

Responses to Questions Regarding the 2014 Capacity Credit RFP

Q1: Will the Proposal Submission Template have provisions for the bidder to insert written terms with their proposal?

A1: No. The Proposal Submission Template will not allow Bidders the opportunity to include terms in their proposals that are not specifically solicited.

Q2: In the RFP document at the top of page 5, there is a condition for the situation where the Capacity Credit "...limits or restricts Buyer's ability to obtain the full benefit of such Capacity Credit for MISO resource adequacy purposes...". The corresponding contract language in Section 4.2(b) is very broad. Please provide examples of situations where this would occur and consider narrowing the language.

A2: ESI drafted the language in Section 4.2(b) of the Purchase Agreement (and the corresponding description of that provision on page 5 of the Main Body) so that it addresses both specific, identified risks and general, currently unknown risks that could affect the Included Entergy Operating Companies' ability to realize the full benefits of the Capacity Credits delivered by Seller. Section 4.2(b)(i) of the Purchase Agreement addresses the specific risk that MISO may include a requirement that certain Capacity Credits bid into the MISO incremental capacity auction be submitted at a certain minimum price, such as the Minimum Offer Price Rule (MOPR) previously proposed by MISO but rejected by FERC. Because the Purchase Agreement would be executed in June 2014 and the Capacity Credits would not be delivered until 2016 (under the current MISO Rules) at the earliest, ESI drafted Section 4.2(b)(ii) of the Purchase Agreement primarily as a catch-all to address the risk that MISO may attach limits or restrictions on certain Capacity Credits, which would prevent Buyer from getting full resource adequacy credit for such Capacity Credits. Because Section 4.2(b)(ii) was drafted primarily to address general, currently unknown risks, it is difficult to provide examples of how it could come into play.

Q3: In the Purchase Agreement under Section 4.2 Price Adjustments, paragraph (a), there are provisions for the transfer of basis risk associated with price differences between Local Resource Zones. We propose that such Price Adjustments be made optional so that Bidders may submit proposals with, and without, such price adjustments.

A3: Bidders will not be permitted to submit proposals excluding the aforementioned price adjustments. ESI is seeking Capacity Credits that can be used to meet the resource adequacy requirements of the Included Entergy Operating Companies in their Local Resource Zone. To effectively meet such requirements, Capacity Credits will need to be sourced from a Planning Resource located within the Included Entergy Operating Companies' Local Resource Zone or the price of Capacity Credits sourced from other Local Resource Zones will need to be adjusted as provided in Section 4.2(a) of the Purchase Agreement.

Q4: As per Section 4.2 Price Adjustments, can there be a circumstance where the price adjustment is greater than the capacity payment. For example, if the Monthly Payment is \$3/MW-mth and the Auction Clearing Price for the Local Resource Zone is \$6/MW-mth and the Auction Clearing Price for

the non-Local Resource Zone is \$2/MW-mth it seems that the net payment to the Seller would be a negative \$1. [$\$3/\text{MW-mth} + (\$2/\text{MW-mth} - \$6/\text{MW-mth}) = -\$1/\text{MW-th}$] We propose that the capacity payment after the price adjustment cannot be negative.

A4: Yes, it is possible that the price adjustment could be greater than Buyer's payment for the Capacity Credit, as illustrated in the example in the question above. ESI does not accept the proposal in the question above, which could limit the effect of the price adjustments of Section 4.2(a) of the Purchase Agreement. As mentioned in the answer to Question 3 above, ESI is seeking Capacity Credits that can be used to satisfy the resource adequacy requirements applicable to the Included Entergy Operating Companies' Local Resource Zone. If a Bidder elects to offer Capacity Credits sourced from other Local Resource Zones, Bidder will bear the full risk of any Auction Clearing Price differences between the Local Resource Zones. For purposes of this response, ESI is assuming that the Local Resource Zone used in the example above refers to the Local Resource Zone associated with Buyer's load and the non-Local Resource Zone refers to a Local Resource Zone that is not associated with Buyer's load.