ENTERGY FALL 2006 RFP
LPSC Staff Questions

Note: Some questions were drafted by market participants and are submitted by Staff as requested. Also, questions (1)-(3) below were submitted to Staff and Entergy, and we hereby provide the Staff response. We assume ESI will submit its own responses to these questions.

1. Under LPSC ratemaking, is PPA cost recovery comparable to an asset purchase (i.e., rate base return)?

Staff Response

No. PPA capacity charges are recovered as an expensive item under the Formula Rate Plans (FRP) approved by the LPSC for Entergy Louisiana and Entergy Gulf States. An additional rate base return would be an added cost and thereby would competitively disadvantage PPAs. The FRP recovery mechanism was agreed to by the Entergy Companies in settlement and does not create any incentive to avoid entering into meritorious PPAs.

Companies' Response

The Companies agree that the capacity cost recovery mechanisms in the Companies' Formula Rate Plans permit Entergy Louisiana, LLC and Entergy Gulf States, Inc. (for the costs allocated to the Louisiana operations of EGS) to recover the capacity costs associated with PPAs, and there is no disincentive to enter into PPAs. However, simply to clarify the Staff"s response, if the timing of the start date of a PPA does not correlate to the FRP rate change, then the capacity costs must be deferred until the next rate change. The Companies' offer no comment regarding the other matters addressed by the Staff in its response.

2. Does Entergy or Staff have a bias or preference for fixed fuel/emissions costs versus actual cost from a baseload resource.

Staff Response

The answer depends on the length of the contract. For short-limited term contracts, all else equal and if there are no significant risk premiums, a locked-in energy price would be desirable and would seem to be feasible. Longer term, Staff would be concerned that such a requirement might be burdensome and would discourage baseload bids, with little benefit for customers.

Companies' Response

All proposals are expected to incorporate any costs associated with the seller's compliance with the EPA CAIR and CAMR rules in their proposal prices

3. Does LPSC oversight and regulation of the competitive acquisition process impose LPSC regulation on other retail jurisdictions?

Staff Response

No. LPSC General Orders are carefully crafted to avoid such jurisdictional conflicts. The LPSC MBM order requires a stakeholder process, with Staff input, but generally leaves RFP design discretion to the utility (subject to after-the-fact regulatory review). Moreover, LPSC competitive procurement rules only apply to the resources acquired by the LPSC-jurisdictional utilities. Other jurisdictions are free to accept the LPSC framework (and typically do so) or utilize a different approach (e.g., Mississippi's Attala acquisition was outside the contemporaneous RFP).

<u>Companies' Response</u>

The Market Based Mechanisms Order does not govern capacity acquisitions by Operating Companies other than EGS and ELL.

4. With regard to arranging for contracts longer than five years, please explain the process and its timing. In particular, will the extension be negotiated prior to contract execution or after?

   A. Discussions regarding the potential to extend a five-year Baseload Product or Dispatchable MUCPA PPA for a period longer than five years will take place as part of the negotiation of the Definitive Agreement. In the event that the parties are unable to reach agreement on the terms of an extension, a Definitive Agreement based on the five-year proposal would be finalized and executed consistent with the RFP Schedule, and such Agreement may include a provision to allow for continuation of such discussions.

5. If a 5-year contract is awarded, and the bidder seeks an extended contract, is the bidder limited to the pricing terms in his 5-year contract, i.e., are those pricing terms a ceiling?

   A. The pricing associated with any extension of a five-year Baseload Product or Dispatchable MUCPA PPA for a period longer than five years will be negotiated between the parties based on the pricing of the five-year proposal, with consideration given for inflation and other external factors. Bidders are encouraged to NOT presume any contract length longer than 5 years when pricing their proposals.

6. With regard to capacity acquisition for displacement, does Entergy have (a) a target level; or (b) a ceiling level? In that regard, Potomac Economics noted that ESI has identified avoidable non-fuel costs for 1,500 MW of its existing reserve capacity. What is the significant of the 1,500 MW?

A. The Entergy System does 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 receipt of Transmission Service Request results from the Entergy Transmission Business Unit being received by and acceptable to ESI in its sole and absolute discretion. Initially, the generating units that are candidates for capacity substitution are the generating units that function in the in the reserve unit supply role, and t is these unit that that comprise the 1,500 MW of reserve capacity identified for capacity substitution. The reserve generating units primarily provide capacity and are generally not required for transmission reliability or expected to produce a significant amount of energy. Currently, there are approximately 1,500 MWs of generating capacity that operate in the reserve unit role.

7. With respect to the transmission or deliverability modeling, will ESI reflect the approved upgrades in the (a) Phase II economic upgrade study; or (b) the 2006 Transmission Study?

A. In connection with the deliverability analysis that will be conducted as part of this RFP process, the TAG intends to perform sensitivity studies for upgrades referenced in the question under certain circumstances, which are discussed in Section **5.1** of Appendix E-2. Unless the 2006 Transmission Study indicates that there would be no economic benefit to placing the Amite South/Downstream of Gypsy upgrades into service in 2008, the TAG will perform sensitivities that assume that those Amite South/Downstream of Gypsy upgrades will be in service in 2008. In the event that sensitivity studies are required to include the identified upgrades, the AFC models and seasonal cases will be used to determine the effects of the changes contemplated in those sensitivity studies to the transmission system

8. Will ESI's evaluation methodology continue to use the levelized net savings per kW-year as the bid ranking measure of merit?

A. Yes, the primary measure of merit 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. However, the evaluation teams will retain the discretion, subject to oversight by the Evaluation IM, to use the evaluation methods that they consider appropriate to identify those proposals that best meet the planning objectives to procure resources to meet Entergy Operating Companies' supply objectives and provide power at the lowest reasonable total cost.

9. Please explain how ESI intends to account for CAIR compliance costs as part of its economic evaluation methodology.

A. All proposals are expected to incorporate any costs associated with the seller's compliance with the EPA CAIR and CAMR rules in their proposal prices. When evaluating proposals with the PROSYM tool, dispatch adders for allowance prices for

SOx, NOx and Mercury are included in the generation cost of the Entergy Operating Companies' existing resources consistent with the CAIR and CAMR implementation dates. The allowance cost adders are based on a proprietary forecast of future spot allowance prices. In addition, the economy energy prices developed and used in PROSYM also incorporate these dispatch adders.

10. If the deliverability analysis indicates that a resource requires a network upgrade will the bidder be informed of that?

A. The deliverability analysis will not focus on upgrades, but rather on whether transmission service is available. Upon request, ESI will share the results Transmission Service Requests and/or the applicable AFC results with the Bidder.

11. Will the TBU presentation slides at the Technical Conference be made available?

A. Yes, all presentations made at the Technical Conference are available on the Fall 2006 RFP website.

12. Please explain ESI's reasons for not allowing bids longer than 5 years to serve as displacement resources.

A. Please see Section 1.3.1.2 in the Fall 2006 Limited-Term RFP.

13. Staff believes that an hour-ahead peaking resources can potentially allow Entergy to obtain unit commitment-related cost savings. Does Entergy agree? If not, please explain. If so, does the ProSym modeling account for these savings? Please explain.

A. Yes, ESI believes the Hour-Ahead Peaking product has the potential to obtain unit commitment-related cost savings, primarily related to the ability to count this product as intra-day reserves. However, ESI intends to use a spreadsheet model as the primary evaluation tool because ESI believes that the spreadsheet model is better suited to capture more of the intangible benefits that are associated with this product, beyond the unit commitment cost savings.

14. Please explain why peaking PPAs are limited to three years.

A. Consistent with the stated planning principles and objectives, the primary objective of this Fall 2006 RFP is to procure limited term resources (1-3 years). Only Baseload PPAs and MUCPAs have potential Delivery Terms greater than 3 years. These products have the potential to serve as a bridge to deliveries from specified long-term solid fuel resources that are selected from the ongoing 2006 Long-Term RFP, while peaking PPAs are not envisioned to serve this role.

15. At page 9 of the RFP, Entergy states that displacement energy is the savings from Entergy's own generating units. Does it also provide savings of economy energy purchases? Is this accounted for in Entergy's methodology? Please explain.

A. Displacement energy savings can come from any resource, including economy energy purchases. ESI's methodology for evaluating the potential displacement energy savings from proposed resources, including the use of Prosym, will capture those savings regardless of the source.

16. Please describe how RMR constraints are modeled in ProSym (since ProSym does not directly model transmission).

A. RMR constraints are modeled as commitment rules in PROSYM that effectively require units to be committed in the model (*i.e.*, on-line) for specific months of the year. The identification of the units and the months during which the commitment rules are in effect are based on SPO's load forecasts and rules established by TBU for specific load levels.

17. In the displacement savings analysis, does ESI include avoidable capital additions for the displaced, older unit? Please explain how this is determined. Is the annual revenue requirement amount included, or the total cash outlay for capital additions?

A. Yes, ESI will include avoidable capital additions in its analysis of displacement savings due to Capacity Substitution. When Capacity Substitution is evaluated, the estimated avoidable forward cost, both capital and O&M, of maintaining the existing generating unit is considered as potential savings. Using the estimated forward cost of maintaining existing fossil fueled generating units, an annual revenue requirement is calculated for avoidable future capital additions.

18. For MUCPA PPAs, is a toll arrangement (with Entergy supplying the fuel) a hard and fast PPA requirement or merely a preference? Can a MUCPA supplier provide its own fuel?

A. All MUCPA PPAs are tolling agreements under which ESI will provide the fuel. Seller may not supply fuel for the MUCPA PPAs. Sellers wishing to supply fuel should review the MUCCO products.

19. Under a MUCPA PPA toll, a heat rate curve is bid (plus or minus 3 percent). How are deviations (positive or negative outside the 3 percent) from that curve handled contractually? Are there compensatory payments?

A. Section 6.1 of the MUCPA Model Contract details the provisions associated with the Guaranteed Heat Rate Curve. Generally, ESI expects the heat rates to be backed by damages for failure to operate within 3% above or below the Guaranteed Heat Rate. Seller shall pay ESI damages set forth in the Definitive Agreement if the generating unit operates above the 3% band width. Likewise, ESI shall compensate Seller as set forth in the Definitive Agreement if the generating unit operates below the 3% band width.

20. Are baseload PPAs (like MUCPAs) permitted a negotiated extension beyond the five-year limit?

A. Yes, five-year proposals for either the Baseload Product or the Dispatchable MUCPA product may be eligible for extension. This will be clarified in the Final RFP.

21. Under what circumstances may a Seller obtain replacement power supply rights (i.e., if the Seller cannot supply from his designated unit)?

A. With respect to MUCPA PPAs, a Seller will have no right to deliver replacement capacity and energy from another source. With respect to MUCCO and Baseload products, the Seller may, but is not required, to offer to replace capacity and energy from a different source, and Buyer may, in its sole discretion, accept or reject any such offer.

22. Please describe Entergy's experience to date with three-year reserve capacity MUCCO PPAs? Are there any? How often are they dispatched?

A. In the Fall 2004 RFP, ESI received 22 proposals from 4 resources for the Three Year Reserve Capacity MUCCO product. ESI executed one Three-year Reserve Capacity MUCCO Definitive Agreement for 200 MW. Since the agreement start date of January 1, 2006, ESI has not called on the contract.

23. Does ESI intend to employ a debt imputation analysis as part of its bid evaluation? If not, please explain why, given that Entergy contends in its Long-Term RFP that this is a real cost associated with capacity contracts.

A. ESI is not currently planning to consider debt imputation analysis as part of the proposal evaluation process in the Fall 2006 Limited-Term RFP in order to differentiate among proposals because any proposal transacted on will result in a purchase power agreement, and no adjustment for debt imputation is needed for comparison with acquisition opportunities. However, depending upon the level of PPA resources to be acquired, ESI may reconsider including debt imputation analysis as part of the proposal evaluation process but will first review that decision with the Independent Monitors and with the Staffs of interested regulatory commissions overseeing the RFP.

24. Entergy has stated that the capacity in this RFP is mostly not needed for the Summer 2007. In light of that statement, why does ESI require contract commencement no later than September 1, 2007?

A. ESI requires a single start date in order to be able to evaluate proposals on a consistent basis, which is particularly important in the case of limited-term proposals because of their term. The September 1, 2007 start date allows the Companies to match the start date of the PPAs to the Formula Rate Plan rate changes and avoids the cost of capacity deferrals.

25. With regard to Table F-3, are the amounts stated (for each 100 MWs) related in any way to the term of the contract? If not, please explain why contract term is not considered given that Entergy/ratepayer replacement cost exposure (i.e., the purpose of the collateral) clearly is related to contract length.

The amounts stated in Table F-3 for each 100 MW contracted are not related to the term of the contract. ESI is evaluating this and the Final RFP will contain any changes or clarifications.

26. With regard to Table F-1, credit amounts by bond rating, do these amounts apply cumulatively to a party's total contracts with the Entergy System?

Yes.

27. ESI apparently has a total incremental capacity target of up to about 800 MW. Does it also have targets for the individual product types? Is the three-year reserve MUCCO part of the 800 MW total, or is it outside that total? (For example, would a 300 MW reserve

MUCCO PPA reduce the capacity target maximum for other products from 800 MW to 500 MW?)

A. ESI has not identified targets for the individual product types; however, resource additions are expected to support the Entergy System's Strategic Supply Resource Plan based on principles and planning objectives adopted by the Entergy Operating Committee, and a distribution among product categories may be considered based upon the SSRP principles and objectives. The Three-Year Reserve Capacity MUCCO cannot satisfy the incremental resource need because it requires capacity substitution,—which does not result in incremental resources—to achieve savings. Therefore, the Three-Year Reserve Capacity MUCCO is not part of the 800 MW incremental resource need.

28. Please provide on a confidential basis to Staff the following information for each Entergy System generating unit (Entergy's share only if jointly owned):

a. MWh net generation, January-August 2005;

b. MWh net generation, January-August 2006;

c. Rated capacity for 2006; and

d. Primary fuel for 2006.

A. This will be provided to Staff.

29. Please provide for the period January-August 2006 for the Entergy System:

a. Total Entergy System MWh power supply (i.e., generation plus purchase power);

b. Total purchase power (MWhs);

c. QF put purchases (MWhs);

d. Economy energy purchases other than QF puts (MWhs).

Entergy System amounts should not include transactions among the Operating Companies (e.g., Grand Gulf UPSA, MSS-3 or MSS-4 transactions).

A. This will be provided to Staff and posted at a later date when it becomes available.

30. Has ESI conducted any benchmarking analysis of ProSym to verify that it is accurately reflecting the way the System operates? For example, this would include the operation of older gas/oil units. If so, please describe this verification and the results.

A. ESI continually calibrates its models to reflect actual operating experience and known or expected System conditions. Prior to the issuance of any RFP, a base case simulation of future System operations is developed and compared to recent historical performance. Comparisons focus on generation levels of the System's legacy units and purchases from external market participants