



Appendix E-1

Proposal Evaluation Process Description for

Fall 2006 Request for Proposals (RFP) for

Limited-Term Supply-Side Resources

Entergy Services, Inc.
October 24, 2006

APPENDIX E-1

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SUMMARY

This Appendix E-1 describes the process, criteria, and methods that ESI intends to use to evaluate proposals for the capacity and energy resources submitted in response to this Fall 2006 Limited-Term RFP.

OVERVIEW

ESI's process for evaluating proposals has been designed to achieve the following objectives: (a) treat all Bidders objectively and impartially; (b) protect the confidentiality of proposal information; and (c) comply with all applicable legal and regulatory requirements, including without limitation affiliate Code of Conduct and other requirements as set forth in Appendix G.

To achieve these objectives, ESI intends to use a carefully designed process that includes the following major features:

- A Process Independent Monitor ("Process IM") and an Evaluation Independent Monitor ("Evaluation IM") (collectively, the "IMs") who have participated in the design of the process and will monitor and, in the case of the Evaluation IM, oversee the evaluation process.
- A draft RFP issued prior to the Bidders' Conference that outlines the evaluation methodology. Final evaluation criteria will be determined following the Bidders' Conference and Technical Conference being conducted by the Staff of the Louisiana Public Service Commission and after consultation with the IMs and the Staffs of interested regulatory commissions overseeing this Fall 2006 Limited-Term RFP, and will be described in the final version of this Appendix E-1. Regulators and market participants may submit comments to ESI on the draft RFP and evaluation methods prior to ESI's finalization of the Fall 2006 Limited-Term RFP.
- The proposal evaluation process will be conducted in a carefully controlled manner using procedures, methods and evaluation criteria described herein and assumptions that have been developed prior to the receipt of proposals. ESI will document these key assumptions and model constructs and provide this documentation to the IMs no later than the receipt of proposals. The Evaluation IM will monitor the evaluation process, and any subsequent modifications to these procedures will be discussed with and approved by the Evaluation IM and the Process IM prior to use by ESI. In addition, ESI will make its evaluation assumptions and model constructs available to the Staffs of interested regulatory commissions overseeing the Fall 2006 Limited-Term RFP.
- The results of ESI's proposal evaluation process are considered to be confidential and proprietary and will not be shared with Bidders, even after the Fall 2006 Limited-Term RFP has concluded, unless ESI is required to do so as further explained in Appendix G, Section 4. The Independent Monitors will oversee and, therefore, will have ongoing

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access to the proposal evaluation process, and the Staffs of interested regulatory commissions will be given access to the evaluation results upon request; however, all such information will be shared only on a confidential basis.

EVALUATION METHODOLOGY

The overarching objective of the RFP is to procure resources to meet Entergy Operating Companies' supply objectives and provide power at the lowest reasonable total cost.

1 Process Overview

The proposal evaluation process will be conducted by the Proposal Evaluation Team, with oversight from the IMs. The Proposal Evaluation Team consists of an Economic Evaluation Team ("EET"), the Transmission Analysis Group ("TAG"), and the Fuel Evaluation Team ("FET")¹. All team members are employees of ESI's System Planning and Operations group, and are distinct and separate from the Entergy Transmission Business Unit ("TBU").

The Proposal Evaluation Team will evaluate the proposals received in response to this Fall 2006 Limited-Term RFP. The Process IM will screen proposals to assure compliance with threshold requirements as specified in Section 3 of the RFP. After conforming proposals have been identified and redacted by the Process IM, the Process IM will distribute to each evaluation team only that proposal information that will be necessary for that evaluation team's analysis.

- 1.1 As in ESI's prior RFPs, the primary consideration in evaluating individual proposals will be an objective evaluation of the economic effects of a proposal on Entergy System total production costs using production costing models and/or fundamental economic analyses based on spreadsheet models that compare the cost of alternatives in meeting various supply roles, (the "Proposal Economic Evaluation"). Additionally, the FET and TAG will review specific proposal characteristics to assess any additional quantitative and qualitative issues associated with each proposal. A quantitative assessment of the benefits associated with a proposed resource's ability to offer AGC also will be developed.
- 1.2 Using a pre-defined evaluation process and information provided by the TAG and FET, the EET will evaluate all conforming proposals, rank the results by product category, and develop portfolio alternatives (combinations of selected proposals) that are consistent with the planning principles and guidelines set forth in the Entergy System's Strategic Supply Resource Plan. Each portfolio alternative will be developed using the proposal evaluation criteria and methodology established prior to receipt of the proposals.

¹ In addition, each conforming proposal will be analyzed by the Credit Evaluation Team ("CET", see Appendix F) to assess potential credit risks and collateral requirements.

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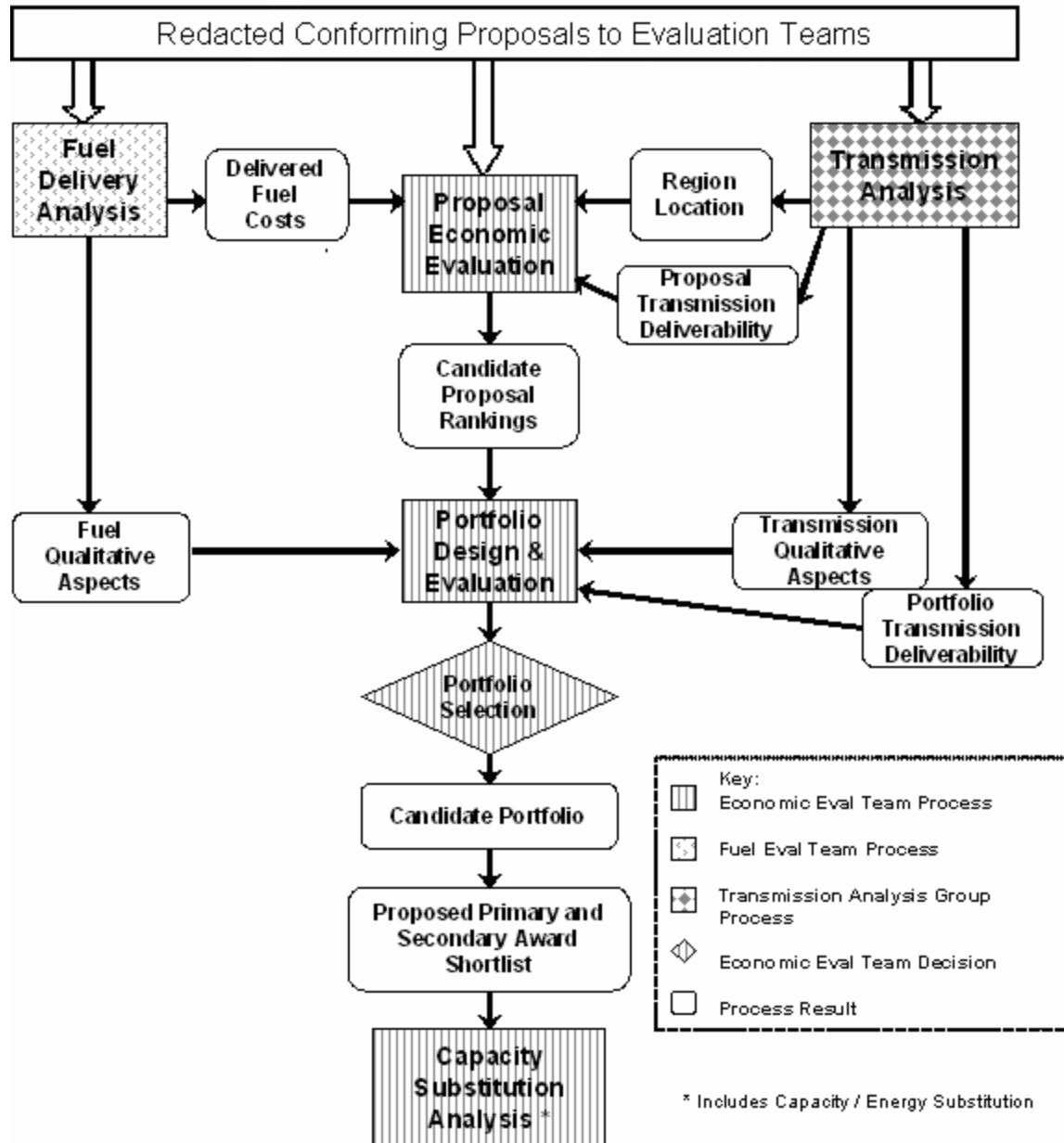
- 1.3 The EET will evaluate portfolio alternatives to determine the most beneficial Portfolio Alternatives that meet the Entergy Operating Companies' supply objectives and provide power at the lowest reasonable cost.
- 1.4 Using the combination of the Entergy System's existing generation resources and the selected portfolio, additional proposals will be evaluated to assess whether further savings can be realized in conjunction with moving a comparable amount of Entergy System-owned capacity from an operational to a non-operational role, which is referred to as "Capacity Substitution" in the RFP Main Body.
- 1.5 Based on the results of all evaluations, a proposed primary award list and secondary award shortlist will be developed.

Chart A below shows a high-level flow for the Proposal Evaluation Process.

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Chart A
Proposal Evaluation Process



In preparing Appendix E-1, ESI has attempted to provide Bidders with a sufficiently detailed description of the evaluation process so that Bidders will understand how their proposals will be evaluated. However, it is not possible to provide a comprehensive description of every analytical tool or approach that may be employed during the evaluation process, and the evaluation teams

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will retain the discretion, subject to oversight by the Evaluation IM, to use the evaluation methods and assumptions 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. Given that circumstances may require adjustment of the proposal evaluation process, this document should be viewed as a general framework for evaluation and not as a prescriptive procedure.

2 Transmission Analysis Group Assessments

- 2.1 The TAG will identify the transmission region applicable to each proposal based upon the location of the proposed resource within the Entergy System. For proposals from resources located outside of the Entergy System, the TAG will assign the regional location based on the Entergy System interconnection point specified in the proposal. These regional location assignments will be provided to the EET for use in production cost modeling and/or spreadsheet analyses.
- 2.2 The TAG will assess the potential for each individual proposal to relieve Reliability Must Run ("RMR") requirements associated with existing generating units. See Appendix E-2 for a description of the RMR assessment. To the extent the TAG identifies a change to the RMR guidelines issued by the Transmission Business Unit ("TBU") resulting from the addition of a proposed resource, the EET will include the TAG's RMR assessment in the Proposal Economic Evaluation.
- 2.3 The TAG will assess the potential for each individual proposal to be granted transmission service. To the extent the TAG identifies a change to transmission service availability for a proposed resource, the EET will include the TAG's transmission service assessment into the Proposal Economic Evaluation.
- 2.4 The TAG will conduct an evaluation process in which key transmission issues are evaluated for each proposal. This evaluation will consider qualitative factors that cannot be easily included in the Proposal Economic Evaluation, but are deemed to be important characteristics of the product evaluation. The TAG will assess each proposal using pre-defined procedures.
- 2.5 For identified portfolios, the TAG will assess the potential for the portfolio of proposals to be granted transmission service. To the extent the TAG identifies a change to transmission service availability, the EET will include the TAG's transmission service assessment into the Portfolio Evaluation.

3 Fuel Evaluation Team Assessments

- 3.1 For proposals in the categories Dispatchable MUCPA and Peaking MUCPA, for which ESI would provide the fuel, the FET will estimate ESI's delivered cost for fuel to the

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specific plant associated with each such proposal. The delivered fuel costs will be provided to the EET for use in production cost modeling and/or spreadsheet analyses.

- 3.2 The FET will conduct an evaluation process in which key fuel issues are evaluated for each proposal. This will include a quantitative assessment of the availability of firm transportation and/or access to storage for the fuel supply of the proposed resource. This evaluation also will consider qualitative factors that cannot be easily included in the Proposal Economic Evaluation, but are deemed to be important characteristics of the product evaluation. The FET will assess each proposal using pre-defined procedures.

4 Proposal Economic Evaluation

4.1 Economic Evaluation Methodologies

The EET will evaluate each proposal category separately, using similar but distinct processes and then will rank them by product category, from the one offering the greatest benefit to the one offering the least benefit per MW added.

Specific tools and assumptions utilized across product categories may differ, reflecting differences in the nature and the objectives of the products.

- 4.1.1 Production cost modeling analyses will be used for the following product categories: Baseload Product, Dispatchable MUCPA, and Low Heat Rate MUCCO.
- 4.1.2 To accommodate the must-run component of QFs, Bidders may link two product categories, the Baseload Product and Low Heat Rate MUCCO, and may submit a single proposal embodying both of these products as a combination proposal. Although designed to accommodate QFs, the ability to submit a combination proposal is open to all Bidders. During the Proposal Economic Evaluation, EET will evaluate each designated combination proposal using production cost modeling and/or fundamental economic analysis based on spreadsheet models as appropriate. Each combination proposal will be considered as a single product (or proposal) with a baseload component and a dispatchable component.
- 4.1.3 Fundamental economic analyses based on spreadsheet models will be used for the Hour-Ahead Peaking MUCCO product.
- 4.1.4 For analyses of the Peaking MUCPA and Peaking MUCCO products, both production cost modeling and fundamental economic analysis based on spreadsheet models may be employed.
- 4.1.5 The Portfolio Evaluation will use both production cost modeling and fundamental economic analysis based on spreadsheet models, as appropriate, to evaluate portfolios of proposals from the product categories that are consistent with the planning principles and objectives and the targeted product mix requirements as described in Appendix H.

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- 4.1.6 The Capacity Substitution Analysis will use both production cost modeling and fundamental economic analysis based on spreadsheet models, as appropriate, to evaluate the inclusion of additional resources beyond the Entergy System's reliability needs in conjunction with removing comparable amounts of capacity after the Portfolio Evaluation has identified sufficient resources to meet the planning reliability targets identified in Appendix H. Evaluation of the Three-Year Reserve Capacity MUCCO will be performed during this stage of the Proposal Economic Evaluation.

4.2 Production Cost Modeling

For proposals to be analyzed using a production cost model, the EET will evaluate the economic effect of each proposal on the Entergy System's total production costs when that individual proposal is added incrementally to the Entergy System's existing generation resources.

The production cost model will evaluate the incremental effects of each proposal based on production costing analyses that reflect the price and operational characteristics of each proposal, as provided in the Proposal Submission Form and any clarifying questions that may be asked of the Bidder as part of the Proposal Economic Evaluation. The production cost model will be used to determine net fuel and purchased power savings.

- 4.2.1 The Entergy System's generation portfolio as modeled in the analysis will include existing resources and long-term planned additions per the Strategic Supply Resource Plan.
- 4.2.2 The total production cost effect of the proposal will reflect the sum of the net fuel and purchased power savings less the incremental fixed costs associated with the proposal.
- 4.2.3 The Proposal Economic Evaluation will be based upon 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.

4.3 Fundamental Economic Analysis

- 4.3.1 For proposals to be analyzed based upon cost using spreadsheet models, each product will be compared and ranked against the other proposals within the same product category based upon equivalent operating profiles. In addition, proposals may be compared against available market price data for equivalent products established prior to the receipt of proposals. No proposal will be eliminated at this point based on the market price comparisons, and no such elimination at subsequent evaluation stages will occur without consultation with the IMs. Spreadsheet analyses will be used to evaluate and rank these proposals by cost based on product category.

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4.4 Candidate Proposal Ranking

- 4.4.1 Upon completion of analyses, the EET will create rankings for all proposals. This ranking process will result in a “Product Category Supply Cost Ranking” of proposals within each product type.
- 4.4.2 Combination proposals (those proposals submitted with both a Baseload Product and Low Heat Rate MUCCO) will be included as a separate category, initially, and then will be evaluated as part of the Portfolio Evaluation described in Section 5 below.

5 Portfolio Evaluation

Following the Proposal Economic Evaluation, alternative portfolios made up of the highest ranking products in each product category will be generated using the supply objectives described in Appendix H. The portfolios selections also will consider the results of the evaluations performed by the TAG and FET for transmission and fuel issues.

These portfolios will be evaluated in the production cost model and/or through fundamental economic analysis based on spreadsheet models as appropriate to select a portfolio of proposals from the product categories that results in the lowest evaluated total production cost consistent with the planning principles and objectives and the targeted product mix requirements as described in Appendix H. The portfolio evaluation process will address the effect of the combination of proposals on the Entergy System’s total production cost, and will address the diminishing benefits that can be expected to result from the addition of more resources and higher cost resources. The highest value portfolio alternatives may be stress tested for sensitivity to changes in planning assumptions, *e.g.*, sensitivities based on high and low gas prices.

5.1 Portfolio Design Criteria

The Proposal Evaluation Team will establish criteria and constraints that incremental portfolio additions should meet.

5.1.1 These criteria will address multiple design dimensions including:

- Product Category (and Term) Supply Cost Ranking;
- Maximum total resource objective;
- Regional dispersion;
- Product category needs; and
- Mix of product terms.

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5.2 Portfolio Evaluation Process

- 5.2.1 The EET will select a number of proposals that are most economic, “the Candidate Proposals,” for further review in order to assess the effects of combinations of proposals upon total production costs. These portfolios will include a mix of terms and products included in the candidate proposal list to facilitate the construction of Portfolio Alternatives that meet the portfolio design criteria.
- 5.2.2 Based on the proposals comprising each portfolio alternative identified by the EET, the TAG will assess the effect of potential transmission service costs based on each portfolio of resources.
- 5.2.3 The identified portfolio alternatives will be evaluated by the EET using the same production cost models and/or through fundamental economic analysis based on spreadsheet models as appropriate to assess the effect upon Entergy System total production costs. Sensitivity analysis may be used as a tool for quantifying effects on total system production costs for variations in fuel price or availability, load, or other areas of key uncertainty.
- 5.2.4 The EET will use the results of the production costing model and/or fundamental economic analysis based on spreadsheet models as appropriate for the portfolio alternatives to select the “Candidate Portfolio” that results in the lowest evaluated total production cost consistent with its planning objectives and constraints, which include minimizing risks associated with uncertainties (such as future cost and availability of natural gas, supplier credit issues, and other such factors) that cannot be known and measurable at the time of the decision.

6 Capacity Substitution Analysis (applies to Displacement Proposals and Proposals not Selected to Meet Incremental Capacity Needs)

- 6.1 After incremental resource objectives are met by the Candidate Portfolio, the EET will consider whether further production cost savings can be realized by adding additional proposals to the portfolio, which will include, but not be limited to, removing a level of comparable capacity from a set of identified Entergy System resources. For proposals not selected to meet incremental capacity needs, only proposals with a minimum term of three years will be considered for this Capacity Substitution Analysis. Displacement Proposals, by definition, must be for a term of six to ten years.
- 6.2 The Capacity Substitution Analysis will use spreadsheet and production cost models to assess potential fixed and variable cost savings and efficiencies. However, for this purpose, the Entergy System portfolio will include the Candidate Portfolio selected through the process described in Section 5, above, in order to evaluate additional incremental cost savings to determine proposals selected for Capacity Substitution.

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- 6.3 As in the Proposal Economic Evaluation, the Capacity Substitution Analysis will consider the net present value effect (on an incremental per-MW basis) of the selected proposals on the Entergy System's total production cost, levelized over the term of the resource availability as appropriate for each proposal. The Capacity Substitution analysis will be developed further in consultation with the Evaluation IM.
- 6.4 Displacement Proposals, along with proposals that are not selected to meet the incremental capacity needs identified in the RFP, will be considered on a timeline separate from and later than the timeline established in the RFP to select proposals that will serve the Companies' incremental capacity needs. At this time, ESI anticipates evaluating Displacement Proposals and non-selected proposals that may be able to serve as displacement resources during the first part of 2007 and information about the analytical process will be posted to the RFP website.

7 Award Selection Process

- 7.1 The Proposal Evaluation Team, under the supervision of the IMs, will review the proposed primary award list and secondary award shortlist (based on the Final Portfolio Analysis process) with the executives overseeing the Fall 2006 Limited- Term RFP before a recommendation is made to the Entergy Operating Committee regarding the primary award list and secondary shortlist. If appropriate, the Proposal Evaluation Team will provide additional studies in order to develop the recommended preliminary and secondary short lists for the Entergy Operating Committee. Any additional studies requested will be performed on a non-discriminatory basis, in consultation with the IMs and with contemporaneous documentation.
- 7.2 The proposed primary award list and secondary award shortlist, along with associated analyses, sensitivities and recommendations, will be presented to the Entergy Operating Committee for its review and decision regarding the selection of proposals for award.
- 7.3 If the Entergy Operating Committee determines that additional analyses or additional proposal combinations are required prior to its determination of the proposals to be awarded, it will request that the Proposal Evaluation Team conduct the appropriate analyses, consult with the IMs, and present its findings to the Entergy Operating Committee. Any additional studies requested will be performed on a non-discriminatory basis, in consultation with the IMs and with contemporaneous documentation.
- 7.4 The Entergy Operating Committee will decide which proposals make the primary award list in order to finalize Definitive Agreements with the respective Bidders, subject to appropriate due diligence and applicable regulatory review and negotiation of a Definitive Agreement; and which proposals to place on the secondary award shortlist.
- 7.5 Awarded proposals then proceed to due diligence/negotiations/contract execution/regulatory review as appropriate. The credit assessment of the awarded

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proposals, as described further in Appendix F, will take place after the Entergy Operating Committee decision.

- 7.6 Prior to the execution of a Definitive Agreement, the Entergy Operating Committee will decide which of the individual Entergy Operating Companies will participate in the transaction.

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