

ENTERGY ARKANSAS, INC.
MANUAL FOR COMPLIANCE WITH THE
ARKANSAS AFFILIATE TRANSACTION RULES
APSC DOCKET NO. 07-114-U

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1 **I. INTRODUCTION AND OVERVIEW**

2 **A. ARKANSAS AFFILIATE TRANSACTION RULES**

3 On May 25, 2007, the Arkansas Public Service Commission (“APSC” or the
4 “Commission”), in Order No. 7 of Docket No. 06-112-R, adopted Affiliate Transaction
5 Rules, hereinafter referred to as the “Affiliate Rules” or the “Rules”. The Rules are
6 applicable to Entergy Arkansas, Inc. (“EAI” or the “Company”). Attachment 1 to this
7 document is a copy of the Affiliate Rules.

8
9 **B. APSC REQUIREMENT FOR COMPLIANCE MANUAL**

10 Rule VI.A. 6. states:

11 Each public utility shall maintain, update annually, train appropriate employees
12 in, and (within 120 days following the effectiveness of these rules, and
13 thereafter, to the extent of material changes, in each annual report required
14 under Rule IX) file with the Commission, written procedures which ensure
15 compliance with these rules; and, such written procedures shall include, at a
16 minimum:

- 17 a. all internal rules, practices, financial record keeping requirements, and
18 other policies governing affiliate transactions among or between the
19 public utility and its affiliates;
- 20 b. the names and addresses of all the public utility's affiliates that
21 participate in affiliate transactions with the public utility;
- 22 c. an organizational chart depicting the ownership relationships between
23 the public utility and those affiliates that participate in affiliate
24 transactions with the public utility;
- 25 d. a description of the types of assets, goods and services provided in any
26 existing affiliate transaction lasting more than one year; and,
- 27 e. a cost allocation manual or other description of the methods used to
28 determine allocations in affiliate transactions.

29 Accordingly, this document, entitled Entergy Arkansas, Inc. Manual for
30 Compliance with the Arkansas Affiliate Transaction Rules (“Compliance Manual”) has

1 been developed and filed with the Commission in APSC Docket No. 07-114-U. The
2 Compliance Manual is intended to document the processes and procedures intended to
3 provide reasonable assurance of compliance with the Affiliate Rules. It is a reference
4 source for employees, including personnel responsible for ensuring implementation of
5 the compliance processes and procedures.

6
7 **C. COMPLIANCE PROGRAM OVERVIEW**

8 Employees of Entergy Corporation or its subsidiaries are subject to the Entergy
9 “*Code of Entegrity*”, which as part of the overall compliance program sets expectations
10 for ethical standards and compliance with laws and regulations for all employees of an
11 Entergy Corporation subsidiary. A goal of the *Code of Entegrity* is to promote a culture
12 of compliance.

13 Employees are expected to include regulatory compliance as an essential part of
14 business and a required aspect of their business activities. To support this
15 expectation, the compliance program strives to create an environment where regulatory
16 compliance is well understood and proactively addressed.

17 Each employee must act in a manner that complies with all applicable regulatory
18 requirements, including requirements specified in this Compliance Manual. Failure to
19 meet these obligations may result in disciplinary action.

20 The Ethics & Compliance (“E&C”) Department within Entergy Services, Inc.
21 (“ESI”), an Entergy Corporation service company that provides technical and support
22 services to Entergy Corporation subsidiaries, is responsible for the corporate oversight
23 function for all Entergy Corporation subsidiaries’ general compliance efforts and will
24 work with appropriate business functions to facilitate compliance with the Affiliate Rules
25 and this Compliance Manual.

26

1 **D. COMPLIANCE TRAINING PROGRAM**

2 Annually, the E&C Department will prepare a training plan that identifies
3 functions to be trained, and the means of delivery of the training. The Training
4 materials will be prepared under the direction of the E&C Department. EAI will educate
5 affected employees on the Affiliate Rules and the contents of the Compliance Manual
6 using the training materials and other communications as necessary.

7

8 **E. RESOURCES**

9 Questions or requests from employees seeking guidance regarding the
10 Compliance Manual or the Affiliate Rules can be directed to the electronic mail address
11 "HelpARC@entergy.com" or (501) 377-3601.

12

13 **F. COMPLIANCE ACTIVITIES FORMAT**

14 The next section of this Compliance Manual (Compliance Activities) is structured
15 to follow the sequence of the operational sections in the Affiliate Rules. Each such
16 section and subsection of the Affiliate Rules is repeated verbatim, and for each, a
17 compliance discussion then follows. The compliance discussion provides the specific
18 activities the Company will perform to comply with the given rule.

1 **II. COMPLIANCE ACTIVITIES**

2 **A. RULE IV. – AFFILIATE FINANCIAL TRANSACTIONS**

3 **1. Rule IV. Provision**

- 4 A. Except as otherwise provided in this Rule IV or in other applicable law, a
5 public utility shall not engage in any affiliate transaction in which the
6 public utility:
- 7 1. provides to or shares with any affiliate any financial resource or
8 financial benefit, including but not limited to any:
 - 9 a. loan, extension of credit, guarantee or assumption of debt,
10 indemnification, pledge of collateral; or
 - 11 b. encumbrance of or restriction on the disposition of any
12 public utility; or
 - 13 2. incurs any debt for purposes of investing in, or otherwise
14 supporting, any business other than the provision of public utility
15 service in Arkansas.
- 16 B. A public utility may obtain financial resources from an affiliate for public
17 utility purposes, provided that the cost to the public utility of such
18 financial resource does not exceed the lower of market price or the
19 affiliate's fully allocated cost.
- 20 C. Rule IV shall not apply to or prohibit any of the following unless the
21 Commission finds, after notice and hearing, unless waived by the parties,
22 and consistent with applicable law, that such arrangement is not
23 consistent with the purposes of these rules as defined in Rule II:
- 24 1. An inter-affiliate financial transaction integral to an affiliate
25 transaction for goods or services subject to and consistent with
26 Rule V.
 - 27 2. The payment of dividends by a public utility to affiliates that own
28 stock in such public utility (including adjustments to the capital
29 accounts of divisions within the public utility).
 - 30 3. Transactions in connection with the factoring of accounts
31 receivable, the creation and use of special purpose financing
32 entities, and the creation and use of money pool or cash
33 management arrangements, subject to safeguards to prevent
34 cross-subsidization and unauthorized pledges or encumbrances
35 of public utility assets.
 - 36 4. Any loan, extension of credit, guarantee, assumption of debt,
37 restriction on disposition of assets, indemnification, investment, or
38 pledge of assets by a public utility for the purpose of supporting
39 the utility related business activities of an affiliate.
 - 40 5. Any debt incurred by a public utility, including debt that imposes
41 any encumbrance on, or any restriction placed on the disposition
42 of any assets of, the public utility for the purpose of supporting the
43 utility related business activities of an affiliate.

- 1 6. Receipt by a public utility of capital contributions or proceeds from
- 2 the sale of common stock to its parent holding company.
- 3 7. Receipt by a public utility of financial resources from an affiliate
- 4 for any non-public utility purpose, provided that the cost to the
- 5 public utility of such financial resource shall not be recovered from
- 6 the public utility's customers in Arkansas.
- 7 8. Any financing arrangement involving a public utility and any
- 8 affiliate that was in existence as of the effective date of these
- 9 rules; provided the public utility files with the Commission a
- 10 description of each such arrangement involving a public utility and
- 11 any affiliate having an annual value or amount in excess of
- 12 \$350,000 and such filing is received within 120 days of the
- 13 effective date of these rules.
- 14 9. Any other affiliate financial transaction proposed by a public utility,
- 15 provided that:
- 16 a. the public utility first files with the Commission an
- 17 application for approval of such proposed affiliate financial
- 18 transaction including a detailed description thereof and any
- 19 relevant supporting documentation, and
- 20 b. the Commission finds, after notice and hearing, unless
- 21 waived by the parties, on such application, that the
- 22 proposed affiliate financial transaction is consistent with
- 23 the purposes of these rules as defined in Rule II.
- 24 D. Nothing in this Rule IV shall alter or amend the Commission's authority or
- 25 the obligation of public utilities set out in Rule 5.01 of the Commission's
- 26 Rules of Practice and Procedure.
- 27

28 **2. EAI Compliance Discussion**

29 As discussed in Section I.D. of this Compliance Manual, EAI will educate
30 affected employees on the above Rule. In addition to the training, the E&C Department
31 will periodically distribute reminders of the Rule's requirements to appropriate
32 personnel.

33 ESI's Corporate Finance organization is assigned primary responsibility for
34 meeting the restrictions of Rule IV.A and Rule IV.B. This function oversees intra-
35 Entergy System credit facilities, manages the debt liability portfolio, and manages the
36 issuance of securities. Thus, Corporate Finance is in a position to know of any plans to
37 lend, borrow, or encumber EAI's financial resources and to make a determination as to

1 whether any such contemplated transaction with an affiliate is:

- 2 • prohibited under Rule IV.A.,
- 3 • priced in accordance with Rule IV.B.,
- 4 • permissible under Rule IV.C.(1)-(8), and/or
- 5 • requires pre-approval from the APSC under Rule IV.C.(9).

6 To enhance this determination, a checklist will be developed to compare
7 contemplated transactions with the different areas of Rule IV. Use of this checklist
8 must be documented by Corporate Finance for each new financing arrangement
9 involving EAI and an affiliate.

10 Rule IV.C.8. requires that a Public Utility file with the Commission a description
11 of any financing arrangement involving the utility and any affiliate that was in existence
12 as of the effective date of the Rules having an annual value or amount in excess of
13 \$350,000. Such filing is due within 120 days of the effective date of the Rules.
14 Included as Attachment 2 to this Compliance Manual is a description of such financing
15 arrangements for EAI. Note that some of these financing arrangements may be less
16 than the \$350,000 annual value and are included for completeness. EAI notes that it
17 and the other Entergy Operating Companies (“OPCOs”)¹ are parties to the Entergy
18 System Agreement, Unit Power Sales Agreement, and the Availability Agreement.
19 System Energy Resources, Inc. also is a party to the Unit Power Sales Agreement and
20 the Availability Agreement. EAI does not consider any of the above agreements to be
21 financing agreements.

¹ The Entergy Operating Companies are EAI, Entergy Gulf States Louisiana, L.L.C. (“EGSL”); Entergy Texas, Inc (“ETI”); Entergy Louisiana, LLC (“ELL”); Entergy Mississippi, Inc. (“EMI”); and Entergy New Orleans, Inc. (“ENOI”).

1 **B. RULE V. – AFFILIATE TRANSACTIONS OTHER THAN FINANCIAL**
2 **TRANSACTIONS**

3 **1. Rule V. Provision**

- 4 A. Except as otherwise provided in this Rule V, or in other applicable law,
5 with respect to an affiliate transaction involving assets, goods, services,
6 information having competitive value, or personnel, a public utility shall
7 not:
- 8 1. receive anything of value, unless the compensation paid by the
9 public utility does not exceed the lower of market price or fully
10 allocated cost of the item received; and,
 - 11 2. provide anything of value, unless the compensation received by
12 the public utility is no less than the higher of market price or fully
13 allocated cost of the item provided.
- 14 B. Rule V shall not apply to or prohibit any of the following unless the
15 Commission finds, after notice and hearing, unless waived by the parties,
16 and consistent with applicable law, that such arrangement is not
17 consistent with the purposes of these rules as defined in Rule II:
- 18 1. Exchanges of information:
 - 19 a. necessary to the reliable provision of public utility service
20 by a public utility, provided such exchange occurs
21 consistently with guidelines published by the utility and
22 applied equally to affiliates and non-affiliate entities;
 - 23 b. required by or necessary to comply with federal statutes or
24 regulations; or,
 - 25 c. between or among a public utility, its parent holding
26 company, a service company and any affiliated rate-
27 regulated utility in another State of the United States.
 - 28 2. The provision of shared corporate support services, at fully
29 allocated cost, between or among a public utility and any affiliate,
30 including a service company.
 - 31 3. The provision, at fully allocated cost, of assets, goods, services,
32 or personnel between or among a public utility and a affiliated
33 rate-regulated utility in another State of the United States.
 - 34 4. The provision of assets, goods, services, information having
35 competitive value, or personnel, at a price determined by
36 competitive bidding or pursuant to a regulatory filed or approved
37 tariff or contract.
 - 38 5. Any other affiliate transaction proposed by a public utility to be
39 exempted from Rule V.A, provided that
 - 40 a. the public utility first files with the Commission an
41 application for an exemption of such proposed affiliate
42 transaction from the requirements of Rule V.A, including a

1 detailed description of the proposed transaction and any
2 relevant supporting documentation, and
3 b. the Commission finds, after notice and hearing, unless
4 waived by the parties, on such application and consistent
5 with applicable law, that the proposed exemption is
6 consistent with the Purposes of these rules as defined in
7 Rule II.

8 **2. EAI Compliance Discussion**

9 The following discussion recaps the transfer pricing rules for transfers of assets,
10 goods, services and personnel (loaned labor)² that EAI will follow in accordance with
11 the Affiliate Rules. It is followed by a description of controls in place to facilitate
12 compliance with the pricing rules. This section concludes with a discussion of
13 protocols for information sharing.

14 **(a) Transfer Pricing Rules for Assets, Goods, Services and Personnel**

15 **(i) Competitively Bid or Regulatory-Approved Affiliate Transactions.**

16 The transfer of assets, goods, services and personnel at a price determined by
17 competitive bidding or pursuant to regulatory filed or approved tariffs or contracts, shall
18 be performed at the price so determined, pursuant to Rule V.B.4. The following
19 discussion applies in the event such transfer pricing rule does not apply.

20 **(ii) Shared Corporate Support Services.**

21 In accordance with Rule V.B.2., the provision of shared corporate support
22 services to EAI by its service company affiliates³ will be priced at fully allocated cost.
23 Where EAI provides services to a centralized service company affiliate, these services
24 shall be priced at the higher of cost or market as required under FERC Order No. 707⁴.
25 This is more restrictive than the APSC rules.

² EAI interprets the Affiliate Rules reference to transfers of personnel to refer to temporary transfers such as loaned labor. It does not interpret the Rules to refer to changes of employment between affiliates (e.g., an employee of EAI decides to take a job with Entergy Mississippi, Inc.).

³ The Entergy Service Companies are ESI, Entergy Operations, Inc. ("EOI"), Entergy Enterprises, Inc. ("EEI"), and Entergy Nuclear Operations, Inc. ("ENUC").

⁴ FERC Order 707 issued in Docket No. RM-07-15-000, with implementing regulations codified at 18 CFR Sec 35.44.

1 (iii) EAI and Other Rate Regulated Utilities.

2 In accordance with Rule V.B.3., the provision of assets, goods, services, or
3 personnel between or among EAI and the Entergy OPCOs, or between EAI and System
4 Energy Resources, Inc., will be priced at fully allocated cost.

5 (iv) EAI and Other Affiliates – EAI as Recipient.

6 In 1992 Entergy Corporation entered into a settlement agreement with the
7 APSC, the Mississippi Public Service Commission, and the Council for the City of New
8 Orleans (included within Attachment 3 to this Compliance Manual).⁵ The transfer
9 pricing rules within the settlement agreement include the requirement that no
10 procurement with a fair market value in excess of \$100,000 shall be made by a
11 regulated utility from a non-regulated business (as those terms are defined in the
12 settlement agreement) except through a competitive bidding process, or as otherwise
13 approved by the Commission. Accordingly, no procurement with a fair market value in
14 excess of \$100,000 will be made by EAI from a non-regulated affiliate unless a
15 competitive bidding process is utilized, or is otherwise approved by the Commission.
16 For procurements of assets, goods and services, and personnel with a fair market
17 value of \$100,000 or less, the transfer pricing will be no higher than the lower of market
18 price or fully allocated costs of the items received, in accordance with Rule V.A.1. This
19 is also consistent with FERC Order No. 707 guidance that sales of non-power goods
20 and services by non-utility affiliates to utilities having captive ratepayers may not be
21 priced above market.⁶

22 (v) EAI and Other Affiliates – EAI as Provider.

23 The provision of goods and services by EAI to non-regulated affiliates will be
24 priced at the higher of fully allocated cost plus a 5% adder or market. This is more

⁵ To the extent there is a variance between the terms of the Settlement Agreement and the provisions in the Affiliate Rules, EAI considers itself bound to the terms of the APSC approved Settlement Agreement.

⁶ Codified at 18 CFR Sec. 35.44(b)(2).

1 restrictive than Rule V.A.2. The 5% adder is a settlement agreement condition which
2 requires that a charge of 5% be applied to the cost of services provided to non-
3 regulated businesses by regulated utilities. Additionally, the settlement agreement
4 requires that the transfer of generating assets, fuel and fuel-related assets, or real
5 property and improvements from EAI to a non-regulated business or to Entergy
6 Corporation will be priced at the higher of book value or market value if the asset's
7 value exceeds \$100,000. For other transfers from EAI, to the extent there exists a
8 readily available comparative market price, the transfer price will be the higher of
9 market price or fully allocated costs of the items provided, in accordance with Rule
10 V.A.2. Pursuant to Rule III.M., in the absence of a readily available competitive market
11 price, the price shall be the fully allocated cost of the party supplying the goods and
12 services.

13 **(b) Processes/Controls to Help Ensure Pricing Rules are Followed**

14 As discussed in Section I.D. of this Compliance Manual, EAI will educate
15 affected employees on the above Rule and pricing requirements contained in this
16 Compliance Manual. In addition to the training, the E&C Department will periodically
17 distribute reminders of the Rule's requirements to appropriate personnel.

18 Entergy Corporation's Chief Accounting Officer ("CAO"), Nuclear Financial
19 Operations & Control Department, and the E&C Department will be primarily
20 responsible for addressing pricing requirements. The CAO oversees the affiliate billing
21 processes of the Entergy service companies and is responsible for billings, allocations
22 related to billings, and the accounting for transactions with other affiliates. The CAO
23 helps to ensure that such billing processes and procedures are in compliance with
24 state and federal regulatory transfer requirements. The CAO administers Entergy's
25 System Accounting Policies and Procedures for Affiliate Transactions, as well as
26 Entergy's System Accounting Policies and Procedures for Loaning of Labor,

1 Transportation and/ or Materials, copies of which are included in Attachment 3 to this
 2 Compliance Manual. Entergy-affiliated companies use two mechanisms to bill affiliates
 3 for services rendered: (1) project billings; and (2) loaned resource billings.

- 4 • Project billings are transactions billed to affiliates for services rendered using
 5 project codes to determine how costs should be allocated to affiliates.⁷ The
 6 billing method is selected based on the principle of cost causation to ensure
 7 that every affiliate that causes the cost in the project code is appropriately
 8 included in the allocation of costs. Descriptions of the available methods
 9 used to determine allocations are in Attachment 7 to this Compliance
 10 Manual. Project billings can be used to charge and allocate costs of EAI's
 11 two primary Entergy service companies - ESI and EOI.
- 12 • Loaned resource billings include charges for loaned payroll, transportation,
 13 and materials and supplies. Under the loaned resource billing mechanism,
 14 transactions are directly billed to the department and/or business unit that is
 15 the recipient of the resources provided. Loaned resources charges are not
 16 distributed based on an allocation factor. Loaned resource billing is used for
 17 transactions from EAI to its affiliates. Loaned resource billing is also used
 18 for transactions from affiliates to EAI except in those cases where project
 19 billings are used.

20
 21 The following controls are in place to ensure that the billing mechanisms
 22 produce billings to affiliates that represent the actual costs of services provided such
 23 affiliates:

- 24 • Multiple Reviews and Approval of Project Codes
- 25 • Approval of Loaned Resource Billings
- 26 • Approval of Source Documentation
- 27 • Budget Process Activities
- 28 • Monthly Allocation Results and Billing Analysis
- 29 • Authorization Required to Access Corporate Applications
- 30 • Billing Analysis Review Team Monthly Reviews of ESI Billings
- 31 • Employee Training
- 32 • Internal Reviews of Affiliate Transactions and Processes
- 33 • External Reviews and Audits of Affiliate Transactions and Processes
- 34 • Sarbanes-Oxley Controls and Testing

⁷ A project code is an alpha numeric code that is assigned to individual projects established within organizations, applicable to a specific assignment or activity. Each project code has an associated billing methodology.

- 1 • Affiliate Transactions Policy, Entergy System Accounting Policies and
2 Procedures
- 3 • Loaning of Labor, Transportation and/or Materials, Entergy System
4 Accounting Policies and Procedures
- 5 • Competitive Bidding Process
- 6 • Use of Loaned Employee Approval Form and Process by Nuclear
7 Operations

8 Further, Entergy Corporation maintains a corporate compliance program that
9 captures local, state and federal regulatory requirements, including affiliate transaction
10 pricing requirements, in a central database that tracks the associated risks, controls
11 and the test procedures and results of those controls to ensure that controls in all
12 jurisdictional areas are in compliance with such requirements. Tests of controls related
13 to affiliate transaction pricing requirements include testing of certain billing
14 mechanisms, referred to above, including a quarterly review of affiliate transactions to
15 identify transactions that require specific pricing rules, testing of those transactions for
16 compliance with such rules and documentation of pricing support. Also ESI's Internal
17 Audit function reviews the controls and performs tests of transactions and balances
18 related to affiliate billings. Specifically related to the implementation of the Sarbanes-
19 Oxley Act, Internal Audit reviews the risks, control activities, and testing of those
20 control activities associated with the affiliate billing process. Internal Audit's review
21 includes the related funding, allocations, and intercompany account reconciliation
22 processes associated with the overall affiliate billing process.

23 In addition, external reviews and audits of affiliate transactions and processes
24 are conducted routinely. For instance, external auditors perform certain agreed upon
25 procedures annually to satisfy a requirement included in settlement agreements
26 between certain regulators and certain Entergy Operating Companies, including the
27 1992 Settlement Agreement discussed earlier in this Compliance Manual. External
28 auditors also select several intercompany transactions billed to EEI by Entergy
29 Corporation affiliates to ensure they are billed in accordance with the Public Utility

1 Holding Company Act of 2005 affiliate billing requirements. The annual external audit
2 of Entergy Corporation and its subsidiaries' financial statements helps to detect
3 whether the intercompany accounts and billing processes are producing any material
4 misstatements in the financial statements. Finally, the Sarbanes-Oxley Act requires
5 that an independent auditor attest to the accuracy of disclosure regarding the
6 effectiveness of its internal controls.

7 **(c) Information Exchanges**

8 The general transfer pricing rules (Rule V.A.) apply to "information having
9 competitive value", an undefined term. EAI interprets the term such that if information
10 is, or has been made, publicly available then the information will not have competitive
11 value and thus Rule V.A. is not applicable.

12 Thus, in combination with the exceptions at Rule V.B.1., the Rules' general
13 pricing provisions for information having competitive value do not apply to:

- 14
- 15 • information that has been made public,
 - 16 • information transfers required by, or necessary to comply with, federal
17 statutes or regulations (Rule V.B.1.b.), and
 - 18 • information transfers between EAI, its service companies, the other Entergy
19 Operating Companies, Entergy Corporation and any other affiliated rate-
20 regulated utility in another state (Rule V.B.1.c.).

21 Other applicable exchanges of information between EAI and an affiliate,
22 including those exchanges described in Rule V.B.1.a., are addressed in guidelines
23 developed by EAI and made available to the public.
24

1 **C. RULE VI. – BOOKS, RECORDS, AND PROCEDURES**

2 **1. Rule VI. Provision**

3 A. Recordkeeping

4 1. The public utility shall:

- 5 a. keep books and records separately from the books and
6 records of its affiliates; and,
7 b. maintain such books and records in accordance with the
8 applicable rules and orders of the Commission, and with
9 Generally Accepted Accounting Principles (GAAP) as
10 amended;

11 provided, that, any multi-jurisdictional public utility whose Arkansas
12 rates are set pursuant to jurisdictional allocations among such
13 public utility's various regulatory jurisdictions shall not be required
14 to keep books and records other than on a combined basis
15 including all its utility business.

16 2. Such books and records shall contain all information necessary to:

- 17 a. identify all affiliate transactions in which the public utility
18 participated; and,
19 b. identify and allocate or impute all revenues and costs (both
20 direct and indirect) associated with all such affiliate
21 transactions.

22 3. Upon the creation of a new affiliate that will participate in affiliate
23 transactions with a public utility, the utility shall, no later than 60
24 days after the creation of such affiliate, notify the Commission by
25 letter to the Secretary of the Commission of the creation of such
26 new affiliate, which notice shall include an explanation of how the
27 public utility will implement these rules with respect to such new
28 affiliate.

29 4. Each public utility shall maintain, for at least five years, records of
30 each affiliate transaction in which it participated and the records
31 shall:

- 32 a. be made contemporaneously with each affiliate transaction;
33 b. be in a readily retrievable format; and,
34 c. include, for each affiliate transaction:
35 (1) the identity of the affiliate involved in the affiliate
36 transaction;
37 (2) the commencement and termination dates of the
38 affiliate transaction;
39 (3) a description of the affiliate transaction, including
40 the nature and quantity of value provided and
41 received;

- 1 (4) the dollar amount of the affiliate transaction and the
- 2 manner in which such dollar amount was
- 3 calculated;
- 4 (5) all other terms of the affiliate transaction;
- 5 (6) the direct and indirect costs associated with the
- 6 affiliate transaction, including any allocation
- 7 formula used to attribute indirect costs; and,
- 8 (7) all information necessary to verify compliance with
- 9 these rules and the accuracy of amounts stated on
- 10 the public utility's books and records, such
- 11 information to include, but not be limited to:
- 12 (a) invoices, vouchers, communications, journal
- 13 entries, workpapers; and,
- 14 (b) information supporting the price of each
- 15 affiliate transaction, including but not limited
- 16 to the cost and allocation method of the
- 17 affiliate transaction and, when the cost was
- 18 the result of a competitive bidding process,
- 19 the market price and basis for the market
- 20 price of the Affiliate transaction; and,
- 21 d. be summarized and said summary for the prior calendar
- 22 year shall be filed annually with the Commission as part of
- 23 the annual report required by Rule IX. Unless otherwise
- 24 ordered by the Commission, a public utility may satisfy the
- 25 requirement of this Rule VI.A.4.d by filing with the
- 26 Commission a copy of Federal Energy Regulatory
- 27 Commission Form 60, Annual Report of Centralized
- 28 Service Companies.
- 29 5. Each public utility shall file contemporaneously with its annual
- 30 report under Rule VI.A.4.d the following information: a
- 31 summary report indicating the aggregate dollar amount of all
- 32 transactions described in Rule III.G.(1), (2), (3), and (4) which
- 33 the utility has conducted with each affiliate, as defined under
- 34 Rule III.A., including the name of each such affiliate.
- 35 6. Each public utility shall maintain, update annually, train
- 36 appropriate employees in, and (within 120 days following the
- 37 effectiveness of these rules, and thereafter, to the extent of
- 38 material changes, in each annual report required under Rule IX)
- 39 file with the Commission, written procedures which ensure
- 40 compliance with these rules; and, such written procedures shall
- 41 include, at a minimum:
- 42 a. all internal rules, practices, financial record keeping
- 43 requirements, and other policies governing affiliate

- 1 transactions among or between the public utility and its
2 affiliates;
- 3 b. the names and addresses of all the public utility's affiliates
4 that participate in affiliate transactions with the public
5 utility;
- 6 c. an organizational chart depicting the ownership
7 relationships between the public utility and those affiliates
8 that participate in affiliate transactions with the public
9 utility;
- 10 d. a description of the types of assets, goods and services
11 provided in any existing affiliate transaction lasting more
12 than one year; and,
- 13 e. a cost allocation manual or other description of the
14 methods used to determine allocations in affiliate
15 transactions.
16

17 **2. EAI Compliance Discussion**

18 **(a) Training and Education**

19 As discussed in Section I.D. of this Compliance Manual, EAI will educate
20 affected employees on the above Rules. In addition to the training, the E&C
21 Department will periodically distribute reminders of the Rule's requirements to
22 appropriate personnel.

23 **(b) Entergy's Accounting System (Rule VI.A.1. and A.2.)**

24 Entergy Corporation's CAO is primarily responsible for meeting the requirements
25 of Rules VI.A.1. and A.2. The accounting system for Entergy Corporation entities is
26 comprised of a number of integrated systems that track, record, and report all required
27 financial information for all of Entergy Corporation's various entities. The accounting
28 system executes standard accounting procedures and functions such as accounts
29 payable, journal entries, customer billings, and payroll, allowing ESI accountants to
30 perform all of the required accounting functions, including project costing and fixed
31 asset accounting and reporting. The accounting system also performs validations of
32 source data and transactions. For example, the procedure known as a compatibility

1 edit will test for compatibility among accounting code block elements. All of these
2 systems are electronically linked to and summarized in Entergy Corporation's general
3 ledger accounts so that financial statements for each entity, including EAI, may be
4 produced. As a result, Entergy Corporation's accounting system maintains separate
5 books and records for all affiliates in accordance with the above Rule.

6 The books and records of utility subsidiaries are kept in accordance with the
7 FERC Uniform System of Accounts and Generally Accepted Accounting Principles.
8 The books and accounting records of Entergy Corporation and its subsidiaries are the
9 focus of periodic internal and external audits to ensure accounting policies and
10 procedures are in place, and being followed, to provide reasonable assurances as to
11 their accuracy and adherence to rules and regulations.

12 **(c) Creation of New Affiliates (Rule VI.A.3.)**

13 ESI's Legal Entity Management organization, the Legal Services Department,
14 and the E&C Department will be primarily responsible for meeting the requirements of
15 Rule VI.A.3. Requests for the development of a new Entergy Corporation legal entity
16 are submitted to Legal Entity Management pursuant to Entergy system policy. Legal
17 Entity Management provides the requesting party with a New Legal Entity Request
18 Form aimed at establishing the business need for the entity. The form will inquire as to
19 whether the new affiliate is expected to engage in transactions with EAI. If an
20 affirmative response is given, the E&C Department and Legal Services, will validate as
21 to whether the proposed new affiliate is reasonably expected to be involved in affiliate
22 transactions, as defined by Rule III.G., with EAI. Within 60 days of the creation of a
23 new affiliate that it is reasonably expected to participate in affiliate transactions with
24 EAI, the Company will notify the Commission by letter of the new affiliate's creation.
25 This notice also will include an explanation of how EAI will implement the Affiliate Rules
26 with respect to the new affiliate.

1 **(d) Maintenance and Reporting (Rule VI.A.4. and A.5.)**

2 Entergy Corporation's CAO will be primarily responsible for meeting the
3 requirements of Rule VI.4. and Rule VI.5. All applicable affiliate transactions will be
4 contemporaneously recorded, by ESI's accounting function in a readily retrievable
5 electronic format accessed through Entergy's general ledger system. The record of
6 these transactions will include the information outlined in Rule VI.A.4.c.

7 In accordance with Entergy System policies, the records of the affiliate
8 transactions are identified as official records owned by the CAO and have a retention
9 period in excess of five years.

10 The CAO is assigned responsibility to address the reporting requirements in
11 Rule VI.A.4.d. as part of the annual report required by Rule IX. It is anticipated that
12 the reporting obligation will be satisfied by filing with the Commission a copy of FERC
13 Form 60, as permitted under the Rule. The CAO is also responsible for the reporting
14 requirement mandated by Rule VI.A.5.

15 **(e) Compliance Procedures (Rule VI.A.6.)**

16 EAI, with the filing of this Compliance Manual, provides initial compliance with
17 Rule VI.A.6. The E&C Department will be primarily responsible for the maintenance of
18 the manual. To the extent there are material changes in the procedures for complying
19 with the Affiliate Rules, EAI will update and file revised Compliance Manuals with the
20 Commission as part of the annual report required in Rule IX.

21 The Compliance Manual will be a primary source for addressing affiliate
22 transactions among or between EAI and its affiliates. In compliance with Rule
23 VI.A.6.a., other internal policies that address affiliate transactions among or between
24 EAI and its affiliates are included as Attachment 3 to this Compliance Manual.
25 Attachment 3 also includes a copy of the 1992 Settlement Agreement among Entergy

1 Corporation, the APSC, the Mississippi Public Service Commission, and the Council for
2 the City of New Orleans.

3 In compliance with Rule VI.A.6.b., the names and addresses of affiliates of EAI
4 who participated in affiliate transactions with the Company during the most recent
5 calendar year are listed in Attachment 4 to this Compliance Manual.

6 In compliance with Rule VI.A.6.c., organizational charts depicting the ownership
7 relationships between EAI and its affiliates are in Attachment 5 to this Compliance
8 Manual. The organization charts in Attachment 5 depict all Entergy Corporation legal
9 entities, not just those identified in Attachment 4 as being involved in affiliate
10 transactions with EAI. Though not required to do so by the above Rule, EAI has
11 provided the complete Entergy Corporation organizational charts to fully disclose
12 ownership relationships between and among affiliates.

13 In compliance with Rule VI.A.6.d., a description of the types of assets, goods,
14 and services provided in existing affiliate transactions (during the most recent calendar
15 year) and which are anticipated to be of an ongoing nature is in Attachment 6 to this
16 Compliance Manual.

17 In compliance with Rule VI.A.6.e., descriptions of the methods used to determine
18 allocations in affiliate transactions are found in Attachment 7 to this Compliance
19 Manual. Refer to the discussion in Section II.B.2.(b) of this Compliance Manual on the
20 allocation of costs as well as the direct billing of costs associated with loaned
21 resources.
22

1 **D. RULE VII. – BOND RATING DOWNGRADES**

2 **1. Rule VII. Provision**

3 A. This Rule VII applies only to a public utility that has a separate, stand-
4 alone bond rating by Standard and Poor's or Moody's, and that has
5 affiliates, other than utility related businesses, with assets whose total
6 book value exceeds ten (10) percent of the book value of the public
7 utility's assets.

8 B. If a public utility's bond ratings are downgraded to a Standard and Poor's
9 rating of BB+ or lower, or to a Moody's rating of Ba1 or lower, such utility
10 shall notify the Commission within thirty (30) days of such downgrading.
11 The public utility will provide the Commission a copy of publicly released
12 information about such rating downgrade and such other information as
13 the Commission requests.

14 C. If the Commission finds, after notice and opportunity for hearing, unless
15 waived by the parties, that the public utility's bond ratings downgrade
16 would not have occurred but for one or more relationships between such
17 public utility and one or more affiliates, then the Commission may impose
18 remedies designed to insulate the public utility and its customers from
19 any diminution in the public utility's ability to carry out its obligation to
20 serve at reasonable rates.
21

22 **2. EAI Compliance Discussion**

23 As discussed in Section I.D. of this Compliance Manual, EAI will educate
24 affected employees on the above Rule. In addition to the training, the E&C Department
25 will periodically distribute reminders of the Rule's requirements to appropriate
26 personnel.

27 Entergy Corporation's Corporate Finance organization will be primarily
28 responsible for complying with the above requirements. EAI has a separate, stand-
29 alone senior secured bond rating by Standard and Poor's and Moody's. In the event
30 EAI's senior secured bond rating with Standard and Poor's or Moody's is downgraded
31 per the provisions of Rule VII.B., assuming EAI satisfies the precondition in Rule VII.A,
32 EAI will notify the Commission within 30 days of the downgrade. Further EAI will
33 provide the Commission with any publicly released information regarding any such

- 1 downgrade and respond to other requests for information regarding the downgrade that
- 2 might be made by the Commission.

1 **E. RULE VIII. – UTILITY OWNERSHIP OF NON-UTILITY BUSINESS**

2 **1. Rule VIII. Provision**

3 A. A public utility shall not directly engage in a non-utility business other than a
4 utility related business if the total book value of such non-utility business's
5 non-utility assets owned by the utility exceeds 10 percent of the book value of
6 the total assets of the public utility and all its affiliates.

7 B. This Rule VIII does not apply to or prohibit a public utility or any affiliate
8 thereof from continuing to engage in any non-utility business existing as of
9 the effective date of these rules; provided the public utility files with the
10 Commission a description of such non-utility business existing as of the
11 effective date of these rules and such filing is received within 120 days of the
12 effective date of these rules.

13 C. Each public utility or its public utility holding company shall file an annual
14 report with the Commission in accordance with Rule IX that includes:

15 1. a certification by the president of the public utility that the public utility
16 is in compliance with this section; and,

17 2. all financial information necessary for the Commission to determine
18 the utility is complying with the requirements in Rule VIII.A.

19
20 **2. EAI Compliance Discussion**

21 As discussed in Section I.D. of this Compliance Manual, EAI will educate affected
22 employees on the above Rule. In addition to the training, the E&C Department will
23 periodically distribute reminders of the Rule's requirements to appropriate personnel.

24 EAI's Regulatory Affairs group will be primarily responsible for complying with the
25 above requirements. EAI participates in two businesses, System Fuel, Inc. ("SFI") and
26 Arklahoma Corporation ("Arklahoma"), which may qualify as non-utility businesses
27 pursuant to one interpretation of Rule III.I., but they do not meet the threshold contained in
28 Rule VIII.A. SFI is the Entergy System's fuel procurement subsidiary. It purchases fossil
29 and nuclear fuels for the Entergy OPCOs. Arklahoma is a transmission facility in which
30 EAI owns 34 percent along with two non-affiliated power companies.
31

1 **F. RULE IX. – COMPLIANCE**

2 **1. Rule IX. Provision**

3 A. No later than the June 1 following the first full calendar year after the
4 effective date of these rules, and no later than June 1 of every year
5 thereafter, each public utility shall file with the Commission:

6 1. a notice, signed by both the public utility's president or chief executive
7 officer and its chief financial officer, certifying the public utility's
8 compliance with these rules in the prior year; and,

9 2. the other annual information and reports required under these rules.
10

11 **2. EAI Compliance Discussion**

12 As discussed in Section I.D. of this Compliance Manual, EAI will educate affected
13 employees on the above Rule. In addition to the training, the E&C Department will
14 periodically distribute reminders of the Rule's requirements to appropriate personnel.
15 EAI's Regulatory Affairs group will be primarily responsible for complying with the above
16 requirements.

17 EAI interprets the above requirement to mean the first annual notice, signed by its
18 president and chief executive officer and its chief financial officer, as well as other
19 information and reports required by the Rules is due no later than June 1, 2009, and by
20 June 1 in subsequent years.

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