BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

ENTERGY SERVICES, INC.

2006 REQUEST FOR PROPOSALS (RFP)

COMMENTS OF LOUISIANA ENERGY USERS GROUP

The Louisiana Energy Users Group ("LEUG") appreciates the opportunity to provide comments on Entergy's 2006 Draft Long-Term Request for Proposals ("Draft RFP") and requests that the Draft RFP and any subsequent RFP be modified in a manner consistent with the concerns expressed herein. The Draft RFP focuses on the acquisition of 1000 MW of load-following CCGT capacity over a 20 year term and 1000 MW of solid fuel capacity over a 30 year term. With respect to the solid fuel request, Entergy advises that it is considering a self-build option that involves the repowering of ELL's Little Gypsy Unit 3 located near La Place, Louisiana by installing two coal and/or coke fueled circulating fluidized bed boilers to provide approximately 500 MW net electric output and an in service date of 2011.[1] The Draft RFP also states that Entergy will consider the displacement of existing gas- and oil-fired generation capacity owned by the Entergy Operating Companies ("EOCs") in the event that it receives economically and operationally attractive proposals. Displacement will require a finding that the alternative provides economic benefits in the form of total cost to the EOCs and does not degrade the reliability of the System.

[1] While the Draft RFP addresses incremental capacity needs, in response to questions Entergy indicates that the repowering proposal is not expected to result in an appreciable change in net capacity, but instead is an effort to replace an existing, less efficient resource with a more efficient resource that also offers fuel diversity.

LEUG supports the use of the RFP process by Entergy pursuant to the Louisiana Public Service Commission's ("LPSC or Commission") Market Based Mechanism Order No. R-26172, Subdocket A, to address the incremental capacity needs of the Entergy system. However, LEUG also encourages both the LPSC and the LPSC Staff to ensure that the Draft RFP or any supplemental RFP specifically addresses the potential for the retirement and/or displacement of as much of Entergy's old, gas-fired generation fleet as possible from an economic and reliability standpoint. The Draft RFP, while mentioning consideration of retirement/displacements, does not appear to adequately address the issue, particularly in light of the specific directives from the LPSC on this issue over the last year and the commitment made by Entergy's CEO, Mr. Wayne Leonard, at the January LPSC meeting. Additionally, the evaluation methodology to be used in the Draft RFP is designed to consider long-term incremental capacity acquisitions and does not appear to fairly evaluate the potential for retirements/displacements. Finally, the evaluation of bids for incremental load, as well as the retirement/displacement of Entergy's old, gas-fired fleet should factor in the environmental impacts and costs of compliance of the Clean Air Interstate Rule ("CAIR") which Louisiana must address in the near term. Ratepayers should be protected from the potential that CAIR impacts the economics of any resource selection.

I. RETIREMENTS/DISPLACEMENTS OF ENTERGY GAS-FIRED GENERATION MUST BE ADDRESSED IMMEDIATELY

Entergy's Draft RFP generally indicates that retirements/displacements will be considered, but the focus of the RFP is clearly on incremental capacity requirements. Entergy has indicated that an additional draft RFP will be issued in September, 2006 to address short term/intermediate term contracts. While there is an implication that the supplemental RFP will address retirements/displacements, as opposed to incremental load, LEUG is aware of no specific written commitment in that regard.

The consideration of retirements/displacements in the Draft RFP appears to be almost an afterthought – which is surprising based on the Commission's numerous directives over the last few years to address the high costs that Entergy ratepayers have endured as a result of Entergy's continued use of such units.[2] In light of the time and resources that the Commission has devoted to the issue of Entergy's high electric prices and the benefits of the retirement/displacement of Entergy's inefficient units, including a lengthy study confirming those benefits, and the commitment of Entergy's CEO, Mr. Wayne Leonard, at the Commission's January meeting to do "whatever it takes" in that regard, it is disappointing that Entergy has failed to issue an RFP that specifically addresses the issue. Mr. Leonard appears to understand the potential for ratepayer benefits associated with the displacement of Entergy's old, gas-fired generation based on his statements to the Commission – he agrees with the "importance of the efficiency" to be gained and believes that the value of deregulation is "in getting better heat rates, more efficient generation and less use of fuel." He acknowledges that such is a "value

[2] See for example May, 2005 LPSC B&E Official Transcript: Commissioner Dale Sittig: "Now I would love to see Entergy get rid of those 60-year-old clunkers that had cost it, and hopefully we can do that with the new technology in the new plants that have been put on line. The RFPs --- I think we have a very good process that gets as cheap a power as we can get to our ratepayers . . ."; June, 2005 LPSC B&E Official Transcript: Commissioner Jimmy Field: "What I would hope we would do with the Retirement Study next month is to be able to configure a RFP with an independent monitor, truly independent monitor, and allow the merchant power people an opportunity to bid on power, and they're either going to win the bid or they're not. But we do need to give then that opportunity, because it could result not only in lower rates, but it could result in a better environment. . . " Commissioner Jay Blossman: "And we talked about, in the RFP, let it be very liberal on what you ask for. If somebody wants to bid on a month contract, somebody wants to bid on a two year, three year, three and a half year, four year, four years and two months – I don't care what it is because let them bring anything they can to you. And, you guys evaluate it and let's see if it's the best thing we can do for the ratepayers. . . "; July, 2005 LPSC B&E Official Transcript: Commissioner Jimmy Field: "I just think that when we have facts and figures that every one percent of the old units of oil and gas that are shut down saves the ratepayers if it's replaced by more efficient energy can be a saving of $30 million. And, we're faced with a $23 million rate increase in GSU territory, and I just think we – I don't know how long it takes to do these RFPs, but I understand it's ten months. So I would like to see that issue as soon as possible, since we are in collaboratives and we have a retirement study now, that we ought to – we ought to try to get that out there. . . ." Commissioner Jay Blossman: "I want to see a wide-open very vanilla RFP to say, "Hey guys, I want to see every proposal that you could ever dream up to try to lower our rates."; November, 2005 LPSC B&E Official Transcript: Commissioner Field: "In that regard, I further move that the Commission specifically adopt the recommendations of the Staff appearing on pages 23 and 24 and 74-80. . . .A one-sentence summary of each of those recommendations is as follows: . . 1) Future Entergy RFPs should "test the market" for retirements…".

to society" along with "cleaning up the environment."[3] Yet, the issue is given little mention in the Draft RFP.

While incremental load acquisitions may assist with retirements/displacements over the long term, the potential for significant near-term and long-term savings associated with immediate retirements/displacements requires that the issue be considered at once. For example, on average in 2005, Entergy Gulf States, Inc. ("EGSI") relied on Entergy's old, gas-fired generation for 21% of its electric requirements and Entergy Louisiana LLC ("ELL") relied on Entergy's old, gas-fired generation for 25% of its electric requirements. Ratepayers paid 9.81 cents on average for generation produced from Entergy's gas-fired generation in 2005, a rate more than 50% higher than the 6.33 cents/kWh paid on average for generation purchased by Entergy.[4] Relying on a subsequent RFP to be potentially issued in draft form in September 2006 would mean that no decision on retirements would be made until 2007 and another year will go by with Louisiana ratepayers seeing no relief from the excessive costs of Entergy's gas-fired fleet. The issue has been studied for almost two years and there can be no excuse to delay an RFP which will specifically test the market for the benefits of retirement/displacement of Entergy's high cost, gas generation.

In its Retirement Study, Staff identified the potential for an overlapping impact on retirements/displacements when incremental requirements are addressed. While that impact may exist, it does not provide any basis to diminish the importance of an RFP specifically focused on retirements. In fact, in order to insure that both issues are fully and fairly considered and that

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3 LPSC January, 2006 B&E Official Transcript at page 73.

4 See Entergy 10-K Annual Report, March 10, 2006, (p 126). The purchased power costs probably include some off-peak, low cost baseload purchases, but the vast majority of the purchases making up this number are from gas purchases. Also, while the purchased power costs do not include a capacity payment, the differential between the purchased power costs and the costs of Entergy's gas-fired generation units is probably adequate to include a capacity payment if required by the market and still provide substantial savings to ratepayers. An appropriate RFP will answer this question.

benefits to the fullest extent possible are received from competitive markets at the earliest opportunity, LEUG proposes that Entergy's evaluation of its CCGT incremental capacity needs be addressed in an RFP that specifically includes both incremental needs and retirements/displacements – either the current RFP or a subsequent final RFP issued within the next 2-3 months – there should not be a delay until September. Entergy has acknowledged that the solid fuel and CCGT product requests are designed to respond to different supply objectives and will not be compared against each other during the evaluation process, so the solid fuel process should not be detrimentally impacted.

II. THE RFP MUST INCLUDE AN EVALUATION METHODOLOGY THAT FAIRLY CONSIDERS THE POTENTIAL FOR ECONOMIC BENEFITS FROM RETIREMENTS/DISPLACEMENTS

The Draft RFP provides that shorter term bids (less than 20 years), which may provide the best opportunity for retirements/displacements of Entergy's old gas fired generation, will not be rejected as nonconforming. However, such shorter term proposals will be evaluated over the 20 year term requested for CCGT capacity to meet incremental load and in a manner consistent with the long term, "incremental need" focus of the Draft RFP. Entergy will evaluate the shorter term proposals in a manner that will reflect assumptions regarding the cost of replacement power for periods within the planning horizon for which a proposal does not provide delivery. Assumptions regarding replacement power will be based on "point-of-view" assumptions regarding the cost of providing power offering functionality consistent with the objectives of the product. Clearly, Entergy's assumptions regarding replacement power, which will not be disclosed to participants, may be the deciding factor in the determination of the level of economic benefits provided by such proposals.

Additionally, the manner in which transmission is factored into the evaluation will have a significant impact on the ability to remove inefficient units from the supply chain. Studies associated with transmission upgrades that provide economic benefits to ratepayers have been underway for some five years, but, to date, LEUG is not aware of any economic upgrades that have been completed. And yet, Entergy advises in its response to questions that transmission studies to consider displacement of older gas-fired generation are ongoing and will not be completed in time to be made a part of this RFP. Again, it is difficult to understand how the continued delays associated with a focused retirement/displacement effort can be justified.

These issues clearly highlight the underlying problem of the RFP - it is not specifically focused on retirements/displacements. The Draft RFP should be modified to include an evaluation methodology designed specifically to fairly and accurately consider the opportunities for retirements and displacements of Entergy old, gas-fired generation, including the impact of economic transmission upgrades.

III. THE IMPACT OF CAIR MUST BE CONSIDERED IN THE RFP EVALUATION METHODOLOGY AND RATEPAYER SAFEGUARDS MUST BE INCLUDED

On March 10, 2005 the Environmental Protection Agency ("EPA") issued the CAIR, which will permanently cap emissions of sulfur dioxide ("SO2") and nitrogen oxides ("NOx") from electric generation units ("EGUs") in 28 states, including Louisiana, in the eastern U.S. When fully implemented, CAIR will reduce SO2 emissions in these states by over 70 percent and NOx emissions by over 60 percent from 2003 levels. Affected states must achieve the required emission reductions using one of two compliance options: (1) meet the state's emission budget by requiring power plants to participate in an EPA-administered interstate cap and trade system that caps emissions in two stages; or (2) meet an individual state emissions budget through measures of the state's choosing. The LPSC recently published notice of the opening of Docket U-29380 to collect information, solicit comments, and gather input on the impact that future

CAIR standards could have on the cost of power generation, fuel choice selection for electric generation, and the overall impacts that such a standard will have on rates. The LPSC will then provide input to the Louisiana Department of Environmental Quality in its consideration of the proper approach for Louisiana. CAIR will obviously have an impact on any long-term resource selected by Entergy to supply incremental capacity needs, and increases the benefits received from potential retirements/displacements of Entergy's old gas-fired generation, as well as the need to move forward without further delay.

The economic solid fuel resource selection made through the RFP could easily become an uneconomic choice if additional environmental upgrades or the purchase of credits are required by CAIR. Further, in the analysis of the economics of retirements/displacements, Entergy's old, gas-fired generation will necessarily be required to clean up operations or purchase offsetting credits in order to be in compliance with CAIR. CCGT technology can produce the same amount of electricity as Entergy's old gas-fired generation, but with potentially an 80% or more reduction in NOx emissions. Therefore, while environmental factors have not traditionally played a significant role in RFP evaluations, CAIR makes such considerations a necessity both from an environmental compliance and an economic standpoint. Further, ratepayers should be protected from any resource decision that becomes an uneconomic choice as the result of CAIR implementation.

LEUG appreciates the opportunity to submit the above comments and urges that they be incorporated in the RFP process. LEUG reserves its right to file additional comments as it may consider appropriate after having a reasonable time to review and consider any supplemental answers provided by Entergy in the question and answer process.

Respectfully submitted:

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March 10, 2006

VIA E-MAIL
AND U.S. MAIL

Ms. Laura Berryman
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RE: 2006 Long-Term RFP
QF restrictions

Dear Ms. Berryman:

I am writing on behalf of Calpine Corporation ("Calpine") to strongly object to a provision in Entergy Services, Inc.'s ("Entergy's") draft 2006 Request for Proposals ("RFP") for Long-Term Supply Side Resources issued recently, as well as comments made by the consultant to the Louisiana Public Service Commission ("LPSC"), Mr. Matthew I. Kahal, at the February 23, 2006 Bidders' Conference held in Houston, Texas. Calpine owns and operates, through various subsidiaries, a number of Qualified Facilities ("QFs") which may bid into the RFP.

Entergy's draft RFP states, at p. 4, "ESI invites proposals from all potential suppliers who are capable of meeting the conditions identified in this RFP, including proposals from . . . Qualifying Facilities ('QFs')." The draft RFP goes on to state, "However, proposals from QFs will not be provided any form of preference or enjoy any priority of selection in the RFP based solely on their QF status." (*Id.*) Mr. Kahal echoed the foregoing statements at the February 23rd Bidders' Conference held in connection with the RFP, by claiming that QFs (a) are not exempt from the LPSC's Market Based Mechanism Order ("MBMO"; LPSC General Order dated February 16, 2004); (b) must bid into the RFP to obtain long-term contracts with Entergy; and (c) will enjoy no priority of selection in the RFP process as a result of their QF status.

These statements would effectively negate QFs' rights under PURPA and the implementing regulations of the Federal Energy Regulatory Commission ("FERC") and state authorities, such as the LPSC. Pursuant to PURPA and the FERC regulations, incumbent utilities are required to purchase available energy and capacity from offering QFs, and must enter "legally enforceable obligations" for such purchases at the request of QFs. (*See*, 16 USC 824a-3, 18 CFR §292.303(a) and 18 C.F.R. §292.304(d)(2)). Similarly, under the LPSC's QF rules, QFs possess the right to require the incumbent utility (*i.e.*, Entergy) to enter long-term capacity contracts. (*See*, Sections 101(b)(9), 201(b)(3), and 204(d)(2) of the LPSC's General Order dated February 27, 1998; "1998 QF General Order"). Contrary to Mr. Kahal's assertions, which apparently were made as if they carried the imprimatur of the LPSC, QF long-term capacity contract offers made pursuant to PURPA are governed by the LPSC's 1998 QF General Order and not the MBMO.

In short, Calpine objects to Entergy's attempt through the RFP, and Mr. Kahal's agreement with such attempt, to eliminate its rights as a QF to require Entergy to enter long-term capacity contracts. Therefore, Calpine respectfully requests that the RFP be modified and the above-quoted statements removed therefrom. Calpine further requests, in order that the RFP may comply with PURPA and the FERC and state regulations implementing PURPA, that QFs be given priority in the selection process of the RFP.

Should you have any questions concerning this correspondence, please feel free to contact me at (601) 879-3714.

With kind regards, I am

Sincerely,

Chip Estes, By LFP with permission

Bryan W. "Chip" Estes

cc: Chairman James M. Field (Louisiana Public Service Commission)
Commissioner Foster L. Campbell (Louisiana Public Service Commission)
Commissioner Lambert C. Boissiere, III (Louisiana Public Service Commission)
Commissioner Jack A. "Jay" Blossman, Jr. (Louisiana Public Service Commission)
Commissioner C. Dale Sittig (Louisiana Public Service Commission)
Mr. Matthew I. Kahal (Exeter Associates, Inc.)

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March 17, 2006

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Dear Ms. Berryman:

Plum Point Energy Associates, LLC hereby submits its comments to Entergy Services, Inc.'s ("Entergy") DRAFT 2006 Request For Proposals (RFP) For Long-Term Supply-Side Resources dated January 31, 2006 (the "Draft RFP"). Last year, Plum Point participated in the collaborative regarding barriers to competition in the Entergy generation markets, and we appreciated the opportunity to help Entergy try to lower its costs to ratepayers through an RFP process. We were optimistic that the Draft RFP would allow an opportunity for a fair evaluation of a multitude of proposals resulting in Entergy securing sufficient reliable resources to satisfy its true long term needs in a least cost manner. This would surely help ratepayers mitigate the other increases that were found necessary in recent months, as well as the fuel cost increases Entergy's ratepayers have borne as the price of natural gas has risen so severely in the last few years.

After reviewing the Draft RFP, however, we have a number of concerns we believe should be addressed to ensure optimum benefit for ratepayers sooner rather than later. In general, our concerns surround the limitation on the total amount of new baseload resources to be procured, the transmission analysis to be used to justify those bids accepted and the new requirements for bidders (which weren't discussed in any detail during the collaborative). Each of these issues alone could result in lower participation in the RFP, and when taken together they certainly could limit the positive impact the RFP would have on costs for Entergy's ratepayers. By proactively addressing these issues, Entergy could dramatically increase the magnitude of the likely positive results for Entergy and its ratepayers in the long term.

1. Entergy should evaluate the economics of securing resources to meet their full stated need.

Entergy has acknowledged its significant resource need, yet appears poised to limit the amount of baseload capacity it might procure in the 2006 RFP and in parallel add to a surplus of intermediate capacity. Entergy should proactively consider all bids for baseload capacity that make sense for ratepayers. This will not change the evaluation process, but (likely) change where the need "line" is drawn and quantify for the Public Service Commission and its staff the cost of postponing or eliminating the purchase of incremental baseload resources offered by third parties.

In its Fall 2002 RFP, Entergy identified a need for 1574 MW in 2003 (excluding EGSI-TX) and 4843 in 2010 (excluding EGSI-TX). Yet in the Fall 2002, January 2003, Spring 2003, Fall 2003, and Fall 2004 RFPs Entergy has only secured 839 MW of long-term resources (121

MW from affiliates). Currently, Entergy's stated need in 2006 is over 2000 MW (with a 2877 MW baseload deficit) with 1800 MW of additional need by 2011. This does not include the potential for retirements of any existing generation. Therefore it is unclear why Entergy proposes to secure up to only 1000 MW of baseload resources through the current RFP process.

When one takes into account the long lead time for baseload resource development and construction, and the length and lead time of Entergy's procurement process, there is an urgent need for Entergy to secure substantially more baseload resources for 2010-2012 in this 2006 RFP process. Plum Point believes that deciding upfront to limit the purchase of future baseload capacity ensures that Entergy's portfolio of generation will remain overly heavy on natural gas for years to come, leaving its ratepayers unnecessarily vulnerable to the high and volatile natural gas prices that have so materially impacted them in recent months.

Plum Point believes any potential future resource opportunities "lost" by postponing procurement of additional baseload resources are dwarfed by the fuel cost impact on ratepayers of continuing to rely so heavily on its old, inefficient natural gas generation for longer than absolutely necessary. And given that demand for new generation capacity is surging across the country, the likelihood of constructing plants 4 to 7 to 10 years from now at less cost than can be secured today is a very large risk for Entergy to take – one that the ratepayers would have to shoulder if its decision is incorrect in hindsight.

2. Entergy should postpone consideration of imputed debt related to evaluation of short listed bidders.

While Plum Point acknowledges that this issue was raised during the collaborative, it was also acknowledged to be controversial. This issue should be vetted and publicly debated in an open process (that runs parallel to the economic evaluation period and should not delay it in any way) before imputed debt is applied to potential purchases from IPPs.

What is clear about using imputed debt in the evaluation of RFP bids is that nothing is clear. The "real" cost to ratepayers of the potential impact on Entergy's credit rating as a result of a long term purchase from a third party versus the impact of adding debt directly to its balance sheet is unquantifiable at this time. It isn't appropriate to consider such a vague criterion when evaluating the bids given that there is no specific related cost that ratepayers will bear, and not appropriate to implement such a complex evaluation criteria without close examination of the impact.

This issue has been and continues to be addressed in many jurisdictions. In many cases a large record was developed that including an imputed debt in an RFP evaluation can lead to inefficient results, and selection of higher cost resources. Plum Point believes that a technical conference or other forum should be used to ensure that Entergy's ratepayers are not unnecessarily prevented from benefiting from competitive power purchases due to imputed debt. Ratings agencies acknowledge that utility self-built assets and the resulting additional debt burden are also evaluated when determining a utility's credit rating, even if it is presumed that the asset will be placed into ratebase. For example, in a recent examination of electric rate increases in Nevada, the addition of debt associated with a proposed self-build was considered by Standard & Poors to be a significant risk for the utility's credit rating when compared to the purchase of power from a third party.

3. Entergy should release its fuel forecast with the RFP or the Independent Monitor should formally validate the forecasts as reasonable and internally consistent with each other.

Fuel is the largest cost of most supply side resources. More than anything else, the fuel forecast and sensitivities to this will drive the process and the appropriate resource mix. While Entergy has gone to some lengths to explain the evaluation process and make it as transparent as it deems appropriate, not disclosing the key inputs that are outside of the bidder's control can greatly influence the evaluation process and creates an opportunity for bias, or at least creates suspicion of bias.

In addition, by disclosing the fuel forecast used in the evaluation, it creates the opportunity for bidders to provide value to Entergy and its ratepayers by proposing features that reduce the overall cost. For example, if a bidder has the ability to fix its fuel price at a level that is lower than the evaluation forecast; it reduces both the evaluation cost and evaluated risk of the proposal. A transparent process also leads to an efficient process and a better result. Rather than Entergy use a proprietary fuel forecast that it feels is confidential, one solution may be for Entergy to use a fuel forecast published by an independent third party, or even a range of fuel forecasts including sensitivities. Another "glass half-full" solution would be for the Independent Monitor to evaluate the fuel price forecasts and validate their reasonableness by examining the data underlying them. This would at least ensure appropriate, consistent application of such forecasts in Entergy's evaluation of the bids received.

4. Entergy should not simply view transmission upgrades as a cost in its evaluation.

An issue not just facing Entergy, but facing load serving entities across the country is that investment in the transmission system has lagged new load growth. Entergy and other utilities are entering a period where transmission investment needs to catch up to the new wholesale markets. To the extent that a new generation resource leads to efficient use of the transmission system, or helps to justify the cost of much needed transmission upgrades, this should be viewed as a net benefit to the system.

It is unfair to penalize a new generation resource with the cost of transmission upgrades which might help deliver that (new, low cost) resource to load without including consideration of the benefit of the transmission upgrade in delivering power from all resources to load within the market. The overall cost savings due to more efficient dispatch of generation, the reliability benefit of the transmission upgrade, and the increased use of the transmission system due to the increased capacity will, in most cases, approach or outweigh the additional cost of the transmission upgrade. Furthermore, without the specific transmission upgrade, other transmission upgrades will be required to serve growing load. To view the entire cost of transmission upgrades associated with a bid without these benefits seems seriously shortsighted and will perpetuate an underbuilt transmission system.

5. The detailed due diligence list presented in Appendix I is unduly burdensome.

An additional step in the 2006 RFP process not included in past RFP processes and not discussed during the collaborative process is the detailed due diligence embodied in the due diligence list in Appendix I upon Bidders being named to the Preliminary Shortlist. It is unclear how this information will be used for their analysis of the bids. For example, if a Bidder is unable to answer a number of questions on that list, what are the ramifications?

Bidders are already providing a significant amount of information which is requested in the Appendix C bid package which covers every major area of the bid projects, which has been the basis of Entergy's selection in the past. Appendix I goes beyond the information in the Appendix C bid package and adds a detailed due diligence step to all bidders selected to the Preliminary Shortlist. Specifically, all Bidders named to the Preliminary Shortlist must provide all information requested in Appendix I within 2 weeks. Appendix I contains an exhaustive list of information (9 pages single spaced), much of which may be irrelevant to a specific project, and immaterial to the evaluation of a proposal.

The quantity of information requested in Appendix I is unduly burdensome and not realistic given the two weeks Entergy provides to comply. Entergy does not need to review every detailed aspect of a generator in order to enter into a long-term purchase arrangement, but should be satisfied with a certain amount of due diligence, reliance on the qualifications and experience of the counterparty and the performance guarantees of the contract backed by commercially reasonable security. This is the standard throughout the industry for such power purchase arrangements, including long term, base load purchases. Rather than have an exhaustive list such as presented in Appendix I, Entergy should simply request additional project specific due diligence information where appropriate, and limited to areas of deficiency in the original proposal response package. This type of flexible approach will help streamline the process for Entergy and bidders, and avoid unnecessarily eliminating proposals due to onerous requirements.

Conclusion

Entergy has a very large resource deficit which can be met most reliably and economically by long-term supply-side resources. This has been the case since Entergy's Fall 2002 RFP. The 2006 RFP presents an opportunity for Entergy to proactively relieve its ratepayers of significant fuel prices impacts that are occurring today and will continue to do so under the current proposed level of capacity to be purchased (or self-built). We urge Entergy to accept our comments with that in mind.

Sincerely,

Lynne Mackey

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Re: Draft 2006 Request for Proposals (RFP) for Long-Term Supply-Side Resources

Ms. Berryman:

Pursuant to the request for comments within the text of the RFP, requests for comments by the Louisiana Public Service Commission, and requests for comments at the RFP Technical and Bidder Conferences, Williams Power Company, Inc. hereby submits its comments on the RFP.

Background:

Williams Power Company, Inc. ("Williams" or "WPC") has had a significant participant in the southeast power and gas markets for the last six years through Williams' tolling arrangement for the Cleco Evangeline facility. The Cleco Evangeline facility, located in St. Landry, Louisiana, is an approximately 765 MW state of the art combined cycle plant that is staffed 24 hours a day and more than capable of providing the type of capacity and energy that Entergy is requesting. Williams maintains an east rotation of ten real-time traders/dispatchers in Tulsa who manage both the tolling arrangement with Cleco Evangeline and other arrangements throughout the southeast. Williams submitted responses to several of Entergy's recent RFPs, and has supplied capacity and energy to Cleco Power, CSW, and others at various times over the past six years through several power purchase agreements. Most recently, as a result of Cleco's 2004 RFP, Williams entered into a new PPA to sell 500 MW from the Cleco Evangeline facility to Cleco Power through 2009.

Additional background information about Williams and its corporate parent, The Williams Companies, Inc. ("TWC"), is included in Appendix A to this letter.

Entergy Draft RFP Comments:

1. Requiring that bids be binding limits the range and type of responses.

It is Williams' understanding that all offers submitted in response to the RFP must be legally binding obligations of Williams. Entergy's documents include extensive representations, warranties, and covenants regarding the binding nature of offers. Williams takes this requirement very seriously, and does not indicate an offer is binding unless the company has secured all necessary internal approvals and stands ready to perform the obligations required under the terms of the product offered. As discussed further below, it is difficult for Williams to comply with this requirement because of the expected time from bid submission to final LPSC approval, certain corporate governance compliance issues, and market risks that are compounded by the length of the RFP process. These factors not only affect Williams' ability to submit binding offers, but probably also impact the value of the RFP process to Entergy's customers by forcing bidders to increase their prices.

The length of time from initial bid submission to final contract execution (and approval by the LPSC) burdens bidders with risks that probably limit the scope and pricing of products that bidders are realistically able to offer. The RFP currently proposes a schedule that requires bidders to submit binding proposals in early May, 2006, and predicts completion of negotiations and execution of definitive contracts by February 1, 2007 (or March 30, 2007 for solid fuel). Then the LPSC has a statutory time period of [90 – 180] days to approve the transaction. All in (and assuming no delays), the process can reasonably be expected to take at least one year before any offer will become legally binding upon Entergy.

For a seller to offer to sell power in Entergy's RFP, the seller has to be willing to bear the risk of potentially extreme swings in the cost of the commodities used to produce such power for up to a year, while having no certainty that Entergy will ultimately buy the power. As we have witnessed particularly painfully over the past year, energy commodity prices can be extremely volatile and unpredictable. Natural gas prices have swung from ~$7.00 to ~$15.00 per MMBtu in the forward markets, and even more dramatically in the daily markets over the past eight months. Coal prices have been volatile as well. Power prices are correlated to the prices of natural gas and coal, and have correspondingly swung widely over the same time period.

The risk and cost associated with long term proposals such as those requested by the RFP provide strong incentives for sellers to either withhold offers of certain types of products and/or to increase the price to protect against of the risk of price increases. Commodity prices can be locked in through contracts at least in the near term (less than three years) and possibly for longer terms through bilateral contracts and/or asset purchases. However, there can be a significant cost to such hedges, and the seller ultimately bears the risk and cost of having to unwind such hedges if the seller ultimately doesn't win the RFP. The net result is that sellers may not be able to offer the lowest possible price for a product, and even if the lowest price offer is selected from the RFP process, Entergy's customers end up paying more than they might have.

The requirement that all offers be legally binding also limits offers (at least from Williams) because the level of approval required for a 20 year transaction is the board of directors of The Williams Companies, Inc. It is impractical and unwise to exercise the board of directors of a company to obtain approval for an offer or offers to be made in response to an RFP when there is no certainty whether any of the products offered will even make the short list. As a result, sellers such as Williams narrow the scope of products offered (to avoid creating confusion), and Entergy receives a smaller and narrower selection of responses from which to select winning products. Additionally, similar to the discussion above, sellers must offer higher prices in order to ensure the board of directors that the product(s) offered will provide a minimum level of value even in the face of commodity price changes.

Other states, such as California, have been able to streamline the request for proposal process so that sellers only have to submit legally binding offers in the final round, and the legally binding offers only have to be held open for twenty-four hours. Ideally, only the final offers submitted by a narrow short list of probable RFP winners should have to be legally binding.

For all of these reasons, the requirement that offers be binding should be modified such that at least initial offers should be permitted to be non-binding. Binding offers should only be required in response to a second or third round request to short list winners that they refresh prices of a smaller group of probable winning products. Ideally, bidders would be notified that they had won within a very short time period (24 hours) after submitting their final binding offer.

2. Understanding the System (for Most Economic Application of Capital).

The most cost effective and prudent way to manage the reliability and low cost of electric service in Louisiana is to evaluate load, transmission, and generation comprehensively on a statewide or larger regional basis. This regional approach should not only include all of the Entergy operating companies territories in Louisiana (and potentially beyond), collectively, but should also include evaluation of load, transmission, and generation respectively of Cleco, SWEPCO, LA Gen, Lafayette, LEPA, merchant generation, and all other load, transmission, and generation participants in Louisiana. Entergy's proposal to create an Independent Coordinator of Transmission ("ICT") with SPP having some oversight role is a step in the right direction.

One additional step that would help with regional asset planning analysis would be to participate in SPP's pending day two market. SPP's market development is expected to ultimately provide hourly and intra-hourly "locational marginal pricing" ("LMP") at each load and generation point on SPP's system. Variations of LMP between generation and load points would validate or invalidate claims of congestion and congestion relief associated with load and generation across the entire State of Louisiana. The relative strength or weakness of the LMP pricing signals would indicate where additional transmission and/or generation are needed. Regionally coordinated dispatch of the entire fleet of baseload, intermediate, and peaking generation resource would better optimize the cost across the state than would duplicate balkanized resource management plans within individual utility control areas.

Entergy and others are currently involved in multiple proceedings at the LPSC which include evaluating transmission upgrades and possible retirements of Entergy's older generation. An interim conclusion reached in the retirement study proceeding is that Entergy has a large number of older generating units that operate at very high inefficient heat rates that should be retired. The cost of operating such inefficient units has been increased dramatically by the historically high prices of natural gas during the past several years, and especially since hurricanes Katrina and Rita. Given the extremely high cost of operating Entergy's older inefficient units at the current high gas prices, it is somewhat puzzling that Entergy is issuing a long-term resource planning RFP instead of seeking short or intermediate term products to enable Entergy to rely less on its older inefficient units. Of course, electric power supply resource planning should include a reasonable balance of baseload (solid fuel), intermediate, and peaking resources, and Entergy's system (all of Louisiana) seems to be overly dependent on natural gas intermediate and peaking resources. However, committing to build a solid fuel facility which will take four or more years to enter service is not the most immediate way to provide fuel cost relief to Entergy's customers. As long as natural gas prices remain at historically high levels, the fastest way to save money for Entergy's customers is to acquire energy from the efficient new merchant combined cycle and peaking facilities in Louisiana and rely less on energy from Entergy's older, inefficient, high heat rate natural gas fired generating facilities. Williams believes this RFP should be expanded to include short and intermediate term products in addition to long term.

With Cleco's Rodemacher project approved, and with Entergy, NRG (LA Gen), and others considering possible coal projects, it is even more critical to consider the overall regional implications of the expected and potential baseload power plant additions. It is possible that Entergy's proposed Little Gypsy repower provides the best cost benefit for Entergy's customers, but it is imprudent to decide to make the ~$1 billion Little Gypsy repower commitment before the analysis of Entergy's transmission system is completed. There may transmission investments that could be made that would increase the reliability of the grid in Louisiana and reduce the importance of Little Gypsy and/or increase the viability of alternative generation sources for far less than $1 billion dollars. It is also possible that some of these investments could be funded with private money, rather than through utility rate base.

Long term asset decisions such as the Little Gypsy repower project and other potential purchases through the RFP should be made based on complete evaluation of the regional transmission, load, and generation situation. Further, near term transactions (power purchases from existing modern combined cycle facilities) should be explored first or simultaneously because they have the potential to provide fuel cost relief to Entergy's customers much sooner than the Little Gypsy repower (and without the ~$1 billion addition to rate base). Therefore, Williams suggests that the RFP should be delayed to allow the pending retirement and transmission studies to be completed, and that short and intermediate term products should be sought sooner rather than later, either as part of an expanded version of this RFP, or through another RFP.

3. Other Comments on the RFP.

In addition to the above global comments, Williams has several comments and questions about specific provisions of the RFP, which are included in chronological order in Appendix B to this letter.

4. Conclusion: Need for Diversity of Supply Products and Comprehensive RFP.

In summary, Williams believes the RFP should be expanded, even if it means some delay, in order to ensure that asset planning decisions are made on the most fully informed basis possible rather than on the basis of incomplete information (i.e., before transmission studies are completed). In the interim, Entergy should pursue a broader scope of short term and intermediate products which could provide more immediate relief from the amplified cost effect of high gas prices and high heat rate (high gas consumption) generating facilities.

Thank you for the opportunity to provide comments on the RFP. Please do not hesitate to contact me if you have any questions about the foregoing or would like to discuss any of this further.

Cordially,

John D. Cooper

cc: Ms. Elizabeth Benson
Mr. Matthew Kahal

want to compliment Entergy on all the extensive work you have done regarding the 2006 Long Term RFP. All of your hard work and dedication is appreciated. You put together some excellent briefing materials that were quite informative and helpful in developing products that will hopefully be of benefit to Entergy and ratepayers.

Please allow me to point out a few other items that we would ask you to consider as you finalize your RFP:

1. You are well aware of Commissioner Jimmy Fields request that in addition to incremental supply, Entergy should also evaluate replacement options for economic displacement of existing facilities. It is our belief that mid-term products other than specific life-of-unit offers should be evaluated by Entergy in this RFP as well. It is also our belief that the evaluation of these offers should include a comparison specifically to those units they are targeted to displace and the offer should not be "filled in" for the balance of the life-of-unit terms with a replacement options developed by Entergy. The comparison should simply be the old unit for 3 to 5 years versus the new unit for 3 to 5 years.

2. Due to significant fuel costs, the fuel savings from new units has greater dollar impact than ever before. In order to facilitate access to these facilities, Entergy should consider new transmission upgrades from an economic perspective when evaluating specific bids from generators.

3. I can appreciate your need to diversify the fuel needs of your generation fleet. In light of that, I would ask that you reconsider the need for additional gas generation from a long term resource. There is an abundance of merchant generation available in the Entergy region and the risk of those resources rest with their owners. Committing Entergy ratepayers to another 30 year commitment for gas when there are numerous resources to choose from that do not carry that commitment seems like an additional undue burden on ratepayers when they could have the flexibility of choosing options form the merchant fleet.

I appreciate your time in reviewing these comments and am available to discuss further or clarify any questions you may have.