

SCHEDULE 42-B

Credit Associated with AFUDC from Entergy Operating Companies' Pricing Zones

I. GENERAL

This Schedule 42-B provides for a credit consistent with the settlement agreement approved by FERC in Docket No. ER04-886. FERC's general policy is that when a generator pays for upgrades located "at or beyond" the point of interconnection to the transmission grid, it is entitled to transmission credits, with interest, because these are network upgrades. The Entergy Operating Companies recorded Allowance for Funds Used During Construction ("AFUDC") associated with these network upgrades and originally included such AFUDC in transmission plant in calculating their annual wholesale transmission rates. As part of the settlement described above in Docket No. ER04-886, the Entergy Operating Companies agreed to remove this capitalized AFUDC from wholesale transmission rates as well as all of the components that would flow through such rates (Accumulated Depreciation and Depreciation Expense). Upon the Entergy Operating Companies' transfer of functional control of their electric transmission facilities to the Transmission Provider, the mechanism below is necessary to continue to ensure that wholesale customers in the Entergy Operating Companies' pricing zones receive the benefit of the AFUDC reversal consistent with settlement in FERC Docket No. ER04-886.

The credits herein will be remitted to (1) all Network Integration Transmission Service customers; and (2) all Point-to-Point Transmission Service customers subject to the zonal rates, including short-term firm and non-firm transactions, in the following Entergy Operating Companies' pricing zones - Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy Texas. Notwithstanding the foregoing, the rates herein are not applicable to transmission reservations made by the Entergy Operating Companies taking service in the Entergy Operating Companies' pricing zones. For the avoidance of doubt, the rates assessed under this Schedule 42-B will not be applicable to transmission service customers taking regional drive-through and drive-out service under the MISO Tariff.

II. CREDITS TO POINT-TO-POINT TRANSMISSION SERVICE AND NETWORK INTEGRATION TRANSMISSION SERVICE CUSTOMERS

The Point-to-Point Transmission Service and Network Integration Transmission Service annual revenue requirement credit for AFUDC shall be calculated by the Entergy Operating Companies pursuant to Section III below for each of the Entergy Operating Companies' pricing zones and provided to the Transmission Provider no later than May 1 of each year. The calculations contained in Section III below are based on the AFUDC adjustments and loads for the calendar year consistent with the settlement in Docket No. ER04-886. The billing and payment provisions of this Tariff shall apply to such credits. The crediting will occur for the twelve month period commencing June 1 after the calendar year upon which the calculations are based until May 31 of the following year. The initial credits will be applied for the period

commencing upon the transfer of functional control of the Entergy Operating Companies' electric transmission facilities to the Transmission Provider until May 31 of the following year.

III. CREDIT REVENUE REQUIREMENT CALCULATION

The annual credit revenue requirement will be calculated by the Entergy Operating Companies as follows:

Cost of Capital

CC = Before Tax Cost of Capital

$$CC = D * DR + PF * PR + CE * CR \quad TX$$

Where

D = Embedded Cost Rate of Long-Term Debt

DR = Debt Capitalization Ratio

PF = Embedded Cost Rate of Preferred Stock

PR = Preferred Stock Capitalization Ratio

CE = 10.52% ⁽¹⁾

CR = Common Equity Capitalization Ratio

TX = Composite Corporate After Tax Rate

TX = (1 – S)(1 – F)

Where:

S = Effective Statutory State Corporate Income Tax Rate

F = Statutory Federal Corporate Income Tax Rate

Note (1): The base ROE of 10.02% was established by FERC in Opinion No. 569-B and no change in the ROE may be made absent a filing with FERC. A 50 basis point adder for RTO participation may be added to the ROE provided the maximum ROE may not exceed the upper end of the zone of reasonableness of 12.62% as established by FERC. The 50-basis point adder for RTO participation is used to determine the total ROE of 10.52%.

Credit Revenue Requirement

$(-CAPIS + CAPDR) * CC - CAPEX$

Where:

CAPIS = Previously Capitalized Prepayment AFUDC

CAPDR = Accumulated Depreciation for Previous Capitalized Prepayment AFUDC

CC = Before Tax Cost of Capital

CAPEX = Depreciation Associated with AFUDC Capitalized

IV. RATE CREDIT CALCULATION

On or before May 1 of each year, the Entergy Operating Companies shall provide the Transmission Provider the preceding calendar year's annual credit revenue requirement calculated in accordance with Section III for each Entergy Operating Company pricing zone.

The Transmission Provider will utilize the preceding calendar year's annual credit revenue requirement to calculate rate credits to be effective for the period June 1 through May 31. For each Entergy Operating Company pricing zone, the Transmission Provider will calculate the applicable annual rate credit by dividing the preceding calendar year's annual credit revenue requirement as determined in Section III by the Zonal rate divisor (the divisor used for Schedules 7, 8, and 9 Zonal Rates) for the applicable zone for the same time period.

The per-unit rate credits will be calculated as follows:

The monthly rate credit per MW will be the annual rate credit divided by 12

The weekly rate credit per MW will be the annual rate credit divided by 52

The On-Peak daily rate credit per MW will be the annual rate credit divided by 260
(capped at weekly rate credit)

The On-Peak hourly rate credit per MW will be the annual rate credit divided by 4,160
(capped at daily rate credits)

The Off-Peak daily rate credit per MW will be the annual rate credit divided by 365

The Off-Peak hourly rate credit per MW will be the annual rate credit divided by 8,760

As noted in Section I, these rates will be credited to (1) all Network Integration Transmission Service customers; and (2) all Point-to-Point Transmission Service customers subject to the zonal rates, including short-term firm and non-firm transactions, in the following Entergy Operating Companies' pricing zones - Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy Texas, provided that the rates will not be credited to transmission reservations made by the Entergy Operating Companies taking service in the Entergy Operating Companies' pricing zones.

V. PAYMENT OF CREDITS

All credits that the Transmission Provider passes through to transmission service customers under this Schedule 42-B shall be paid by the applicable Entergy Operating Company.

VI. ADMINISTRATION

The application of Schedule 42-B shall be subject to review and challenge. When the Schedule 42-B credits are presented each year, the applicable Entergy Operating Company shall provide information setting forth the cumulative credits by year for all the preceding calendar years. All customers receiving credits under Schedule 42-B will have the right to seek discovery, including information and document requests, regarding the application of Schedule 42-B, and the Entergy Operating Companies shall make a good faith effort to respond to such requests within fifteen business days of receipt.

All customers receiving credits under Schedule 42-B will have the right to challenge application of Schedule 42-B either informally or through a formal challenge with FERC. In any proceeding initiated by FERC concerning the application of Schedule 42-B, each Entergy Operating Company will bear the burden of proving that it has correctly applied Schedule 42-B.