International Accounting Standards Board  
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United Kingdom  

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116  

December 15, 2010  

Dear Sir/Madam:  

**Exposure Draft: Leases**  

**Overview of the Company**  
Entergy Corporation ("Entergy" or the "Company") is a U.S. corporation whose common stock and debt securities are registered with the SEC. The Company has seven subsidiaries which are also SEC registrants. Entergy is an integrated energy company engaged primarily in electric power production and retail electric distribution operations. Entergy owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, and Entergy is the second-largest nuclear power generator in the United States. Entergy delivers electricity to 2.7 million utility customers in Arkansas, Louisiana, Mississippi, and Texas. Entergy generated annual revenues of $10.7 billion, $13.1 billion, and $11.5 billion in 2009, 2008, and 2007, respectively, and had approximately 15,000 employees as of December 31, 2009.  

Entergy is submitting this letter to the International Accounting Standards Board and Financial Accounting Standards Board (collectively, the "Boards") to provide comments on the exposure draft titled *Leases* (the "exposure draft"). This letter summarizes our views on certain aspects of the exposure draft for which we either disagree with the conclusions reached, or for which we would like further clarification. In particular, the letter addresses: 1) the treatment of lease extension or renewal options in the determination of the right to use asset and associated obligation, 2) the treatment of inputs in purchased power agreements which qualify for lease accounting, 3) the determination of whether an arrangement contains a lease (fulfillment of a contract from a specified asset), and 4) the income statement classification of lease expense. Although issue 2 involves contracts which are specific to the utility industry, the underlying accounting issue is relevant to other industries as well.
1) Accounting for Extension or Renewal Options
We agree that consideration should be given to extension or renewal options when measuring the liabilities and assets to be recognized for leases. However, we do not agree with the Boards’ proposal that a lease’s term should be measured based on “the longest period more likely than not to occur.” This measurement standard may result in the recognition of liabilities and assets on the part of lessees and lessors, where the established definitions of these terms have not been met. That is, liabilities and assets would be recognized prior to a lessee becoming contractually (or otherwise) committed to extending the term of a lease. In addition, the more likely than not threshold may result in frequent re-assessments and revaluations of lease liabilities and assets.

Under current U.S. GAAP (ASC 840-25-6b), any renewal option that is “reasonably assured” of being exercised at inception is taken into account in establishing the lease term. Under this threshold, lease obligation liabilities and right of use assets associated with renewal terms would not be recognized by the lessee and lessor unless a commitment by the lessee to the extended lease term were “reasonably assured.” As such, under the threshold established by existing U.S. GAAP, liabilities and assets related to renewal options would not be recognized until the definitions of liabilities and assets are effectively met. Based on the above, Entergy believes that the threshold established in existing U.S. GAAP for recognizing renewal options in determining the term of lease at inception should be maintained under the proposed standard.

We understand that the Boards believe that extension or renewal options represent real value within lease agreements, and that value should be recognized by the parties to the agreements. We believe that the inclusion of extensions or renewal options whose exercise is reasonably assured better represents the value the Boards are trying to capture than those options which are simply more likely than not to be exercised.

We understand the Boards’ concern regarding the current application of the provisions noted below. We therefore recommend that the Boards consider providing more clarity around the reasonably assured threshold rather than changing the threshold to more likely than not.

2) Treatment of Inputs in Purchased Power Agreements
As discussed in ASC subtopic 840-10-15 (formerly EITF 01-8), certain arrangements (in particular purchased power agreements) may contain a lease if the arrangement conveys the right to use particular property, plant or equipment. Once an arrangement is determined to contain a lease, the lessor/lessee must then determine what element(s) within the arrangement represent the right to use asset.

Often purchased power agreements (PPAs) require that the purchaser provide the fuel to be used in the production of the power they will purchase. Alternatively, the purchaser may pay the owner of the plant directly for the cost incurred for the fuel used to generate the purchased power. In either case, we believe that the fuel represents an input into the production of the power, rather than an element of the right to use the power plant in instances where a PPA contains a lease. Therefore we also believe that future payments for fuel and other inputs should not be included in the measurement of the lease
obligation liability and related right of use asset recorded at the inception of the lease. In PPAs determined to contain leases, including such payments would result in the recognition of assets and liabilities by the lessees and lessors for fuel and other inputs which will likely not be purchased by either the lessees or lessors until future dates.

Many PPAs involve the purchase of significant amounts of power. Regardless of the type of power plant involved (i.e. coal, natural gas, nuclear), fuel costs will comprise a significant portion of the total cost of the power produced. If inputs are included, two economically similar contracts (one in which the purchase price includes fuel and one in which the lessee provides fuel) could result in the recognition of assets and obligations which are not comparable. In the case of relatively long term PPAs where such PPAs were determined to be leases, the resulting right to use asset could exceed the fair value of the plant assets which produce the purchased power. Therefore, the inclusion of expected future payments for fuel or other inputs could have a material impact on the accounting for PPAs containing leases.

Paragraph 13 of IFRIC Interpretation 4: “Determining Whether an Arrangement Contains a Lease,” indicates that payments for fuel should not be included in the payments for leases because those payments represent costs of inputs rather than payments for the right to use the assets. The exposure draft does not retain this specific guidance related to the costs of inputs. Due to the significance of these costs and the reasons described above, we believe that the final standard should definitively state that costs for inputs would be excluded from the calculation of the lease obligation and right of use asset, in a manner similar to paragraph 13 of IFRIC Interpretation 4.

Appendix A is a letter previously submitted to the Boards by Entergy on June 30, 2010. It contains a more detailed discussion of the accounting treatment of fuel expense in PPAs containing leases.

3) Fulfillment of the contract depends on providing a specified asset
Paragraph B2 of the ED describes that the asset under contract will be considered to be implicitly ‘specified’ if “a lessor can substitute another asset for the underlying asset but rarely does.” We believe this criterion is inconsistent with the concept used to determine whether an arrangement contains a lease. A key concept in the determination of whether an arrangement contains a lease is whether the lessee either physically or contractually controls the asset identified by the contract. The fact that a lessor has the option to satisfy the contract using two or more of its assets, but generally chooses to use a particular asset indicates that control of the asset remains with the lessor. Also, this makes the assumption that the lessee would be able to determine which asset or assets will be used by the lessor to satisfy the contract. This information is generally not available to the

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1 IFRIC 4, Paragraph 13: For the purpose of applying the requirements of IAS 17, payments and other consideration required by the arrangement shall be separated at the inception of the arrangement or upon reassessment of the arrangement into those for the lease and those for other elements on the basis of their relative fair values. The minimum lease payments as defined in paragraph 4 of IAS 17 include only payments for the lease (i.e. the right to use the asset) and exclude payments for other elements in the arrangement (e.g. for services and the cost of inputs).
purchasing party at the inception of an agreement, especially in cases when no particular asset is identified in the contract. This position is also explicitly counter to the conclusions reached in Paragraph B9 of EITF 01-8, which states that; if “…no property, plant, or equipment is explicitly specified in the contract and it is economically feasible for the seller to perform its obligation independent of the operation of a particular asset, there would be no implicit specification of the property, plant, or equipment and such a contract would not contain a lease.” We therefore believe that this guidance should be eliminated from the exposure draft.

4) Income Statement Classification of Lease Expense
Paragraph 26 of the exposure draft states that amortization of right of use assets and interest on lease obligation liabilities shall be presented separately from other amortization and interest expense, either in the income statement or in the notes. Paragraph BC146 provides further guidance on this topic. However, no guidance is given as to the proper classification of these amounts within the income statement. As such, we request that the final standard include additional guidance (or reference to additional guidance) on classification of these amounts within the income statement.

Certain contracts, such as PPAs which may contain a lease, are used to support a specific element of a company’s operations (e.g. procuring power to supply to customers). In these cases, Entergy believes the proper presentation of the related amortization of the right of use assets and interest expense is within operating income, with disclosure of these amounts in the notes to the financial statements. This is consistent with the income statement presentation guidance noted above, and reflects that these expenses were incurred as a direct result of the Company’s revenue generating activities. Classification of these amounts outside of operating income would understate the total costs of production and distort the gross margin reported by the Company.

Interest expense on debt securities issued by a company is generally presented as a non-operating expense, because it represents the cost of obtaining capital for general corporate use. However, interest incurred in leases of specific revenue generating assets or activities is more properly classified as an operating expense. This is consistent with paragraph 78 of the Boards’ exposure draft on financial statement presentation which specifies that such interest expense would be classified within the operating finance subcategory.

Conclusion
We thank the Boards for this opportunity to comment on this important exposure draft. If there are any questions regarding this letter, please do not hesitate to contact me to discuss.

Sincerely,

Theodore Bunting, Jr.
Senior Vice President and Chief Accounting Officer
Entergy Corporation
June 30, 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon St.  
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United Kingdom

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
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Norwalk, Connecticut 06856-5116

Dear Sir David and Mr. Herz:

Entergy Corporation ("Entergy") is an integrated energy company engaged primarily in electric power production and retail electric distribution operations. Entergy owns and operates power plants with approximately 30,000 MW of aggregate electric generating capacity, and delivers electricity to 2.7 million utility customers in the southern United States.

Entergy is considering the impacts of the joint project of the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB" and collectively the "Boards") on accounting for leases. Our assessment of the preliminary views as described in the Discussion Papers issued by each of the Boards has caused concern regarding the accounting for certain power purchase agreements which transfer the right to use specified plant assets for a specified period of time, and are therefore accounted for as a lease. Entergy uses power purchase agreements to secure electric power for sale to its utility customers. Depending on the nature of these arrangements, Entergy may also contract with the plant's owner and operator to purchase the fuel necessary to produce the required energy. In other arrangements, Entergy will purchase the fuel from a third party and supply that fuel to the plant's owner. In cases where the plant's owner supplies the fuel, the cost, generally at market prices, is included as a separately identifiable variable cost of the power purchased under the contract. These arrangements also generally include a fixed charge to make a certain number of megawatts available for a given time period, which is referred to as a capacity charge. There is also typically a variable fee based on the number of megawatts-hours actually taken, which is referred to as the energy charge.
The evaluation of the need for additional capacity and energy through power purchase agreements occurs at Entergy periodically as it performs short and long range capacity planning to meet forecasted customer needs. Our current planning cycle includes potential power purchase agreements that would go in to effect at or around the same time that new lease accounting rules are expected to become effective. The Company has therefore engaged in early discussions between our accounting group and system planning group regarding the potential impacts of the proposed guidance. We have been following the status of the lease project and understand that an Exposure Draft is expected sometime in the third or fourth quarter of this year, however we are submitting this letter in advance of that Exposure Draft because of the issues surfacing in our current discussions on this issue and our interest in requesting that the issue be specifically addressed in the upcoming Exposure Draft (e.g. implementation guidance or further clarification that costs of inputs should be excluded from the expected lease payments in determining a company’s right to use asset and related obligation). Our letter describes further the issue and the Company’s position.

Under paragraph 13 of IFRIC Interpretation 4: “Determining Whether an Arrangement Contains a Lease,” amounts related to fuel would be specifically excluded in the minimum lease payments under the lease. These amounts are similarly excluded under accounting principles generally accepted in the United States (“US GAAP”) based on the language in Paragraph 15 of EITF 01-8: “Determining Whether an Arrangement Contains a Lease.”

We believe that the terms included in these agreements for the variable cost of fuel represent a non-lease component and therefore should be bifurcated from the expected payments under the lease because they do not represent the right to use an asset. This is true because fuel is an input to the electricity producing process and not a part of the underlying plant assets producing the energy subject to the power purchase agreement. Additionally, the portion of the expected payments related to fuel is not satisfied by

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1 IFRIC 4, Paragraph 13: For the purpose of applying the requirements of IAS 17, payments and other consideration required by the arrangement shall be separated at the inception of the arrangement or upon reassessment of the arrangement into those for the lease and those for other elements on the basis of their relative fair values. The minimum lease payments as defined in paragraph 4 of IAS 17 include only payments for the lease (i.e., the right to use the asset) and exclude payments for other elements in the arrangement (e.g., for services and the cost of inputs).

2 From EITF 01-8, Paragraph 15: If an arrangement contains a lease and related executory costs, as well as other non-lease elements, the classification, recognition, measurement, and disclosure requirements of Statement 13 shall be applied by both the purchaser and the supplier to the lease element of the arrangement. Other elements of the arrangement not within the scope of Statement 13 shall be accounted for in accordance with other applicable generally accepted accounting principles.

3 From EITF 01-8, paragraph B20: Most arrangements that call for delivery of an asset that has quoted market prices available in an active market will generally not be dependent upon specific property, plant, or equipment to fulfill the arrangement. However, in the unlikely event that the arrangement is dependent upon specific property, plant, or equipment and the other criteria in this Issue are met, Statement 13 [ASC 840] is applied to the lease portion of the arrangement.
specified assets because fuel is a fungible item. We believe that inclusion of these costs as part of the expected payments under the lease would result in an overstatement of the right to use asset as it represents payment for goods not yet provided under the agreement or potentially even acquired or contracted for by the plant owner.

The Discussion Papers issued by the Boards also note that a criticism of the current accounting model for leases is that transactions are often structured to achieve a particular accounting treatment. This allows for similar transactions to be accounted for differently, causing issues of comparability for users of financial statements. We believe that, to the extent inputs are included in the right to use asset and the related obligation, arrangements will continue to be accounted for in such a way that would cause comparability issues for users of the financial statements. For example, Entergy has several power purchase agreements where we purchase the fuel from a third party and supply that fuel to the operator of the plant (rather than the operator supplying the fuel as part of the power purchase agreement). Given that fuel costs are generally passed through at market rates, the operator is indifferent to whether it supplies the fuel. If inputs are included in the right to use asset and the related obligation, we would be accounting for the exact same activity (the purchase of fuel) differently depending on whether the supplier of the fuel was the operator of the plant or another third party.

Based on the analysis above, we believe that the cost of inputs in an arrangement accounted for as a lease do not represent part of the lease agreement and should be accounted for separately. In paragraphs 9.23 through 9.25 of the respective Discussion Papers on Leases from both the IASB and FASB, the boards address separation of service arrangements from leases; however, the Discussion Papers are silent on the separation of contract terms involving the cost of inputs (i.e. costs of production other than the cost of the leased asset). We understand the Boards’ recent discussions on this topic have focused on whether the service component of an arrangement is “distinct” or otherwise separable from the lease component. We note the Boards’ recent discussions of this matter have focused on maintenance services in real estate leases or automobile leases. Based on these discussions it is still not clear to us what the Boards’ intent is for arrangements where the cost of inputs is included in an arrangement.

We understand this topic will be discussed by the Boards at the July joint meeting. We respectfully request that the Boards expand their discussions to include arrangements where the cost of inputs (i.e. costs of production other than the cost of the leased asset) is included in an arrangement, and that this topic be specifically addressed in the upcoming Exposure Draft (e.g. implementation guidance or further clarification that costs of inputs should be excluded from the expected lease payments in determining a company’s right to use asset and related obligation). We believe that costs of inputs should be excluded from the expected lease payments in determining a company’s right to use asset and related obligation, and that a requirement to account for these inputs under the lease accounting guidance would represent a significant expansion of the scope of elements accounted for under the lease accounting guidance.
We have discussed this issue with our external auditors who also believe that this matter should be clarified in the Exposure Draft, and that under current GAAP, inputs (i.e. costs of production other than the cost of the leased asset and the related executory costs) are non-lease elements that are outside the scope of the lease accounting guidance.

Sincerely,

[Signature]

Theodore Bunting
Senior Vice President and Chief Accounting Officer
Entergy Corporation

cc: Gavin Francis, Director of Capital Markets, IASB
    Rachel Knubley, Technical Principal, IASB
    Russ Golden, Technical Director, FASB
    Danielle Zeyher, Project Manager, FASB
    William Graf, Partner, Deloitte & Touche, LLP