ENTERGY SERVICES, INC.
FALL 2006 REQUEST FOR PROPOSALS FOR LIMITED-TERM RESOURCES

COMMENTS OF THE COMMISSION STAFF
(OCTOBER 9, 2006)

I. BACKGROUND

On August 31, 2006, Entergy Services, Inc. (ESI) published and submitted to the Commission Staff a draft Request for Proposal (RFP) package for limited-term capacity resources. This RFP is in compliance with the Louisiana Public Service Commission's (LPSC) Market Based Mechanism (MBM) General Order and fulfills a commitment made by the Entergy Companies in the 2005 collaborative to seek intermediate-term resources. At the encouragement of the LPSC and Staff, ESI has adopted an accelerated schedule for this RFP.

This RFP seeks to acquire two types of resources. The first type is referred to as "Bridge Capacity," and can take the form of baseload, fully dispatchable units, call option intermediate or peaking capacity resources with terms of one to five years. ESI also is currently conducting a long-term RFP seeking about 1,000 MW of baseload, but that capacity is not expected to be available until 2011 or 2012. Thus, the capacity acquired in this RFP will serve as a "bridge," meeting load growth until the new baseload resources become available. Hence, because the bridge capacity is intended play this interim role, ESI has determined that contract terms must be five years or less, and that is what ESI is seeking.

The second type of capacity resources are "displacement," i.e., resources that permit ESI to shut down or retire its older, high cost units. ESI has determined that the type of capacity that can serve in this displacement role would be either baseload or fully dispatchable. There is somewhat more flexibility regarding contract length here since "displacement capacity" is intended to replace existing installed capacity strictly for the purposes of extracting energy cost (and some O&M) savings -- not to ensure load is served.

This RFP does not propose any self-build capacity, but it does permit Entergy's competitive affiliates to bid. This triggers a requirement under the MBM General Order for the retention of an independent monitor (IM) to ensure conformance with codes of conduct and that the RFP is conducted in a fair and unbiased manner. For this purpose, ESI has retained Energy Associates as the "process IM" and Potomac Economics as the "evaluation IM." Both firms are presently serving in those roles in the pending long-term RFP, and therefore are fully familiar with ESI's RFP procedures, evaluation methodologies and models.

This RFP has been greatly assisted by a collaborative process to address design features which was conducted this past summer. This took place in June and July 2006 and succeeded in narrowing differences between ESI and certain market participants, although it did not resolve all issues. The collaborative provided participants with a better understanding of the Entergy System needs and planning objectives, and ESI learned more about the concerns of potential bidders. The results of the collaborative were summarized in a Staff Final Report and incorporated into the draft RFP published on August 31, 2006.

After the publication of the draft RFP package, the LPSC Staff and ESI scheduled a joint Technical Conference/Bidder Conference in Houston, Texas on September 11, 2006. ESI provided a comprehensive review of the key features of the RFP, including presentations by ESI

Staff, the Entergy Transmission Business Unit (TBU), the Independent Coordinator of Transmission (ICT) and the IMs. Staff conducted a question, answer and comment session. ESI answered questions posed at the Technical Conference, but all questions and answers also have been posted on the website maintained for the RFP. A number of additional questions were submitted in writing after the Technical Conference, and those answers also have been published on the website. Staff submitted questions seeking year-to-date information on System operations, but as of this writing responses have not been received. (That information request was submitted on September 13, 2006.) Consequently, Staff may supplement its comments after receipt of that information.

The Technical Conference provided an opportunity for interested parties to raise and discuss issues or contest aspects of the RFP. Although the Technical Conference was well attended by market participants, very few issues were raised or objections expressed. The RFP process allows for written comments, with a target date of September 29, 2006, with regulatory agency comments to follow about a week later. Comments could be submitted either "for attribution" or on a confidential basis.

Staff has received formal comments from two sources. Williams Power Company (Williams), Entegra Power Group, LLC (Entegra) and Suez Energy, N.A. (Suez) (collectively, the "Joint Participants") submitted joint comments that raise certain of the issues that were not fully resolved in the earlier collaborative. In addition, Staff received the comments EnerNOC, a firm specializing in demand-side programs. EnerNOC had not participated either in the collaborative or the September 11 Technical Conference.

The purpose of Staff's Comments are to review the comments of the interested parties, evaluate those comments and submit recommendations for potential modifications to the draft RFP. ESI presently intends to issue the finalized RFP on October 24, 2006, and these comments provide input to ESI and the IMs to assist in that process.

II. SUMMARY OF BIDDER COMMENTS

A. Joint Participant Comments[1]

The Joint Participants note that their comments largely address issues not fully resolved during the collaborative process. They are intended to ensure that the portion of the RFP dealing with the acquisition of displacement resources meets its objectives. In addition to the specific issues identified, Joint Participants request that the IMs and Staff closely review the bid evaluation process. The issues raised in these comments include the following:

(1) Economy energy evaluation. Joint Participants believe that purchase power agreements (PPAs) have the advantage of "locking in" pricing terms whereas economy purchase prices (assumed in the ESI evaluation) are speculative. Consequently, Joint Participants suggest allowing PPA bids to be evaluated in ProSym model runs with and without economy purchases. This would directly allow an analysis whereby it could be determined whether the PPA bid provides comparable or greater benefits than economy energy.

[1] Staff also reviewed some informal comments from Suez via email. However, those comments covered substantially the same points as the Joint Participant comments and therefore are not separately addressed.

(2) Transmission Issues. Joint Participants raise a number of concerns regarding transmission, including the procedures/protocols used by TBU in the granting of firm transmission service. They note that Staff and IMs should be cognizant of this problem, and further discussion is needed.

The second concern is that ESI's evaluation analysis will only include the TBU three-year construction plan. Joint Participants believe that a longer-term plan should be used, at least as long as the term of the PPA bids being evaluated.

A final concern is that the methodology should not be assigned or "charge" a PPA bid with the full cost of a transmission upgrade if the transmission upgrade can provide System benefits above and beyond those associated with the PPA. Doing so would bias the evaluation and allocate too many costs to the bid.

(3) Contract Term. Joint Participants are seeking the ability to bid PPA offers for up to ten years for displacement purposes. They do not believe that ESI's offer to "consider" as part of negotiations deals longer than five years is adequate. In part, this is because the bidders are not permitted to specify terms other than those in the five-year bids. Joint Participants believe that allowing six to ten-year bids is more consistent with ESI maximizing opportunities for displacement savings. This is particularly the case if a transmission upgrade is needed to support the transaction.

(4) Date of Delivery. Joint Participants express disappointment that the planned contract start date will be September 2007 rather than June 1, 2007, a date originally contemplated. They argue that pushing back the date will result in ESI losing energy savings from cost effective contracts during the Summer 2007 months.

(5) Evaluation of PPA Bids of Differing Lengths. The Joint Participants object to that aspect of the ESI methodology that would select the lowest cost bids regardless of contract length. This procedure results in the possibility of one-year PPA bids being compared to five-year PPA bids. Joint Participants find this problematic because such comparisons would depend on the economy energy "fill in" pricing assumption which is uncertain. Moreover, it could result in obtaining all contracts of one type (e.g., all one-year contracts) which is contrary to the portfolio diversity objective. Joint Participants instead favor bid ranking comparisons only of PPA of similar length (i.e., 5-year compared only to 5-year bids and one-year compared only to one-year bids).

(6) Displacement Limits. Joint Participants are concerned that ESI is capping displacement resources at an arbitrary level. They argue that there should be no such artificial cap, and all high cost units should be displacement candidates.

B. EnerNOC Comments

The comments from EnerNOC were relatively brief, but they suggest that ESI expand the RFP to include demand-side resources. EnerNOC argues that it can provide at least 50 MW of capacity savings from demand response or load management programs and do so in the crucial Amite South or Wotab subregions. EnerNOC further argues that its demand-side resources are reasonably comparable to the hour-ahead peaking product that ESI is seeking. The remainder of the EnerNOC comments provide some background information on the firm and the type of services that it provides. EnerNOC's comments are largely limited to allowing demand-side resources to bid but do not address the myriad of technical design enhancements to the RFP that would be required to accommodate such bids.

III. STAFF REPLY TO BIDDERS COMMENTS

A. Reply to Joint Participants

As will be discussed further in the Staff Recommendations section of these Comments, we agree with many of the objectives of the Joint Participants, but do not believe some of the recommended changes are either appropriate or can practically be accomplished in this RFP. We address below each of the six areas of the Joint Participants' comments.

(1) Economy energy evaluation. Economy energy assumptions are a key and essential feature of the ProSym production costing modeling, and this has always been the case. These assumptions are probably not crucial for bid rankings of incremental resources. For example if MUCCO Bid A is less expensive than

MUCCO Bid B, it is not likely that the assumed economy energy prices would change that ranking, although it could influence to at least a minor extent the final portfolio mix selections.

The larger concern -- and we believe the principal context of Joint Participants comments --relates to displacement resources. There should be no fixed target level for such resources, and the cost effectiveness of acquiring displacement resources depends on the attractiveness of the “locked in” price bid and a combination of Entergy’s own (high cost) generation and economy energy. The Joint Participants (correctly) emphasize that economy energy prices over a long period of time are uncertain and that the evaluation method should permit bids to compete against economy energy. Their proposed solution is to run ProSym with and without economy energy and in the “without” case substitute the market bid. If that “without” ProSym case result produces savings relative to the “with” case (presumably savings large enough to cover the capacity charges in the bid since capacity charges are not in ProSym), then the bid should be taken.

This suggestion is unworkable, and even if accepted would almost certainly cause the bid to lose. This is because the total amount of economy energy (whose role is to reduce Entergy’s own high cost generation) is certain to be much greater than the energy from a bid, and probably also will have a different time pattern than the bid. Thus, the with and without comparison would be meaningless unless there was some way of only removing just the economy purchases that the bid (if taken) displaces. But it is our understanding this is precisely what ESI's ProSym methodology will do. That is, ESI's methodology would run ProSym with and without the bid, the "without" being a base case. In the "with-the-bid" case, the economy energy purchases no longer needed are displaced by the ProSym dispatch logic -- achieving exactly the result that we believe the Joint Participants intended all along.

We are cognizant of the Joint Participants' comment that economy energy assumptions are uncertain. Consequently, these assumptions must be carefully reviewed by the IMs and Staff. At this point, we have not seen the assumptions, but we did review in detail the ProSym modeling (including economy energy) as part of the long-term RFP. Based on that earlier review, we believe ESI has greatly improved the realism of its economy energy modeling and has done a careful job of matching these assumptions to its recent actual experience. However, there is no way to completely avoid uncertainty, and no one's price curves will be perfect. Consequently, there is a role for performing sensitivity tests on these assumptions when testing displacement resources.

(2) Transmission. Joint Participants raise transmission issues that are important but do not necessarily go to the design parameters of this RFP. For example, the comments question the methods and assumptions used for granting transmission service by TBU. That function currently is being transferred to the ICT, and the ICT stakeholder process may be the appropriate forum to raise this concern. Staff

looks forward to discussing this matter further with market participants, ESI and the ICT at the appropriate time.

Joint Participants also raise issues concerning the need to incorporate transmission upgrades beyond the three-year TBU construction plan and to avoid overburdening bids with upgrade costs (for those upgrades that provide System benefits). It should be noted that upgrades beyond the TBU construction plan are not known, and the proposed transmission methodology in this limited-term RFP does not incorporate transmission upgrade costs (although we recognize that the issue could arise for a ten-year displacement deal). It should be noted that Staff will address in these comments the potential role of the 2006 Transmission Study as part of the displacement analysis.

With regard to the displacement capacity evaluation, we expect that the firm transmission rights of the “retired” or shutdown capacity can be transferred to a merchant plant PPA acquired as displacement in the same general vicinity. It is our expectation that this transmission rights transfer can mitigate the upgrade issue although it may not necessarily eliminate it entirely.

(3) Contract Term As will be discussed in our recommendations, we believe that an opportunity to bid for up to ten years would be appropriate for displacement capacity (although not necessarily “Bridge Capacity.”

(4) Date of Delivery. Staff has discussed this issue with ESI, and we conclude that a commitment to a June 1, 2007 contract start date probably is not feasible. ESI believes it needs significant lead time for its due diligence and contract negotiations and is targeting May 2007 for final contract execution. This would not allow for regulatory approvals by June 1, 2007. However, there is no need for any energy savings from purchased power to be lost during the Summer 2007. There is no regulatory approval required for economy energy transactions, and ESI could seek to obtain low-cost economy energy from the very same resources whose contracts begin September 1, 2007 and/or other capacity resources. ESI has or will have a range of competitive procurement tools for achieving such energy savings, including its new Weekly Procurement Process (WPP), which is now under development but may be available to optimize savings by the Summer 2007.

(5) Evaluation of PPAs of Differing Length

The evaluation issue concerning contract length poses a dilemma. While we agree that there is merit in obtaining a portfolio of PPAs with differing terms, the proposal of Joint Participants would impose that as an outcome regardless of cost. Staff cannot support that. The Joint Participants recommendation is that one-year should only be compared with one-year PPA bids and five-year with five-year PPA bids, ensuring that final contract awards include both types of PPAs. This assumes that at the outset there are one-year and five-year PPA fixed capacity targets. This is overly restrictive and inconsistent with Entergy's obligation to obtain power supply at lowest reasonable cost.

Staff supports a more flexible approach. The approach recommended by the Joint Participants should be used only for initial screening and bid ranking. The best bids in each "term" category can be used to assemble a short list (or candidate list). However, in the final selection, it is necessary to allow all shortlist or candidates bids (the best in each term/product category) to compete head to head. However, final selection for contract award can and should take portfolio diversity into account as a non-price factor. This has been ESI's practice in the past in attempting to obtain product and geographic (locational) diversity, and this concept can be applied to the PPA term as well. We believe this would address Joint Participants' concern while preserving ESI's flexibility to obtain the best portfolio of resources for customers.

(5) Displacement Limits. We agree with Joint Participants that there should be no artificial ceiling on displacement transmission transactions in the RFP, and we understand that to be ESI's view as well. However realistically, there will be only so much displacement capacity that the System can cost-effectively accept. In part, this is because the unit shutdown candidates operate at extremely low levels of energy output, whereas replacement capacity only has value if it operates at much higher levels. There are also practical limitations on the total number of

transactions an Operating Company can enter into, and such limitations should be recognized.

B. <u>EnerNOC Comments</u>

Staff reviewed the EnerNOC comments with considerable interest, but this is the first time (to our knowledge) that demand-side bidding has been suggested as part of an RFP stakeholder process in Louisiana. Hence, there is a very large learning curve on this subject that must be recognized, and extensive technical work may be needed to revise the RFP. For example, demand-side bidding may (or may not?) require extensive changes to bid forms, evaluation methodology and standard purchase agreements, among other aspects of the RFP. These issues cannot be addressed and analyzed within the next two weeks.

Nonetheless, the EnerNOC comments do suggest that demand-side bidding should be considered, and this RFP can provide an opportunity to learn more. We encourage ESI to invite demand-side service providers to submit indicative bids on the due date for supply side proposals outside of the normal electronic bid process, i.e., hard copy bids. The RFP should indicate an expression of interest by ESI but with no specific commitment to acquire demand-side resources or rank them against supply-side bids. Staff believes demand-side bids do not necessarily fall under the MBM Order and thus ESI has substantial flexibility in how it wants to consider such bids.

We view this as being a potential learning opportunity for the Entergy Companies, Staff and demand-side suppliers. It is also possible that this process could result in an actual demand-side resource transaction if ESI finds such an offer to be compelling.

IV. STAFF RECOMMENDATIONS ON DISPLACEMENT

The last section made a number of suggestions in response to Joint Participants' and EnerNOC's comments. This section is intended to provide Staff's recommendations concerning the acquisition of displacement resources, which we believe will help address the concerns of the Joint Participants and facilitate the identification of displacement opportunities that can benefit ratepayers. Our recommendations do not address ESI's structure for its incremental capacity needs, referred to in this RFP as the "Bridge Capacity." Moreover, we do not interpret comments of the Joint Participants as challenging ESI's basic approach (i.e., one to five-year bids) for the Bridge Capacity need.

The essence of our position is agreement with the Joint Participants that bids of six to ten years be permitted for displacement purposes. Any bidder that has an interest in a longer-term displacement PPA should be permitted to identify such bid in the six to ten-year time period. While we leave the details and mechanisms to ESI, we suggest that bidders could submit a standard five-year bid, but identify (at bidders' option) its proposed terms for six to ten-year PPAs in the "Special Considerations" section of the bid form. This might be preferable to requiring the development of new bid forms. For example, the bidder might specify preference for a ten-year PPA, proposing to leave his five-year bid in place but proposing new pricing terms for years six through ten. Or, the bidder might propose entirely new pricing terms for the full ten years. We make this recommendation only for displacement, not Bridge Capacity. Further, it is Staff's understanding that the bids eligible for displacement must be either fully dispatchable CCGT (or cogeneration) or baseload. This should be clarified in the RFP.

The issue of sequencing of the bid evaluation and acquisition of capacity should be addressed. Staff has made it clear that displacement opportunities are to be considered <u>after</u> ESI acquires the capacity that it needs to meet its "incremental needs." These are reliability needs and are the result of a combination of load growth and some existing PPAs being scheduled to terminate under their terms during the next several years. In that regard, ESI has a pending long-term RFP in which it is seeking approximately 2,000 MW (1,000 MW load following and 1,000 MW baseload). ESI may have a clearer picture on what resources will actually be acquired by the end of this year or early 2007.

At the same time TBU is conducting its 2006 Transmission Study that addresses the feasibility of transmission upgrades that potentially can allow displacement of what is now expensive RMR generation in WOTAB and Amite South subregions. This study probably is not essential to the bid rankings for the incremental resources being sought. A decision already has been made that the load following and baseload capacity is needed. However, the 2006 Transmission Study could be extremely valuable in evaluating whether there are cost-effective displacement opportunities. Staff is hopeful that these results would be available in time for the displacement capacity evaluation.

Staff's recommendation is that the analysis of displacement capacity opportunities be conducted in conjunction with the 2006 Transmission Study results, and this should be done after completion of the evaluation and selection of the Bridge Capacity PPAs. We make this recommendation for both the long-term RFP and this limited-term RFP. That is, rather than conducting separate displacement evaluations for the two RFPs, we encourage ESI to perform a single, integrated analysis using the RFP bids from both RFPs, i.e., those bids that are not selected for award as incremental resources. Thus, both long-term, five-year and six to ten-year bids could be evaluated within one evaluation process as displacement resources, in conjunction with the 2006 Transmission Study results.

Please note that for displacement resources, it may not be practical to identify a completion target date at this time. In part, this is because ESI must fully resolve the long-term transmission issue for the displacement resource prior to shutting down or retiring one of its own units. That is, ESI cannot proceed with a PPA for displacement capacity based on one-year of transmission service only to find that it is unable to obtain long-term service. While we do not believe this is likely to happen (for reasons stated earlier), this does mean that scheduling flexibility is desirable for completing displacement capacity acquisitions.

Staff summarizes its present recommendations, as follows:

(1) Staff recognizes that PPAs probably cannot begin prior to September 2007 based on the RFP schedule and requirements for regulator approvals. However, we strongly urge ESI

to fully exploit savings opportunities for the Summer 2007 since economy purchases do not require regulatory approvals.

(2) For displacement capacity, ESI should permit six to ten-year PPAs, in addition to the five-year PPAs presently allowed.

(3) ESI should conduct its displacement capacity evaluation after the completion of the incremental needs acquisitions.

(4) We recommend consideration of a single, coordinated displacement capacity analysis that incorporates the (remaining) long-term bids, intermediate bids and the 2006 Transmission Study.

(5) ESI should have timing or scheduling flexibility with regard to displacement capacity acquisition to be sure that new capacity acquires long-term transmission service prior to shutting down or retiring exist capacity.

(6) The RFP should not specify or imply an artificial upper bound on displacement capacity, although there clearly are practical limits to the amount of new capacity that can be acquired.

(7) Staff opposes predetermining a specific PPA mix of contract lengths for the Bridge Capacity. Rather, diversity of contract lengths should be considered as a non-price factor

in developing the final portfolio. This is the same approach that ESI has successfully employed with geographic diversity.

(8) Joint Participants raise important issues relating to transmission that warrant further discussion, including in the ICT stakeholder process. However, we do not see a need at this time to modify ESI's proposed transmission evaluation procedures.

(9) It is not practical at this point to make fundamental changes to expand the RFP for demand-side resources. Nonetheless, demand-side services providers should be invited to submit indicative proposals so that ESI and Staff can gain a better understanding of the opportunities available and the resource attributes that these suppliers can provide. It is not necessary at this point to provide detailed specifications for such proposals.

V. CONCLUSIONS

Staff appreciates the comments of the Joint Participants and EnerNOC, and we look forward to a continuing dialogue on these and other issues. Staff also commends ESI for its efforts to date with this RFP, as well as working constructively with the parties in both the collaborative this past summer and the current stakeholders process. Staff would request a written response by both the IMs and ESI to our comments and to those of stakeholders that were submitted on September 29. The Staff comments submitted herein should be considered preliminary and subject to further discussion as part of the ongoing stakeholder process.

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