

APSC AFFILIATE TRANSACTION RULES

**ENTERGY ARKANSAS, LLC (EAL)
2021 ANNUAL REPORT**

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ATTACHMENT E

**MANUAL FOR COMPLIANCE WITH THE ARKANSAS
AFFILIATE TRANSACTION RULES**

(RULE VI.A.6.)

ENTERGY ARKANSAS, LLC.
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, LLC. (“EAL” 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 public
19 utility and its affiliates;
- 20 b. the names and addresses of all the public utility's affiliates that participate
21 in affiliate transactions with the public utility;
- 22 c. an organizational chart depicting the ownership relationships between the
23 public utility and those affiliates that participate in affiliate transactions with
24 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, LLC. Manual for
30 Compliance with the Arkansas Affiliate Transaction Rules (“Compliance Manual”) has
31 been developed and filed with the Commission in APSC Docket No. 07-114-U. The
32 Compliance Manual is intended to document the processes and procedures that

1 provide reasonable assurance of compliance with the Affiliate Rules. It is a reference
2 source for employees, including personnel responsible for ensuring implementation of
3 the compliance processes and procedures.

4
5 **C. COMPLIANCE PROGRAM OVERVIEW**

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

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

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

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

24

1 **D. COMPLIANCE TRAINING PROGRAM**

2 Annually, the E&C Department prepares a training plan that identifies employee
3 requirements for formal training, and the functions to be assigned the Arkansas
4 Affiliate Rules computer-based training and acknowledgement module (CBT).
5 Employees are assigned requirements automatically using My Learning and are sent
6 an annual reminder to review and acknowledge the training. Training materials are
7 prepared under the direction of the E&C Department. The E&C Department, at the
8 direction of EAL, facilitates the education of affected employees on the Affiliate Rules
9 and the contents of the Compliance Manual using the training materials and other
10 communications, as necessary.

11
12 **E. RESOURCES**

13 Questions or requests from employees seeking guidance regarding the
14 Compliance Manual or the Affiliate Rules can be directed to the electronic mail
15 address "HelpARC@entergy.com".

16
17 **F. COMPLIANCE ACTIVITIES FORMAT**

18 The next section of this Compliance Manual (Compliance Activities) is
19 structured to follow the sequence of the operational sections in the Affiliate Rules.
20 Each such section and subsection of the Affiliate Rules is repeated verbatim, and for
21 each, a compliance discussion follows. The compliance discussion provides the
22 specific activities the Company performs to comply with the given rule.

23

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,
5 a 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 public
12 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
22 parties, and consistent with applicable law, that such arrangement is
23 not 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,
38 or pledge of assets by a public utility for the purpose of supporting
39 the utility related business activities of an affiliate.

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

31

32 **2. EAL Compliance Discussion**

33 As discussed in Section I.D. of this Compliance Manual, the E&C Department,
34 at the direction of EAL, facilitates the education of affected employees on the above
35 Rule.

36 ESL's Treasury organization is assigned primary responsibility for meeting the

1 restrictions of Rule IV.A and Rule IV.B. This function oversees intra-Entergy System
2 credit facilities, manages the debt liability portfolio, and manages the issuance of
3 securities. Thus, the Treasury organization is in a position to know of any plans to
4 lend, borrow, or encumber EAL's financial resources and to make a determination as
5 to whether any such contemplated transaction with an affiliate:

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

10 To enhance this determination, a checklist has been developed to compare
11 contemplated transactions with the different areas of Rule IV. Use of this checklist
12 must be documented by Treasury for each new financing arrangement involving EAL
13 and an affiliate.

14 Rule IV.C.8. requires that a Public Utility file with the Commission a description
15 of any financing arrangement involving the utility and any affiliate that was in existence
16 as of the effective date of the Rules having an annual value or amount in excess of
17 \$350,000. Such filing was due, and was made, within 120 days of the effective date
18 of the Rules. A description of such financing arrangements for EAL is included as
19 Attachment 2 to this Compliance Manual. Note that some of these financing
20 arrangements may have been terminated, or be less than the \$350,000 annual value
21 and are included for completeness.

22 EAL was a party to the Entergy System Agreement until December 19, 2013.
23 EAL is a party to the Unit Power Sales Agreement and Availability Agreement. EAL
24 does not consider either of the foregoing agreements to be financing agreements.

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
16 parties, 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 an 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

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a. the public utility first files with the Commission an application for an exemption of such proposed affiliate transaction from the requirements of Rule V.A, including a detailed description of the proposed transaction and any relevant supporting documentation, and

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b. the Commission finds, after notice and hearing, unless waived by the parties, on such application and consistent with applicable law, that the proposed exemption is consistent with the Purposes of these rules as defined in Rule II.

12

2. EAL Compliance Discussion

13

The following discussion recaps the transfer pricing rules for transfers of assets, goods, services and personnel (loaned labor)¹ that EAL follows in accordance with the Affiliate Rules. It is followed by a description of controls in place to facilitate compliance with the pricing rules. This section concludes with a discussion of protocols for information sharing.

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

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

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The transfer of assets, goods, services and personnel at a price determined by competitive bidding or pursuant to regulatory filed or approved tariffs or contracts, are performed at the price so determined, pursuant to Rule V.B.4.

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(ii) Shared Corporate Support Services.

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In accordance with Rule V.B.2., the provision of shared corporate support services to EAL by its service company affiliates² are priced at fully allocated cost (except that any shared corporate support services to EAL by EEI and ENUC with a

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¹ EAL 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.).

² The Entergy Service Companies are ESL, Entergy Operations, Inc. ("EOI"), Entergy Enterprises, Inc. ("EEI"), and Entergy Nuclear Operations, Inc. ("ENUC").

1 fair market value in excess of \$100,000 are subject to a competitive bidding
2 requirement (see section iv below)). Where EAL provides services to a centralized
3 service company affiliate, these services are priced at the higher of cost or market as
4 required under FERC Order No. 707³ (except that any services provided by EAL to
5 EEI and ENUC are priced at the higher of cost plus a 5% adder or market value (see
6 section v below)). This is more restrictive than the APSC rules.

7 (iii) EAL and Other Rate Regulated Utilities.

8 In accordance with Rule V.B.3., the provision of assets, goods, services, or
9 personnel between or among EAL and the Entergy Operating Companies (“OPCOs”),⁴
10 or between EAL and System Energy Resources, Inc., are priced at fully allocated cost.

11 (iv) EAL and Other Affiliates – EAL as Recipient.

12 In 1992 Entergy Corporation entered into a settlement agreement with the
13 APSC, the Mississippi Public Service Commission, and the Council for the City of New
14 Orleans (included within Attachment 3 to this Compliance Manual).⁵ The transfer
15 pricing rules within the settlement agreement include the requirement that no
16 procurement with a fair market value in excess of \$100,000 shall be made by a
17 regulated utility from a non-regulated business (as those terms are defined in the
18 settlement agreement) except through a competitive bidding process, or as otherwise
19 approved by the Commission. For procurements of assets, goods and services, and
20 personnel with a fair market value of \$100,000 or less, the transfer pricing is no higher
21 than the lower of market price or fully allocated costs of the items received, in

³ FERC Order 707 issued in Docket No. RM-07-15-000, with implementing regulations codified at 18 CFR § 35.44.

⁴ The Entergy Operating Companies are Entergy Arkansas, LLC (“EAL”); Entergy Louisiana, LLC (“ELL”); Entergy Mississippi, LLC (“EML”); Entergy New Orleans, LLC (“ENO”); and Entergy Texas, Inc. (“ETI”).

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

1 accordance with Rule V.A.1. This is also consistent with FERC Order No. 707
2 guidance that sales of non-power goods and services by non-utility affiliates to utilities
3 having captive ratepayers may not be priced above market.⁶

4 (v) EAL and Other Affiliates – EAL as Provider.

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

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

19 As discussed in Section I.D. of this Compliance Manual, the E&C Department,
20 at the direction of EAL, facilitates the education of affected employees on the above
21 Rule and pricing requirements.

22 Entergy Corporation's Chief Accounting Officer ("CAO") and the E&C
23 Department are primarily responsible for addressing pricing requirements. The CAO
24 oversees the affiliate billing processes of the Entergy service companies and is

⁶ Codified at 18 CFR § 35.44(b)(2).

1 responsible for billings, allocations related to billings, and the accounting for
2 transactions with other affiliates. The CAO helps to ensure that such billing processes
3 and procedures are in compliance with state and federal regulatory transfer
4 requirements. The CAO administers Entergy's Accounting Policies & Procedures for
5 Affiliate Transactions, Loaning of Labor, Transportation, and/or Materials, and
6 Loaning of Assets – Capitalized Non-Power Goods. Entergy's nuclear organization
7 administers two policies which address the requirements imposed by federal, state
8 and local authorities regarding affiliate transactions and interfaces, EN-PL-113,
9 Nuclear Affiliate Rules Compliance, and EN-BU-111, Guidance on Charging Nuclear
10 Employee and Software Costs. Copies of these policies are included in Attachment
11 3 to this Compliance Manual. Entergy-affiliated companies use two mechanisms to
12 bill affiliates for services rendered: (1) project billings; and (2) loaned resource billings.

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

29 In connection with EAL's December 18, 2013 termination of its participation in
30 the Entergy System Agreement, ESL's service agreement with EAL was amended to

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 include Rate Schedules 435-A, 435-C, and 435-D which were filed with the Federal
2 Energy Regulatory Commission. Under Rate Schedule 435-A, Amended and
3 Restated Service Agreement for Administrative and General Support Services, ESL
4 continues to provide a wide range of administrative and general support services to
5 EAL at cost. Services provided by ESL under this rate schedule are both direct billed
6 and allocated, as appropriate, following the principles of cost causation. Services
7 provided under Rate Schedule 435-C, Service Agreement for Generation Planning
8 and Operational Support Services, and Rate Schedule 435-D, Service Agreement for
9 Transmission Planning and Reliability Support Services, are direct billed at cost to
10 EAL.

11 The following controls are in place to ensure that the billing mechanisms
12 produce billings to affiliates that represent the actual costs of services provided such
13 affiliates:

- 14 • Multiple Reviews and Approval of Project Codes
- 15 • Approval of Loaned Resource Billings
- 16 • Approval of Source Documentation
- 17 • Budget Process Activities
- 18 • Monthly Allocation Results and Billing Analysis
- 19 • Authorization Required to Access Corporate Applications
- 20 • Billing Analysis Review Team Monthly Reviews of ESL Billings
- 21 • Employee Training
- 22 • Internal Reviews of Affiliate Transactions and Processes
- 23 • External Reviews and Audits of Affiliate Transactions and Processes
- 24 • Sarbanes-Oxley Controls and Testing
- 25 • Affiliate Transactions, Entergy's Accounting Policies & Procedures
- 26 • Loaning of Labor, Transportation, and/or Materials, Entergy's Accounting
27 Policies & Procedures
- 28 • Competitive Bidding Process

- 1 • Use of Loaned Employee Approval Form and Process by Nuclear
2 Operations

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

19 In addition, external reviews and audits of affiliate transactions and processes
20 are conducted routinely. For instance, external auditors perform certain agreed upon
21 procedures annually to satisfy a requirement included in settlement agreements
22 between certain regulators and certain OPCOs, including the 1992 Settlement
23 Agreement discussed earlier in this Compliance Manual. External auditors also select
24 several intercompany transactions billed to EEI by Entergy Corporation affiliates to
25 ensure they are billed in accordance with the Public Utility Holding Company Act of
26 2005 affiliate billing requirements. The annual external audit of Entergy Corporation

1 and its subsidiaries' financial statements helps to detect whether the intercompany
2 accounts and billing processes are producing any material misstatements in the
3 financial statements. Finally, the Sarbanes-Oxley Act requires that an independent
4 auditor attest to the accuracy of disclosure regarding the effectiveness of its internal
5 controls.

6 **(c) Information Exchanges**

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

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

- 13
- 14 • information that has been made public,
 - 15 • information transfers required by, or necessary to comply with, federal
16 statutes or regulations (Rule V.B.1.b.), and
 - 17 • information transfers between EAL, its service companies, the other
18 Entergy Operating Companies, Entergy Corporation and any other affiliated
rate-regulated utility in another state (Rule V.B.1.c.).

19 Other applicable exchanges of information between EAL and an affiliate,
20 including those exchanges described in Rule V.B.1.a., are addressed in guidelines
21 developed by EAL and made available to the public at [http://www.energy-
22 arkansas.com/content/affiliate/docs/2007-1204_info_Exchange_Guidelines.pdf](http://www.energy-arkansas.com/content/affiliate/docs/2007-1204_info_Exchange_Guidelines.pdf)

23

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

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

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

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

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

- 33 a. be made contemporaneously with each affiliate
34 transaction;
35 b. be in a readily retrievable format; and,
36 c. include, for each affiliate transaction:
37 (1) the identity of the affiliate involved in the affiliate
38 transaction;

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

1 effectiveness of these rules, and thereafter, to the extent of
2 material changes, in each annual report required under Rule IX)
3 file with the Commission, written procedures which ensure
4 compliance with these rules; and, such written procedures shall
5 include, at a minimum:

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

23 **2. EAL Compliance Discussion**

24 **(a) Training and Education**

25 As discussed in Section I.D. of this Compliance Manual, the E&C Department,
26 at the direction of EAL, facilitates the education of affected employees on the above
27 Rules.

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

29 Entergy Corporation's CAO is primarily responsible for meeting the
30 requirements of Rules VI.A.1. and A.2. The accounting system for Entergy
31 Corporation entities is comprised of a number of integrated systems that track, record,
32 and report all required financial information for all of Entergy Corporation's various
33 entities. The accounting system executes standard accounting procedures and

1 functions such as accounts payable, journal entries, customer billings, and payroll,
2 allowing ESL accountants to perform all of the required accounting functions, including
3 project costing and fixed asset accounting and reporting. The accounting system also
4 performs validations of source data and transactions. For example, the procedure
5 known as a compatibility edit will test for compatibility among accounting code block
6 elements. All of these systems are electronically linked to and summarized in Entergy
7 Corporation's general ledger accounts so that financial statements for each entity,
8 including EAL, may be produced. As a result, Entergy Corporation's accounting
9 system maintains separate books and records for all affiliates in accordance with the
10 above Rule.

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

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

18 ESL's Legal Services Department and the E&C Department are primarily
19 responsible for meeting the requirements of Rule VI.A.3. Requests for the formation
20 of a new Entergy Corporation legal entity are required to be submitted to the Legal
21 Services Department pursuant to the Legal Entity Management & Compliance system
22 policy ("LEM Policy"). Entergy personnel who wish to form a new legal entity must
23 submit for approval a Request to Create a New Legal Entity in accordance with the
24 LEM Policy, which states the business need for the proposed entity. The form asks
25 whether the new affiliate is expected to engage in transactions with regulated public

1 utilities. If an affirmative response is given, the E&C Department and Legal Services-
2 Regulatory will validate as to whether the proposed new entity is reasonably expected
3 to be involved in affiliate transactions, as defined by Rule III.G., with EAL. Within 60
4 days of the creation of a new affiliate that is reasonably expected to participate in
5 affiliate transactions with EAL, the Company will notify the Commission by letter of the
6 new affiliate's creation. This notice also will include an explanation of how EAL will
7 implement the Affiliate Rules with respect to the new affiliate.

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

9 Entergy Corporation's CAO is primarily responsible for meeting the
10 requirements of Rule VI.4. and Rule VI.5. All applicable affiliate transactions are
11 contemporaneously recorded by ESL's accounting function in a readily retrievable
12 electronic format accessed through Entergy's general ledger system. The record of
13 these transactions includes the information outlined in Rule VI.A.4.c.

14 In accordance with Entergy System policies, the records of the affiliate
15 transactions have a retention period in excess of five years.

16 The CAO is assigned responsibility to address the reporting requirements in
17 Rule VI.A.4.d. as part of the annual report required by Rule IX. The reporting
18 obligation is satisfied by filing with the Commission a copy of FERC Form 60, as
19 permitted under the Rule. The CAO is also responsible for the reporting requirement
20 mandated by Rule VI.A.5.

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

22 EAL, with the filing of its first Compliance Manual, provided initial compliance
23 with Rule VI.A.6. The E&C Department is primarily responsible for the maintenance
24 of the manual narrative. EAL files a Compliance Manual with the Commission as part

1 of the annual report required in Rule IX revised as necessary to reflect any material
2 changes in the procedures for complying with the Affiliate Rules.

3 The Compliance Manual is a primary source for addressing affiliate
4 transactions among or between EAL and its affiliates. In initial compliance with Rule
5 VI.A.6.a., other internal policies that address affiliate transactions among or between
6 EAL and its affiliates are included as Attachment 3 to this Compliance Manual. To the
7 extent Entergy System policies need to be further revised to reflect the Affiliate Rules,
8 revisions are included at the next annual update. Attachment 3 also includes a copy
9 of the 1992 Settlement Agreement among Entergy Corporation, the APSC, the
10 Mississippi Public Service Commission, and the Council for the City of New Orleans.

11 In compliance with Rule VI.A.6.b., Attachment 4 to the Compliance Manual
12 included as part of each annual report required in Rule IX includes names and
13 addresses of affiliates of EAL who participated in affiliate transactions with the
14 Company during the applicable reporting period.

15 In compliance with Rule VI.A.6.c., organizational charts depicting the
16 ownership relationships between EAL and its affiliates are in Attachment 5 to this
17 Compliance Manual. The organization charts in Attachment 5 depict all of Entergy
18 Corporation's legal entities, including those identified in Attachment 4 which depicts
19 the legal entities involved in affiliate transactions with EAL. Though not required to do
20 so by the above Rule, EAL has provided the complete Entergy Corporation
21 organizational charts to fully disclose ownership relationships between and among its
22 affiliates.

23 In compliance with Rule VI.A.6.d., a description of the types of assets, goods,
24 and services provided in existing affiliate transactions which are anticipated to be of
25 an ongoing nature is in Attachment 6 to this Compliance Manual.

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

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 Bal 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
18 impose remedies designed to insulate the public utility and its customers
19 from any diminution in the public utility's ability to carry out its obligation
20 to serve at reasonable rates.

21
22 **2. EAL Compliance Discussion**

23 As discussed in Section I.D. of this Compliance Manual, the E&C Department,
24 at the direction of EAL, facilitates the education of affected employees on the above
25 Rule.

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

1 made by the Commission.

2

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
6 of 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
12 the 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 **2. EAL Compliance Discussion**

20 As discussed in Section I.D. of this Compliance Manual, the E&C Department, at
21 the direction of EAL, facilitates the education of affected employees on the above Rule.

22 EAL's Regulatory Affairs group is primarily responsible for complying with the
23 above requirements. EAL participates in two businesses, System Fuels, Inc. ("SFI") and
24 Arklahoma Corporation ("Arklahoma"), which may qualify as non-utility businesses
25 pursuant to one interpretation of Rule III.I., but they do not meet the threshold contained
26 in Rule VIII.A. SFI ceased to be the fuel procurement subsidiary for the purchase of fossil
27 and nuclear fuels in 2013. Arklahoma is a transmission facility in which EAL owns 34
28 percent along with two non-affiliated power companies.

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
7 executive officer and its chief financial officer, certifying the public
8 utility's compliance with these rules in the prior year; and,

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

10 **2. EAL Compliance Discussion**

11 As discussed in Section I.D. of this Compliance Manual, the E&C Department, at
12 the direction of EAL, facilitates the education of affected employees on the above Rule.

13 EAL's Regulatory Affairs group is primarily responsible for complying with the
14 above requirements. EAL interprets the above requirement to mean the first annual
15 notice, signed by its president and chief executive officer and its chief financial officer, as
16 well as other information and reports required by the Rules, initially were due no later than
17 June 1, 2009, and by June 1 in subsequent years.