

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28073; 70-10158)

Entergy Gulf States, Inc.

Order Authorizing Issuance of Secured Bank Debt

December 9, 2005

Entergy Gulf States, Inc. (“EGSI”) of Beaumont, Texas, a wholly-owned public utility subsidiary of Entergy Corporation (“Entergy”), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (“Act”), has filed a post-effective amendment to its original application-declaration (“Amended Application”) under sections 6(a) and 7 of the Act and rules 53 and 54 under the Act. The Commission issued a notice of the Amended Application on November 9, 2005 (Holding Company Act Release No. 28060). No request for a hearing was received.

I. Current Order

By order dated December 29, 2003 (Holding Company Act Release No. 27786) (“Current Order”) EGSI was authorized, among other things, to engage in a program of external financing and related transactions. Specifically, EGSI is authorized to issue and sell, or arrange for the issuance and sale of, securities of the types set forth below having an aggregate value (calculated by principal amount in the case of debt and par value or initial offering price in the case of securities other than debt) (A) not to exceed \$2 billion (\$1.41 billion of which has been issued) consisting of: (1) first mortgage bonds, including first mortgage bonds of the medium term note series; (2) unsecured long-term debt; and/or (3) preferred stock, preference stock and/or, directly or indirectly through one or more special purpose subsidiaries, other forms of preferred or equity-linked securities;

and/or (B) not to exceed \$500 million (all of which remains unissued) tax-exempt bonds, including the possible issuance and pledge of up to \$560 million (all of which remains unissued) first mortgage bonds, including first mortgage bonds of the medium term note series, as collateral security for the tax exempt bonds (the aggregate principal amount of which collateral securities is not included in the \$2 billion referenced above).

II. Requested Authority

The recent hurricanes, Katrina and Rita, caused extensive damage to EGSI's transmission and distribution systems and power plants. At its peak, Hurricane Rita left 66% of EGSI's customers without service. Hurricane Rita took out of service 82% of EGSI's Texas transmission lines and 38% of the transmission lines in southwest Louisiana, 54% of EGSI's Texas substations and 39% of EGSI's Louisiana substations, and 12 of its 14 fossil units that operate in the area affected by the hurricane. In addition, many thousands of utility poles and wire spans and transformers were damaged by Hurricane Rita.

The economic impact of these hurricanes on EGSI has been two-fold. EGSI has incurred significant cost of repairs to its transmission and distribution systems, as well as its generation facilities and it is still experiencing a shortfall in its cash receipts compared to normal levels. At the same time, EGSI continues to have significant cash requirements, primarily due to payment obligations under fuel and power purchase contracts and storm restoration costs as it endeavors to restore service throughout its territory and to maintain the safety and security of its operations. EGSI estimates that as of December 7, 2005, the total restoration costs for the repair or replacement of its electric facilities damaged by Hurricane Rita are in the range of \$365 million to \$500

million. With respect to Hurricane Katrina, as of December 7, 2005, EGSI estimates the total restoration costs to be in the range of \$29 million to \$42 million.

EGSI requests approval to enter into arrangements for, and to make borrowings with maturities between one and five years under, secured credit facilities from one or more banks through February 8, 2006¹ (“Secured Bank Debt”). As indicated above, the Current Order does not authorize EGSI to issue Secured Bank Debt.

III. Description of Proposed Financing Program

The proposed Secured Bank Debt (when combined with the currently authorized first mortgage bonds, including first mortgage bonds of the medium term note series, unsecured long-term debt, and preferred stock, preference stock and/or equity interests) will not exceed the \$590 million that remains authorized but unissued under the Current Order’s original authorization of \$2 billion (in each case, exclusive of authorization with respect to the issuance of tax-exempt bonds and related collateral securities). EGSI proposes to establish bank lines, as necessary, providing for the issuance of Secured Bank Debt.

In connection with the incurrence of Secured Bank Debt, EGSI requests authority to issue and pledge up to an aggregate principal amount of \$604.75 million of first mortgage bonds as collateral securities (“Bank Collateral Securities”),² which \$604.75 million is not included in the \$590 million referenced above or in the Current Order’s authorized amount of \$560 million of collateral securities related to tax-exempt

¹ The Energy Policy Act of 2005 repealed the Public Utility Holding Company Act of 1935, effective February 8, 2006.

² This amount of first mortgage bonds is calculated to reflect the maximum aggregate principal amount of Secured Bank Debt issuable of \$590 million, plus 3 months interest at an assumed rate of 10%.

bonds. Loans under these lines (which terminate no later than five years from the establishment of the facility) will have maturities of at least one year from the date of each borrowing.

The effective cost of capital on Secured Bank Debt will not exceed competitive market rates available at the time of issuance for securities having the same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality; provided in no event will the effective cost of money exceed 500 basis points over the London Interbank Offered Rate for the relevant interest rate period.

EGSI proposes to issue Bank Collateral Securities pursuant to its Indenture of Mortgage, dated as of September 1, 1926, to JPMorgan Chase Bank, N.A. as successor Trustee, as amended and supplemented ("Mortgage). The Bank Collateral Securities would be issued on the basis of unfunded net property additions and/or previously retired bonds, as permitted and authorized by the Mortgage.

III. Rule 54 Analysis

The proposed transactions are subject to rule 54. Rule 54 provides that, in determining whether to approve the issue or sale of any securities for purposes other than the acquisition of any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO") or other transactions unrelated to EWGs or FUCOs (collectively, "Exempt Projects"), the Commission shall not consider the effect of the capitalization or earnings of subsidiaries of a registered holding company that are EWGs or FUCOs if the requirements of rule 53(a), (b) and (c) are satisfied. Under rule 53(a), the Commission shall not make certain specified findings under sections 7 and 12 in connection with a proposal by a holding company to issue securities for the purpose of acquiring the

securities of or other interest in an EWG, or to guarantee the securities of an EWG, if each of the conditions in paragraphs (a)(1) through (a)(4) are met, provided that none of the conditions specified in paragraphs (b)(1) through (b)(3) of rule 53 exists.

EGSI, on behalf of Entergy, represents that, pursuant to rule 54 under the Act, (1) for the reasons discussed below, the condition set forth in rule 53(a)(1) that Entergy's "aggregate investment" in Exempt Projects not exceed 50% of Entergy's "consolidated retained earnings" is not currently satisfied, and (2) for the reasons discussed below, the condition set forth in rule 53(b)(1) is not currently satisfied, and (3) all of the other criteria of rule 53(a) and (b) are currently satisfied.

EGSI states that with respect to the condition set forth in rule 53(a)(1), Entergy's "aggregate investment" in Exempt Projects (approximately \$3.6 billion) is equal to approximately 70% of Entergy's "consolidated retained earnings" as of September 30, 2005 (approximately \$5.4 billion). Entergy's aggregate investment in Exempt Projects currently exceeds the 50% limitation in rule 53(a)(1) as a result of increased investments in EWGs relating to the acquisition and/or construction of "eligible facilities" (as defined in section 32 under the Act). Although Entergy's current aggregate investment in Exempt Projects exceeds the limit specified in rule 53(a)(1), by order dated June 13, 2000 (Holding Company Act Release No. 27184) ("June 2000 Order"), the Commission authorized Entergy to make investments in amounts up to 100% of its consolidated retained earnings in Exempt Projects and, therefore, Entergy's aggregate investment in Exempt Projects is within the parameters authorized in the June 2000 Order.

With respect to the condition set forth in rule 53(b)(1), on September 23, 2005, Entergy New Orleans, Inc. (“ENOI”), an associate company of EGSI and a public-utility subsidiary of Entergy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Louisiana. The book value of ENOI’s assets exceeded 10% of Entergy’s “consolidated retained earnings” as of June 30, 2005. Consequently, the circumstances described in rule 53(b)(1) have occurred.

As a result of the circumstances set forth in rule 53(b)(1) having arisen with respect to ENOI, Entergy is no longer in compliance with the safe harbor provisions of rule 53 (as modified by the June 2000 Order). However, in accordance with the requirements of rule 53(c), Entergy believes that the transactions proposed in the Amended Application (1) will not have a material adverse effect on the financial integrity of the Entergy system, and (2) will not have an adverse impact on Entergy’s public utility subsidiaries, their customers or on the ability of Entergy’s state and local regulators to protect their subsidiaries or customers. In support of this position, EGSI provides the following information:

(1) As of September 30, 2005, Entergy's aggregate investment in Exempt Projects was equal to 21% of Entergy's total consolidated capitalization, 19% of consolidated net utility plant and 23% of the market value of Entergy's common stock. As of March 31, 2000, the most recent calendar quarter preceding the June 2000 Order, Entergy's aggregate investment in Exempt Projects was equal to 7% of Entergy's total capitalization, 7% of Entergy's consolidated net utility plant and 24% of the market value of Entergy's outstanding common stock.

- (2) Entergy's consolidated retained earnings have grown by an average of 12% annually during the period since the Commission issued its June 2000 Order (i.e., from June 30, 2000 through September 30, 2005).
- (3) Income from Entergy's investments in Exempt Projects has contributed positively to its overall earning during the period since the Commission issued the June 2000 Order through September 30, 2005.
- (4) As of March 31, 2000, the most recent calendar quarter preceding the June 2000 Order, Entergy's consolidated capitalization ratio was approximately 50.0% debt and approximately 50.0% equity, consisting of approximately 5.0% preferred stock and approximately 45.0% common stock. As of September 30, 2005, Entergy's consolidated capitalization ratio was approximately 52% debt and approximately 48% equity, consisting of approximately 2.0% preferred stock and approximately 46.0% common stock. These ratios are within industry ranges set by the independent debt rating agencies for BBB-rated electric utility companies.
- (5) Except as referred to in, and as of the date of the Amended Application, each of the considerations set forth in the June 2000 Order, in support of Entergy's assertion that its existing and proposed level of investment in Exempt Projects would not have an adverse impact on any public utility subsidiary in the Entergy system or their ratepayers, or on the ability of interested state commissions to protect the utilities and their customers, continues to apply.
- (6) Entergy's commitment of capital to the Exempt Projects will not harm Entergy's public-utility subsidiaries because, other than the debtor-in-possession financing for ENOI approved by the Commission in Holding Company Act Release No.

28036 (September 26, 2005) and Holding Company Act Release No. 28072 (December 7, 2005), and Entergy's increased common equity investment in EGSI necessary to maintain its common equity at an acceptable level of total capitalization, Entergy's public-utility subsidiaries expect to fund their operations primarily from internal sources of cash and from sales of securities to third parties over the period November 1, 2005 through the end of January, 2006. After the debt and equity infusions in ENOI and EGSI, Entergy will have significant financing capacity available under the Commission authorization in Holding Company Act Release No. 27864 (June 30, 2004) for additional investments in its public-utility subsidiaries.

EGSI states that the Entergy system has complied with, and will continue to comply with, the record keeping requirements of rule 53(a)(2), the limitation in rule 53(a)(3) on the use of Entergy System domestic public-utility subsidiaries' personnel in rendering services to affiliated Exempt Projects, and the requirements of rule 53(a)(4) concerning the submission of certain filings and reports under the Act to retail regulatory commissions. Finally, other than rule 53(b)(1), none of the conditions set forth in rule 53(b) (under which the safe harbor provisions of rule 53 would not be available) currently exists.

Except to the extent otherwise authorized in the June 2000 Order or any subsequent order issued by the Commission, EGSI represents that Entergy will maintain compliance with all of the conditions of rule 53.

IV. Miscellaneous

The fees, commissions and expenses, including arrangement fees and up-front fees, incurred or to be incurred in connection with the transactions proposed in the

Amended Application will not exceed 5% of the proceeds of the transaction. EGSI states that the expenses to be incurred by it in connection with obtaining the Commission's order authorizing the transaction proposed in the Amended Application are estimated not to exceed \$15,000, including \$12,000 for legal fees and \$3,000 for the fees of Entergy Services, Inc.

Applicants state that no state commission or federal commission, other than the Commission, has jurisdiction over the proposed transaction.

Due notice of the filing of the Amended Application has been given in the manner prescribed in rule 23 under the Act, and no hearing has been requested of, or ordered by, the Commission. On the basis of the facts in the record, it is found that the applicable standards of the Act and rules under the Act are satisfied, and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that the Amended Application of EGSI (70-10158) be granted and permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Jonathan G. Katz
Secretary