2012 Request for Proposals for Long-Term Supply-Side Baseload Resources ("RFP")

Questions and Answers

Updated 10/26/2012

Q-1. Will Bidders representing off-system resources be notified of the delivery point in order to submit transmission service requests and, if so, when will that notification occur?

A-1. The Bidder is responsible for specifying a single delivery point on the Entergy system when they submit their proposal. ESI will not be designating a specific delivery point.

Q-2. What evidence of transmission service is required for off-system resources?

A-2. Bidders are required to submit the transmission service request number from OATI-OASIS.

Q-3. Will Entergy or Bidder (Seller) acquire off-system transmission service for Off-System Resources?

A-3. Seller will have exclusive responsibility for obtaining, at its sole cost and expense, all transmission service necessary for an Off-System Resource to deliver the offered amount of Capacity, energy and Other Electric Products to Buyer at the Energy Delivery Point specified by Bidder on the Entergy Transmission System, including, without limitation, the cost of all transmission upgrades or other improvements and the taking of all other actions necessary to obtain such service.

Q-4. For gas-fired facilities, the draft term sheet specifies that the floating energy price is tied to a first-of-month gas index. Since gas prices fluctuate during a month, the cost, benefit, or penalty will swing between Buyer and Seller. Would ESI consider an index based on a monthly average to reduce the fluctuation and, therefore, risk to both parties?

A-4. ESI has considered various alternatives for determining the value of the floating energy price, including using an index that is based on a monthly average. The use of the first-of-month gas index is preferred because that price is known by both parties at the beginning of the month and the energy price can be accurately projected throughout the month. Risks associated with fluctuating prices during the month can be mitigated by seller using a variety of approaches, including purchasing some or all of the expected gas needs using first of month pricing.

Q-5. Is it possible Entergy may select multiple bids to fill this RFP?

A-5. Yes, it is possible ESI may select multiple bids if there are multiple bids that are determined to meet the needs and objectives described in the RFP.

Q-6. Is the Self Supply option limited to 59 MW or can the recent extended power uprate provide additional power?

A-6. The Self Supply option is limited to 59 MW, as it already includes any additional MW expected from the recent uprate at Grand Gulf Nuclear Station.

Q-7. How does Entergy plan to address the "Baseload Resource Needs" identified on slide 12 of the presentation at the August 9, 2012 Bidders' and Technical Conference? Will bids into this RFP be used to address these needs?

A-7. We are addressing the baseload needs, in part, through this RFP. Each Included Entergy Operating Company has a need for baseload resources; however, it has not yet been decided which Included Entergy Operating Company(ies) will serve as the Buyer(s) for any transactions that may result from this RFP.

Questions submitted by the LPSC Staff

Q-8. Will Entergy make any cost data pertaining to the Grand Gulf Retained Share ("GG RS") available to bidders?

A-8. ESI does not plan to provide such information directly to Bidders. However, certain information regarding GG RS historical costs is available in Federal Energy Regulatory Commission ("FERC") Form 1 reports, which are publicly available on the FERC Website.

Q-9. Staff notes that the draft RFP does not provide Bidders or stakeholders with any supporting Integrated Resource Planning ("IRP") information. Please indicate whether the final RFP will include such information.

A-9. The Main Body of the final RFP will include information from the Strategic Resource Plan.

Q-10. In evaluating the Grand Gulf Retained Share as a capacity resource bid in this RFP, please state what the RFP team will assume concerning:

(a) Relicensing and effective useful life; and
(b) Major capital retrofits that will be needed

A-10. (a) The RFP Economic Evaluation Team will assume that license renewal is granted. On November 1, 2011, Entergy Operations, Inc., System Energy Resources, Inc., and South Mississippi Electric Power Association submitted a License Renewal Application for Grand Gulf Nuclear Station to the U.S. Nuclear Regulatory Commission ("NRC"). If granted, license renewal would extend the facility operating license from midnight, November 1, 2024, to midnight, November 1, 2044.

(b) Information regarding potential capital investments will be requested in the due diligence appendices (G-1, G-2, G-3,and G-4). ESI will evaluate relevant information provided through the requests to obtain adequate assurance that the costs and performance expectations of the proposed resource are reasonable.

Q-11. Please explain how the issue of debt imputation will be handled in evaluation methodology both for third-party bids and Grand Gulf.

A-11. At this point, ESI does not plan to impute debt to proposals. Any proposal selected in the RFP that ultimately results in the execution of a Definitive Agreement with one or more of the Included Entergy Operating Companies will utilize a Purchase Power Agreement (PPA) as the contract mechanism; therefore, the potential effect of imputed debt arising out of the PPA is not expected to be a differentiating factor between proposals. The Economic Evaluation Team will adjust this assumption as necessary (after consultation with the IM) depending on the nature of the proposals received and accounting rules governing the imputation of debt for PPAs.

Q-12. Please explain how the RFP team will employ assumptions concerning future CO2 costs. Will ESI use the same assumptions as used in its January 2012 study of ISES? Please explain.

A-12. The Economic Evaluation Team will consider risks associated with carbon compliance costs across a range of potential outcomes. However, Bidders are able to factor potential costs associated with CO2 allowances into their proposals in accordance with the requirements outlined in Attachment 2 of Appendix C, "Environmental Change in Law." The CO2 assumptions that will be used to evaluate proposals are consistent with the assumptions used in the January 2012 study of ISES.

Q-13. Staff's understanding is that Grand Gulf will be evaluated and considered as a purely cost of service contract, whereas third-party bids will be subject to supplier commitments or obligations to which Grand Gulf will not be subject (e.g., performance penalties for unit availability, fixed or indexed capacity prices, heat rate guarantees, etc.).

(a) Please confirm Staff's understanding; and
(b) Please explain how such differences for Grand Gulf will be considered (if at all) in the bid ranking and evaluation methodology.

A-13. (a) Staff's understanding is correct. The GG RS would not be subject to certain requirements (such as the monthly availability requirement and heat rate guarantees) set forth in Appendix C of the RFP because, unlike third party proposals, which can include risk premiums for performance and cost commitments, any sale of GG RS capacity and energy to any Included Entergy Operating Company must be priced at cost. As a result, EAI cannot include risk premiums in any proposal it submits for the self-supply option.

(b) ESI will evaluate certain characteristics or factors, such as historical and/or project forced outage rates, capacity factors, fuel costs and planned maintenance information, in order to obtain adequate assurance that the costs and performance expectations associated with any EAI proposal for the GG RS are reasonable and appropriately factored into comparisons to proposals from third parties. For example, the Viability Assessment Team will review historic capacity factor information and planned maintenance information for Grand Gulf to help it assess the expected future availability of the resource. Appropriate subject matter experts in the nuclear field have been engaged to assist with the evaluation efforts.

Q-14. Please confirm Staff's understanding that as long as a winning Bidder delivers to the Entergy grid, Entergy (or the relevant EOC) will take responsibility for the needed transmission including incurring any transmission upgrade costs.

A-14. That is correct; the participating Included Entergy Operating Companies would be responsible for obtaining the transmission required within the Entergy grid for the dependable capacity proposed by the selected bidder, including the cost of any transmission upgrade on the Entergy grid resulting from the confirmation of transmission service. The participating Included Entergy Operating Companies' obligation to incur those costs and obtain service would be subject to certain conditions precedent included in the Definitive Agreement (see, e.g., items 1 and 4 in Appendix C of the RFP). As the terms of the RFP indicate, the Delivery Assessment Team will estimate the costs required to secure the required transmission service in respect of a proposal, including the cost of upgrades, and the estimated costs will be considered in the economic evaluation of the particular proposal.

Q-15. Please confirm Staff's understanding that it is not necessary for a winning bid to have firm network service on the commencement date of the PPA as long as some reasonable degree of firm service can be obtained on a short-term basis (e.g., through AFC) while any needed network upgrades are being constructed.

A-15. ESI can confirm that it is not necessary for firm network service to have been obtained by the participating Included Entergy Operating Companies as of the start of the Delivery Term of the Definitive Agreement. As indicated above in A-14, the participating Included Entergy Operating Companies' obligation to start capacity and energy purchases under the applicable transaction would be subject to the satisfaction (or waiver) of certain conditions precedent related to transmission service. The participating Included Entergy Operating Companies' would not be required to begin taking power until those conditions have been met or waived. If the facilities study for the network transmission service request indicates that network service is unavailable for any period of time for all or a portion of the dependable capacity for which service is requested, the participating Included Entergy Operating Companies' could opt to move forward with the transaction on the basis that it has obtained (or is willing to take the risk that it will obtain) transmission service other than network service to meet its transmission needs for the resource.

Q-16. The RFP states that bids as short as ten years and as long as 30 years will be permitted. Please explain how the evaluation methodology compares a ten-year bid with a 30-year bid.

A-16. To ensure consistency in evaluations, the proposals will be evaluated over a common 30-year horizon. For proposals that do not fit squarely within the 30-year evaluation window, the EET will define replacement power costs for the period(s) not covered by the proposal. For example, if a proposal has a Delivery Term that expires five years before the end of the window, in its evaluation of the proposal the EET will add replacement power costs for those five years to the proposal costs for the prior 25 years.

Q-17. Will ESI specify the docket number for this RFP with the final RFP document.

A-17. Yes, the docket number (LPSC Docket No. X-32427) will be specified in the Main Body.

Q-18. Will the RFP team provide the assigned LPSC Staff and IM with its "locked down" evaluation assumptions prior to the bid submission deadline?

A-18. ESI plans to discuss the evaluation assumptions with the IM before information from Bidders' proposals is provided to the Economic Evaluation Team.

Q-19. Please identify the model that the RFP team will use to determine the LMPs associated with each bid. For how many years will this model calculate the LMPs?

A-19. AURORAxmp Electric Market Model will be used for LMP forecasting. The model will run for 29 years, the maximum period of data population for the model.

Q-20. Does the evaluation methodology pertaining to the MISO market consider the ARRs associated with each bid. Why or why not?

A-20. The economic evaluation process will not consider ARRs for several reasons, including: (i) available information about the assignment of ARRs is insufficient to build into the evaluation process; (ii) it has not been determined which Included Operating Company(ies) will be the buyer(s) under any PPA arising out of the RFP; and (iii) assuming that the purchasing Included Operating Company(ies) are granted the associated ARRs, the net benefit to the purchasing Included Operating Company(ies) should approximate the value of the resource based on its cost and Locational Marginal Pricing in MISO (therefore, the evaluation properly values the relative merits of the proposals given their location and ESI's expectation of how transmission rights might be assigned.

Q-21. Please confirm that the proposed 59 MW for the Grand Gulf Retained Share is included in the recent power uprate. (LPSC Staff)

A-21. Please see ESI's response to A-6.

Q-22. Please confirm that the inclusion of the 59 MW Grand Gulf Retained Share (GG RS) does not require approval of the Arkansas Public Service Commission ("APSC") and that no authority for Entergy Arkansa to sell this capacity (or offer to sell this capacity) is pending. (LPSC Staff)

A-22. ESI's understanding is that inclusion of the GG RS in this RFP does not require approval by the APSC, and there is no pending authorization required for EAI to sell this capacity (other than certain internal reviews by various EAI and ESI personnel related to finalizing the self supply proposal and any necessary approvals and other authorizations required by Entergy corporate governance, risk management and similar policies).

End of Questions submitted by the LPSC Staff

Q-23. What is the driver for the 50 MW lower limit and the 150 MW upper limit in the RFP?

A-23. A key driver behind ESI's decision to conduct the 2012 Baseload RFP is the need to market-test a potential cost-based purchase of the 59 MW GG RS that has been offered by EAI for purchase by one or more of the Included Entergy Operating Companies. In the process of designing the RFP, ESI considered multiple factors including, but not limited to:

i. the FERC and LPSC requirements for a valid market test,
ii. the need for regulatory approval of any Definitive Agreement arising from the RFP,
iii. the effect of the MW specifications on the potential number of resources eligible for the RFP,
iv. the number and size of existing renewable energy baseload resources in and near the Entergy Operating Companies' service territories,
v. the potential administrative challenges associated with lower capacity minimums,
vi. capacity thresholds in prior ESI RFPs, and
vii. the pending move of the Included Entergy Operating Companies to MISO (ESI is taking a measured approach to long-term capacity additions given the uncertainties surrounding the move to MISO).

Ultimately, ESI determined that the 50 to 150 MW range will result in an appropriate market test that provides a reasonable balance among the factors considered.

Q-24. Why is the RFP being limited to resources that are already commercially available?

A-24. Comparisons between existing resources, such as the resource being market-tested, and resources that are in development present certain comparability and RFP evaluation issues. For example, developmental resources come with significant elements of risk not common to resources already in operation. The risks ordinarily include financing, permitting, regulatory, schedule, construction, and other material development risks that can threaten the ability of the resource to achieve commercial operation and provide the products being sought by the RFP. In addition, by virtue of having no operating history, developmental resources will have performance and potential cost risks not shared by any existing resource, including GG RS. Further, the period of time required to perform reasonable due diligence on developmental resources (and the associated risks) is incompatible with a schedule calling for receipt of all necessary regulatory approvals and the commencement of power deliveries in 2013. After considering these and other potential concerns as well as potential benefits of including developmental resources, ESI concluded that developmental resources should be ineligible to participate in the 2012 Baseload RFP.

Q-25. Will Entergy consider bids for more than 150 MW from natural gas fired combined cycle generating units that are most efficient at dispatch levels greater than 150 MWs?

A-25. The terms of the RFP specify that ESI is seeking proposals for not more than 150 MW of baseload capacity, energy and other electric products. A proposal that requires ESI to purchase more than 150 MW of capacity, energy and other electric products would not conform to the requirements of the RFP and would be subject to elimination on that basis, in consultation with the IM. However, the RFP grants ESI the discretion to allow non-conforming proposals to remain in the RFP (and to disqualify non-conforming proposals from further participation in the RFP), as ESI deems appropriate. Though uncommon, ESI may elect to treat any non-conforming proposal eliminated from the RFP as an unsolicited offer, meaning ESI could choose to explore the possibility of a transaction for the corresponding resource separate and apart from the RFP, should ESI deem it to be potentially attractive for economic or other reasons. The actions ESI and the Included Entergy Operating Companies take with respect to non-conforming proposals are subject to review by regulatory bodies. These responses are qualified in their entirety by references to the Reservation of Rights set forth in Appendix D of the RFP and the terms and acknowledgements set forth in the Proposal Submission Agreement.

Q-26. Many of the questions in Appendix G-3 are extremely detailed. Given that the RFP recognizes that the asset providing power in the self-supply option is already providing power in the Entergy transmission system to all of the potential operating companies that could accept this RFP, are all of the Appendix G-3 questions applicable to the Self-Supply option? For example, the entire section 3 regarding transmission details seems to not be applicable to an existing source already providing power from within the Entergy system and already partially owned by the entities that might increase their share of its ownership.

A-26. Yes, all of the Appendix G-3 questions and requests are applicable to the self-supply option, and responses to these questions and requests should be provided as part of the proposal package submitted for the self-supply option. If a particular Appendix G-3 question or request has no application to Bidder or its resource or proposal, Appendix G-3 permits Bidder not to provide the requested information. For example, a request for information in Appendix G-3 about off-system transmission would not apply to the self-supply option, and the self-supply proposal materials would not need to include materials or information responsive to that request.

Questions submitted by the LPSC Staff

Q-27. Staff is concerned that 150 MW may be smaller in many cases than a combined cycle unit or "train" that a resource owner may wish to bid into the RFP on a long-term basis. If the RFP team does not share Staff's concern that a 150 MW ceiling would discourage bids, please explain the basis for this opinion.

A-27. Please see responses to A-23 and A-25.

Q-28. Staff is concerned that the 50 MW minimum bid would prevent bids from landfill gas, municipal solid waste, biomass and even smaller cogeneration facilities. Does the RFP team concur with this concern? If so, would the RFP team consider employing a lower size threshold?

A-28. Please see response A-23. ESI recognizes the possibility that some facilities (or resources) may not meet the stated minimum capacity requirement, but believes the 50 MW threshold is appropriate.

Q-29. Page 23 of the draft RFP requires a $2 million letter of credit pending a final agreement. Would ESI consider scaling this requirement for smaller (i.e., less than 50 MW) bids, if such bids are permitted?

A-29. ESI is not planning to lower the 50 MW minimum target for a resource to be eligible to participate in the RFP.

Q-30. Please explain in detail the basis for setting the capacity acquisition at 150 MW instead of a larger or smaller amount. In that regard, would the RFP team consider a larger amount than 150 MW if a bid is judged to be cost effective?

A-30. Please see responses to A-23 and A-25.

Q-31. Will the RFP team consult with both the IM and the assigned LPSC Staff before disqualifying a bid as nonconforming or otherwise inadequate? If so, would the RFP team be willing to include such language in its final RFP document? We have the same question with regard to changes in the RFP schedule.

A-31. ESI plans to consult with the IM before disqualifying a bid as nonconforming, but ESI reserves the right to disqualify bids at its discretion. Language to this effect will be added into the Main Body of the RFP. ESI will consult with the IM before making changes to the RFP schedule.

End of Questions submitted by the LPSC Staff

Q-32. Some of the material requested in the Appendix G-1, seems excessive especially in light of RFP screening process. Much like the credit (collateral) review that takes place during the definitive agreement, I would kindly request that Entergy revisit the scope and timing of submitting the requested information in Appendix G-1 , perhaps having certain information due at RFP bid submission and other to be submitted within some time frame of being short-listed. As is the RFP is limited to existing resources.

A-32. ESI has given careful consideration to the information that is needed to conduct a comprehensive and objective evaluation of both the self-supply proposal and other proposals received in the RFP and is requesting only the information we believe is necessary to do so. ESI has reviewed all RFP requirements and some modifications have been made in the final draft of the RFP. ESI has also carefully considered potential opportunities to request information at a later point in time in the RFP; however, the RFP's accelerated schedule and the RFP process simply do not allow for this revision, given the additional time it would take for ESI to make those requests, for Bidders to gather and submit the additional information, and for ESI to redact, distribute and evaluate that information. That approach also would not allow any time for ESI to submit clarifying questions to Bidders should information submitted by the Bidder be insufficient to perform an effective and comprehensive evaluation of the Bidder's proposal.

Q-33. Section 1.9 of the draft RFP states that "slice-of-system" sales are not eligible resources. Why is this limitation included?

A-33. The offer being market-tested is a unit contingent product from one resource. An offer for unit continent products from multiple resources raises potentially difficult comparability questions and likely presents several issues not found with a unit contingent product from a single plant. These issues include, without limitation, transmission issues, availability and reliability issues, environmental change in law issues, replacement power availability and cost issues, potential capacity threshold issues, MISO/RTO-related issues, and due diligence issues. For example, if the proposal is for capacity and energy from a resource in one location and another resource in a separate location, the transmission risk profile for each resource (whether the risk involves ESI's evaluation of the risk in the RFP evaluation phases, the receipt of transmission, the costs of transmission, the likelihood and incidence of transmission curtailments and re-dispatch, the buyer's exposure to locational marginal pricing differentials, etc.) will be unique. The effect is a compounding of transmission risk relative to the risk for a single resource. Similar concerns apply to the other issues accompanying a multiple unit bid. ESI determined that these and other factors against inclusion of multiple resource-based proposals outweighed those for inclusion.

Q-34. Is your sense that the RFP schedule will remain as drafted? It seems like a relatively aggressive timeline to finalize the RFP at the end of this month, then have final proposals prepared 2 weeks later. Is there any chance that the deadline to submit proposals will be extended?

A-34. ESI currently plans to adhere to the RFP Schedule as drafted, although it reserves the right to change the RFP Schedule (in consultation with the IM). Any changes to the RFP Schedule will be posted on the 2012 Baseload RFP Website.

Q-35. Would an offer with a Delivery Commencement Date that is later than 2013 be rejected under this RFP as a non-conforming bid?

A-35. Please see response A-25. As the RFP requires the delivery term to be scheduled to commence in 2013, the substance of response A-25 would apply to any proposal with a proposed delivery term commencement date after 2013, as well as to any other proposal that fails to meet one or more of the other Preliminary Shortlist Requirements or is otherwise non-conforming.

<u>Question submitted by the LPSC Staff</u>

Q-36. Please confirm that MSS-4 will not be used as the Grand Gulf Retained Share long-term contract vehicle. In such case, will the Grand Gulf "bid" specify the purchase power contract? Please explain. (LPSC Staff)

A-36. If the Grand Gulf Retained Share is selected in the RFP, ESI anticipates that EAI would enter into a cost-based Definitive Agreement with one or more of the other Included Entergy Operating Companies. While ESI does not yet know with certainty the final form that this agreement will take, it is anticipated that a standard MSS-4 agreement would be used with a new provision stating that, after the termination of EAI's participation in the System Agreement in December, 2013, the agreement will be controlled by a successor tariff to MSS-4.

Q-37. Please explain how (if at all) the evaluation methodology will incorporate the MISO adequacy construct. For example, will it consider the possibility that Grand Gulf may not be in the same local resource zone as the three Louisiana EOCs and therefore subject to potential delivery charges?

A-37. The 2012 Baseload RFP evaluation will not incorporate the MISO Resource Adequacy Construct, or "RAC" (defined in Module E-1 of the MISO Tariff), since MISO has not yet begun the analysis required to establish the number and make-up of Local Resource Zones (LRZs) in the Entergy Region. MISO has indicated it will undertake that analysis only after the Transmission Owners Agreement has been signed. (The Transmission Owners Agreement will establish and govern the change of control of Entergy's transmission assets from the Entergy Operating Companies to MISO.) Execution of the Transmission Owners Agreement is expected in November 2012, after the RFP proposals have been evaluated.

In an attempt to incorporate into the RFP's evaluation of resource deliverability (including estimated incremental deliverability costs) basic RAC concepts MISO may put in place for the Entergy Region, the Deliverability Assessment Team will assume that LRZs will exist within the Entergy transmission footprint and that their boundaries will be determined by whether an Entergy Operating Company is a party to the System Agreement. Two Entergy Operating Companies will be leaving the System Agreement, Entergy Arkansas, Inc. ("EAI") in late 2013 and Entergy Mississippi, Inc. ("EMI") in late 2015. The other Entergy Operating Companies are expected to remain parties to the System Agreement. Thus, for the period from 2014 to late 2015, the Deliverability Assessment Team will assume that there will be two LRZs, one for EAI and one for the five remaining Entergy Operating Companies. For the period from late 2015 through 2042, the assumption will be three LRZs, one for EAI, one for EMI, and one for the four remaining Entergy Operating Companies. Using the two assumed LRZ constructs, the Deliverability Assessment Team intends to assess whether there will be constraints that limit the deliverability of a resource into each of the Entergy LRZs, and if the assessment shows there will be, to incorporate into its evaluation the potential transmission upgrade and other costs to make the resource deliverable into the LRZs.

The Deliverability Assessment Team will assume that no additional transmission upgrades or costs are necessary to qualify the 59 MW Grand Gulf Retained Share as a network resource. Entergy's share of Grand Gulf (1,493 MW), including the Grand Gulf Retained Share, is already a network resource on the Entergy System. It will remain so through May 31, 2042, unless, if the Entergy Operating Companies move to MISO, MISO - contrary to expectations – does not recognize the existing network resource status of Grand Gulf.

Bidders are advised that the Deliverability Assessment Team will not reflect any MISO congestion charges in its deliverability assessments of proposed resources. In MISO, energy deliveries into a LRZ may trigger congestion charges. It is impossible at this time to estimate with any acceptable level of accuracy what those charges might be in the Entergy Region for any particular resource, much less over a 10 to 30-year period. Therefore, those potential charges will not be evaluated.