

2015 Request for Proposals for Long-Term Combined-Cycle Gas Turbine Capacity and Energy Resources and Limited-Term Capacity and Energy Resources for Entergy Texas, Inc.

Questions and Answers

As of 10/14/2015

Q-1. Why is the Long Term RFP requesting proposals only from developmental resources and excluding proposals from existing resources for the comparison to a Lewis Creek new build?

A-1. [Revised] After review and discussion with the IM, the 2015 ETI RFP will be modified to allow existing CCGT resources located within the Western Region to participate in both the long-term and the limited-term segments of the RFP as long as the resource meets all the eligibility requirements listed in the RFP. The documents posted on the RFP website and the final RFP documents currently in development will be updated to reflect this change to the RFP.

Q-2. Can clarification be provided regarding the requirement to have an interconnection request with MISO on or before October 26, 2015? Is this a request to enter system planning analysis (SPA) or definitive planning phase (DPP)?

A-2. The requirement is for the interconnection customer to submit a complete application for generation interconnection, including required attachments and required payments, to MISO by October 26, 2015. After the complete application has been submitted and MISO's initial application review process completed, the customer must take the

necessary steps to preserve the application in the interconnection queue, either by proceeding to the System Planning & Analysis (SPA) phase or the Definitive Planning Phase (DPP). For the RFP, ETI expects most customers will proceed to the SPA phase.

Q-3. Will there be any other conference calls, or is 6/26 the very next step (“Final RFP Documents Issued”)?

A-3. The next step is posting the Final Documents.

Q-4. Are existing plants that are connected currently to Entergy Texas and currently contracted in Entergy Texas assumed to be a resource in the Entergy/MISO planning models for 2020 and beyond, even though they may not be contracted long term by Entergy?

A-4. If and to the extent an existing resource has a long-term commitment to participate in the MISO market, the resource is reflected in the Entergy/MISO planning models indefinitely (absent any firm retirement or similar date).

Q-5. Why does Entergy believe that only a new developmental resource would fulfill the need for reliability and voltage stability, and an existing resource could not fulfill those same needs?

A-5. See the response to Question Q-1 above. In light of that response, ESI will evaluate the ability of any proposed qualifying existing CCGT resource to fulfill the need for reliability and voltage stability identified in the Long Term RFP and the associated costs and risks.

Q-6. If an existing resource can meet all the requirements of the long term RFP except for being developmental, will they be considered a qualified bidder in the long term capacity and energy RFP? If not, please explain the reason why they would not be considered.

A-6. An existing CCGT resource that meets all the requirements for participation in the Long-Term RFP will not be disqualified merely for being an existing CCGT resource. Please refer to the response to Question Q-1 above.

Q-7. Can you please tell me when you expect to issue the RFP?

A-7. The RFP will be issued on or about June 26, 2015.

Q-8. What is the evaluation period (in number of years) for the RFP economic evaluation?

A-8. For the long-term portion of the RFP, the evaluation will consider the effect of potential resource selections on customer costs over an approximately 30-year period.

Q-9. If the economic evaluation period is longer than 20 years, please describe the evaluation of PPA proposals for any evaluation period longer than 20 years; for example, if the evaluation period is 30 years, then how does Entergy handle/treat PPA proposals (which are limited to 20 years) for years 21-30 of the evaluation period?

A-9. The evaluation process for the RFP will be designed to place all proposals on a comparable basis. ESI anticipates that the evaluation process for long-term PPA proposals will rely on an assumption regarding the cost of replacement power after the termination of the PPA for the balance of the economic evaluation period.

Q-10. Instead of Entergy making an assumption regarding the expected price and expected availability of replacement capacity for years 21 -30 of the evaluation, Entergy should allow bidders of PPA proposals to provide a price/offer for years 21-30 that Entergy could use in its

evaluation. To be clear, this is not a request for a PPA term longer than 20 years; rather, a way to avoid unnecessary assumptions and avoid bias to PPA proposals. If Entergy chooses not to contract for those years (i.e., 21-30), that's its choice, but Entergy should not claim that it has to make an assumption about the price and availability of future capacity when a bidder is willing to offer to a firm price for those years (especially from a new development resource that will have the same useful life as the self-build). Why does Entergy not allow a bidder the ability to offer a firm price for years 21-30 and use that in its evaluation?

A-10. The RFP will allow Bidders to include in their proposals for long-term PPAs and tolls offered into the RFP an option for ETI to purchase power under a proposed PPA or toll beyond the initial delivery term specified in the proposal. In order for the pricing terms of the extension option to be considered as an alternative to the cost of replacement power for the portion of the evaluation period in which power would be available to ETI under the extension option, the terms of the option, including pricing and the extension delivery term, must be firm, unconditional, and unambiguous; the option must be for the sale of power from the same generation resource and meet the other supply requirements of the RFP; the option must be viable; and the option must be exercisable exclusively by ETI in its sole and absolute discretion. Any deadline for ETI to exercise the extension option must be no earlier than three years prior to the expiration of the base delivery term. In addition, the pricing under an extension option must be readily determinable at the time of bid submission and evaluation. Bidders are cautioned that ESI is not soliciting - and will not accept - PPA or toll proposals with base delivery terms that are longer than 20 years and inclusion of an extension option in a proposal may or may not have adverse accounting implications for the proposal.

While the RFP will allow a properly constructed and proposed extension option to be considered as an alternative to replacement power costs in the evaluation of a resource, ESI fundamentally disagrees with the question's underlying premise that applying a replacement power cost for the post-PPA termination period biases the evaluation against PPAs. The replacement power cost assumption will be based on ESI's point of view regarding replacement power cost; ESI will not determine the assumption based on whether ESI concludes that the particular assumption favors or disfavors shorter-term PPAs. To the extent that the replacement power cost assumption proves to be less than the cost offered by a longer term proposal during the relevant period – a plausible outcome – the shorter term proposal would be positively affected relative to the longer term proposal. To the extent that the replacement power cost assumption proves to be greater than the cost offered by longer term proposal during the relevant period – also a plausible outcome – the shorter term proposal would be negatively affected relative to the longer term proposal. Replacement power cost assumptions have been utilized by Entergy Operating Companies in numerous RFPs for long-term resources and are often employed to address contract term or useful life disparities in proposals submitted into other RFPs.

It should be noted that inclusion of an extension option in a proposal for a long-term PPA or toll will not negate the need for an assumption regarding replacement power. To the extent that the evaluation methodology requires the use of replacement power cost for the post-contract termination period, the assumption will be needed regardless of whether the bidder supplies a valid fixed price offer for the post-contract termination period. At the least, ESI will assess the bidder's firm offer for replacement power (i.e., the extension option pricing) relative to ESI's assessment of replacement power.

Q-11. Are ownership proposals, including the self-build, included for the entire (30 year) evaluation period? If so, how is that process (i.e. allowing self-build and acquisition proposals pricing to be included/amortized for the entire 30 years of an evaluation) not a bias toward ownership proposals? If PPAs are limited to 20 years, why not evaluate both PPAs and ownership proposals, including the self-build, over a 20 year period (so both PPA and ownership proposals are evaluated on a consistent basis)?

A-11. The evaluation process will treat all proposals consistently by assessing the cost and benefits to customers over the entire 30-year evaluation period. Ownership proposals will be evaluated for the entire useful life of the resource, if a new build, or the remaining useful life of the resource, if an existing resource. If the evaluation period is greater than the applicable useful life, the evaluation of the resource will include the estimated cost to replace the resource for the balance of the evaluation period. If the evaluation period is less than the applicable useful life, the evaluation of the resource will be limited to the evaluation period. It is anticipated that any new-build resource proposed for the long-term portion of the RFP will have a projected useful life of 30 years or more. Like ownership proposals, long-term PPA proposals will be evaluated over the entire 30-year evaluation period. The evaluation will recognize that PPAs terminating prior to the end of the full evaluation period will require replacement. This approach to the evaluation of long-term proposals is reasonable and appropriate, including for reasons discussed in the response to question 10 above.

The 30-year evaluation period is based on the useful life of the alternative being market-tested by the RFP, the self-build option, and the acquisition product being solicited. A shorter evaluation period would ignore meaningful customer costs and benefits of the self-build option and acquisition product alternatives. The 20-year evaluation

period suggested in the question omits this important consideration. Further, it would not eliminate the need for a replacement power evaluation in the long-term RFP, which appears to be, at least in part, the basis for the question's proposed 20-year evaluation period. Evaluations of long-term PPA or toll proposals with delivery terms of less than 20 years would still need a replacement power component.

As ESI appreciates the question, there may be a concern that the 20-year maximum delivery term limitation on PPA proposals requires bidders to amortize the new-build CCGT project supporting the PPA over a 20-year period. To avoid any misunderstanding on the point, the RFP evaluation is typically not concerned with how bidders choose to amortize their projects or, for that matter, with a bidder's ability to extract additional value from the project after the conclusion of the delivery term.

Q-12. In the current Amite South RFP, Entergy answered similar questions about the evaluation in part with a response of "The evaluation approach used in this RFP has been used in prior RFPs". This may be true (i.e. the use of assumptions about replacement power costs), but this ignores the fact that the previous long-term RFPs market testing self builds, did not limit PPA delivery terms to 20 years; in fact, other recent, long-term, system RFPs issued by Entergy, including both the 2011 Western Region/Texas RFP and the 2012 Baseload RFP, solicited PPA offers up to 30 years (and in the case of the 2012 RFP, Entergy executed a 30 year PPA with an Entergy affiliate). How is it not a bias against PPA proposals for Entergy to 1) limit their delivery term, but then 2) determine an assumed price that Entergy will add to a bidder's proposal for years 21-30 for evaluation purposes, but no such additions are made to acquisition proposals (including the self – build)?

A-12. ETI has determined that PPAs and tolls having base terms longer than 20 years result in unacceptable risks for customers. Contrary to the conclusion drawn by the party propounding the question, this determination does not necessarily disadvantage PPAs or proposals in RFP evaluations. Please see the responses to Q8 through Q11.

Q-13. What specific deliverables is the RFP expecting from developmental proposals for deliverability and interconnection cost estimates?

A-13. The RFP requires proposals for developmental resources to include (i) a complete and accurate copy of the required developmental resource generator interconnection application submitted to MISO by no later than the date specified in the RFP (currently, October 26, 2015) in accordance with the RFP and (ii) a copy of either the MISO letter acknowledging and validating the application or, if available, the actual study results related to such application, as well as the associated MISO queue number. Bidders of developmental resources must also provide in their proposal packages the information and materials requested in Appendix C relating to interconnection, deliverability, and transmission. Without limiting the foregoing, proposals for developmental resources and, to the extent applicable, existing resources should include interconnection (ERIS) projects and cost estimates and deliverability (NRIS) projects and cost estimates for the resource reflected in the proposal and should break out and provide separately a summary of each of the ERIS projects, the NRIS projects, the ERIS cost estimates, and the NRIS cost estimates.

Q-14. Regarding the MISO transmission study: The MISO feasibility study application only allows one selection of ERIS or NRIS. Would an

NRIS study for the total expected output of the proposed resource satisfy the ERIS and NRIS study requirement or is the RFP expecting that bidders have entered into two separate studies with MISO (one for ERIS and another for NRIS) by the proposal due date?

A-14. As between ERIS and NRIS, bidders should select NRIS in the MISO feasibility study application. Bidders of developmental resources should seek from MISO an amount of NRIS that equals or exceeds the amount necessary to allow the resource to receive the maximum capacity credits a resource of its installed capacity size can receive under the MISO rules. Bidders of existing resources that have NRIS in an amount less than the maximum summer rated capacity of the resource should seek from MISO an amount of NRIS that is sufficient to allow the resource to receive the maximum capacity credits a resource of its capacity size can receive under the MISO rules (for proposals offering the full amount of the resource's capacity) or (y) can and will be allocated and prioritized such that the NRIS level associated with the resource capacity under contract to the Companies cannot limit the amount of MISO capacity credits that the Companies would receive for any planning period during the delivery term (for proposals offering less than the full amount of the Capacity of the resource).

Q-15.Regarding the transmission cost estimate: Since feasibility studies from MISO do not produce cost estimates or a scope of work for interconnection of the proposed resource, is it acceptable to the RFP for developmental proposals to provide transmission cost estimates for both interconnection and network resource that are developed by someone other than "MISO"? For example, would a bidder's estimates of the local interconnection (scope and estimate developed by the bidder) and the network resource projects (scope identified by the

MISO feasibility study and estimate developed by the bidder) be acceptable?

A-15. The answer to both questions is yes. RFP developmental proposals may include/provide required cost estimates for interconnection and deliverability that are developed directly by the bidder or for the bidder by a third party (whether or not MISO is the “3rd party”). ETI has also provided a final date of January 27, 2016 for bidders to update their proposal package including interconnection and network deliverability-related costs. The example provided in Q-15 is consistent with expectations for developmental proposals.

Q-16. Does the “ERIS” term’s inclusion into the RFP documentation imply other proposal deliverable requirements than those addressed by the questions above?

A-16. No, it does not imply other proposal delivery requirements.

Q-17. Is the proposed self-build at Lewis Creek in addition to the two existing Lewis Creek units, i.e., the proposed self-build will be an incremental 800 – 1000 MW of generating capacity at the existing Lewis Creek site?

A-17. The proposed self-build resource at the Lewis Creek site would be incremental to the two existing Lewis Creek generating units. ETI’s current resource plan assumes that the two existing units at Lewis Creek continue to operate and are fully available for participation in the MISO capacity and energy markets after the in-service date of the selected resource (third-party or self-build).

Q-18. What is the plan for the two existing Lewis Creek units once the self-build or third party project comes online by 2021 – keep them fully

operational as exists today or place them in ‘inactive reserve’ or some other limited availability status? Does such plan for the two exiting Lewis Creek units change depending on whether the self-build or a third party project is selected?

A-18. Please see the response to Q-17 above.

Q-19. If the existing Lewis Creek units are placed into some version of limited availability status that is different than today’s fully operational status (such as ‘mothball’, ‘inactive reserve’, ‘reserve’, ‘seasonal’, etc.), will Entergy maintain the existing firm network service/full deliverability/NRIS for these two exiting units?

A-19. Please see the response to Q-17 above.

Q-20. If the existing Lewis Creek units are placed into some version of limited availability status that is different than today’s fully operational status (such as ‘mothball’, ‘inactive reserve’, ‘reserve’, ‘seasonal’, etc.), will Entergy receive/generate/create any emission credits (such as NOx allowances) associated with not operating the existing units as they have in the past?

- If Entergy receives/generates/creates any such emission credits (such as NOx allowances) associated with not operating the existing units as they have in the past, will these be applied to or made available to use by the self-build?
- If Entergy receives/generates/creates any such emission credits (such as NOx allowances) associated with not operating the existing units as they have in the past, for evaluation of third party proposals/projects, will Entergy develop an assumption about the monetary value of such emission credits that could be attained by selling and apply that value/benefit to third party proposals? If

not, why not, as this is a ratepayer asset and could be used to reduce ratepayer costs?

A-20. Please see the response to Q-17 above.

Q-21. In the Entergy application to the Louisiana PSC (Docket U-33770) for Approval to Construct the St. Charles Power Station, Entergy summarized details of the EPC contracting strategy used to support their self-build proposal (the Amite South RFP). As highlighted in the testimony of John Long, Entergy utilized an EPC agreement that allowed the craft labor component of the EPC agreement to be adjusted. In contrast, other bidders in the RFP, were required to bid fixed prices, which means these bids were at a disadvantage to Entergy's self-build as third party bidders had to include a risk premium to account for the uncertain labor escalation.

A-21. Third party proposals in the 2014 Amite South RFP were not disadvantaged, and the statement above misunderstands the nature of the self-build estimate presented in LPSC Docket No. U-33770. The estimate for St. Charles Power Station reflects a good faith estimate of the cost to construct that facility, and that estimate includes reasonable amounts for contingency to address risks and uncertainties such as craft labor escalation. This estimate was reviewed by the independent monitor and an independent engineering firm working under the direction of the independent monitor. Additionally, third-party bidders, unlike a utility, do not have an obligation to serve load and are not limited to recovering only their actual prudently incurred cost as determined by a regulator.

Q-22. Please identify the EPC contracting approach that Entergy intends to use for their self-build alternative in this ETI RFP. If the strategy includes a mechanism to adjust the EPC contract for labor similar to the Amite South RFP, third party proposals should have the ability to use the same mechanism. Please confirm that third party proposals will be treated the same as the self-build and allowed to have a similar mechanism in place to adjust the craft labor component of their price.

A-22. The ESI RFP Administrative Team is unaware of the EPC contracting approach that may be utilized by the self-build commercial team in preparing an estimate for the self-build option. Consistent with other RFPs involving utility self-build projects, the ETI RFP will compare the estimated cost of the self-build option, including contingency, to the price offered by third-party bidders.