Entergy Services, Inc., on behalf of Entergy Gulf States, Inc. and Entergy Louisiana, LLC (collectively, the "Companies") submit the responses below to the Comments of Williams Power Company, Entegra Power Group LLC, and Suez Energy, N.A. (collectively, the Joint Participants), the Comments of EnerNOC, and, to the extent applicable, the Comments of the Staff of the Louisiana Public Service Commission.

Response to Joint Participants

1. Bid/Economy Energy Evaluation

The Joint Participants state that Entergy Services, Inc. ("ESI") should establish a ProSym base case without economy energy purchases in order to evaluate PPA proposals submitted in response to the RFP. As noted during the collaborative meetings held in June and July 2006, and as affirmed by the Louisiana Public Service Commission Staff in its comments, using such a case is not reflective of the market and is not realistic. The economy market is a reality and to ignore this market in the analysis of the proposals would distort the calculation of the benefits and costs of proposals to customers. ESI believes the proper approach is to model the economy market based on reasonable assumptions. The evaluation methodology and the assumptions regarding economy energy will be reviewed with the Independent Monitors ("IMs") and the Staffs of interested regulatory commissions overseeing the Fall 2006 Limited-Term RFP to ensure the evaluation methodology and assumptions are reasonable and result in a fair and impartial evaluation process. As noted during the September 11, 2006 Bidders' Conference, the IMs have reviewed the economy energy modeling assumptions and agree that the assumptions are reasonable and reflect the Entergy System's actual economy purchase experience. As noted in the Staff's comments, ESI has agreed to conduct sensitivity studies on the economy energy assumptions when evaluating displacement resources.

2. Transmission Evaluation

The Joint Participants' comments on the RFP indicate a fundamental lack of understanding regarding the manner in which transmission issues will be evaluated in the context of the Limited-Term RFP. For example, the Joint Participants express concern with "the fact that the Entergy Transmission Business Unit ("TBU") transmission evaluation does not reflect the actual dispatch of the Entergy System." As the Companies have stressed throughout this process, this is not the appropriate forum in which to address issues regarding TBU's modeling of the transmission system. Issues such as that need to be addressed through the stakeholder processes being conducted by the TBU and by the Independent Coordinator of Transmission for the Entergy System or in other proceedings before the Federal Energy Regulatory Commission, as appropriate. The LPSC Staff also recognizes that those issues do not relate to the design of this RFP, and thus are not appropriate for this forum.

The Joint Participants also stated that "EMO [(now SPO)] expressed its frustration with the issue, but claimed an inability to address it due to FERC-based communication prohibitions." This statement is not accurate. Rather, the statement made at the collaborative meeting was that the appropriateness of the assumptions used by the TBU to grant or deny requests for transmission service is determined by the FERC, not by the SPO Transmission Analysis Group. SPO did not suggest that the FERC-based communication prohibitions influence the transmission modeling assumptions used by TBU in its evaluation of transmission service requests.

Contrary to the assertion of the Joint Participants, the issue cannot be resolved by "more transparency with respect to critical information in the market place and continued dialogue between Entergy, the regulators and market participants." Although it is not clear what this "critical information" is that would provide "more transparency" to the merchants, it is clear that it is the FERC that determines the appropriateness of the assumptions used by the TBU to grant or deny requests for transmission service.

Moreover, the models and input files used by the Transmission Analysis Group ("TAG") in its evaluation of the deliverability of the proposal resources will be posted on the RFP website prior to the submission of the proposals. This is an accommodation made to bidders as a result of the RFP collaborative process that began in 2005. Thus, all market participants have the opportunity to replicate the TAG's Deliverability Analysis. In addition, bidders are permitted to provide suggestions as to the possible means to mitigate constraints that may limit the ability to obtain transmission service for the proposal resource. Upon request, bidders will be provided the results of the System Impact Study performed by the Entergy TBU for the bidder's proposal resource. Finally, the Independent Monitors oversee the RFP evaluation process, including the specific analysis that is made by the TAG of the proposal resources. Thus, bidders should be reassured that the transmission evaluation process is conducted in a fair and impartial manner.

The Joint Participants also state concern in several cases that a proposal "might be burdened with a transmission adder" or other "costs for transmission investment." The Deliverability Evaluation methodology (described in detail in Appendix E-2) seeks to identify whether the ability to secure firm transmission service for proposed resources, or whether transmission constraints for a proposed resource may limit deliveries. Because this RFP seeks limited term resources for which undertaking significant transmission upgrades would not be feasible, the TAG's Deliverability Analysis will not consider any upgrade costs that may be identified by the Entergy TBU in the System Impact Studies. Instead, for products other than those specified in the RFP for which network transmission service for the full contract term must be obtained prior to the start of the delivery term, the Deliverability Analysis will consider how network transmission service could be obtained for a proposed resource with transmission constraints that may limit deliveries either through delisting and/or displacement. These options are designed to ensure that the System has the flexibility to use the most appropriate course of action to obtain network transmission service for a proposed resource.

3. Contract Term

The LPSC Staff correctly set forth in its Comments the issues involved in extending the Fall 2006 Limited-Term RFP proposals to contracts of between six and ten years in length. In a letter dated October 11, 2006, the Companies explained why six to ten year contracts will not be utilized in the Fall 2006 Limited-Term RFP to meet the Entergy System's incremental capacity needs. In this letter, the Companies explained that such contracts, if certain conditions are fulfilled, may be used to displace older gas-fired generating units. The pertinent excerpts from the Companies' letter (excluding the opening and closing paragraphs) are set forth below:

> As discussed at length during the collaborative process, the Companies do not believe that it would be in the best interest of their customers to enter into contracts with terms greater than three years, unless such contracts can serve as a bridge to the completion of a solid fuel project. The Strategic Supply Resource Plan ("SSRP") developed for the Entergy System[1] seeks to balance multiple planning objectives, including

[1] The "Entergy System" or the "System" refers to the interconnected, coordinated, electric generation and bulk transmission systems of the five Entergy Operating Companies that provide retail electric service to their customers. In addition to EGS and ELL, the five Operating Companies include Entergy Arkansas, Inc., Entergy Mississippi, Inc., and Entergy New Orleans, Inc.

reliability, production cost, and risk mitigation. As part of the supply strategy, the System has implemented a "portfolio" approach to limited-term (one to three year contracts) purchases based on the following principles:

1) The resulting portfolio includes a mix of products with varying contract durations (multi-year contracts expire at various times over three years).

2) The laddering of contract expiration dates provides flexibility that enables the System to respond to changing market conditions and dynamic System requirements.

3) The portfolio approach limits risks by diversifying contract expiries.

The System's strategy of seeking limited-term products of one to three year terms coupled with long-term life-of-unit resources, whether acquisition or PPA, has been successful and appropriately balances the System's planning objectives while providing ample opportunity for the wholesale market to participate in the System's portfolio needs over a wide range of time horizons. The four and five year term contracts that can serve as a bridge to deliveries from long-term solid fuel resources are consistent with this strategy.

Longer duration intermediate-term products, other than when used as a bridge to deliveries from a long-term solid fuel resource, generally limit the System's ability to respond to changing market conditions or dynamic System requirements and expose customers to greater risk without providing any clear benefit relative to the current strategy of one to three year contracts coupled with life-of-unit resources. Moreover, adding such contracts will not increase the quantity of intermediate-term contracts that the System needs to meet reliability requirements but will, instead, serve only to reduce the quantity of power purchased through one to three year contracts.

Entering into longer-duration intermediate-term contracts would restrict the System's ability to manage the laddering of contract expiration dates. The current approach of "laddering" contracts of one- to three-year terms provides flexibility that enables the System to adjust the portfolio as needed to meet dynamic market conditions. The three year planning horizon also is roughly the lead time required to execute gas-fired self-supply options. The flexibility to execute self-supply options timely is particularly important given price uncertainty beyond three years.

The use of six to ten year contracts also is unwise given the lack of price transparency and liquidity in the Entergy System region beyond three years due to the absence of an active market beyond this period. Further, the capacity market in the region served by the Entergy System is expected to tighten over the next five years, which likely will place upward pressure on market prices. Therefore, longer-duration intermediate-term products, such as six to ten year contracts, would expose the Companies to substantial uncertainty as it relates to the availability and pricing of resources to meet the needs of their customers. The bottom line is that the use of six to ten year contract terms exposes customers to unnecessary risk without providing any meaningful benefit.

Given these concerns, the only circumstances in which the Companies believe that contracts of between six and ten years may be appropriate for the Limited-Term RFP is if such contracts could be used to displace the Companies' older gas-fired generation in a manner that produces savings to customers. In order to meet this test, the following requirements would have to be met:

1) The Companies first will complete their selection process for the resources needed to meet their incremental needs. After this has been done, the remaining candidate purchase power resources will be evaluated as "displacement" resources to be acquired if they can provide net savings to customers.

2) The total delivered cost of the merchant resource would have to be less than the total delivered cost of the capacity and/or energy being displaced from the Companies' generating resources. This means that it is not enough for the complaining merchants to point to the operational efficiency of their units; this operational efficiency must translate into a proposal price that actually produces savings to customers. The Companies' experience to date is that few merchants are willing to price proposals at the 7000 heat rate that they use to estimate potential savings, such as those previously provided to the Commission.

3) Only MUCPA (fully dispatchable CCGT) and baseload proposals may be considered for displacement opportunities, and such resources may [be] submitted for contract terms of up to ten years. Thus, the resource must first submit a standard five-year proposal, and if that proposal is not accepted as an "incremental needs" resource, it remains eligible to be selected as a displacement resource. If the bidder desires consideration of a six- to ten-year contract, it should so state in the "Special Considerations" of the proposal form and also should indicate there the pricing terms for the displacement proposal. For example, if the bidder desires a ten-year contract, it should so state and indicate how its pricing terms for the ten years (or years six to ten) would differ from its five year

proposal. Both the Companies and the bidder should have flexibility in negotiating the appropriate contract terms, based on the most cost-effective contractual arrangement.

4) It will be necessary for resources displacing the Companies' generation to qualify for long-term network transmission status prior to the effective date of any definitive agreement. The Companies will not take transmission risk in the same manner that is done for at least the first year of most of the products being solicited in the Limited-Term RFP.

5) Because the proposal resource will have to serve the same supply role as that served by the unit being displaced, the proposal resource will be required to provide the same operational functionality of the displaced resource. If the supply role is not matched, then the Companies' operational needs will not be met, and the proposal resource would not serve the purpose for which it would have been purchased. For example, such resources may be required to install Automatic Generation Control ("AGC") capability so that the unit can respond to System dispatch instructions in the same manner as the unit being displaced.

6) Proposals for contracts of six to ten years for the purpose of displacement would need to be considered on a timeline separate from the timeline established in the Limited-Term RFP to select proposals that will serve the Companies' incremental capacity needs. The Companies must focus their resources first on ensuring that they have adequate capacity to meet peak planning requirements before turning to the possible displacement of the Companies' existing generation with six to ten year proposals. A great deal of data and an evaluation process would have to be developed in order to consider these longer length proposals. This simply cannot be done with two RFPs underway.

7) In addition to the operational and economic issues that must be analyzed, the number of resources that may be considered for displacement must be limited by practical considerations regarding the number of transactions that the Companies can undertake at one time. The Companies are engaged in ongoing procurements to meet their incremental capacity needs, both in the Long-Term and Limited-Term RFPs, and the Companies' resources already are stretched as a result of the overlap of these two RFPs, which again, was undertaken at the behest of the merchants. In addition, the ratemaking and financial effects of a large number of simultaneous transactions must be considered.

8) The appropriate ratemaking treatment of resources used to displace the Companies' existing generation should be considered. For displacement to make sense for customers, the resource that is displacing existing generation must provide overall savings to customers. This means that displacement resources function effectively in an economy

> energy role, and their costs should be recoverable like other energy costs through the Companies' Fuel Adjustment Charges.

4. Date of Delivery

The Joint Participants request that the start date for contracts resulting from the Fall 2006 Limited-Term RFP process be accelerated from September 1, 2007 to June 1, 2007. This request cannot be accommodated. The Entergy System already has identified sufficient resources to meet its summer 2007 capacity need. In addition to resources owned or under contract, the System currently is in the process of conducting the 2006 Long-Term RFP, in which additional long-term load-following CCGT capacity is being sought. It is uncertain whether a capacity acquisition will result from the 2006 Long-Term RFP; however, if the Entergy System is successful in acquiring additional capacity, deliveries may commence as early as June 2007. Second, the schedule for the Fall 2006 Limited-Term RFP does not allow sufficient time to obtain regulatory approval for contracts with a start date of June 1, 2007. A September 1 start date, on the other hand, provides the Operating Companies at least the minimum time to seek regulatory approvals. The LPSC Staff has reviewed this issue and agrees that a June 1, 2007 contract start date does not allow sufficient time for regulatory approvals.

The Joint Participants also made inaccurate assertions that require correction and/or clarification by ESI. The Joint Participants suggest that the September 1 start date "extends the time that it will take for ratepayers to see savings through the displacement of Entergy's high cost gas units during the high cost peak summer months…" To the contrary, the Joint Participants fail to consider the fact that the opportunity to purchase limited-term resources is but one avenue available to displace the energy produced by the System's older gas-fired units. As the LPSC Staff points out, ESI has several procurement processes that it utilizes to obtain lowcost economy energy, including annual, seasonal, monthly, weekly, daily and intra-day purchases. As the LPSC Staff suggests, the Companies will continue to pursue short-term economy energy purchase opportunities to achieve energy savings during the summer of 2007. There is no reason to believe the strategy of relying on these shorter-term products to achieve energy savings would be less successful than possible purchases from the merchants to be submitted in response to the Fall 2006 Limited-Term RFP.

The Joint Participants also allege that proposals are penalized by the September 1 start date "by moving the net present value of the first period of significant savings to the end of the evaluation period." The September 1 start date does not penalize proposals in any way. The evaluation process will seek to determine the benefit provided by each proposal over the proposal term. For example, the evaluation process will assess three year proposals over the three years beginning September 1, 2007 and will recognize benefits provided over that term.[2] Further, this start date will be consistently applied. All proposals will be evaluated on the same basis.

5. Evaluation of Bids with Differing Delivery Terms

The primary measure of merit for ranking of proposals will be the net present value effect (on a per-MW basis) of the proposal on the Entergy System's total production costs, levelized over the term of the resource availability as appropriate for each proposal. As noted during the collaborative and noted in Staff's Summary of July 19, 2006 Conference Call, "It appears that agreement on these issues has been achieved. Initial bid rankings would be performed within PPA categories to identify the short-listed resources, but final selections would permit cross category comparisons to identify the most attractive bids." As discussed at the September 11,

[2] The exception is the Three-Year Reserve Capacity MUCCO, which begins January 1, 2008.

2006 Technical Conference and noted in the Staff's Comments, ESI also will rank proposals initially by product term as part of the screening analysis. This is noted in section 1.3.1.5 of the RFP.

6. Limits on Displacements or "Capacity Substitution"

As noted in ESI's response to the LPSC Staff's written questions, the Companies do not have a target level for capacity acquisition for displacement (capacity substitution); however, capacity substitution is contingent on the ability of the proposal to lower total production cost, and on the Transmission Service Request results from the Entergy TBU being received by and acceptable to ESI in its sole and absolute discretion. As noted in the Staff's Summary of the July 19, 2006 Conference Call, "Entergy's proposal to meet incremental needs first before moving forward with displacement transactions is both proper and consistent with the Commission's directive."

<u>Other Issues</u>

In its October 9, 2006 Comments, the LPSC Staff described the Fall 2006 Limited-Term RFP as seeking two types of resources that the Staff described as "Bridge Capacity" and "displacement" resources. The Companies wish to clarify that the two types of resources being sought in the Fall 2006 Limited-Term RFP are ***incremental*** resources and displacement resources. The bridge contracts are a subset of the incremental resources being sought and are expected to serve the needs of the Operating Companies from the date that deliveries commence to the expected start date of any long-term solid fuel projects or purchases that may result from the ongoing 2006 Long-Term RFP. Not all products are eligible to serve as "bridge" contracts. Rather, as set forth in the RFP, only the Baseload Product and the Dispatchable MUCPA product may be proposed as four and five year Delivery Terms. The remaining products may be offered only for up to three year Delivery Terms.

Response to EnerNOC Comments

Although ESI will evaluate the appropriateness of including demand response services in future RFPs, due to the extensive work that would be necessary to revise the Fall 2006 Limited-Term RFP and the timeline of the current RFP, ESI is not amending the Fall 2006 Limited-Term RFP to specifically include demand response products/programs. Nevertheless, ESI is interested in learning more about the demand response services EnerNOC suggested in its comments. While ESI is not committing to any potential arrangements or evaluation considerations regarding demand response services, ESI encourages EnerNOC and other parties providing demand response services to submit technical and operational specifications of such services outside of the RFP process. The Final RFP will include the instructions for submittal of such information.