million in favor of Entergy Louisiana against the DOE in the second round Waterford 3 damages case. Entergy Louisiana received payment from the U.S. Treasury in June 2020. The effects of recording the judgment were reductions to plant, nuclear fuel expense, and other operation and maintenance expense. The Waterford 3 damages awarded included \$20 million related to costs previously recorded as nuclear fuel expense, \$8 million related to costs previously recorded as other operation and maintenance expenses, and \$5 million in costs previously capitalized.

In October 2020 the U.S. Court of Federal Claims issued a final judgment in the amount of \$40.5 million in favor of System Energy and against the DOE in the third round Grand Gulf damages case. System Energy received payment from the U.S. Treasury in December 2020. The effects of recording the judgment were reductions to plant, nuclear fuel expense, and other operation and maintenance expense. The amounts of Grand Gulf damages awarded related to System Energy's 90% ownership of Grand Gulf included \$5 million related to costs previously capitalized, \$21 million related to costs previously recorded as nuclear fuel expense, and \$10 million related to costs previously recorded as other operation and maintenance expense.

In January 2021 the U.S. Court of Federal Claims issued a final judgment in the amount of \$23.1 million in favor of Entergy Nuclear Palisades and against the DOE in the second round Palisades damages case. Entergy received payment from the U.S. Treasury in February 2021. The effects of recording the judgment were reductions to plant, other operation and maintenance expense, and taxes other than income taxes. The Palisades damages awarded included \$15.7 million related to costs previously capitalized, \$7.1 million related to costs previously recorded as other operation and maintenance expenses, and \$0.3 million related to costs previously recorded as taxes other than income taxes. Of the \$15.7 million previously capitalized, Entergy recorded \$9.1 million as a reduction to previously-recorded depreciation expense.

Management cannot predict the timing or amount of any potential recoveries on other claims filed by Entergy subsidiaries, and cannot predict the timing of any eventual receipt from the DOE of the U.S. Court of Federal Claims damage awards.

Nuclear Insurance

Third Party Liability Insurance

The Price-Anderson Act requires that reactor licensees purchase insurance and participate in a secondary insurance pool that provides insurance coverage for the public in the event of a nuclear power plant accident. The costs of this insurance are borne by the nuclear power industry. Congress amended and renewed the Price-Anderson Act in 2005 for a term through 2025. The Price-Anderson Act requires nuclear power plants to show evidence of financial protection in the event of a nuclear accident. This protection must consist of two layers of coverage:

1. The primary level is private insurance underwritten by American Nuclear Insurers (ANI) and provides public liability insurance coverage of \$450 million for each operating reactor. If this amount is not sufficient to cover claims arising from an accident, the second level, Secondary Financial Protection, applies.
2. Within the Secondary Financial Protection level, each nuclear reactor has a contingent obligation to pay a retrospective premium, equal to its proportionate share of the loss in excess of the primary level, regardless of proximity to the incident or fault, up to a maximum of approximately \$137.6 million per reactor per incident (Entergy's maximum total contingent obligation per incident is \$1.101 billion). This retrospective premium is payable at a rate currently set at approximately \$21 million per year per incident per nuclear power reactor.
3. In the event that one or more acts of terrorism cause a nuclear power plant accident, which results in third-party damages – off-site property and environmental damage, off-site bodily injury, and on-site third-party bodily injury (i.e. contractors), the primary level provided by ANI combined with the Secondary Financial Protection would provide approximately \$14 billion in coverage. The Terrorism Risk Insurance Reauthorization Act of 2007 created a government program that provides for up to \$100 billion in coverage in excess of existing coverage for a terrorist event. Under current law, the Terrorism Risk Insurance Act extends through 2027.

The shutdown Big Rock Point facility maintains its NRC site specific statutory nuclear liability insurance requirement limit of \$44.4 million.

Currently, 97 nuclear reactors are participating in the Secondary Financial Protection program that provides approximately \$13 billion in secondary layer insurance coverage to compensate the public in the event of a nuclear power reactor accident. The Price-Anderson Act provides that all potential liability for a nuclear accident is limited to the amounts of insurance coverage available under the primary and secondary layers.

Entergy Arkansas and Entergy Louisiana each have two licensed reactors. System Energy has one licensed reactor (10% of Grand Gulf is owned by a non-affiliated company (Cooperative Energy) that would share on a pro-rata basis in any retrospective premium assessment to System Energy under the Price-Anderson Act). The Entergy Wholesale Commodities segment includes the ownership, operation, and decommissioning of three nuclear power reactors and the ownership of the shutdown Indian Point 1 reactor and Big Rock Point facility. Indian Point 2 was shutdown in April 2020 and has been defueled successfully as of May 2020. Indian Point 3 and Palisades are scheduled for shutdown in April 2021 and May 2022, respectively. The Entergy Wholesale Commodities segment previously included two nuclear power reactors that were sold in 2019. Vermont Yankee was sold in January 2019 and Pilgrim was sold in August 2019.

Property Insurance

Entergy's nuclear owner/licensee subsidiaries are members of NEIL, a mutual insurance company that provides property damage coverage, including decontamination and reactor stabilization, to the members' nuclear generating plants. The property damage insurance limits procured by Entergy for its Utility plants and Entergy Wholesale Commodity plants are in compliance with the financial protection requirements of the NRC.

The Utility plants' (ANO 1 and 2, Grand Gulf, River Bend, and Waterford 3) property damage insurance limits are \$1.5 billion per occurrence at each plant with an additional \$100 million per nuclear property occurrence that is shared among the plants. Property damage from earth movement is excluded from the first \$500 million in coverage for all Utility plants. Property damage from flood is excluded from the first \$500 million in coverage at ANO 1 and 2 and Grand Gulf. Property damage from flood for Waterford 3 and River Bend includes a deductible of \$10 million plus an additional 10% of the amount of the loss in excess of \$10 million, up to a maximum deductible of \$50 million. Property damage from wind for all of the Utility nuclear plants includes a deductible of \$10 million plus an additional 10% of the amount of the loss in excess of \$10 million, up to a total maximum deductible of \$50 million.

The Entergy Wholesale Commodities' plants (Palisades, Indian Point 2, Indian Point 3, and Big Rock Point) have property damage insurance limits as follows: Big Rock Point - \$50 million per occurrence; Palisades - \$1.115 billion per occurrence; and Indian Point - \$1.06 billion per occurrence. For losses that are considered non-nuclear in nature, the property damage insurance limit at Palisades and Indian Point is \$500 million. Property damage from wind and flood at Indian Point includes a deductible of \$10 million plus an additional 10% of the amount of the loss in excess of \$10 million, up to a maximum deductible of \$50 million, and property damage from earth movement at Indian Point is excluded. Property damage from wind, flood, and earth movement at Palisades includes a deductible of \$10 million plus an additional 10% of the amount of the loss in excess of \$10 million, up to a maximum deductible of \$50 million. Property damage from wind, flood, and earth movement at Big Rock Point includes a deductible of \$10 million plus an additional 10% of the amount of the loss in excess of \$10 million, up to a maximum deductible of \$14 million.

The valuation basis of the insured property at Palisades and Indian Point have been changed from replacement cost to actual cash value, given the sites' ages, anticipated ownership horizon and/or shutdown status.

In addition, Waterford 3 and Grand Gulf are also covered under NEIL's Accidental Outage Coverage program. Due to Entergy's gradual exit from the merchant/wholesale power business, Entergy no longer purchases Accidental Outage Coverage for its non-regulated, non-generation assets. Accidental outage coverage provides indemnification for the actual cost incurred in the event of an unplanned outage resulting from property damage covered under the NEIL Primary Property Insurance policy, subject to a deductible period. The indemnification for the actual cost incurred is based on market power prices at the time of the loss. After the deductible period has passed, weekly indemnities for an unplanned outage, covered under NEIL's Accidental Outage Coverage program, would be paid according to the amounts listed below:

- 100% of the weekly indemnity for each week for the first payment period of 52 weeks; then
- 80% of the weekly indemnity for each week for the second payment period of 52 weeks; and thereafter
- 80% of the weekly indemnity for an additional 58 weeks for the third and final payment period.

Under the property damage and accidental outage insurance programs, all NEIL insured plants could be subject to assessments should losses exceed the accumulated funds available from NEIL. Effective April 1, 2020, the maximum amounts of such possible assessments per occurrence were as follows:

	<u>Assessments</u>
	(In Millions)
Utility:	
Entergy Arkansas	\$29.6
Entergy Louisiana	\$51.8
Entergy Mississippi	\$0.11
Entergy New Orleans	\$0.11
Entergy Texas	N/A
System Energy	\$22.4
Entergy Wholesale Commodities	\$—

Potential assessments for the Entergy Wholesale Commodities plants are covered by insurance obtained through NEIL's reinsurers.

NRC regulations provide that the proceeds of this insurance must be used, first, to render the reactor safe and stable, and second, to complete decontamination operations. Only after proceeds are dedicated for such use and

regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors.

In the event that one or more acts of terrorism causes property damage under one or more or all nuclear insurance policies issued by NEIL (including, but not limited to, those described above) within 12 months from the date the first property damage occurs, the maximum recovery under all such nuclear insurance policies shall be an aggregate not exceeding \$3.24 billion plus the additional amounts recovered for such losses from reinsurance, indemnity, and any other sources applicable to such losses.

Non-Nuclear Property Insurance

Entergy's non-nuclear property insurance program provides coverage on a system-wide basis for Entergy's non-nuclear assets. The insurance program provides coverage for property damage up to \$400 million per occurrence in excess of a \$20 million self-insured retention except for property damage caused by the following: earthquake shock, flood, and named windstorm, including associated storm surge. For earthquake shock and flood, the insurance program provides coverage up to \$400 million on an annual aggregate basis in excess of a \$40 million self-insured retention. For named windstorm and associated storm surge, the insurance program provides coverage up to \$125 million on an annual aggregate basis in excess of a \$40 million self-insured retention. The coverage provided by the insurance program for the Entergy New Orleans gas distribution system is limited to \$50 million per occurrence and is subject to the same annual aggregate limits and retentions listed above for earthquake shock, flood, and named windstorm, including associated storm surge.

Covered property generally includes power plants, substations, facilities, inventories, and gas distribution-related properties. Excluded property generally includes transmission and distribution lines, poles, and towers. For substations valued at \$5 million or less, coverage for named windstorm and associated storm surge is excluded. This coverage is in place for Entergy Corporation, the Registrant Subsidiaries, and certain other Entergy subsidiaries. Entergy also purchases \$300 million in terrorism insurance coverage for its conventional property. The Terrorism Risk Insurance Reauthorization Act of 2007 created a government program that provides for up to \$100 billion in coverage in excess of existing coverage for a terrorist event. Under current law, the Terrorism Risk Insurance Act extends through 2027.

Employment and Labor-related Proceedings

The Registrant Subsidiaries and other Entergy subsidiaries are responding to various lawsuits in both state and federal courts and to other labor-related proceedings filed by current and former employees, recognized bargaining representatives, and certain third parties. Generally, the amount of damages being sought is not specified in these proceedings. These actions include, but are not limited to, allegations of wrongful employment actions; wage disputes and other claims under the Fair Labor Standards Act or its state counterparts; claims of race, gender, age, and disability discrimination; disputes arising under collective bargaining agreements; unfair labor practice proceedings and other administrative proceedings before the National Labor Relations Board or concerning the National Labor Relations Act; claims of retaliation; claims of harassment and hostile work environment; and claims for or regarding benefits under various Entergy Corporation-sponsored plans. Entergy and the Registrant Subsidiaries are responding to these lawsuits and proceedings and deny liability to the claimants. Management believes that loss exposure has been and will continue to be handled so that the ultimate resolution of these matters will not be material, in the aggregate, to the financial position, results of operation, or cash flows of Entergy or the Utility operating companies.

NOTE 9. ASSET RETIREMENT OBLIGATIONS

Accounting standards require companies to record liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of the assets. For Entergy, substantially all of its asset retirement obligations consist of its liability for decommissioning its nuclear power plants. In addition, an insignificant amount of removal costs associated with non-nuclear power plants is also included in the decommissioning and asset retirement costs line item on the balance sheets.

These liabilities are recorded at their fair values (which are the present values of the estimated future cash outflows) in the period in which they are incurred, with an accompanying addition to the recorded cost of the long-lived asset. The asset retirement obligation is accreted each year through a charge to expense, to reflect the time value of money for this present value obligation. The accretion will continue through the completion of the asset retirement activity. The amounts added to the carrying amounts of the long-lived assets will be depreciated over the useful lives of the assets. The application of accounting standards related to asset retirement obligations is earnings neutral to the rate-regulated business of the Registrant Subsidiaries.

In accordance with ratemaking treatment and as required by regulatory accounting standards, the depreciation provisions for the Registrant Subsidiaries include a component for removal costs that are not asset retirement obligations under accounting standards. In accordance with regulatory accounting principles, the Registrant Subsidiaries have recorded regulatory assets (liabilities) in the following amounts to reflect their estimates of the difference between estimated incurred removal costs and estimated removal costs expected to be recovered in rates:

	December 31,	
	2020	2019
	(In Millions)	
Entergy Arkansas	\$212.6	\$168.9
Entergy Louisiana	\$302.5	(\$2.4)
Entergy Mississippi	\$107.3	\$80.8
Entergy New Orleans	\$63.2	\$52.9
Entergy Texas	\$115.3	\$42.5
System Energy	\$92.9	\$75.9

As of December 31, 2020 the regulatory asset for removal costs for the Utility operating companies includes amounts related to Hurricane Laura, Hurricane Delta, and Hurricane Zeta restoration costs.

The cumulative decommissioning and retirement cost liabilities and expenses recorded in 2020 and 2019 by Entergy were as follows:

	Liabilities as of December 31, 2019	Accretion	Spending	Liabilities as of December 31, 2020
	(In Millions)			
Entergy	\$6,159.2	\$394.6	(\$84.3)	\$6,469.5
Utility				
Entergy Arkansas	1,242.6	73.3	(1.7)	1,314.2
Entergy Louisiana	1,497.3	76.0	—	1,573.3
Entergy Mississippi	9.7	0.6	(0.5)	9.8
Entergy New Orleans	3.5	0.3	—	3.8
Entergy Texas	7.6	0.5	—	8.1
System Energy	931.7	37.2	—	968.9
Entergy Wholesale Commodities				
Big Rock Point	40.3	3.3	(2.5)	41.1
Indian Point 1	238.6	20.4	(12.4)	246.6
Indian Point 2	829.0	69.4	(58.6)	839.8
Indian Point 3	808.4	67.4	(6.4)	869.4
Palisades	549.8	46.4	(2.1)	594.1
Other (a)	0.5	—	—	0.5

	<u>Liabilities as of December 31, 2018</u>	<u>Accretion</u>	<u>Change in Cash Flow Estimate</u>	<u>Spending</u>	<u>Dispositions</u>	<u>Liabilities as of December 31, 2019</u>
	(In Millions)					
Entergy	\$6,923.4	\$414.0	\$273.7	(\$45.6)	(\$1,406.3)	\$6,159.2
Utility						
Entergy Arkansas	1,048.4	68.0	126.2	—	—	1,242.6
Entergy Louisiana	1,280.3	69.5	147.5	—	—	1,497.3
Entergy Mississippi	9.2	0.5	—	—	—	9.7
Entergy New Orleans	3.3	0.2	—	—	—	3.5
Entergy Texas	7.2	0.4	—	—	—	7.6
System Energy	896.0	35.7	—	—	—	931.7
Entergy Wholesale Commodities						
Big Rock Point	39.7	3.2	—	(2.6)	—	40.3
Indian Point 1	227.9	19.5	—	(8.8)	—	238.6
Indian Point 2	768.0	65.5	—	(4.5)	—	829.0
Indian Point 3	750.6	62.5	—	(4.7)	—	808.4
Palisades	508.0	42.9	—	(1.1)	—	549.8
Pilgrim	816.5	44.1	—	(23.9)	(836.7) (b)	—
Vermont Yankee	567.9	1.7	—	—	(569.6) (b)	—
Other (a)	0.4	0.1	—	—	—	0.5

- (a) See “**Coal Combustion Residuals**” below for additional discussion regarding the asset retirement obligations related to coal combustion residuals management.
- (b) See Note 14 to the financial statements for discussion of the sale of the Pilgrim plant to Holtec International in August 2019 and the sale of the Vermont Yankee plant to NorthStar in January 2019.

Nuclear Plant Decommissioning

Entergy periodically reviews and updates estimated decommissioning costs. The actual decommissioning costs may vary from the estimates because of the timing of plant decommissioning, regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment. As described below, during 2019 and 2018, Entergy updated decommissioning cost estimates for certain nuclear power plants. Entergy did not update decommissioning cost estimates in 2020.

Utility

In the first quarter 2019, Entergy Arkansas recorded a revision to its estimated decommissioning cost liabilities for ANO 1 and ANO 2 as a result of a revised decommissioning cost study. The revised estimates resulted in a \$126.2 million increase in its decommissioning cost liabilities, along with corresponding increases in the related asset retirement cost assets that will be depreciated over the remaining lives of the units.

In the second quarter 2019, Entergy Louisiana recorded a revision to its estimated decommissioning cost liability for Waterford 3 as a result of a revised decommissioning cost study. The revised estimate resulted in a \$147.5 million increase in its decommissioning cost liability, along with a corresponding increase in the related asset retirement cost asset that will be depreciated over the remaining useful life of the unit.

Entergy Wholesale Commodities

Pilgrim

Entergy Nuclear Generation Company filed its Post-Shutdown Decommissioning Activities report (PSDAR) with the NRC in the fourth quarter 2018 for the Pilgrim plant in anticipation of its May 2019 shutdown. As part of the development of the PSDAR, Entergy obtained a revised decommissioning cost study in the third quarter 2018. The revised estimate resulted in a \$117.5 million increase in the decommissioning cost liability and a corresponding impairment charge.

Vermont Yankee

In the fourth quarter 2018, Entergy Wholesale Commodities recorded a revision to its estimated decommissioning cost liability for Vermont Yankee. The revised estimate resulted in a \$293 million increase in the decommissioning cost liability, along with a corresponding increase in the related asset retirement cost asset. The revision was prompted by the progress of the Vermont Yankee sales transaction, which is described in Note 14 to the financial statements. Entergy accordingly evaluated the Vermont Yankee asset retirement obligation in light of the terms of the sale transaction, upon determining that Vermont Yankee was in held for sale status. Based on the terms of the sales agreement, which include Entergy receiving a note receivable from the purchaser, Entergy determined that \$165 million of the asset retirement cost was impaired, and it was accordingly written down in the fourth quarter 2018. The Vermont Yankee plant was sold to NorthStar in January 2019.

NRC Filings Regarding Trust Funding Levels

Plant owners are required to provide the NRC with a biennial report (annually for units that have shut down or will shut down within five years), based on values as of December 31, addressing the owners' ability to meet the NRC minimum funding levels. Depending on the value of the trust funds, plant owners may be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional contributions to the trusts, to ensure that the trusts are adequately funded and that NRC minimum funding requirements are met.

As nuclear plants individually approach and begin decommissioning, filings will be submitted to the NRC for planned shutdown activities. These filings with the NRC also determine whether financial assurance may be required in addition to the nuclear decommissioning trust fund.

Coal Combustion Residuals

In June 2010 the EPA issued a proposed rule on coal combustion residuals (CCRs) that contained two primary regulatory options: (1) regulating CCRs destined for disposal in landfills or received (including stored) in surface impoundments as so-called "special wastes" under the hazardous waste program of Resource Conservation and Recovery Act (RCRA) Subtitle C; or (2) regulating CCRs destined for disposal in landfills or surface impoundments as non-hazardous wastes under Subtitle D of RCRA. Under both options, CCRs that are beneficially reused in certain processes would remain excluded from hazardous waste regulation. In April 2015 the EPA published the final CCR rule with the material being regulated under the second scenario presented above - as non-hazardous wastes regulated under RCRA Subtitle D. The final regulations create new compliance requirements including modified storage, new notification and reporting practices, product disposal considerations, and CCR unit closure criteria. Entergy believes that on-site disposal options will be available at its facilities, to the extent needed for CCR that cannot be transferred for beneficial reuse. In December 2016 the Water Infrastructure Improvements for the Nation Act (WIIN Act) was signed into law, which authorizes states to regulate coal ash rather than leaving primary enforcement to citizen suit actions. States may submit to the EPA proposals for permit programs.

NOTE 10. LEASES

Entergy implemented ASU 2016-02, “Leases (Topic 842),” effective January 1, 2019. The ASU’s core principle is that “a lessee should recognize the assets and liabilities that arise from leases.” The ASU considers that “all leases create an asset and a liability,” and accordingly requires recording the assets and liabilities related to all leases with a term greater than 12 months. Concurrent with the implementation of ASU 2016-02, Entergy implemented ASU 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842,” which provided Entergy the option to elect not to evaluate existing land easements that are not currently accounted for as leases under the previous lease standard, and ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which intended to simplify the transition requirement giving Entergy the option to apply the transition provisions of the new standard at the date of adoption instead of at the earliest comparative period. In implementing these ASUs, Entergy elected the options provided in both ASU 2018-01 and ASU 2018-11. This accounting was applied to all lease agreements using the modified retrospective method, which required an adjustment to retained earnings for the cumulative effect of adopting the standard as of the effective date, and when implemented with ASU 2018-11, allowed Entergy to recognize the leased assets and liabilities on its balance sheet beginning on January 1, 2019 without restating prior periods. In adopting the standard in January 2019, Entergy recognized right-of-use assets and corresponding lease liabilities totaling approximately \$263 million. Implementation of the standards had no material effect on consolidated net income; therefore, no adjustment to retained earnings was recorded. The adoption of the standards had no effect on cash flows.

General

As of December 31, 2020 and 2019, Entergy held operating and finance leases for fleet vehicles used in operations, real estate, and aircraft. Excluded are power purchase agreements not meeting the definition of a lease, nuclear fuel leases, and the Grand Gulf sale-leaseback which were determined not to be leases under the accounting standards.

Leases have remaining terms of one year to 60 years. Real estate leases generally include at least one five-year renewal option; however, renewal is not typically considered reasonably certain unless Entergy or a Registrant Subsidiary makes significant leasehold improvements or other modifications that would hinder its ability to easily move. In certain of the lease agreements for fleet vehicles used in operations, Entergy and the Registrant Subsidiaries provide residual value guarantees to the lessor. Due to the nature of the agreements and Entergy’s continuing relationship with the lessor, however, Entergy and the Registrant Subsidiaries expect to renegotiate or refinance the leases prior to conclusion of the lease. As such, Entergy and the Registrant Subsidiaries do not believe it is probable that they will be required to pay anything pertaining to the residual value guarantee, and the lease liabilities and right-of-use assets are measured accordingly.

Entergy incurred the following total lease costs for the years ended December 31, 2020 and 2019:

	2020	2019
	(In Thousands)	
Operating lease cost	\$67,471	\$63,566
Finance lease cost:		
Amortization of right-of-use assets	\$12,180	\$16,048
Interest on lease liabilities	\$2,884	\$3,667

Of the lease costs disclosed above, Entergy had \$759 thousand and \$43 thousand in short-term leases costs for the years ended December 31, 2020 and 2019, respectively.

The lease costs disclosed above materially approximate the cash flows used by Entergy for leases with all costs included within operating activities on the Consolidated Statements of Cash Flows, except for the finance lease costs which are included in financing activities.

Entergy has elected to account for short-term leases in accordance with policy options provided by accounting guidance; therefore, there are no related lease liabilities or right-of-use assets for the costs recognized above by Entergy or by its Registrant Subsidiaries in the table below.

Included within Property, Plant, and Equipment on Entergy's consolidated balance sheet at December 31, 2020 and 2019 are \$230 million and \$234 million related to operating leases, respectively, and \$60 million and \$61 million related to finance leases, respectively.

The following lease-related liabilities are recorded within the respective Other lines on Entergy's consolidated balance sheet as of December 31, 2020 and 2019:

	2020	2019
	(In Thousands)	
Current liabilities:		
Operating leases	\$59,004	\$52,678
Finance leases	\$11,921	\$11,413
Non-current liabilities:		
Operating leases	\$170,980	\$181,339
Finance leases	\$52,803	\$53,396

The following information contains the weighted average remaining lease term in years and the weighted average discount rate for the operating and finance leases of Entergy at December 31, 2020 and 2019:

	2020	2019
Weighted average remaining lease terms:		
Operating leases	4.82	5.14
Finance leases	6.34	6.69
Weighted average discount rate:		
Operating leases	3.58 %	3.86 %
Finance leases	4.42 %	4.60 %

Maturity of the lease liabilities for Entergy as of December 31, 2020 are as follows:

Year	Operating Leases	Finance Leases
	(In Thousands)	
2021	\$65,693	\$14,436
2022	57,497	13,175
2023	46,540	12,114
2024	38,525	10,013
2025	20,269	8,225
Years thereafter	20,999	16,436
Minimum lease payments	249,523	74,399
Less: amount representing interest	19,539	9,675
Present value of net minimum lease payments	\$229,984	\$64,724

In allocating consideration in lease contracts to the lease and non-lease components, Entergy has made the accounting policy election to combine lease and non-lease components related to fleet vehicles used in operations, fuel storage agreements, and purchased power agreements and to allocate the contract consideration to both lease and non-lease components for real estate leases.

Following are the relevant lease disclosures from Note 10 to the financial statements in the Form 10-K for the year ended December 31, 2018.

Total 2018 rental expenses for all leases (excluding power purchase agreement operating leases, nuclear fuel leases, and the Grand Gulf sale and leaseback transaction) amounted to \$47.8 million for Entergy.

In addition to rental expense, railcar operating lease payments and oil tank facilities lease payments are recorded in fuel expense in accordance with regulatory treatment. Railcar operating lease payments were \$2.8 million in 2018 for Entergy Arkansas and \$0.4 million in 2018 for Entergy Louisiana. Oil tank facilities lease payments for Entergy Mississippi were \$0.1 million in 2018.

Total capacity expense under the power purchase agreement accounted for as an operating lease at Entergy Texas was \$30.5 million in 2018.

NOTE 11. RETIREMENT, OTHER POSTRETIREMENT BENEFITS, AND DEFINED CONTRIBUTION PLANS

Qualified Pension Plans

Entergy has eight defined benefit qualified pension plans covering substantially all employees. The Entergy Corporation Retirement Plan for Non-Bargaining Employees (Non-Bargaining Plan I), the Entergy Corporation Retirement Plan for Bargaining Employees (Bargaining Plan I), the Entergy Corporation Retirement Plan II for Non-Bargaining Employees (Non-Bargaining Plan II), the Entergy Corporation Retirement Plan II for Bargaining Employees, the Entergy Corporation Retirement Plan III, and the Entergy Corporation Retirement Plan IV for Bargaining Employees are non-contributory final average pay plans and provide pension benefits that are based on employees' credited service and compensation during employment. Non-bargaining employees whose most recent date of hire is after June 30, 2014 but before January 1, 2021 participate in the Entergy Corporation Cash Balance Plan for Non-Bargaining Employees (Non-Bargaining Cash Balance Plan). Certain bargaining employees hired or rehired after June 30, 2014, or such later date provided for in their applicable collective bargaining agreements, participate in the Entergy Corporation Cash Balance Plan for Bargaining Employees (Bargaining Cash Balance Plan). The Registrant Subsidiaries participate in these four plans: Non-Bargaining Plan I, Bargaining Plan I, Non-Bargaining Cash Balance Plan, and Bargaining Cash Balance Plan.

The assets of the six final average pay defined benefit qualified pension plans are held in a master trust established by Entergy, and the assets of the two cash balance pension plans are held in a second master trust established by Entergy. Each pension plan has an undivided beneficial interest in each of the investment accounts in its respective master trust that is maintained by a trustee. Use of the master trusts permits the commingling of the trust assets of the pension plans of Entergy Corporation and its Registrant Subsidiaries for investment and administrative purposes. Although assets in the master trusts are commingled, the trustee maintains supporting records for the purpose of allocating the trust level equity in net earnings (loss) and the administrative expenses of the investment accounts in each trust to the various participating pension plans in that particular trust. The fair value of the trusts' assets is determined by the trustee and certain investment managers. For each trust, the trustee calculates a daily earnings factor, including realized and unrealized gains or losses, collected and accrued income, and administrative expenses, and allocates earnings to each plan in the master trusts on a pro rata basis.

Within each pension plan, the record of each Registrant Subsidiary's beneficial interest in the plan assets is maintained by the plan's actuary and is updated quarterly. Assets for each Registrant Subsidiary are increased for investment net income and contributions, and are decreased for benefit payments. A plan's investment net income/loss (i.e. interest and dividends, realized and unrealized gains and losses and expenses) is allocated to the Registrant Subsidiaries participating in that plan based on the value of assets for each Registrant Subsidiary at the beginning of the quarter adjusted for contributions and benefit payments made during the quarter.

Entergy Corporation and its subsidiaries fund pension plans in an amount not less than the minimum required contribution under the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plans include common and preferred stocks, fixed-income securities, interest in a money market fund, and insurance contracts. The Registrant Subsidiaries' pension costs are recovered from customers as a component of cost of service in each of their respective jurisdictions.

Components of Qualified Net Pension Cost and Other Amounts Recognized as a Regulatory Asset and/or Accumulated Other Comprehensive Income (AOCI)

Entergy Corporation and its subsidiaries' total 2020, 2019, and 2018 qualified pension costs and amounts recognized as a regulatory asset and/or other comprehensive income, including amounts capitalized, included the following components:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Thousands)		
Net periodic pension cost:			
Service cost - benefits earned during the period	\$161,487	\$134,193	\$155,010
Interest cost on projected benefit obligation	239,614	293,114	267,415
Expected return on assets	(414,273)	(414,947)	(442,142)
Amortization of prior service cost	—	—	398
Recognized net loss	350,010	241,117	274,104
Settlement charges	36,946	23,492	828
Net periodic pension costs	<u>\$373,784</u>	<u>\$276,969</u>	<u>\$255,613</u>
Other changes in plan assets and benefit obligations recognized as a regulatory asset and/or AOCI (before tax)			
Arising this period:			
Net loss	\$483,653	\$614,600	\$394,951
Amounts reclassified from regulatory asset and/or AOCI to net periodic pension cost in the current year:			
Amortization of prior service cost	—	—	(398)
Amortization of net loss	(358,473)	(241,117)	(274,104)
Settlement charge	(36,946)	(23,492)	(828)
Total	<u>\$88,234</u>	<u>\$349,991</u>	<u>\$119,621</u>
Total recognized as net periodic pension cost, regulatory asset, and/or AOCI (before tax)	<u>\$462,018</u>	<u>\$626,960</u>	<u>\$375,234</u>

Qualified Pension Obligations, Plan Assets, Funded Status, Amounts Recognized in the Balance Sheet

Qualified pension obligations, plan assets, funded status, amounts recognized in the Consolidated Balance Sheets for Entergy Corporation and its Subsidiaries as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Change in Projected Benefit Obligation (PBO)		
Balance at January 1	\$8,406,203	\$7,404,917
Service cost	161,487	134,193
Interest cost	239,614	293,114
Actuarial loss	969,609	1,292,767
Benefits paid (including settlement lump sum benefit payments of (\$84,754) in 2020 and (\$68,203) in 2019)	(633,261)	(718,788)
Balance at December 31	<u>\$9,143,652</u>	<u>\$8,406,203</u>
Change in Plan Assets		
Fair value of assets at January 1	\$6,271,160	\$5,497,415
Actual return on plan assets	900,229	1,093,114
Employer contributions	316,298	399,419
Benefits paid (including settlement lump sum benefit payments of (\$84,754) in 2020 and (\$68,203) in 2019)	(633,261)	(718,788)
Fair value of assets at December 31	<u>\$6,854,426</u>	<u>\$6,271,160</u>
Funded status	<u>(\$2,289,226)</u>	<u>(\$2,135,043)</u>
Amount recognized in the balance sheet		
Non-current liabilities	(\$2,289,226)	(\$2,135,043)
Amount recognized as a regulatory asset		
Net loss	\$2,926,670	\$2,831,408
Amount recognized as AOCI (before tax)		
Net loss	\$726,010	\$724,575

The qualified pension plans incurred actuarial losses during 2020 and 2019 primarily due to a fall in bond yields that resulted in decreases to the discount rates used to develop the benefit obligations. These losses were partially offset by gains resulting from the actual return on assets exceeding the expected return on assets for both 2020 and 2019.

Accumulated Pension Benefit Obligation

The accumulated benefit obligation for Entergy's qualified pension plans was \$8.4 billion and \$7.8 billion at December 31, 2020 and 2019, respectively.

Other Postretirement Benefits

Entergy also currently offers retiree medical, dental, vision, and life insurance benefits (other postretirement benefits) for eligible retired employees. Employees who commenced employment before July 1, 2014 and who satisfy certain eligibility requirements (including retiring from Entergy after a certain age and/or years of service with Entergy and immediately commencing their Entergy pension benefit), may become eligible for other postretirement benefits.

In March 2020, Entergy announced changes to its other postretirement benefits. Effective January 1, 2021, certain retired, former non-bargaining employees age 65 and older who are eligible for Entergy-sponsored retiree

welfare benefits, and their eligible spouses who are age 65 and older (collectively, Medicare-eligible participants), will be eligible to participate in a new Entergy-sponsored retiree health plan, and will no longer be eligible for retiree coverage under the Entergy Corporation Companies' Benefits Plus Medical, Dental and Vision Plans. Under the new Entergy retiree health plan, Medicare-eligible participants will be eligible to participate in a health reimbursement arrangement which they may use towards the purchase of various types of qualified insurance offered through a Medicare exchange provider and for other qualified medical expenses. In accordance with accounting standards, the effects of this change are reflected in the December 31, 2020 other postretirement obligation. The changes affecting active bargaining unit employees will be negotiated with the unions prior to implementation, where necessary, and to the extent required by law.

Effective January 1, 1993, Entergy adopted an accounting standard requiring a change from a cash method to an accrual method of accounting for postretirement benefits other than pensions. Entergy Arkansas, Entergy Mississippi, Entergy New Orleans, and Entergy Texas have received regulatory approval to recover accrued other postretirement benefit costs through rates. The LPSC ordered Entergy Louisiana to continue the use of the pay-as-you-go method for ratemaking purposes for postretirement benefits other than pensions. However, the LPSC retains the flexibility to examine individual companies' accounting for other postretirement benefits to determine if special exceptions to this order are warranted. Pursuant to regulatory directives, Entergy Arkansas, Entergy Mississippi, Entergy New Orleans, Entergy Texas, and System Energy contribute the other postretirement benefit costs collected in rates into external trusts. System Energy is funding, on behalf of Entergy Operations, other postretirement benefits associated with Grand Gulf.

Trust assets contributed by participating Registrant Subsidiaries are in master trusts, established by Entergy Corporation and maintained by a trustee. Each participating Registrant Subsidiary holds a beneficial interest in the trusts' assets. The assets in the master trusts are commingled for investment and administrative purposes. Although assets are commingled, supporting records are maintained for the purpose of allocating the beneficial interest in net earnings/(losses) and the administrative expenses of the investment accounts to the various participating plans and participating Registrant Subsidiaries. Beneficial interest in an investment account's net income/(loss) is comprised of interest and dividends, realized and unrealized gains and losses, and expenses. Beneficial interest from these investments is allocated to the plans and participating Registrant Subsidiary based on their portion of net assets in the pooled accounts.

Components of Net Other Postretirement Benefit Cost and Other Amounts Recognized as a Regulatory Asset and/or AOCI

Entergy Corporation's and its subsidiaries' total 2020, 2019, and 2018 other postretirement benefit costs, including amounts capitalized and amounts recognized as a regulatory asset and/or other comprehensive income, included the following components:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Thousands)		
Other postretirement costs:			
Service cost - benefits earned during the period	\$24,500	\$18,699	\$27,129
Interest cost on accumulated postretirement benefit obligation (APBO)	28,597	47,901	50,725
Expected return on assets	(40,880)	(38,246)	(41,493)
Amortization of prior service credit	(32,882)	(35,377)	(37,002)
Recognized net loss	3,481	1,430	13,729
Net other postretirement benefit (income)/cost	<u>(\$17,184)</u>	<u>(\$5,593)</u>	<u>\$13,088</u>
Other changes in plan assets and benefit obligations recognized as a regulatory asset and /or AOCI (before tax)			
Arising this period:			
Prior service credit for period	(\$128,837)	\$—	\$—
Net (gain)/loss	41,031	(38,526)	(274,354)
Amounts reclassified from regulatory asset and /or AOCI to net periodic benefit cost in the current year:			
Amortization of prior service credit	32,882	35,377	37,002
Amortization of net loss	(3,481)	(1,430)	(13,729)
Total	<u>(\$58,405)</u>	<u>(\$4,579)</u>	<u>(\$251,081)</u>
Total recognized as net periodic benefit (income)/cost, regulatory asset, and/or AOCI (before tax)	<u>(\$75,589)</u>	<u>(\$10,172)</u>	<u>(\$237,993)</u>

Other Postretirement Benefit Obligations, Plan Assets, Funded Status, and Amounts Not Yet Recognized and Recognized in the Balance Sheet

Other postretirement benefit obligations, plan assets, funded status, and amounts not yet recognized and recognized in the Consolidated Balance Sheets of Entergy Corporation and its Subsidiaries as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Change in APBO		
Balance at January 1	\$1,252,903	\$1,232,619
Service cost	24,500	18,699
Interest cost	28,597	47,901
Plan amendments	(128,837)	—
Plan participant contributions	37,176	38,640
Actuarial loss	80,162	23,673
Benefits paid	(113,786)	(109,223)
Medicare Part D subsidy received	360	594
Balance at December 31	<u>\$1,181,075</u>	<u>\$1,252,903</u>
Change in Plan Assets		
Fair value of assets at January 1	\$686,262	\$609,782
Actual return on plan assets	80,011	100,445
Employer contributions	48,203	46,618
Plan participant contributions	37,176	38,640
Benefits paid	(113,786)	(109,223)
Fair value of assets at December 31	<u>\$737,866</u>	<u>\$686,262</u>
Funded status		
	(\$443,209)	(\$566,641)
Amounts recognized in the balance sheet		
Current liabilities	(\$38,963)	(\$48,040)
Non-current liabilities	(404,246)	(518,601)
Total funded status	<u>(\$443,209)</u>	<u>(\$566,641)</u>
Amounts recognized as a regulatory asset		
Prior service credit	(\$45,501)	(\$11,899)
Net gain	(8,565)	(5,081)
	<u>(\$54,066)</u>	<u>(\$16,980)</u>
Amounts recognized as AOCI (before tax)		
Prior service credit	(\$83,581)	(\$21,231)
Net (gain)/loss	24,365	(16,670)
	<u>(\$59,216)</u>	<u>(\$37,901)</u>

The other postretirement plans incurred actuarial losses during 2020 primarily due to a reduction in the projected Employer Group Waiver Plan (EGWP) revenue and a fall in bond yields that resulted in decreases to the discount rates used to develop the benefit obligations. These losses were partially offset by gains resulting from the actual return on assets exceeding the expected return on assets for 2020, an update to the latest mortality projection scale MP-2020, and favorable claims experience. The other postretirement plans experienced actuarial gains during 2019 primarily due to the actual return on assets exceeding the expected return on assets for 2019, favorable claims experience, an increase in projected EGWP revenue, and the adoption of the Pri.H-2012 mortality table with improvement scale MP-2019. These gains were partially offset by losses resulting from a fall in bond yields that resulted in decreases to the discount rates used to develop the benefit obligations.

Non-Qualified Pension Plans

Entergy also sponsors non-qualified, non-contributory defined benefit pension plans that provide benefits to certain key employees. Entergy recognized net periodic pension cost related to these plans of \$18.1 million in 2020, \$22.6 million in 2019, and \$24.4 million in 2018. In 2019, and 2018 Entergy recognized \$7.4 million and \$7.7 million, respectively in settlement charges related to the payment of lump sum benefits out of the plan that is included in the non-qualified pension plan cost above.

The projected benefit obligation was \$182.4 million as of December 31, 2020 of which \$22.9 million was a current liability and \$159.5 million was a non-current liability. The projected benefit obligation was \$162.8 million as of December 31, 2019 of which \$18.1 million was a current liability and \$144.6 million was a non-current liability. The accumulated benefit obligation was \$161.3 million and \$143.4 million as of December 31, 2020 and 2019, respectively. The unamortized prior service cost and net loss are recognized in regulatory assets (\$77.3 million at December 31, 2020 and \$58.8 million at December 31, 2019) and accumulated other comprehensive income before taxes (\$16.7 million at December 31, 2020 and \$24.9 million at December 31, 2019).

The non-qualified pension plans incurred actuarial losses during 2020 and 2019 primarily due to a fall in bond yields that resulted in decreases to the discount rates used to develop the benefit obligations.

Reclassification out of Accumulated Other Comprehensive Income (Loss)

Entergy reclassified the following costs out of accumulated other comprehensive income (loss) (before taxes and including amounts capitalized) as of December 31, 2020:

	<u>Qualified Pension Costs</u>	<u>Other Postretirement Costs</u>	<u>Non-Qualified Pension Costs</u>	<u>Total</u>
(In Thousands)				
Entergy				
Amortization of prior service cost	\$—	\$21,000	(\$231)	\$20,769
Amortization of loss	(105,853)	(1,006)	(3,326)	(110,185)
Settlement loss	(243)	—	—	(243)
	<u>(\$106,096)</u>	<u>\$19,994</u>	<u>(\$3,557)</u>	<u>(\$89,659)</u>

Entergy reclassified the following costs out of accumulated other comprehensive income (loss) (before taxes and including amounts capitalized) as of December 31, 2019:

	<u>Qualified Pension Costs</u>	<u>Other Postretirement Costs</u>	<u>Non-Qualified Pension Costs</u>	<u>Total</u>
(In Thousands)				
Entergy				
Amortization of prior service cost	\$—	\$21,498	(\$198)	\$21,300
Amortization of loss	(82,284)	1,230	(2,192)	(83,246)
Settlement loss	(23,458)	—	(1,697)	(25,155)
	<u>(\$105,742)</u>	<u>\$22,728</u>	<u>(\$4,087)</u>	<u>(\$87,101)</u>

Accounting for Pension and Other Postretirement Benefits

Accounting standards require an employer to recognize in its balance sheet the funded status of its benefit plans. This is measured as the difference between plan assets at fair value and the benefit obligation. Entergy uses a December 31 measurement date for its pension and other postretirement plans. Employers are to record previously unrecognized gains and losses, prior service costs, and any remaining transition asset or obligation (that resulted from adopting prior pension and other postretirement benefits accounting standards) as comprehensive income and/or as a regulatory asset reflective of the recovery mechanism for pension and other postretirement benefit costs in the Registrant Subsidiaries' respective regulatory jurisdictions. For the portion of Entergy Louisiana that is not regulated, the unrecognized prior service cost, gains and losses, and transition asset/obligation for its pension and other postretirement benefit obligations are recorded as other comprehensive income. Entergy Louisiana recovers other postretirement benefit costs on a pay-as-you-go basis and records the unrecognized prior service cost, gains and losses, and transition obligation for its other postretirement benefit obligation as other comprehensive income. Accounting standards also require that changes in the funded status be recorded as other comprehensive income and/or a regulatory asset in the period in which the changes occur.

With regard to pension and other postretirement costs, Entergy calculates the expected return on pension and other postretirement benefit plan assets by multiplying the long-term expected rate of return on assets by the market-related value (MRV) of plan assets. In general, Entergy determines the MRV of its pension plan assets by calculating a value that uses a 20-quarter phase-in of the difference between actual and expected returns and for its other postretirement benefit plan assets Entergy generally uses fair value.

In accordance with ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", the other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations and are presented by Entergy in miscellaneous - net in other income.

Qualified Pension Settlement Cost

In 2020, year-to-date lump sum benefit payments from the Entergy Corporation Retirement Plan for Bargaining Employees exceeded the sum of the Plan's 2020 service and interest cost, resulting in a settlement cost of \$36.9 million. In accordance with accounting standards, settlement accounting requires immediate recognition of the portion of previously unrecognized losses associated with the settled portion of the plan's pension liability. Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy Texas participate in the Entergy Corporation Retirement Plan for Bargaining Employees and incurred settlement costs of \$21.1 million, \$8.1 million, \$3.4 million, and \$4.3 million, respectively. The settlement costs were included with employee labor costs and charged to expense and capital in the same manner that labor costs were charged. Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi received regulatory approval to defer the expense portion of the settlement costs, with future amortization of the deferred settlement expense over the period in which the expense otherwise would be recorded had the immediate recognition not occurred.

Entergy Texas Reserve

In 2020, Entergy Texas elected to establish a reserve, in accordance with PUCT regulations, for the difference between the amount recorded for pension and other postretirement benefits expense under generally accepted accounting principles during the first year that rates from Entergy Texas's last general rate proceeding were in effect, and the annual amount of actuarially determined pension and other postretirement benefits chargeable to Entergy Texas's expense in 2020. The reserve amount will be evaluated in Entergy Texas's next base rate case proceeding and a reasonable amortization period will be determined by the PUCT at that time. At December 31, 2020, the balance in this reserve was approximately \$3.8 million.

Qualified Pension and Other Postretirement Plans' Assets

The Plan Administrator's trust asset investment strategy is to invest the assets in a manner whereby long-term earnings on the assets (plus cash contributions) provide adequate funding for retiree benefit payments. The mix of assets is based on an optimization study that identifies asset allocation targets in order to achieve the maximum return for an acceptable level of risk, while minimizing the expected contributions and pension and postretirement expense.

In the optimization studies, the Plan Administrator formulates assumptions about characteristics, such as expected asset class investment returns, volatility (risk), and correlation coefficients among the various asset classes. The future market assumptions used in the optimization study are determined by examining historical market characteristics of the various asset classes and making adjustments to reflect future conditions expected to prevail over the study period.

The target asset allocation for pension adjusts dynamically based on the pension plans' funded status. The current targets are shown below. The expectation is that the allocation to fixed income securities will increase as the pension plans' funded status increases. The following ranges were established to produce an acceptable, economically efficient plan to manage around the targets.

For postretirement assets the target and range asset allocations (as shown below) reflect recommendations made in the latest optimization study. The target asset allocations for postretirement assets adjust dynamically based on the funded status of each sub-account within each trust. The current weighted average targets shown below represent the aggregate of all targets for all sub-accounts within all trusts.

Entergy's qualified pension and postretirement weighted-average asset allocations by asset category at December 31, 2020 and 2019 and the target asset allocation and ranges for 2020 are as follows:

Pension Asset Allocation	Target	Range		Actual 2020	Actual 2019
Domestic Equity Securities	39%	32%	to 46%	38%	39%
International Equity Securities	19%	15%	to 23%	19%	19%
Fixed Income Securities	42%	39%	to 45%	42%	41%
Other	0%	0%	to 10%	1%	1%

Postretirement Asset Allocation	Non-Taxable and Taxable				
	Target	Range		Actual 2020	Actual 2019
Domestic Equity Securities	26%	21%	to 31%	29%	29%
International Equity Securities	18%	13%	to 23%	18%	18%
Fixed Income Securities	56%	51%	to 61%	53%	53%
Other	0%	0%	to 5%	0%	0%

In determining its expected long-term rate of return on plan assets used in the calculation of benefit plan costs, Entergy reviews past performance, current and expected future asset allocations, and capital market assumptions of its investment consultant and some investment managers.

The expected long-term rate of return for the qualified pension plans' assets is based primarily on the geometric average of the historical annual performance of a representative portfolio weighted by the target asset allocation defined in the table above, along with other indications of expected return on assets. The time period reflected is a long-dated period spanning several decades.

The expected long-term rate of return for the non-taxable postretirement trust assets is determined using the same methodology described above for pension assets, but the aggregate asset allocation specific to the non-taxable

postretirement assets is used.

For the taxable postretirement trust assets, the investment allocation includes tax-exempt fixed income securities. This asset allocation, in combination with the same methodology employed to determine the expected return for other postretirement assets (as described above), and with a modification to reflect applicable taxes, is used to produce the expected long-term rate of return for taxable postretirement trust assets.

Concentrations of Credit Risk

Entergy's investment guidelines mandate the avoidance of risk concentrations. Types of concentrations specified to be avoided include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, geographic area and individual security issuance. As of December 31, 2020, all investment managers and assets were materially in compliance with the approved investment guidelines, therefore there were no significant concentrations (defined as greater than 10 percent of plan assets) of credit risk in Entergy's pension and other postretirement benefit plan assets.

Fair Value Measurements

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 - Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Level 2 inputs are inputs other than quoted prices included in Level 1 that are, either directly or indirectly, observable for the asset or liability at the measurement date. Assets are valued based on prices derived by an independent party that uses inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Prices are reviewed and can be challenged with the independent parties and/or overridden if it is believed such would be more reflective of fair value. Level 2 inputs include the following:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability; or
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If an asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Level 3 refers to securities valued based on significant unobservable inputs.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables set forth by level within the fair value hierarchy, measured at fair value on a recurring basis at December 31, 2020, and December 31, 2019, a summary of the investments held in the master trusts for Entergy's qualified pension and other postretirement plans in which the Registrant Subsidiaries participate.

Qualified Defined Benefit Pension Plan Trusts

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		(In Thousands)		
Equity securities:				
Corporate stocks:				
Preferred	\$15,756 (b)	\$—	\$—	\$15,756
Common	1,031,213 (b)	— (b)	—	1,031,213
Common collective trusts (c)				2,958,767
Registered investment companies	— (d)	—	—	—
Fixed income securities:				
U.S. Government securities	—	731,319 (a)	—	731,319
Corporate debt instruments	—	1,029,370 (a)	—	1,029,370
Registered investment companies (e)	81,800 (d)	3,076 (d)	—	1,128,107
Other	156 (f)	56,323 (f)	—	56,479
Other:				
Insurance company general account (unallocated contracts)	—	6,253 (g)	—	6,253
Total investments	<u>\$1,128,925</u>	<u>\$1,826,341</u>	<u>\$—</u>	<u>\$6,957,264</u>
Cash				2,316
Other pending transactions				(29,121)
Less: Other postretirement assets included in total investments				<u>(76,033)</u>
Total fair value of qualified pension assets				<u><u>\$6,854,426</u></u>

2019	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Equity securities:				
Corporate stocks:				
Preferred	\$10,379 (b)	\$—	\$—	\$10,379
Common	857,159 (b)	— (b)	—	857,159
Common collective trusts (c)				2,698,697
Registered investment companies	132,389 (d)	—	—	132,389
Fixed income securities:				
U.S. Government securities	— (b)	805,671 (a)	—	805,671
Corporate debt instruments	—	762,577 (a)	—	762,577
Registered investment companies (e)	53,842 (d)	2,903 (d)	—	1,008,371
Other	73 (f)	43,106 (f)	—	43,179
Other:				
Insurance company general account (unallocated contracts)	—	40,452 (g)	—	40,452
Total investments	<u>\$1,053,842</u>	<u>\$1,654,709</u>	<u>\$—</u>	<u>\$6,358,874</u>
Cash				1,407
Other pending transactions				(22,549)
Less: Other postretirement assets included in total investments				(66,572)
Total fair value of qualified pension assets				<u>\$6,271,160</u>

Other Postretirement Trusts

2020	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Equity securities:				
Common collective trust (c)				\$315,191
Fixed income securities:				
U.S. Government securities	46,498 (b)	97,604 (a)	—	144,102
Corporate debt instruments	—	147,287 (a)	—	147,287
Registered investment companies	16,965 (d)	—	—	16,965
Other	—	60,219 (f)	—	60,219
Total investments	<u>\$63,463</u>	<u>\$305,110</u>	<u>\$—</u>	<u>\$683,764</u>
Other pending transactions				(21,931)
Plus: Other postretirement assets included in the investments of the qualified pension trust				76,033
Total fair value of other postretirement assets				<u>\$737,866</u>

2019	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Equity securities:				
Common collective trust (c)				\$289,398
Fixed income securities:				
U.S. Government securities	49,930 (b)	89,297 (a)	—	139,227
Corporate debt instruments	—	130,333 (a)	—	130,333
Registered investment companies	1,877 (d)	—	—	1,877
Other	—	57,210 (f)	—	57,210
Total investments	<u>\$51,807</u>	<u>\$276,840</u>	<u>\$—</u>	<u>\$618,045</u>
Other pending transactions				1,645
Plus: Other postretirement assets included in the investments of the qualified pension trust				66,572
Total fair value of other postretirement assets				<u>\$686,262</u>

- (a) Certain preferred stocks and certain fixed income debt securities (corporate, government, and securitized) are stated at fair value as determined by broker quotes.
- (b) Common stocks, certain preferred stocks, and certain fixed income debt securities (government) are stated at fair value determined by quoted market prices.
- (c) The common collective trusts hold investments in accordance with stated objectives. The investment strategy of the trusts is to capture the growth potential of equity markets by replicating the performance of a specified index. Net asset value per share of common collective trusts estimate fair value. Certain of these common collective trusts are not publicly quoted and are valued by the fund administrators using net asset value as a practical expedient. Accordingly, these funds are not assigned a level in the fair value table, but are included in the total.
- (d) Registered investment companies are money market mutual funds with a stable net asset value of one dollar per share. Registered investment companies may hold investments in domestic and international bond markets or domestic equities and estimate fair value using net asset value per share.
- (e) Certain of these registered investment companies are not publicly quoted and are valued by the fund administrators using net asset value as a practical expedient. Accordingly, these funds are not assigned a level in the fair value table, but are included in the total.
- (f) The other remaining assets are U.S. municipal and foreign government bonds stated at fair value as determined by broker quotes.
- (g) The unallocated insurance contract investments are recorded at contract value, which approximates fair value. The contract value represents contributions made under the contract, plus interest, less funds used to pay benefits and contract expenses, and less distributions to the master trust.

Estimated Future Benefit Payments

Based upon the assumptions used to measure Entergy's qualified pension and other postretirement benefit obligations at December 31, 2020, and including pension and other postretirement benefits attributable to estimated future employee service, Entergy expects that benefits to be paid and the Medicare Part D subsidies to be received over the next ten years for Entergy Corporation and its subsidiaries will be as follows:

Year(s)	Estimated Future Benefits Payments			Estimated Future Medicare D Subsidy Receipts
	Qualified Pension	Non-Qualified Pension	Other Postretirement (before Medicare Subsidy)	
	(In Thousands)			
2021	\$566,242	\$22,851	\$68,109	\$123
2022	\$568,058	\$24,193	\$67,904	\$82
2023	\$569,348	\$23,906	\$68,149	\$93
2024	\$576,365	\$17,183	\$67,569	\$101
2025	\$552,303	\$25,477	\$66,414	\$112
2026 - 2030	\$2,641,864	\$56,584	\$314,972	\$703

Contributions

Entergy currently expects to contribute approximately \$356 million to its qualified pension plans and approximately \$39.9 million to other postretirement plans in 2021. The expected 2021 pension and other postretirement plan contributions of the Registrant Subsidiaries for their employees are shown below. The 2021 required pension contributions will be known with more certainty when the January 1, 2021 valuations are completed, which is expected by April 1, 2021.

Actuarial Assumptions

The significant actuarial assumptions used in determining the pension PBO and the other postretirement benefit APBO as of December 31, 2020 and 2019 were as follows:

	2020	2019
Weighted-average discount rate:		
Qualified pension	2.60% - 2.83% Blended 2.77%	3.26% - 3.43% Blended 3.39%
Other postretirement	2.62%	3.26%
Non-qualified pension	1.61%	2.72%
Weighted-average rate of increase in future compensation levels	3.98% - 4.40%	3.98% - 4.40%
Interest crediting rate	2.60%	2.60%
Assumed health care trend rate:		
Pre-65	5.87%	6.13%
Post-65	6.31%	6.25%
Ultimate rate	4.75%	4.75%
Year ultimate rate is reached and beyond:		
Pre-65	2030	2027
Post-65	2028	2027

The significant actuarial assumptions used in determining the net periodic pension and other postretirement benefit costs for 2020, 2019, and 2018 were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Weighted-average discount rate:			
Qualified pension:			
Service cost	3.42%	4.57%	3.89%
Interest cost	2.99%	4.15%	3.44%
Other postretirement:			
Service cost	3.27%	4.62%	3.88%
Interest cost	2.41%	4.01%	3.33%
Non-qualified pension:			
Service cost	2.71%	3.94%	3.35%
Interest cost	2.25%	3.46%	2.76%
Weighted-average rate of increase in future compensation levels	3.98% - 4.40%	3.98%	3.98%
Expected long-term rate of return on plan assets:			
Pension assets	7.00%	7.25%	7.50%
Other postretirement non-taxable assets	6.25% - 7.00%	6.5%-7.25%	6.50% - 7.50%
Other postretirement taxable assets	5.25%	5.50%	5.50%
Assumed health care trend rate:			
Pre-65	6.13%	6.59%	6.95%
Post-65	6.25%	7.15%	7.25%
Ultimate rate	4.75%	4.75%	4.75%
Year ultimate rate is reached and beyond:			
Pre-65	2027	2027	2027
Post-65	2027	2026	2027

With respect to the mortality assumptions, Entergy used the Pri-2012 Employee and Healthy Annuitant Tables with a fully generational MP-2020 projection scale, in determining its December 31, 2020 pension plans' PBOs and the Pri.H 2012 (headcount weighted) Employee and Healthy Annuitant Tables with a fully generational MP-2020 projection scale, in determining its December 31, 2020 other postretirement benefit APBO. Entergy used the Pri-2012 Employee and Healthy Annuitant Tables with a fully generational MP-2019 projection scale, in determining its December 31, 2019 pension plans' PBOs and the Pri.H 2012 (headcount weighted) Employee and Healthy Annuitant Tables with a fully generational MP-2019 projection scale, in determining its December 31, 2019 other postretirement benefit APBO.

Defined Contribution Plans

Entergy sponsors the Savings Plan of Entergy Corporation and Subsidiaries (System Savings Plan). The System Savings Plan is a defined contribution plan covering eligible employees of Entergy and certain of its subsidiaries. The participating Entergy subsidiary makes matching contributions to the System Savings Plan for all eligible participating employees in an amount equal to either 70% or 100% of the participants' basic contributions, up to 6% of their eligible earnings per pay period. The matching contribution is allocated to investments as directed by the employee.

Entergy also sponsors the Savings Plan of Entergy Corporation and Subsidiaries VI (established in April 2007) and the Savings Plan of Entergy Corporation and Subsidiaries VII (established in April 2007) to which

matching contributions are also made. The plans are defined contribution plans that cover eligible employees, as defined by each plan, of Entergy and certain of its subsidiaries.

Entergy also sponsors the Savings Plan of Entergy Corporation and Subsidiaries VIII (established January 2021) and the Savings Plan of Entergy Corporation and Subsidiaries IX (established January 2021) to which company contributions are made. The participating Entergy subsidiary makes matching contributions to these defined contribution plans for all eligible participating employees in an amount equal to 100% of the participants' basic contributions, up to 5% of their eligible earnings per pay period. Eligible participants may also receive a discretionary annual company contribution up to 4% of the participant's eligible earnings (subject to vesting).

Entergy's subsidiaries' contributions to defined contribution plans collectively were \$63.1 million in 2020, \$57.6 million in 2019, and \$54.3 million in 2018. The majority of the contributions were to the System Savings Plan.

NOTE 12. STOCK-BASED COMPENSATION

Entergy grants stock options, restricted stock, performance units, and restricted stock units to key employees of the Entergy subsidiaries under its equity plans which are shareholder-approved stock-based compensation plans. Effective May 3, 2019, Entergy's shareholders approved the 2019 Omnibus Incentive Plan (2019 Plan). The maximum number of common shares that can be issued from the 2019 Plan for stock-based awards is 7,300,000 all of which are available for incentive stock option grants. The 2019 Plan applies to awards granted on or after May 3, 2019 and awards expire ten years from the date of grant. As of December 31, 2020, there were 6,108,451 authorized shares remaining for stock-based awards.

Stock Options

Stock options are granted at exercise prices that equal the closing market price of Entergy Corporation common stock on the date of grant. Generally, stock options granted will become exercisable in equal amounts on each of the first three anniversaries of the date of grant. Unless they are forfeited previously under the terms of the grant, options expire 10 years after the date of the grant if they are not exercised.

The following table includes financial information for stock options for each of the years presented:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In Millions)		
Compensation expense included in Entergy's consolidated net income	\$3.9	\$3.8	\$4.3
Tax benefit recognized in Entergy's consolidated net income	\$1.0	\$1.0	\$1.1
Compensation cost capitalized as part of fixed assets and inventory	\$1.5	\$1.4	\$0.7

Entergy determines the fair value of the stock option grants by considering factors such as lack of marketability, stock retention requirements, and regulatory restrictions on exercisability in accordance with accounting standards. The stock option weighted-average assumptions used in determining the fair values are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Stock price volatility	17.16%	17.23%	17.44%
Expected term in years	7.04	7.32	7.33
Risk-free interest rate	1.49%	2.50%	2.54%
Dividend yield	4.00%	4.50%	4.75%
Dividend payment per share	\$3.74	\$3.66	\$3.58

Stock price volatility is calculated based upon the daily public stock price volatility of Entergy Corporation common stock over a period equal to the expected term of the award. The expected term of the options is based upon historical option exercises and the weighted average life of options when exercised and the estimated weighted average life of all vested but unexercised options. In 2008, Entergy implemented stock ownership guidelines for its senior executive officers. These guidelines require an executive officer to own shares of Entergy Corporation common stock equal to a specified multiple of his or her salary. Until an executive officer achieves this ownership position the executive officer is required to retain 75% of the net-of-tax net profit upon exercise of the option to be held in Entergy Corporation common stock. The reduction in fair value of the stock options due to this restriction is based upon an estimate of the call option value of the reinvested gain discounted to present value over the applicable reinvestment period.

A summary of stock option activity for the year ended December 31, 2020 and changes during the year are presented below:

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted- Average Contractual Life
Options outstanding as of January 1, 2020	2,448,913	\$78.48		
Options granted	530,716	\$131.72		
Options exercised	(544,082)	\$79.27		
Options forfeited/expired	(36,168)	\$108.69		
Options outstanding as of December 31, 2020	<u>2,399,379</u>	\$89.63	\$40,842,152	6.72 years
Options exercisable as of December 31, 2020	1,264,641	\$74.55	\$31,979,370	5.26 years
Weighted-average grant-date fair value of options granted during 2020	\$11.45			

The weighted-average grant-date fair value of options granted during the year was \$8.32 for 2019 and \$6.99 for 2018. The total intrinsic value of stock options exercised was \$26 million during 2020, \$29 million during 2019, and \$19 million during 2018. The intrinsic value, which has no effect on net income, of the outstanding stock options exercised is calculated by the positive difference between the weighted average exercise price of the stock options granted and Entergy Corporation's common stock price as of December 31, 2020. The aggregate intrinsic value of the stock options outstanding as of December 31, 2020 was \$40.8 million. Stock options outstanding as of December 31, 2020 includes 512,316 out of the money options with an intrinsic value of zero. Entergy recognizes compensation cost over the vesting period of the options based on their grant-date fair value. The total fair value of options that vested was approximately \$5 million during 2020, \$5 million during 2019, and \$4 million during 2018. Cash received from option exercises was \$43 million for the year ended December 31, 2020. The tax benefits realized from options exercised was \$7 million for the year ended December 31, 2020.

The following table summarizes information about stock options outstanding as of December 31, 2020:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	As of December 31, 2020	Weighted-Average Remaining Contractual Life-Yrs.	Weighted Average Exercise Price	Number Exercisable as of December 31, 2020	Weighted Average Exercise Price
\$51 - \$64.99	240,200	2.72	\$63.69	240,200	\$63.69
\$65 - \$78.99	960,110	6.09	\$73.86	759,031	\$72.74
\$79 - \$91.99	686,753	7.24	\$89.34	265,410	\$89.57
\$92 - \$131.72	512,316	9.08	\$131.72	—	\$0.00
\$51 - \$131.72	<u>2,399,379</u>	6.72	\$89.63	<u>1,264,641</u>	\$74.55

Stock-based compensation cost related to non-vested stock options outstanding as of December 31, 2020 not yet recognized is approximately \$6 million and is expected to be recognized over a weighted-average period of 1.72 years.

Restricted Stock Awards

Entergy grants restricted stock awards earned under its stock benefit plans in the form of stock units. One-third of the restricted stock awards will vest upon each anniversary of the grant date and are expensed ratably over the three-year vesting period. Shares of restricted stock have the same dividend and voting rights as other common stock and are considered issued and outstanding shares of Entergy upon vesting. In January 2020 the Board approved and Entergy granted 313,805 restricted stock awards under the 2019 Plan. The restricted stock awards were made effective on January 30, 2020 and were valued at \$131.72 per share, which was the closing price of Entergy Corporation's common stock on that date.

The following table includes information about the restricted stock awards outstanding as of December 31, 2020:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding shares at January 1, 2020	692,134	\$82.56
Granted	336,363	\$130.11
Vested	(345,271)	\$79.41
Forfeited	(34,728)	\$101.32
Outstanding shares at December 31, 2020	<u>648,498</u>	\$107.89

The following table includes financial information for restricted stock for each of the years presented:

	2020	2019	2018
	(In Millions)		
Compensation expense included in Entergy's consolidated net income	\$23.1	\$20.2	\$19.8
Tax benefit recognized in Entergy's consolidated net income	\$5.9	\$5.1	\$5.1
Compensation cost capitalized as part of fixed assets and inventory	\$8.5	\$7.1	\$5.7

The total fair value of the restricted stock awards granted was \$44 million, \$34 million, and \$28 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The total fair value of the restricted stock awards vested was \$27 million, \$25 million, and \$25 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Long-Term Performance Unit Program

Entergy grants long-term incentive awards earned under its stock benefit plans in the form of performance units, which represents the value of, and are settled with, one share of Entergy Corporation common stock at the end of the three-year performance period, plus dividends accrued during the performance period on the number of performance units earned. The Long-Term Performance Unit Program specifies a minimum, target, and maximum achievement level, the achievement of which will determine the number of performance units that may be earned. Entergy measures performance by assessing Entergy's total shareholder return relative to the total shareholder return of the companies in the Philadelphia Utility Index. For the 2020-2021 performance period, performance will be measured based eighty percent on relative total shareholder return and twenty percent on a cumulative adjusted earnings per share metric.

In January 2020 the Board approved and Entergy granted 134,853 performance units under the 2019 Plan. The performance units were granted on January 30, 2020, and eighty percent were valued at \$169.74 per share based on various factors, primarily market conditions; and twenty percent were valued at \$131.72 per share, the closing price of Entergy Corporation's common stock on that date. Performance units have the same dividend and voting rights as other common stock, are considered issued and outstanding shares of Entergy upon vesting, and are expensed ratably over the 3-year vesting period, and compensation cost for the portion of the award based on cumulative adjusted earnings per share will be adjusted based on the number of units that ultimately vest.

The following table includes information about the long-term performance units outstanding at the target level as of December 31, 2020:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding shares at January 1, 2020	551,933	\$84.01
Granted	376,557	\$105.90
Vested	(423,225)	\$71.40
Forfeited	(29,500)	\$111.86
Outstanding shares at December 31, 2020	<u>475,765</u>	<u>\$110.82</u>

The following table includes financial information for the long-term performance units for each of the years presented:

	2020	2019	2018
	(In Millions)		
Compensation expense included in Entergy's consolidated net income	\$12.6	\$11.1	\$11.5
Tax benefit recognized in Entergy's consolidated net income	\$3.2	\$2.8	\$2.9
Compensation cost capitalized as part of fixed assets and inventory	\$4.9	\$4.0	\$3.3

The total fair value of the long-term performance units granted was \$40 million, \$23 million, and \$16 million for the years ended December 31, 2020, 2019, and 2018, respectively.

In January 2020, Entergy issued 423,184 shares of Entergy Corporation common stock at a share price of \$126.31 for awards earned and dividends accrued under the 2017-2019 Long-Term Performance Unit Program. In January 2019, Entergy issued 226,208 shares of Entergy Corporation common stock at a share price of \$86.03 for awards earned and dividends accrued under the 2016-2018 Long-Term Performance Unit Program. In January

2018, Entergy issued 50,812 shares of Entergy Corporation common stock at a share price of \$78.51 for awards earned and dividends accrued under the 2015-2017 Long-Term Performance Unit Program.

Restricted Stock Unit Awards

Entergy grants restricted stock unit awards earned under its stock benefit plans in the form of stock units that are subject to time-based restrictions. The restricted stock units may be settled in shares of Entergy Corporation common stock or the cash value of shares of Entergy Corporation common stock at the time of vesting. The costs of restricted stock unit awards are charged to income over the restricted period, which varies from grant to grant. The average vesting period for restricted stock unit awards granted is 33 months. As of December 31, 2020, there were 86,175 unvested restricted stock units that are expected to vest over an average period of 16 months.

The following table includes information about the restricted stock unit awards outstanding as of December 31, 2020:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding shares at January 1, 2020	130,463	\$82.72
Granted	18,100	\$114.30
Vested	(55,888)	\$77.04
Forfeited	(6,500)	\$84.32
Outstanding shares at December 31, 2020	<u>86,175</u>	<u>\$92.92</u>

The following table includes financial information for restricted stock unit awards for each of the years presented:

	2020	2019	2018
	(In Millions)		
Compensation expense included in Entergy's consolidated net income	\$2.0	\$2.2	\$2.9
Tax benefit recognized in Entergy's consolidated net income	\$0.5	\$0.6	\$0.7
Compensation cost capitalized as part of fixed assets and inventory	\$0.9	\$0.9	\$0.7

The total fair value of the restricted stock unit awards granted was \$2 million, \$3 million, and \$2 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The total fair value of the restricted stock unit awards vested was \$4 million, \$6 million, and \$3.1 million for the years ended December 31, 2020, 2019, and 2018, respectively.

NOTE 13. BUSINESS SEGMENT INFORMATION

Entergy's reportable segments as of December 31, 2020 are Utility and Entergy Wholesale Commodities. Utility includes the generation, transmission, distribution, and sale of electric power in portions of Arkansas, Louisiana, Mississippi, and Texas, and natural gas utility service in portions of Louisiana. Entergy Wholesale Commodities includes the ownership, operation, and decommissioning of nuclear power plants located in the northern United States and the sale of the electric power produced by its operating plants to wholesale customers. Entergy Wholesale Commodities also includes the ownership of interests in non-nuclear power plants that sell the electric power produced by those plants to wholesale customers. "All Other" includes the parent company, Entergy Corporation, and other business activity.

Entergy's segment financial information was as follows:

2020	Utility	Entergy Wholesale Commodities	All Other	Eliminations	Consolidated
(In Thousands)					
Operating revenues	\$9,170,714	\$942,869	\$78	(\$25)	\$10,113,636
Asset write-offs, impairments, and related charges	\$—	\$26,623	\$—	\$—	\$26,623
Depreciation, amortization, & decommissioning	\$1,685,138	\$306,974	\$2,835	\$—	\$1,994,947
Interest and investment income	\$299,004	\$234,194	\$19,563	(\$159,943)	\$392,818
Interest expense	\$648,851	\$22,432	\$146,730	(\$32,350)	\$785,663
Income taxes	(\$282,311)	\$104,937	\$55,868	\$—	(\$121,506)
Consolidated net income (loss)	\$1,816,354	(\$62,763)	(\$219,344)	(\$127,594)	\$1,406,653
Total assets	\$55,940,153	\$3,800,378	\$552,632	(\$2,053,951)	\$58,239,212
Cash paid for long-lived asset additions	\$5,102,322	\$54,455	\$84	\$—	\$5,156,861

2019	Utility	Entergy Wholesale Commodities	All Other	Eliminations	Consolidated
(In Thousands)					
Operating revenues	\$9,583,985	\$1,294,719	\$21	(\$52)	\$10,878,673
Asset write-offs, impairments, and related charges	\$—	\$290,027	\$—	\$—	\$290,027
Depreciation, amortization, & decommissioning	\$1,493,167	\$384,707	\$2,944	\$—	\$1,880,818
Interest and investment income	\$289,570	\$414,636	\$26,295	(\$182,589)	\$547,912
Interest expense	\$589,395	\$29,450	\$178,575	(\$54,995)	\$742,425
Income taxes	\$19,634	(\$161,295)	(\$28,164)	\$—	(\$169,825)
Consolidated net income (loss)	\$1,425,643	\$148,870	(\$188,675)	(\$127,594)	\$1,258,244
Total assets	\$49,557,664	\$4,154,961	\$514,020	(\$2,502,733)	\$51,723,912
Cash paid for long-lived asset additions	\$4,527,045	\$104,300	\$160	\$—	\$4,631,505

2018	Utility	Entergy Wholesale Commodities	All Other	Eliminations	Consolidated
(In Thousands)					
Operating revenues	\$9,540,670	\$1,468,905	\$—	(\$123)	\$11,009,452
Asset write-offs, impairments, and related charges	\$—	\$532,321	\$—	\$—	\$532,321
Depreciation, amortization, & decommissioning	\$1,367,944	\$388,732	\$1,274	\$—	\$1,757,950
Interest and investment income	\$203,936	\$14,543	\$31,602	(\$186,217)	\$63,864
Interest expense	\$552,919	\$33,694	\$179,358	(\$58,623)	\$707,348
Income taxes	(\$732,548)	(\$269,025)	(\$35,253)	\$—	(\$1,036,826)
Consolidated net income (loss)	\$1,495,061	(\$340,641)	(\$164,271)	(\$127,594)	\$862,555
Total assets	\$44,777,167	\$5,459,275	\$733,366	(\$2,694,742)	\$48,275,066
Investment in affiliates - at equity	\$—	\$—	\$—	\$—	\$—
Cash paid for long-lived asset additions	\$3,987,424	\$283,707	\$86	\$—	\$4,271,217

The Entergy Wholesale Commodities business is sometimes referred to as the “competitive businesses.” Eliminations are primarily intersegment activity. Almost all of Entergy’s goodwill is related to the Utility segment.

In January 2019, Entergy sold the Vermont Yankee plant, which it had previously shut down, to NorthStar. In August 2019, Entergy sold the Pilgrim plant, which it had previously shut down, to Holtec. Indian Point 2 was shut down in April 2020, and Entergy has also announced plans to shut down Indian Point 3 in April 2021 and Palisades in May 2022, and has purchase and sale agreements with Holtec for each of them expected to close after they are shut down. Management expects these transactions to result in the cessation of merchant power generation at all Entergy Wholesale Commodities nuclear power plants owned and operated by Entergy by 2022. Entergy will continue to have the obligation to decommission the nuclear plants pending their sales to third parties.

The decisions to shut down these plants and the related transactions resulted in asset impairments; employee retention and severance expenses and other benefits-related costs; and contracted economic development contributions. The employee retention and severance expenses and other benefits-related costs and contracted economic development contributions are included in "Other operation and maintenance" in the consolidated income statements.

Total restructuring charges in 2020, 2019, and 2018 were comprised of the following:

	Employee retention and severance expenses and other benefits-related costs	Contracted economic development costs	Total
(In Millions)			
Balance as of December 31, 2017	\$83	\$14	\$97
Restructuring costs accrued	139	—	139
Cash paid out	43	—	43
Balance as of December 31, 2018	\$179	\$14	\$193
Restructuring costs accrued	91	—	91
Cash paid out	141	—	141
Balance as of December 31, 2019	\$129	\$14	\$143
Restructuring costs accrued	71	—	71
Cash paid out	55	—	55
Balance as of December 31, 2020	<u>\$145</u>	<u>\$14</u>	<u>\$159</u>

In addition, Entergy Wholesale Commodities incurred \$19 million in 2020, \$290 million in 2019, and \$532 million in 2018 of impairment, loss on sales, and other related charges associated with these strategic decisions and transactions. See Note 14 to the financial statements for further discussion of these impairment charges.

Going forward, Entergy Wholesale Commodities expects to incur employee retention and severance expenses of approximately \$40 million in 2021 and approximately \$15 million in 2022 associated with these strategic transactions.

Geographic Areas

For the years ended December 31, 2020, 2019, and 2018, the amount of revenue Entergy derived from outside of the United States was insignificant. As of December 31, 2020 and 2019, Entergy had no long-lived assets located outside of the United States.

NOTE 14. ACQUISITIONS, DISPOSITIONS, AND IMPAIRMENT OF LONG-LIVED ASSETS

Acquisitions

Choctaw Generating Station

In October 2019, Entergy Mississippi purchased the Choctaw Generating Station, an 810 MW natural gas fired combined-cycle turbine plant located near French Camp, Mississippi, from a subsidiary of GenOn Energy Inc. The purchase price for the Choctaw Generating Station was approximately \$305 million.

Washington Parish Energy Center

In April 2017, Entergy Louisiana entered into an agreement with a subsidiary of Calpine Corporation for the construction and purchase of Washington Parish Energy Center, which consists of two natural gas-fired combustion turbine units with a total nominal capacity of approximately 361 MW. In November 2020, Entergy Louisiana completed the purchase, as approved by the LPSC, of the Washington Parish Energy Center. The total investment including transmission and other related costs, is approximately \$261 million, including a payment of \$222 million to purchase the plant.

Dispositions

Pilgrim

In July 2018, Entergy entered into a purchase and sale agreement with Holtec International to sell to a Holtec subsidiary 100% of the equity interests in Entergy Nuclear Generation Company, the owner of the Pilgrim plant. In August 2019 the NRC approved the sale of the plant to Holtec. The transaction closed in August 2019 for a purchase price of \$1,000 (subject to adjustments for net liabilities and other amounts). The sale included the transfer of the Pilgrim nuclear decommissioning trust and the asset retirement obligation for spent fuel management and plant decommissioning. The transaction resulted in a loss of \$190 million (\$156 million net-of-tax) in the third quarter 2019. The disposition-date fair value of the nuclear decommissioning trust fund was approximately \$1,030 million and the disposition-date fair value of the asset retirement obligation was \$837 million. The transaction also included property, plant, and equipment with a net book value of zero, materials and supplies, and prepaid assets.

Willow Glen

In December 2018, Entergy Louisiana sold the Willow Glen Power Station, a non-operating gas plant. Entergy Louisiana sold Willow Glen for approximately \$12 million in cash and the transfer of the obligation to decommission the plant. Entergy Louisiana recognized a regulatory liability of \$5.7 million for return of removal costs previously collected in rates. Entergy Louisiana realized a pre-tax gain of \$14.8 million on the sale. Entergy Louisiana recorded a \$31.9 million regulatory liability to recognize the obligation to refund excess customer collections for decommissioning Willow Glen.

Vermont Yankee

In November 2016, Entergy entered into an agreement to sell 100% of the membership interests in Entergy Nuclear Vermont Yankee, LLC to a subsidiary of NorthStar. Entergy Nuclear Vermont Yankee was the owner of the Vermont Yankee plant. The sale of Entergy Nuclear Vermont Yankee to NorthStar included the transfer of the nuclear decommissioning trust fund and the asset retirement obligation for the spent fuel management and decommissioning of the plant.

In March 2018, Entergy and NorthStar entered into a settlement agreement and a Memorandum of Understanding with State of Vermont agencies and other interested parties that set forth the terms on which the agencies and parties support the Vermont Public Utility Commission's approval of the transaction. The agreements provide additional financial assurance for decommissioning, spent fuel management and site restoration, and detail the site restoration standards. In October 2018 the NRC issued an order approving the application to transfer Vermont Yankee's license to NorthStar for decommissioning. In December 2018, the Vermont Public Utility Commission issued an order approving the transaction consistent with the Memorandum of Understanding's terms. On January 11, 2019, Entergy and NorthStar closed the transaction.

Entergy Nuclear Vermont Yankee had an outstanding credit facility that was used to pay for dry fuel storage costs. This credit facility was guaranteed by Entergy Corporation. A subsidiary of Entergy assumed the obligations under the credit facility, which remains outstanding. At the closing of the sale transaction, NorthStar caused Entergy Nuclear Vermont Yankee, renamed NorthStar Vermont Yankee, to issue a \$139 million promissory note to the Entergy subsidiary that assumed the credit facility obligations. The amount of the note included the balance outstanding on the credit facility, as well as borrowing fees and costs incurred by Entergy in connection with the credit facility.

With the receipt of the NRC and Vermont Public Utility Commission approvals and the resolution among the parties of the significant conditions of the sale, Entergy concluded that as of December 31, 2018 Vermont Yankee was in held for sale status. Entergy accordingly evaluated the Vermont Yankee asset retirement obligation in light of the terms of the sale transaction and evaluated the remaining values of the Vermont Yankee assets. These evaluations resulted in an increase in the asset retirement obligation and \$173 million of asset impairment and related other charges in the fourth quarter 2018. See Note 9 to the financial statements for additional discussion of the asset retirement obligation. Upon closing of the transaction in January 2019, the Vermont Yankee decommissioning trust, along with the decommissioning obligation for the plant, was transferred to NorthStar. The assets and liabilities associated with the sale of Vermont Yankee were classified as held for sale on the Entergy Corporation and Subsidiaries Consolidated Balance Sheet as of December 31, 2018. As of December 31, 2018, the value of the decommissioning trust was \$532 million. As of December 31, 2018, the asset retirement cost asset was \$127 million, classified within other deferred debits, and the asset retirement cost obligation was \$568 million, classified within other non-current liabilities.

The Vermont Yankee spent fuel disposal contract was assigned to NorthStar as part of the transaction. The Vermont Yankee transaction resulted in Entergy generating a net deferred tax asset in January 2019. The deferred tax asset could not be fully realized by Entergy in the first quarter of 2019; accordingly, Entergy accrued a net tax expense of \$29 million on the disposition of Vermont Yankee. The transaction also resulted in other charges of \$5.4 million (\$4.2 million net-of-tax) in the first quarter 2019.

Impairment of Long-lived Assets

2018, 2019, and 2020 Impairments

Entergy continues to execute its strategy to shut down and sell all of the remaining plants in Entergy Wholesale Commodities' merchant nuclear fleet, with planned shutdowns of Indian Point 3 by April 30, 2021 and Palisades by May 31, 2022. The Indian Point 2 plant permanently ceased operations on April 30, 2020. The other three Entergy Wholesale Commodities' nuclear plants, FitzPatrick, Vermont Yankee, and Pilgrim, have been sold. The FitzPatrick plant was classified as held-for-sale at December 31, 2016, and subsequently sold to Exelon in March 2017. The Vermont Yankee plant was classified as held-for-sale at December 31, 2018, and subsequently sold to NorthStar on January 11, 2019. The Pilgrim plant was sold to Holtec International on August 26, 2019.

Entergy Wholesale Commodities incurred \$19 million in 2020, \$100 million in 2019, and \$532 million in 2018 of impairment charges related to nuclear fuel spending, nuclear refueling outage spending, expenditures for capital assets, and asset retirement obligation revisions. These costs were charged to expense as incurred as a result

of the impaired fair value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to exit the Entergy Wholesale Commodities merchant power business.

With respect to Palisades, Entergy and Consumers Energy had agreed to amend the existing PPA so that it would terminate early, on May 31, 2018. In September 2017, however, Entergy and Consumers Energy agreed to terminate the PPA amendment agreement. Entergy continues to operate Palisades under the current PPA with Consumers Energy, instead of shutting down in the fall of 2018 as previously planned. Entergy intends to shut down the Palisades plant permanently no later than May 31, 2022. As a result of the change in expected operating life of the Palisades plant, the expected probability-weighted undiscounted net cash flows as of September 30, 2017 exceeded the carrying value of the plant and related assets. Accordingly, nuclear fuel spending, nuclear refueling outage spending, and expenditures for capital assets incurred at Palisades after September 30, 2017 are no longer charged to expense as incurred, but recorded as assets and depreciated or amortized, subject to the typical periodic impairment reviews prescribed in the accounting rules.

The impairments and other related charges are recorded as a separate line item in Entergy's consolidated statements of operations and are included within the results of the Entergy Wholesale Commodities segment. In addition to the impairments and other related charges, Entergy expects to incur additional charges through mid-2022 associated with these strategic transactions. See Note 13 to the financial statements for further discussion of these additional charges.

2018 Pilgrim Impairment

The Pilgrim plant ceased operations on May 31, 2019, at the end of its current fuel cycle. Entergy Nuclear Generation Company filed its Post-Shutdown Decommissioning Activities Report (PSDAR) with the NRC in the fourth quarter 2018 for the Pilgrim plant. As part of the development of the PSDAR, Entergy obtained a revised decommissioning cost study in the third quarter 2018. The revised estimate resulted in a \$117.5 million increase in the decommissioning cost liability and a corresponding impairment charge in the third quarter 2018. As discussed above in **Dispositions**, on August 26, 2019, Entergy sold the Pilgrim plant to a Holtec International subsidiary.

2018 Vermont Yankee Impairment

As discussed above in **Dispositions**, on January 11, 2019, Entergy sold the Vermont Yankee plant to NorthStar. With the receipt of the NRC and Vermont Public Utility Commission approvals and the resolution among the parties of the significant conditions of the sale, Entergy concluded that as of December 31, 2018 Vermont Yankee was in held-for-sale status. Entergy accordingly evaluated the Vermont Yankee asset retirement obligation in light of the terms of the sale transaction, and evaluated the remaining values of the Vermont Yankee assets. These evaluations resulted in \$173 million of asset impairment and related charges in the fourth quarter 2018. See Note 9 to the financial statements for additional discussion of the revision of the asset retirement obligation.

NOTE 15. RISK MANAGEMENT AND FAIR VALUES

Market Risk

In the normal course of business, Entergy is exposed to a number of market risks. Market risk is the potential loss that Entergy may incur as a result of changes in the market or fair value of a particular commodity or instrument. All financial and commodity-related instruments, including derivatives, are subject to market risk including commodity price risk, equity price, and interest rate risk. Entergy uses derivatives primarily to mitigate commodity price risk, particularly power price and fuel price risk.

The Utility has limited exposure to the effects of market risk because it operates primarily under cost-based rate regulation. To the extent approved by their retail regulators, the Utility operating companies use derivative instruments to hedge the exposure to price volatility inherent in their purchased power, fuel, and gas purchased for resale costs that are recovered from customers.

As a wholesale generator, Entergy Wholesale Commodities' core business is selling energy, measured in MWh, to its customers. Entergy Wholesale Commodities enters into forward contracts with its customers and also sells energy and capacity in the day ahead or spot markets. In addition to its forward physical power and gas contracts, Entergy Wholesale Commodities may also use a combination of financial contracts, including swaps, collars, and options, to mitigate commodity price risk. When the market price falls, the combination of instruments is expected to settle in gains that offset lower revenue from generation, which results in a more predictable cash flow.

Entergy's exposure to market risk is determined by a number of factors, including the size, term, composition, and diversification of positions held, as well as market volatility and liquidity. For instruments such as options, the time period during which the option may be exercised and the relationship between the current market price of the underlying instrument and the option's contractual strike or exercise price also affects the level of market risk. A significant factor influencing the overall level of market risk to which Entergy is exposed is its use of hedging techniques to mitigate such risk. Hedging instruments and volumes are chosen based on ability to mitigate risk associated with future energy and capacity prices; however, other considerations are factored into hedge product and volume decisions including corporate liquidity, corporate credit ratings, counterparty credit risk, hedging costs, firm settlement risk, and product availability in the marketplace. Entergy manages market risk by actively monitoring compliance with stated risk management policies as well as monitoring the effectiveness of its hedging policies and strategies. Entergy's risk management policies limit the amount of total net exposure and rolling net exposure during the stated periods. These policies, including related risk limits, are regularly assessed to ensure their appropriateness given Entergy's objectives.

Derivatives

Some derivative instruments are classified as cash flow hedges due to their financial settlement provisions while others are classified as normal purchase/normal sale transactions due to their physical settlement provisions. Normal purchase/normal sale risk management tools include power purchase and sales agreements, fuel purchase agreements, capacity contracts, and tolling agreements. Financially-settled cash flow hedges can include natural gas and electricity swaps and options and interest rate swaps. Entergy may enter into financially-settled swap and option contracts to manage market risk that may or may not be designated as hedging instruments.

Entergy enters into derivatives to manage natural risks inherent in its physical or financial assets or liabilities. Electricity over-the-counter instruments and futures contracts that financially settle against day-ahead power pool prices are used to manage price exposure for Entergy Wholesale Commodities generation. The maximum length of time over which Entergy Wholesale Commodities is currently hedging the variability in future cash flows with derivatives for forecasted power transactions at December 31, 2020 is approximately 3 months. Planned generation currently under contract from Entergy Wholesale Commodities nuclear power plants is 98% for 2021, of which approximately 29% is sold under financial derivatives and the remainder under normal purchase/normal sale contracts. Total planned generation for 2021 is 9.6 TWh.

Entergy may use standardized master netting agreements to help mitigate the credit risk of derivative instruments. These master agreements facilitate the netting of cash flows associated with a single counterparty and may include collateral requirements. Cash, letters of credit, and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. The collateral agreements require a counterparty to post cash or letters of credit in the event an exposure exceeds an established threshold. The threshold represents an unsecured credit limit, which may be supported by a parental/affiliate guarantee, as determined in accordance with

Entergy's credit policy. In addition, collateral agreements allow for termination and liquidation of all positions in the event of a failure or inability to post collateral.

Certain of the agreements to sell the power produced by Entergy Wholesale Commodities power plants contain provisions that require an Entergy subsidiary to provide credit support to secure its obligations depending on the mark-to-market values of the contracts. The primary form of credit support to satisfy these requirements is an Entergy Corporation guarantee. As of December 31, 2020, there were no derivative contracts with counterparties in a liability position. In addition to the corporate guarantee, \$5 million in cash collateral was required to be posted by the Entergy subsidiary to its counterparties and \$39 million in letters of credit were required to be posted by its counterparties to the Entergy subsidiary. As of December 31, 2019, there were no derivative contracts with counterparties in a liability position. In addition to the corporate guarantee, \$11 million in cash collateral was required to be posted by the Entergy subsidiary to its counterparties and \$1 million in cash collateral and \$98 million in letters of credit were required to be posted by its counterparties to the Entergy subsidiary. If the Entergy Corporation credit rating falls below investment grade, Entergy would have to post collateral equal to the estimated outstanding liability under the contract at the applicable date.

Entergy manages fuel price volatility for its Louisiana jurisdictions (Entergy Louisiana and Entergy New Orleans) and Entergy Mississippi through the purchase of natural gas swaps and options that financially settle against either the average Henry Hub Gas Daily prices or the NYMEX Henry Hub. These swaps and options are marked-to-market through fuel expense with offsetting regulatory assets or liabilities. All benefits or costs of the program are recorded in fuel costs. The notional volumes of these swaps are based on a portion of projected annual exposure to gas price volatility for electric generation at Entergy Louisiana and Entergy Mississippi and projected winter purchases for gas distribution at Entergy New Orleans. The maximum length of time over which Entergy had executed natural gas swaps and options as of December 31, 2020 is 3.25 years for Entergy Louisiana and the maximum length of time over which Entergy has executed natural gas swaps as of December 31, 2020 is 10 months for Entergy Mississippi and 3 months Entergy New Orleans. The total volume of natural gas swaps and options outstanding as of December 31, 2020 is 38,799,000 MMBtu for Entergy, including 23,720,000 MMBtu for Entergy Louisiana, 14,573,000 MMBtu for Entergy Mississippi, and 506,000 MMBtu for Entergy New Orleans. Credit support for these natural gas swaps and options is covered by master agreements that do not require Entergy to provide collateral based on mark-to-market value, but do carry adequate assurance language that may lead to requests for collateral.

During the second quarter 2020, Entergy participated in the annual financial transmission rights auction process for the MISO planning year of June 1, 2020 through May 31, 2021. Financial transmission rights are derivative instruments that represent economic hedges of future congestion charges that will be incurred in serving Entergy's customer load. They are not designated as hedging instruments. Entergy initially records financial transmission rights at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each accounting period prior to settlement. Unrealized gains or losses on financial transmission rights held by Entergy Wholesale Commodities are included in operating revenues. The Utility operating companies recognize regulatory liabilities or assets for unrealized gains or losses on financial transmission rights. The total volume of financial transmission rights outstanding as of December 31, 2020 is 57,196 GWh for Entergy, including 14,138 GWh for Entergy Arkansas, 26,679 GWh for Entergy Louisiana, 6,362 GWh for Entergy Mississippi, 2,618 GWh for Entergy New Orleans, and 7,205 GWh for Entergy Texas. Credit support for financial transmission rights held by the Utility operating companies is covered by cash and/or letters of credit issued by each Utility operating company as required by MISO. Credit support for financial transmission rights held by Entergy Wholesale Commodities is covered by cash. No cash or letters of credit were required to be posted for financial transmission rights exposure for Entergy Wholesale Commodities as of December 31, 2020 and December 31, 2019. Letters of credit posted with MISO covered the financial transmission rights exposure for Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas as of December 31, 2020 and for Entergy Mississippi as of December 31, 2019.

The fair values of Entergy's derivative instruments in the consolidated balance sheet as of December 31, 2020 are shown in the table below. Certain investments, including those not designated as hedging instruments, are subject to master netting agreements and are presented in the balance sheet on a net basis in accordance with accounting guidance for derivatives and hedging.

Instrument	Balance Sheet Location	Gross Fair Value (a)	Offsetting Position (b)	Net Fair Value (c) (d)	Business
(In Millions)					
Derivatives designated as hedging instruments					
Assets:					
Electricity swaps and options	Prepayments and other (current portion)	\$39	(\$1)	\$38	Entergy Wholesale Commodities
Liabilities:					
Electricity swaps and options	Other current liabilities (current portion)	\$1	(\$1)	\$—	Entergy Wholesale Commodities
Derivatives not designated as hedging instruments					
Assets:					
Natural gas swaps and options	Prepayments and other (current portion)	\$1	\$—	\$1	Utility
Natural gas swaps and options	Other deferred debits and other assets (non-current portion)	\$1	\$—	\$1	Utility
Financial transmission rights	Prepayments and other	\$9	\$—	\$9	Utility and Entergy Wholesale Commodities
Liabilities:					
Natural gas swaps and options	Other current liabilities (current portion)	\$6	\$—	\$6	Utility
Natural gas swaps and options	Other non-current liabilities (non-current portion)	\$1	\$—	\$1	Utility

The fair values of Entergy's derivative instruments in the consolidated balance sheet as of December 31, 2019 are shown in the table below. Certain investments, including those not designated as hedging instruments, are subject to master netting agreements and are presented in the balance sheet on a net basis in accordance with accounting guidance for derivatives and hedging.

Instrument	Balance Sheet Location	Gross Fair Value (a)	Offsetting Position (b)	Net Fair Value (c) (d)	Business
			(In Millions)		
Derivatives designated as hedging instruments					
Assets:					
Electricity swaps and options	Prepayments and other (current portion)	\$92	(\$1)	\$91	Entergy Wholesale Commodities
Electricity swaps and options	Other deferred debits and other assets (non-current portion)	\$17	\$—	\$17	Entergy Wholesale Commodities
Liabilities:					
Electricity swaps and options	Other current liabilities (current portion)	\$1	(\$1)	\$—	Entergy Wholesale Commodities
Derivatives not designated as hedging instruments					
Assets:					
Electricity swaps and options	Prepayments and other (current portion)	\$11	(\$1)	\$10	Entergy Wholesale Commodities
Natural gas swaps and options	Other deferred debits and other assets (non-current portion)	\$1	\$—	\$1	Utility
Financial transmission rights	Prepayments and other	\$10	\$—	\$10	Utility and Entergy Wholesale Commodities
Liabilities:					
Electricity swaps and options	Other current liabilities (current portion)	\$2	(\$2)	\$—	Entergy Wholesale Commodities
Natural gas swaps and options	Other current liabilities (current portion)	\$5	\$—	\$5	Utility
Natural gas swaps and options	Other non-current liabilities (non-current portion)	\$2	\$—	\$2	Utility

- (a) Represents the gross amounts of recognized assets/liabilities
- (b) Represents the netting of fair value balances with the same counterparty
- (c) Represents the net amounts of assets/liabilities presented on the Entergy Corporation and Subsidiaries' Consolidated Balance Sheet
- (d) Excludes cash collateral in the amount of \$5 million posted as of December 31, 2020 and \$11 million posted and \$1 million held as of December 31, 2019. Also excludes letters of credit in the amount of \$1 million posted and \$39 million held as of December 31, 2020 and \$98 million held as of December 31, 2019.

The effects of Entergy's derivative instruments designated as cash flow hedges on the consolidated income statements for the years ended December 31, 2020, 2019, and 2018 are as follows:

Instrument	Amount of gain (loss) recognized in other comprehensive income (In Millions)	Income Statement location	Amount of gain (loss) reclassified from accumulated other comprehensive income into income (a) (In Millions)
2020			
Electricity swaps and options	\$77	Competitive business operating revenues	\$148
2019			
Electricity swaps and options	\$232	Competitive business operating revenues	\$97
2018			
Electricity swaps and options	(\$40)	Competitive business operating revenues	(\$68)

- (a) Before taxes of \$31 million, \$20 million, and (\$14) million, for the years ended December 31, 2020, 2019, and 2018, respectively

Prior to the adoption of ASU 2017-12, Entergy measured its hedges for ineffectiveness. Any ineffectiveness was recognized in earnings during the period. The ineffective portion of cash flow hedges was recorded in competitive businesses operating revenues. The change in fair value of Entergy's cash flow hedges due to ineffectiveness was (\$5.9) million for the year ended December 31, 2018.

Based on market prices as of December 31, 2020, unrealized gains recorded in accumulated other comprehensive income on cash flow hedges relating to power sales totaled \$38 million of net unrealized losses. Approximately \$38 million is expected to be reclassified from accumulated other comprehensive income to operating revenues in the next twelve months. The actual amount reclassified from accumulated other comprehensive income, however, could vary due to future changes in market prices.

Entergy may effectively liquidate a cash flow hedge instrument by entering into a contract offsetting the original hedge, and then de-designating the original hedge in this situation. Gains or losses accumulated in other comprehensive income prior to de-designation continue to be deferred in other comprehensive income until they are included in income as the original hedged transaction occurs. From the point of de-designation, the gains or losses on the original hedge and the offsetting contract are recorded as assets or liabilities on the balance sheet and offset as they flow through to earnings.

The effects of Entergy's derivative instruments not designated as hedging instruments on the consolidated income statements for the years ended December 31, 2020, 2019, and 2018 are as follows:

<u>Instrument</u>	<u>Income Statement location</u>	<u>Amount of gain (loss) recorded in the income statement</u>
		(In Millions)
2020		
Natural gas swaps and options	Fuel, fuel-related expenses, and gas purchased for resale (a)	(\$12)
Financial transmission rights	Purchased power expense (b)	\$92
Electricity swaps and options (c)	Competitive business operating revenues	\$1
2019		
Natural gas swaps and option	Fuel, fuel-related expenses, and gas purchased for resale (a)	(\$13)
Financial transmission rights	Purchased power expense (b)	\$94
Electricity swaps and options (c)	Competitive business operating revenues	\$12
2018		
Natural gas swaps	Fuel, fuel-related expenses, and gas purchased for resale (a)	\$8
Financial transmission rights	Purchased power expense (b)	\$131
Electricity swaps and options (c)	Competitive business operating revenues	\$8

- (a) Due to regulatory treatment, the natural gas swaps and options are marked-to-market through fuel, fuel-related expenses, and gas purchased for resale and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as fuel expenses when the swaps and options are settled are recovered or refunded through fuel cost recovery mechanisms.
- (b) Due to regulatory treatment, the changes in the estimated fair value of financial transmission rights for the Utility operating companies are recorded through purchased power expense and then such amounts are simultaneously reversed and recorded as an offsetting regulatory asset or liability. The gains or losses recorded as purchased power expense when the financial transmission rights for the Utility operating companies are settled are recovered or refunded through fuel cost recovery mechanisms.
- (c) There were no gains (losses) recognized in accumulated other comprehensive income from electricity swaps and options.

Fair Values

The estimated fair values of Entergy's financial instruments and derivatives are determined using historical prices, bid prices, market quotes, and financial modeling. Considerable judgment is required in developing the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. Gains or losses realized on financial instruments other than those instruments held by the Entergy Wholesale Commodities business are reflected in future rates and therefore do not affect net income.

Entergy considers the carrying amounts of most financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments.

Accounting standards define fair value as an exit price, or the price that would be received to sell an asset or the amount that would be paid to transfer a liability in an orderly transaction between knowledgeable market participants at the date of measurement. Entergy and the Registrant Subsidiaries use assumptions or market input data that market participants would use in pricing assets or liabilities at fair value. The inputs can be readily observable, corroborated by market data, or generally unobservable. Entergy and the Registrant Subsidiaries endeavor to use the best available information to determine fair value.

Accounting standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy establishes the highest priority for unadjusted market quotes in an active market for the identical asset or liability and the lowest priority for unobservable inputs.

The three levels of the fair value hierarchy are:

- Level 1 - Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of individually owned common stocks, cash equivalents (temporary cash investments, securitization recovery trust account, and escrow accounts), debt instruments, and gas swaps traded on exchanges with active markets. Cash equivalents includes all unrestricted highly liquid debt instruments with an original or remaining maturity of three months or less at the date of purchase.
- Level 2 - Level 2 inputs are inputs other than quoted prices included in Level 1 that are, either directly or indirectly, observable for the asset or liability at the measurement date. Assets are valued based on prices derived by independent third parties that use inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Prices are reviewed and can be challenged with the independent parties and/or overridden by Entergy if it is believed such would be more reflective of fair value. Level 2 inputs include the following:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability; or
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 2 consists primarily of individually-owned debt instruments and gas swaps and options valued using observable inputs.

- Level 3 - Level 3 inputs are pricing inputs that are generally less observable or unobservable from objective sources. These inputs are used with internally developed methodologies to produce management's best estimate of fair value for the asset or liability. Level 3 consists primarily of financial transmission rights and derivative power contracts used as cash flow hedges of power sales at merchant power plants.

The values for power contract assets or liabilities are based on both observable inputs including public market prices and interest rates, and unobservable inputs such as implied volatilities, unit contingent discounts, expected basis differences, and credit adjusted counterparty interest rates. They are classified as Level 3 assets and liabilities. The valuations of these assets and liabilities are performed by the Office of Corporate Risk Oversight and the Entergy Wholesale Commodities Accounting group. The primary related functions of the Office of Corporate Risk Oversight include: gathering, validating and reporting market data, providing market risk analyses

and valuations in support of Entergy Wholesale Commodities' commercial transactions, developing and administering protocols for the management of market risks, and implementing and maintaining controls around changes to market data in the energy trading and risk management system. The Office of Corporate Risk Oversight is also responsible for managing the energy trading and risk management system, forecasting revenues, forward positions and analysis. The Entergy Wholesale Commodities Accounting group performs functions related to market and counterparty settlements, revenue reporting and analysis, and financial accounting. The Office of Corporate Risk Oversight reports to the Vice President and Treasurer while the Entergy Wholesale Commodities Accounting group reports to the Chief Accounting Officer.

The amounts reflected as the fair value of electricity swaps are based on the estimated amount that the contracts are in-the-money at the balance sheet date (treated as an asset) or out-of-the-money at the balance sheet date (treated as a liability) and would equal the estimated amount receivable to or payable by Entergy if the contracts were settled at that date. These derivative contracts include cash flow hedges that swap fixed for floating cash flows for sales of the output from the Entergy Wholesale Commodities business. The fair values are based on the mark-to-market comparison between the fixed contract prices and the floating prices determined each period from quoted forward power market prices. The differences between the fixed price in the swap contract and these market-related prices multiplied by the volume specified in the contract and discounted at the counterparties' credit adjusted risk free rate are recorded as derivative contract assets or liabilities. For contracts that have unit contingent terms, a further discount is applied based on the historical relationship between contract and market prices for similar contract terms.

The amounts reflected as the fair values of electricity options are valued based on a Black Scholes model, and are calculated at the end of each month for accounting purposes. Inputs to the valuation include end of day forward market prices for the period when the transactions will settle, implied volatilities based on market volatilities provided by a third-party data aggregator, and U.S. Treasury rates for a risk-free return rate. As described further below, prices and implied volatilities are reviewed and can be adjusted if it is determined that there is a better representation of fair value.

On a daily basis, the Office of Corporate Risk Oversight calculates the mark-to-market for electricity swaps and options. The Office of Corporate Risk Oversight also validates forward market prices by comparing them to other sources of forward market prices or to settlement prices of actual market transactions. Significant differences are analyzed and potentially adjusted based on these other sources of forward market prices or settlement prices of actual market transactions. Implied volatilities used to value options are also validated using actual counterparty quotes for Entergy Wholesale Commodities transactions when available and compared with other sources of market implied volatilities. Moreover, on a quarterly basis, the Office of Corporate Risk Oversight confirms the mark-to-market calculations and prepares price scenarios and credit downgrade scenario analysis. The scenario analysis is communicated to senior management within Entergy and within Entergy Wholesale Commodities. Finally, for all proposed derivative transactions, an analysis is completed to assess the risk of adding the proposed derivative to Entergy Wholesale Commodities' portfolio. In particular, the credit and liquidity effects are calculated for this analysis. This analysis is communicated to senior management within Entergy and Entergy Wholesale Commodities.

The values of financial transmission rights are based on unobservable inputs, including estimates of congestion costs in MISO between applicable generation and load pricing nodes based on the 50th percentile of historical prices. They are classified as Level 3 assets and liabilities. The valuations of these assets and liabilities are performed by the Office of Corporate Risk Oversight. The values are calculated internally and verified against the data published by MISO. Entergy's Entergy Wholesale Commodities Accounting group review these valuations for reasonableness, with the assistance of others within the organization with knowledge of the various inputs and assumptions used in the valuation. The Office of Corporate Risk Oversight reports to the Vice President and Treasurer. The Entergy Wholesale Commodities Accounting group reports to the Chief Accounting Officer.

The following tables set forth, by level within the fair value hierarchy, Entergy's assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2020 and December 31, 2019. The assessment of the significance of a particular input to a fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
(In Millions)				
Assets:				
Temporary cash investments	\$1,630	\$—	\$—	\$1,630
Decommissioning trust funds (a):				
Equity securities	1,533	—	—	1,533
Debt securities (b)	919	1,698	—	2,617
Common trusts (c)				3,103
Power contracts	—	—	38	38
Securitization recovery trust account	42	—	—	42
Escrow accounts	148	—	—	148
Gas hedge contracts	1	1	—	2
Financial transmission rights	—	—	9	9
	<u>\$4,273</u>	<u>\$1,699</u>	<u>\$47</u>	<u>\$9,122</u>
Liabilities:				
Gas hedge contracts	<u>\$6</u>	<u>\$1</u>	<u>\$—</u>	<u>\$7</u>

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
(In Millions)				
Assets:				
Temporary cash investments	\$391	\$—	\$—	\$391
Decommissioning trust funds (a):				
Equity securities	905	—	—	905
Debt securities	1,139	1,824	—	2,963
Common trusts (c)				2,536
Power contracts	—	—	118	118
Securitization recovery trust account	47	—	—	47
Escrow accounts	459	—	—	459
Gas hedge contracts	—	1	—	1
Financial transmission rights	—	—	10	10
	<u>\$2,941</u>	<u>\$1,825</u>	<u>\$128</u>	<u>\$7,430</u>
Liabilities:				
Gas hedge contracts	<u>\$5</u>	<u>\$2</u>	<u>\$—</u>	<u>\$7</u>

- (a) The decommissioning trust funds hold equity and fixed income securities. Equity securities are invested to approximate the returns of major market indices. Fixed income securities are held in various governmental and corporate securities. See Note 16 to the financial statements herein for additional information on the investment portfolios.
- (b) The decommissioning trust funds fair value presented herein does not include the recognition of a credit loss valuation allowance of \$0.1 million on debt securities due to the adoption of ASU 2016-13. See Note 16 to the financial statements herein for additional information on the allowance for expected credit losses.

- (c) Common trust funds are not publicly quoted and are valued by the fund administrators using net asset value as a practical expedient. Accordingly, these funds are not assigned a level in the fair value table. The fund administrator of these investments allows daily trading at the net asset value and trades settle at a later date.

The following table sets forth a reconciliation of changes in the net assets (liabilities) for the fair value of derivatives classified as Level 3 in the fair value hierarchy for the years ended December 31, 2020, 2019, and 2018:

	2020		2019		2018	
	Power Contracts	Financial transmission rights	Power Contracts	Financial transmission rights	Power Contracts	Financial transmission rights
	(In Millions)					
Balance as of January 1,	\$118	\$10	(\$31)	\$15	(\$65)	\$21
Total gains (losses) for the period (a)						
Included in earnings	1	1	12	—	2	(1)
Included in other comprehensive income	77	—	232	—	(40)	—
Included as a regulatory liability/asset	—	67	—	54	—	80
Issuances of financial transmission rights	—	23	—	35	—	46
Settlements	(158)	(92)	(95)	(94)	72	(131)
Balance as of December 31,	<u>\$38</u>	<u>\$9</u>	<u>\$118</u>	<u>\$10</u>	<u>(\$31)</u>	<u>\$15</u>

- (a) Change in unrealized gains or losses for the period included in earnings for derivatives held at the end of the reporting period is (\$0.3) million, (\$9.2) million, and (\$3.5) million for the years ended December 31, 2020, 2019, and 2018, respectively.

The following table sets forth a description of the types of transactions classified as Level 3 in the fair value hierarchy and significant unobservable inputs to each which cause that classification, as of December 31, 2020:

Transaction Type	Fair Value as of December 31, 2020	Significant Unobservable Inputs	Range from Average %	Effect on Fair Value
	(In Millions)			(In Millions)
Power contracts - electricity swaps	\$38	Unit contingent discount	4.75%	\$4

The values of financial transmission rights are based on unobservable inputs calculated internally and verified against historical pricing data published by MISO.

The following table sets forth an analysis of each of the types of unobservable inputs impacting the fair value of items classified as Level 3 within the fair value hierarchy, and the sensitivity to changes to those inputs:

Significant Unobservable Input	Transaction Type	Position	Change to Input	Effect on Fair Value
Unit contingent discount	Electricity swaps	Sell	Increase (Decrease)	Decrease (Increase)

NOTE 16. DECOMMISSIONING TRUST FUNDS

The NRC requires Entergy subsidiaries to maintain nuclear decommissioning trusts to fund the costs of decommissioning ANO 1, ANO 2, River Bend, Waterford 3, Grand Gulf, Indian Point 1, Indian Point 2, Indian Point 3, and Palisades. Entergy's nuclear decommissioning trust funds invest in equity securities, fixed-rate debt securities, and cash and cash equivalents.

Entergy records decommissioning trust funds on the balance sheet at their fair value. Because of the ability of the Registrant Subsidiaries to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, the Registrant Subsidiaries have recorded an offsetting amount of unrealized gains/(losses) on investment securities in other regulatory liabilities/assets. For the 30% interest in River Bend formerly owned by Cajun, Entergy Louisiana records an offsetting amount in other deferred credits for the unrealized trust earnings not currently expected to be needed to decommission the plant. Decommissioning trust funds for the Entergy Wholesale Commodities nuclear plants do not meet the criteria for regulatory accounting treatment. Accordingly, unrealized gains/(losses) recorded on the equity securities in the trust funds are recognized in earnings. Unrealized gains recorded on the available-for-sale debt securities in the trust funds are recognized in the accumulated other comprehensive income component of shareholders' equity. Unrealized losses (where cost exceeds fair market value) on the available-for-sale debt securities in the trust funds are also recorded in the accumulated other comprehensive income component of shareholders' equity unless the unrealized loss is other than temporary and therefore recorded in earnings. A portion of Entergy's decommissioning trust funds were held in a wholly-owned registered investment company, and unrealized gains and losses on both the equity and debt securities held in the registered investment company were recognized in earnings. In December 2020, Entergy liquidated its interest in the registered investment company. Generally, Entergy records gains and losses on its debt and equity securities using the specific identification method to determine the cost basis of its securities.

The unrealized gains/(losses) recognized during the year ended December 31, 2020 on equity securities still held as of December 31, 2020 were \$531 million. The equity securities are generally held in funds that are designed to approximate or somewhat exceed the return of the Standard Poor's 500 Index. A relatively small percentage of the equity securities are held in funds intended to replicate the return of the Wilshire 4500 index or the Russell 3000 Index. The debt securities are generally held in individual government and credit issuances.

The available-for-sale securities held as of December 31, 2020 and 2019 are summarized as follows:

	<u>Fair Value</u>	<u>Total Unrealized Gains</u>	<u>Total Unrealized Losses</u>
	(In Millions)		
2020			
Debt Securities (a)	\$2,617	\$197	\$3
2019			
Debt Securities (a)	\$2,456	\$96	\$6

- (a) Debt securities presented herein do not include the \$507 million of debt securities held in the wholly-owned registered investment company as of December 31, 2019, which are not accounted for as available-for-sale.

The unrealized gains/(losses) above are reported before deferred taxes of \$31 million as of December 31, 2020 and \$13 million as of December 31, 2019 for debt securities. The amortized cost of available-for-sale debt securities was \$2,423 million as of December 31, 2020 and \$2,366 million as of December 31, 2019. As of December 31, 2020, available-for-sale debt securities have an average coupon rate of approximately 3.01%, an average duration of approximately 7.36 years, and an average maturity of approximately 10.72 years.

The fair value and gross unrealized losses of available-for-sale debt securities, summarized by length of time that the securities have been in a continuous loss position, are as follows as of December 31, 2020:

	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
	(In Millions)	
Less than 12 months	\$187	\$3
More than 12 months	2	—
Total	<u>\$189</u>	<u>\$3</u>

The fair value and gross unrealized losses of available-for-sale debt securities, summarized by length of time that the securities have been in a continuous loss position, are as follows as of December 31, 2019:

	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
	(In Millions)	
Less than 12 months	\$404	\$5
More than 12 months	38	1
Total	<u>\$442</u>	<u>\$6</u>

The fair value of available-for-sale debt securities, summarized by contractual maturities, as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In Millions)	
Less than 1 year	(\$4)	\$128
1 year - 5 years	672	807
5 years - 10 years	852	666
10 years - 15 years	377	125
15 years - 20 years	144	126
20 years+	576	604
Total	<u>\$2,617</u>	<u>\$2,456</u>

During the years ended December 31, 2020, 2019, and 2018, proceeds from the dispositions of available-for-sale securities amounted to \$1,024 million, \$1,427 million, and \$2,406 million, respectively. During the years ended December 31, 2020, 2019, and 2018, gross gains of \$47 million, \$25 million, and \$7 million, respectively, and gross losses of \$4 million, \$4 million, and \$47 million, respectively, related to available-for-sale securities were reclassified out of other comprehensive income or other regulatory liabilities/assets into earnings.

The fair values of the decommissioning trust funds related to the Entergy Wholesale Commodities nuclear plants as of December 31, 2020 are \$631 million for Indian Point 1, \$794 million for Indian Point 2, \$991 million for Indian Point 3, and \$554 million for Palisades. The fair values of the decommissioning trust funds related to the Entergy Wholesale Commodities nuclear plants as of December 31, 2019 are \$556 million for Indian Point 1, \$701 million for Indian Point 2, \$930 million for Indian Point 3, and \$498 million for Palisades. The fair values of the decommissioning trust funds for the Registrant Subsidiaries' nuclear plants are detailed below.

Allowance for expected credit losses

Entergy implemented ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, effective January 1, 2020. In accordance with the new standard, Entergy estimates the expected credit losses for its available for sale securities based on the current credit rating and remaining life of the securities. To the extent an individual security is determined to be uncollectible it is written off against this allowance. Entergy's available-for-sale securities are held in trusts managed by third parties who operate in accordance with agreements that define investment guidelines and place restrictions on the purchases and sales of investments. Specifically, available-for-sale securities are subject to credit worthiness restrictions, with requirements for both the average credit rating of the portfolio and minimum credit ratings for individual debt securities. As of December 31, 2020, Entergy's allowance for expected credit losses related to available-for-sale securities was \$0.1 million. Entergy did not record any impairments of available-for-sale debt securities for the year ended December 31, 2020.

Other-than-temporary impairments and unrealized gains and losses

Prior to the implementation of ASU 2016-13 on January 1, 2020, Entergy evaluated the available-for-sale debt securities in the Entergy Wholesale Commodities nuclear decommissioning trust funds with unrealized losses at the end of each period to determine whether an other-than-temporary impairment had occurred. The assessment of whether an investment in a debt security suffered an other-than-temporary impairment was based on whether Entergy had the intent to sell or more likely than not would have been required to sell the debt security before recovery of its amortized costs. Further, if Entergy did not expect to recover the entire amortized cost basis of the debt security, an other-than-temporary impairment was considered to have occurred and it was measured by the present value of cash flows expected to be collected less the amortized cost basis (credit loss). Entergy did not have any material other-than-temporary impairments relating to credit losses on debt securities for the years ended December 31, 2019 and 2018.

NOTE 17. VARIABLE INTEREST ENTITIES

Under applicable authoritative accounting guidance, a variable interest entity (VIE) is an entity that conducts a business or holds property that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or where equity holders do not receive expected losses or returns. An entity may have an interest in a VIE through ownership or other contractual rights or obligations, and is required to consolidate a VIE if it is the VIE's primary beneficiary. The primary beneficiary of a VIE is the entity that has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and has the obligation to absorb losses or has the right to residual returns that would potentially be significant to the entity.

Entergy Arkansas, Entergy Louisiana, and System Energy consolidate the respective companies from which they lease nuclear fuel, usually in a sale and leaseback transaction. This is because Entergy directs the nuclear fuel companies with respect to nuclear fuel purchases, assists the nuclear fuel companies in obtaining financing, and, if financing cannot be arranged, the lessee (Entergy Arkansas, Entergy Louisiana, or System Energy) is responsible to repurchase nuclear fuel to allow the nuclear fuel company (the VIE) to meet its obligations. During the term of the arrangements, none of the Entergy operating companies have been required to provide financial support apart from their scheduled lease payments. See Note 4 to the financial statements for details of the nuclear fuel companies' credit facility and commercial paper borrowings and long-term debt that are reported by Entergy, Entergy Arkansas, Entergy Louisiana, and System Energy. These amounts also represent Entergy's and the respective Registrant Subsidiary's maximum exposure to losses associated with their respective interests in the nuclear fuel companies.

Entergy Gulf States Reconstruction Funding I, LLC, and Entergy Texas Restoration Funding, LLC, companies wholly-owned and consolidated by Entergy Texas, are variable interest entities and Entergy Texas is the primary beneficiary. In June 2007, Entergy Gulf States Reconstruction Funding issued senior secured transition bonds (securitization bonds) to finance Entergy Texas's Hurricane Rita reconstruction costs. In November 2009, Entergy Texas Restoration Funding issued senior secured transition bonds (securitization bonds) to finance Entergy Texas's Hurricane Ike and Hurricane Gustav restoration costs. With the proceeds, the variable interest entities purchased from Entergy Texas the transition property, which is the right to recover from customers through a transition charge amounts sufficient to service the securitization bonds. The transition property is reflected as a regulatory asset on the consolidated Entergy Texas balance sheet. The creditors of Entergy Texas do not have recourse to the assets or revenues of the variable interest entities, including the transition property, and the creditors of the variable interest entities do not have recourse to the assets or revenues of Entergy Texas. Entergy Texas has no payment obligations to the variable interest entities except to remit transition charge collections. See Note 5 to the financial statements for additional details regarding the securitization bonds.

Entergy Arkansas Restoration Funding, LLC, a company wholly-owned and consolidated by Entergy Arkansas, is a variable interest entity and Entergy Arkansas is the primary beneficiary. In August 2010, Entergy Arkansas Restoration Funding issued storm cost recovery bonds to finance Entergy Arkansas's January 2009 ice storm damage restoration costs. With the proceeds, Entergy Arkansas Restoration Funding purchased from Entergy Arkansas the storm recovery property, which is the right to recover from customers through a storm recovery charge amounts sufficient to service the securitization bonds. The storm recovery property is reflected as a regulatory asset on the consolidated Entergy Arkansas balance sheet as of December 31, 2019. Although the principal amount was not due until August 2021, Entergy Arkansas Restoration Funding made principal payments on the bonds in 2020, after which the bonds were fully repaid. See Note 5 to the financial statements for additional details regarding the storm cost recovery bonds.

Entergy Louisiana Investment Recovery Funding I, L.L.C., a company wholly-owned and consolidated by Entergy Louisiana, is a variable interest entity and Entergy Louisiana is the primary beneficiary. In September 2011, Entergy Louisiana Investment Recovery Funding issued investment recovery bonds to recover Entergy Louisiana's investment recovery costs associated with the canceled Little Gypsy repowering project. With the proceeds, Entergy Louisiana Investment Recovery Funding purchased from Entergy Louisiana the investment recovery property, which is the right to recover from customers through an investment recovery charge amounts sufficient to service the bonds. The investment recovery property is reflected as a regulatory asset on the consolidated Entergy Louisiana balance sheet. The creditors of Entergy Louisiana do not have recourse to the assets or revenues of Entergy Louisiana Investment Recovery Funding, including the investment recovery property, and the creditors of Entergy Louisiana Investment Recovery Funding do not have recourse to the assets or revenues of Entergy Louisiana. Entergy Louisiana has no payment obligations to Entergy Louisiana Investment Recovery Funding except to remit investment recovery charge collections. See Note 5 to the financial statements for additional details regarding the investment recovery bonds.

Entergy New Orleans Storm Recovery Funding I, L.L.C., a company wholly-owned and consolidated by Entergy New Orleans, is a variable interest entity, and Entergy New Orleans is the primary beneficiary. In July 2015, Entergy New Orleans Storm Recovery Funding issued storm cost recovery bonds to recover Entergy New Orleans's Hurricane Isaac storm restoration costs, including carrying costs, the costs of funding and replenishing the storm recovery reserve, and up-front financing costs associated with the securitization. With the proceeds, Entergy New Orleans Storm Recovery Funding purchased from Entergy New Orleans the storm recovery property, which is the right to recover from customers through a storm recovery charge amounts sufficient to service the securitization bonds. The storm recovery property is reflected as a regulatory asset on the consolidated Entergy New Orleans balance sheet. The creditors of Entergy New Orleans do not have recourse to the assets or revenues of Entergy New Orleans Storm Recovery Funding, including the storm recovery property, and the creditors of Entergy New Orleans Storm Recovery Funding do not have recourse to the assets or revenues of Entergy New Orleans. Entergy New Orleans has no payment obligations to Entergy New Orleans Storm Recovery Funding except to remit storm

recovery charge collections. See Note 5 to the financial statements for additional details regarding the securitization bonds.

System Energy is considered to hold a variable interest in the lessor from which it leases an undivided interest in the Grand Gulf nuclear plant. System Energy is the lessee under this arrangement, which is described in more detail in Note 5 to the financial statements. System Energy made payments on its lease, including interest, of \$17.2 million in 2020, \$17.2 million in 2019, and \$17.2 million in 2018. The lessor is a bank acting in the capacity of owner trustee for the benefit of equity investors in the transaction pursuant to trust agreement entered solely for the purpose of facilitating the lease transaction. It is possible that System Energy may be considered as the primary beneficiary of the lessor, but it is unable to apply the authoritative accounting guidance with respect to this VIE because the lessor is not required to, and could not, provide the necessary financial information to consolidate the lessor. Because System Energy accounts for this leasing arrangement as a capital financing, however, System Energy believes that consolidating the lessor would not materially affect the financial statements. In the unlikely event of default under a lease, remedies available to the lessor include payment by the lessee of the fair value of the undivided interest in the plant, payment of the present value of the basic rent payments, or payment of a predetermined casualty value. System Energy believes, however, that the obligations recorded on the balance sheet materially represent its potential exposure to loss.

Entergy has also reviewed various lease arrangements, power purchase agreements, including agreements for renewable power, and other agreements that represent variable interests in other legal entities which have been determined to be variable interest entities. In these cases, Entergy has determined that it is not the primary beneficiary of the related VIE because it does not have the power to direct the activities of the VIE that most significantly affect the VIE's economic performance, or it does not have the obligation to absorb losses or the right to residual returns that would potentially be significant to the entity, or both.

NOTE 18. TRANSACTIONS WITH AFFILIATES

Transactions with Equity Method Investees

EWO Marketing, LLC, an indirect wholly-owned subsidiary of Entergy, paid capacity charges and gas transportation to RS Cogen in the amounts of \$26 million in 2020, \$24.5 million in 2019, and \$24 million in 2018.

Entergy's operating transactions with its other equity method investees were not significant in 2020, 2019, or 2018.

NOTE 19. REVENUE

Revenues from electric service and the sale of natural gas are recognized when services are transferred to the customer in an amount equal to what Entergy has the right to bill the customer because this amount represents the value of services provided to customers. Entergy's total revenues for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Utility:		
Residential	\$3,550,317	\$3,531,500
Commercial	2,292,740	2,475,586
Industrial	2,331,170	2,541,287
Governmental	212,131	228,470
Total billed retail	<u>8,386,358</u>	<u>8,776,843</u>
Sales for resale (a)	295,810	285,722
Other electric revenues (b)	348,102	343,143
Revenues from contracts with customers	<u>9,030,270</u>	<u>9,405,708</u>
Other revenues (c)	16,373	24,270
Total electric revenues	<u>9,046,643</u>	<u>9,429,978</u>
Natural gas	124,008	153,954
Entergy Wholesale Commodities:		
Competitive businesses sales from contracts with customers (a)	771,360	1,164,552
Other revenues (c)	171,625	130,189
Total competitive businesses revenues	<u>942,985</u>	<u>1,294,741</u>
Total operating revenues	<u><u>\$10,113,636</u></u>	<u><u>\$10,878,673</u></u>

- (a) Sales for resale and competitive businesses sales include day-ahead sales of energy in a market administered by an ISO. These sales represent financially binding commitments for the sale of physical energy the next day. These sales are adjusted to actual power generated and delivered in the real time market. Given the short duration of these transactions, Entergy does not consider them to be derivatives subject to fair value adjustments, and includes them as part of customer revenues.
- (b) Other electric revenues consist primarily of transmission and ancillary services provided to participants of an ISO-administered market and unbilled revenue.
- (c) Other revenues include the settlement of financial hedges, occasional sales of inventory, alternative revenue programs, provisions for revenue subject to refund, and late fees.

Electric Revenues

Entergy's primary source of revenue is from retail electric sales sold under tariff rates approved by regulators in its various jurisdictions. Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Texas generate, transmit, and distribute electric power primarily to retail customers in Arkansas, Louisiana, Mississippi, and Texas. Entergy's Utility operating companies provide power to customers on demand throughout the month, measured by a meter located at the customer's property. Approved rates vary by customer class due to differing requirements of the customers and market factors involved in fulfilling those requirements. Entergy issues monthly bills to customers at rates approved by regulators for power and related services provided during the previous billing cycle.

To the extent that deliveries have occurred but a bill has not been issued, Entergy's Utility operating companies record an estimate for energy delivered since the latest billings. The Utility operating companies calculate the estimate based upon several factors including billings through the last billing cycle in a month, actual generation in the month, historical line loss factors, and market prices of power in the respective jurisdiction. The inputs are revised as needed to approximate actual usage and cost. Each month, estimated unbilled amounts are recorded as unbilled revenue and accounts receivable, and the prior month's estimate is reversed. Price and volume differences resulting from factors such as weather affect the calculation of unbilled revenues from one period to the other.

Entergy may record revenue based on rates that are subject to refund. Such revenues are reduced by estimated refund amounts when Entergy believes refunds are probable based on the status of rate proceedings as of the date financial statements are prepared. Because these refunds will be made through a reduction in future rates, and not as a reduction in bills previously issued, they are presented as other revenues in the table above.

System Energy's only source of revenue is the sale of electric power and capacity generated from its 90% interest in the Grand Gulf nuclear plant to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. System Energy issues monthly bills to its affiliated customers equal to its actual operating costs plus a return on common equity approved by the FERC.

Entergy's Utility operating companies also sell excess power not needed for its own customers, primarily through transactions with MISO, a regional transmission organization that maintains functional control over the combined transmission systems of its members and manages one of the largest energy markets in the U.S. In the MISO market, Entergy offers its generation and bids its load into the market. MISO settles these offers and bids based on locational marginal prices. These represent pricing for energy at a given location based on a market clearing price that takes into account physical limitations on the transmission system, generation, and demand throughout the MISO region. MISO evaluates each market participant's energy offers and demand bids to economically and reliably dispatch the entire MISO system. Entergy nets purchases and sales within the MISO market and reports in operating revenues when in a net selling position and in operating expenses when in a net purchasing position.

Natural Gas

Entergy Louisiana and Entergy New Orleans also distribute natural gas to retail customers in and around Baton Rouge, Louisiana, and New Orleans, Louisiana, respectively. Gas transferred to customers is measured by a meter at the customer's property. Entergy issues monthly invoices to customers at rates approved by regulators for the volume of gas transferred to date.

Competitive Businesses Revenues

The Entergy Wholesale Commodities segment derives almost all of its revenue from sales of electric power and capacity produced by its operating plants to wholesale customers. The majority of Entergy Wholesale Commodities' revenues are from Entergy's nuclear power plants located in the northern United States. Entergy issues monthly invoices to the counterparties for these electric sales at the respective contracted or ISO market rate of electricity and related services provided during the previous month.

Almost all of the Palisades nuclear plant output is sold under a 15-year PPA with Consumers Energy, executed as part of the acquisition of the plant in 2007 and expiring in April 2022. Prices under the original PPA range from \$43.50/MWh in 2007 to \$61.50/MWh in 2022, and the average price under the PPA is \$51/MWh. Entergy executed an additional PPA to cover the period from the expiration of the original PPA through final shutdown in May 2022, at a price of \$24.14/MWh. Entergy issues monthly invoices to Consumers Energy for electric sales based on the actual output of electricity and related services provided during the previous month at the contract price. The PPA was at below-market prices at the time of the acquisition and Entergy amortizes a liability to revenue over the life of the agreement. The amount amortized each period is based upon the present value, calculated at the date of acquisition, of each year's difference between revenue under the agreement and revenue based on estimated market prices. Amounts amortized to revenue were \$11 million in 2020, \$10 million in 2019, and \$6 million in 2018. Amounts to be amortized to revenue through the remaining life of the agreement will be approximately \$12 million in 2021 and \$5 million in 2022.

Practical Expedients and Exceptions

Entergy has elected not to disclose the value of unsatisfied performance obligations for contracts with an original expected term of one year or less, or for revenue recognized in an amount equal to what Entergy has the right to bill the customer for services performed.

Most of Entergy's contracts, except in a few cases where there are defined minimums or stated terms, are on demand. This results in customer bills that vary each month based on an approved tariff and usage. Entergy imposes monthly or annual minimum requirements on some customers primarily as credit and cost recovery guarantees and not as pricing for unsatisfied performance obligations. These minimums typically expire after the initial term or when specified costs have been recovered. The minimum amounts are part of each month's bill and recognized as revenue accordingly. Some of the subsidiaries within the Entergy Wholesale Commodities segment have operations and maintenance services contracts that have fixed components and terms longer than one year. The total fixed consideration related to these unsatisfied performance obligations, however, is not material to Entergy revenues.

Recovery of Fuel Costs

Entergy's Utility operating companies' rate schedules include either fuel adjustment clauses or fixed fuel factors, which allow either current recovery in billings to customers or deferral of fuel costs until the costs are billed to customers. Where the fuel component of revenues is based on a pre-determined fuel cost (fixed fuel factor), the fuel factor remains in effect until changed as part of a general rate case, fuel reconciliation, or fixed fuel factor filing. System Energy's operating revenues are intended to recover from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans operating expenses and capital costs attributable to Grand Gulf. The capital costs are based on System Energy's common equity funds allocable to its net investment in Grand Gulf, plus System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf.

Taxes Imposed on Revenue-Producing Transactions

Governmental authorities assess taxes that are both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, including, but not limited to, sales, use, value added, and some excise taxes. Entergy presents these taxes on a net basis, excluding them from revenues.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects Entergy's best estimate of expected losses on its accounts receivable balances. Due to the essential nature of utility services, Entergy has historically experienced a low rate of default on its accounts receivables. Due to the effect of the COVID-19 pandemic on customer receivables, however, Entergy recorded an increase in its allowance for doubtful accounts, as shown below:

	<u>Entergy</u>	<u>Entergy Arkansas</u>	<u>Entergy Louisiana</u>	<u>Entergy Mississippi</u>	<u>Entergy New Orleans</u>	<u>Entergy Texas</u>
	(In Millions)					
Balance as of December 31, 2019	\$7.4	\$1.2	\$1.9	\$0.6	\$3.2	\$0.5
Provisions (a)	109.0	16.2	43.7	18.8	14.1	16.2
Write-offs	(8.6)	(1.8)	(3.5)	(1.2)	(1.0)	(1.1)
Recoveries	9.9	2.7	3.6	1.3	1.1	1.2
Balance as of December 31, 2020	<u>\$117.7</u>	<u>\$18.3</u>	<u>\$45.7</u>	<u>\$19.5</u>	<u>\$17.4</u>	<u>\$16.8</u>

- (a) Provisions include estimated incremental bad debt expenses resulting from the COVID-19 pandemic of \$87.1 million for Entergy, \$10.5 million for Entergy Arkansas, \$36 million for Entergy Louisiana, \$15.5 million for Entergy Mississippi, \$12.2 million for Entergy New Orleans, and \$12.9 million for Entergy Texas that have been deferred as regulatory assets. See Note 2 to the financial statements for discussion of the COVID-19 orders issued by retail regulators.

The allowance for currently expected credit losses is calculated as the historical rate of customer write-offs multiplied by the current accounts receivable balance, taking into account the length of time the receivable balances have been outstanding. Although the rate of customer write-offs has historically experienced minimal variation, management monitors the current condition of individual customer accounts to manage collections and ensure bad debt expense is recorded in a timely manner.

NOTE 20. QUARTERLY FINANCIAL DATA (UNAUDITED)

Operating results for the four quarters of 2020 and 2019 for Entergy Corporation and subsidiaries were:

	Operating Revenues	Operating Income	Consolidated Net Income	Net Income Attributable to Entergy Corporation
	(In Thousands)			
2020:				
First Quarter	\$2,427,179	\$399,756	\$123,294	\$118,714
Second Quarter	\$2,412,788	\$439,311	\$365,113	\$360,533
Third Quarter	\$2,903,568	\$778,016	\$525,699	\$521,119
Fourth Quarter	\$2,370,101	\$152,112	\$392,547	\$387,968
2019:				
First Quarter	\$2,609,584	\$283,254	\$258,646	\$254,537
Second Quarter	\$2,666,209	\$338,775	\$240,533	\$236,424
Third Quarter	\$3,140,575	\$519,929	\$369,459	\$365,240
Fourth Quarter	\$2,462,305	\$248,539	\$389,606	\$385,025

Earnings per average common share

	2020		2019	
	Basic	Diluted	Basic	Diluted
First Quarter	\$0.59	\$0.59	\$1.34	\$1.32
Second Quarter	\$1.80	\$1.79	\$1.22	\$1.22
Third Quarter	\$2.60	\$2.59	\$1.84	\$1.82
Fourth Quarter	\$1.95	\$1.93	\$1.96	\$1.94

Results of operations for 2020 include resolution of the 2014-2015 IRS audit, which resulted in a reduction in deferred income tax expense of \$230 million that includes a \$396 million reduction in deferred income tax expense at Utility related to the basis of assets contributed in the 2015 Entergy Louisiana and Entergy Gulf States Louisiana business combination, including the recognition of previously uncertain tax positions, and deferred income tax expense of \$105 million at Entergy Wholesale Commodities and \$61 million at Parent and Other resulting from the revaluation of net operating losses as a result of the release of the reserves. See Note 3 to the financial statements for further discussion of the IRS audit resolution.

Results of operations for 2019 include: 1) a loss of \$190 million (\$156 million net-of-tax) as a result of the sale of the Pilgrim plant in August 2019; 2) a \$156 million reduction in income tax expense recognized by Entergy Wholesale Commodities as a result of an internal restructuring; and 3) impairment charges of \$100 million (\$79 million net-of-tax) due to costs being charged directly to expense as incurred as a result of the impaired value of the Entergy Wholesale Commodities nuclear plants' long-lived assets due to the significantly reduced remaining estimated operating lives associated with management's strategy to exit the Entergy Wholesale Commodities' merchant power business. See Note 3 to the financial statements for further discussion of the internal restructuring. See Note 14 to the financial statements for further discussion of the sale of the Pilgrim plant.

The business of the Utility operating companies is subject to seasonal fluctuations with the peak periods occurring during the third quarter.

**BOARD OF DIRECTORS
AS OF MARCH 26, 2021**

JOHN R. BURBANK

Independent Strategic Advisor
Groton, Connecticut
An Entergy director since 2018. Age 57

PATRICK J. CONDON

Retired Audit Partner,
Deloitte & Touche LLP
Frankfort, Illinois
An Entergy director since 2015. Age 72

LEO P. DENAULT

Chairman of the Board and Chief Executive
Officer,
Entergy Corporation
New Orleans, Louisiana
Chairman and Chief Executive Officer since
2013. Age 61

KIRKLAND H. DONALD

Former President and Chief Executive Officer,
Systems Planning and Analysis, Inc.
Mount Pleasant, South Carolina
An Entergy director since 2013. Age 67

BRIAN W. ELLIS

Senior Vice President and General Counsel,
Danaher Corporation
Bethesda, Maryland
An Entergy director since 2020. Age 55

PHILIP L. FREDERICKSON

Former Executive Vice President,
ConocoPhillips
Arden, North Carolina
An Entergy director since 2015. Age 64

ALEXIS M. HERMAN

Chair and Chief Executive Officer,
New Ventures, LLC
McLean, Virginia
An Entergy director since 2003. Age 73

M. ELISE HYLAND

Former Senior Vice President, EQT Corporation
and Senior Vice President and Chief Operating
Officer, EQT Midstream Services, LLC
Pittsburg, Pennsylvania
An Entergy director since 2019. Age 61

STUART L. LEVENICK

Lead Director
Former Group President and Executive Office
Member, Caterpillar Inc.
Naples, Florida
An Entergy director since 2005. Age 68

BLANCHE LAMBERT LINCOLN

Founder and Principal,
Lincoln Policy Group
Little Rock, Arkansas
An Entergy director since 2011. Age 60

KAREN A. PUCKETT

Former President and Chief Executive Officer,
Harte Hanks, Inc.
Houston, Texas
An Entergy director since 2015. Age 60

**EXECUTIVE OFFICERS
AS OF MARCH 26, 2021**

LEO P. DENAULT

Chairman and Chief Executive Officer
Joined Entergy in 1999. Became chairman and chief executive officer in 2013, after serving as executive vice president and chief financial officer. Age 61

RODERICK K. WEST

Group President, Utility Operations
Joined Entergy in 1999. Became group president, utility operations in 2017, after serving as executive vice president and chief administrative officer. Age 52

A. CHRISTOPHER BAKKEN, III

Executive Vice President and
Chief Nuclear Officer
Joined Entergy in 2016. Former project director, Hinkley Point C of EDF Energy. Age 60

MARCUS V. BROWN

Executive Vice President and
General Counsel
Joined Entergy in 1995. Became executive vice president and general counsel in 2013, after serving as senior vice president and general counsel. Age 59

PAUL D. HINNENKAMP

Executive Vice President and
Chief Operating Officer
Joined Entergy in 2001. Became executive vice president and chief operating officer in 2017, after serving as senior vice president and chief operating officer. Age 59

ANDREW S. MARSH

Executive Vice President and
Chief Financial Officer
Joined Entergy in 1998. Became executive vice president and chief financial officer in 2013, after serving as vice president of system planning. Age 49

KATHRYN A. COLLINS

Senior Vice President and
Chief Human Resource Officer
Joined Entergy in 2020. Former chief human resource officer for Arcosa. Age 57

KIMBERLY A. FONTAN

Senior Vice President and
Chief Accounting Officer
Joined Entergy in 1996. Became senior vice president and chief accounting officer in 2019, after serving as vice president of system planning. Age 48

JULIE E. HARBERT

Senior Vice President, Corporate Business
Services
Joined Entergy in 2017. Became senior vice president, corporate business services in 2019 after serving as vice president, shared services. Age 47

PETER S. NORGEOT, JR.

Senior Vice President, Transformation
Joined Entergy in 2014. Became senior vice president, transformation in 2018 after serving as senior vice president, power generation. Age 56

INVESTOR INFORMATION

Shareholder Materials

Visit our investor relations website at www.entergy.com/investor_relations for earnings reports, financial releases, SEC filings and other investor information, including Entergy's Corporate Governance Guidelines; Board Committee Charters for the Audit, Corporate Governance and Personnel Committees; Entergy's Code of Entegrity; and Entergy's Code of Business Conduct and Ethics. You can also request and receive information via email. Printed copies of the above are also available without charge by calling 504-576-5225 or writing to:

Entergy Corporation
Investor Relations
P.O. Box 61000
New Orleans, LA 70161

Individual Investor Inquiries

Individual shareholders may contact Shareholder Services at 504-576-3074.

Institutional Investor Inquiries

Securities analysts and representatives of financial institutions may contact William Abler, Vice President, Investor Relations, at 281-297-5436 or wabler@entergy.com.

Shareholder Account Information

EQ Shareowner Services is Entergy's transfer agent, registrar, dividend disbursing agent and dividend reinvestment and stock purchase plan agent. Shareholders of record with questions about lost certificates, lost or missing dividend checks, or notifications of change of address should contact:

EQ Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0874
Phone: 1-855-854-1360
Internet: www.shareowneronline.com

Common Stock Information

The company's common stock is listed on the New York and Chicago exchanges under the symbol "ETR." The Entergy share price is reported daily in the financial press under "Entergy" in most listings of New York Stock Exchange securities. Entergy common stock is a component of the following indices: S&P 500, S&P Utilities Index, Philadelphia Utility Index and the NYSE Composite Index, among others.

As of February 1, 2021, there were 201,061,356 shares of Entergy common stock outstanding. Shareholders of record totaled 22,815. On February 3, 2021, there were 285,318 investors holding Entergy stock in "street name" through a broker.

INVESTOR INFORMATION (Concluded)

Certifications

In June 2020, Entergy's chief executive officer certified to the New York Stock Exchange that he was not aware of any violation of the NYSE corporate governance listing standards. Also, Entergy filed certifications regarding the quality of the company's public disclosure, required by Section 302 of the Sarbanes-Oxley Act of 2002, as exhibits to our Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2020.

Dividend Payments

All of Entergy's 2020 distributions were non-dividend distributions. The board of directors declares dividends quarterly and sets the record and payment dates. Subject to board discretion, those dates for 2021 are:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>
January 29	February 12	March 1
April 12	May 6	June 1
July 30	August 12	September 1
October 29	November 15	December 1

Quarterly Dividend Payments (in cents-per-share):

<u>Quarter</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
1	95	93	91	89	87
2		93	91	89	87
3		93	91	89	87
4		95	93	91	89

Dividend Reinvestment/Stock Purchase

Entergy offers an automatic Dividend Reinvestment and Stock Purchase Plan administered by EQ Shareowner Services. The plan is designed to provide Entergy shareholders and other investors with a convenient and economical method to purchase shares of the company's common stock. The plan also accommodates payments of up to \$10,000 per month for the purchase of Entergy common shares. First time investors may make an initial minimum purchase of \$250. Contact EQ Shareowner Services by telephone or internet for information and an enrollment form.

Direct Registration System

Entergy has elected to participate in a Direct Registration System that provides investors with an alternative method for holding shares. DRS will permit investors to move shares between the company's records and the broker/dealer of their choice.

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