Appendix E-1

Proposal Evaluation Process Description For Summer 2008 Request For Proposals (RFP) For Limited-Term and Long-Term Supply-Side Resources

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1. Overview of Evaluation Process

The overarching objective in the evaluation and selection of generation resources is to procure resources that meet the supply objectives of the Entergy System at the lowest reasonable cost consistent with the provision of reliable service. The evaluation process described in this Appendix E has been designed to facilitate the fair and impartial evaluation of all conforming proposals received in response to this Summer 2008 RFP. The evaluation process is to be carried out by three separate evaluation teams, the Economic Evaluation Team ("EET"), the Fuel Evaluation Team ("FET"), and the Transmission Analysis Group ("TAG"). The independent monitor (IM) is to provide each evaluation team only that proposal information necessary for that evaluation team's analysis.

The evaluation teams will not conduct comparisons between:

1) Limited-Term one-year proposals,

2) Limited-Term 3-year and 5-year proposals, and

3) Long-Term proposals (10 years or greater).

Each category of proposals is to be evaluated separately, using similar but distinct processes. During the portfolio evaluation process, the highest ranking proposals from the second and third categories will be evaluated together.

The proposal evaluation process is to be conducted in a carefully controlled manner using procedures, methods, evaluation criteria, and assumptions that will be developed prior to the receipt of proposals. ESI will document these key assumptions and model constructs and provide this documentation to the IM no later than the receipt of proposals. The IM will monitor the evaluation process, and any subsequent modifications to these procedures will be discussed with and approved by the IM prior to use by ESI and will be provided to the Staffs of interested regulatory commissions overseeing the RFP process. The results of ESI's proposal evaluation process are to be considered confidential and proprietary and will not be shared with bidders, even after the RFP has concluded.

The primary objective in evaluating individual proposals will be to identify proposals that meet the System's planning objectives at the lowest reasonable cost. The analysis will use production costing models and/or fundamental economic analysis. The Fundamental Economic analysis will be based on spreadsheet models that compare the cost of each

proposal in meeting various supply roles. Additionally, the FET and TAG will review specific proposal characteristics to assess any additional quantitative and qualitative issues associated with each proposal. ESI also reserves the right to perform supplemental analyses, if necessary, during the evaluation process. The request to perform such supplemental analyses will be discussed with and approved by the IM and provided to the Staffs of interested regulatory commissions overseeing the RFP process.

Using a pre-defined evaluation process and information provided by TAG and FET, the EET is to evaluate all conforming proposals and identify the proposal(s) that provide benefits while being consistent with the planning principles and guidelines set forth in the Entergy System's Strategic Supply Resource Plan.

2. Detailed Description of Evaluation Process

2.1 Evaluation Overview

The EET will evaluate each category of proposals separately. The economic evaluation will be composed of two different analyses. The Fundamental Economic analysis based on spreadsheet models, will evaluate each proposal based on the full-in fixed and variable economic cost and measure results on a dollar per megawatt-hour ($/MWh) basis. Fundamental Economic analysis will be a primary tool for evaluating long-term proposals and limited-term peaking proposals. Additional description of the Fundamental Economic analysis is given in Section 2.2 below. The Net System Benefit analysis evaluates the net delivered supply cost effects of each non-peaking proposal, using production costing modeling and measures the results on a dollar per megawatt ($/MW) basis. The Net System Benefit analysis will be the primary tool for evaluating limited-term non-peaking proposals. An additional description of the Net System Benefit analysis is given in Section 2.3 below. The Fundamental Economic analysis will be used to assess all product types, while the Net System Benefit analysis will be applied only to non-peaking product types (Baseload, Dispatchable MUCPA, and Low Heat Rate MUCCO product types).

The portfolio evaluation will use Net System Benefit analysis to evaluate portfolios of proposals which are consistent with the planning principles and objectives of the Entergy System. The portfolio evaluation will reflect those long-term Candidate Proposals selected based on the Fundamental Economic analysis, as supplemented by the Net System Benefit analysis. The Net System Benefit analysis will then be used to evaluate portfolios of limited-term proposals to identify those combinations of proposals that produce the greatest net benefit.

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. During the proposal evaluation process, the EET will evaluate each designated combination proposal using production cost modeling and/or a fundamental economic analysis as appropriate. Each combination proposal will be considered as a single product (or proposal) with a baseload and dispatchable component.

2.2 Fundamental Economic Analysis

Conforming proposals are to be analyzed individually based upon the full-in economic cost of each proposal using spreadsheet models. Cost will be measured on a dollar per megawatt-hour ($/MWh) basis and will reflect the levelized cost over the relevant term for Limited-Term products and the 30 year planning horizon for Long-Term products. The Fundamental Economic analysis is to reflect the price and operating cost of each proposal, as provided in the Proposal Submission form and any clarification questions that may be asked of the Bidders. Additional operating assumptions provided by ESI will include such information as expected operations role, including capacity factor and number of starts.

Levelized full-in economic cost will consider, but not necessarily be limited to, the following cost elements:

<u>Limited-Term and Long-Term PPAs</u>

- Option Premium, inclusive of all Fixed Cost charges;
- Fuel;
- Variable O&M;
- Start-Up Charges;
- Imputed Debt (except 1 year term proposals);
- Transmission Cost (upgrade capital and replacement cost).

<u>Acquisitions</u>

- Acquisition Price, with associated revenue requirements;
- Fuel;

- Fixed O&M;
- Variable O&M;
- Transmission Cost (upgrade capital and replacement cost).

2.3 Net System Benefit Analysis

The economic analysis will examine the individual net delivered supply cost effects ("Net System Benefit") on the Entergy System of each conforming limited-term non-peaking role proposal, considered in conjunction with existing resources. The Net System Benefit Analysis also may be used as a supplemental tool to evaluate long-term resources.

The Net System Benefit analysis is to reflect the price and operational characteristics of each proposal, as provided in the Proposal Submission form and any clarification questions that may be asked of the Bidder. The Net System Benefit effect of the proposal is to reflect the sum of the net variable cost (fuel, Variable O&M, and start charges) and purchased power savings less the incremental fixed cost (option premium, Fixed O&M, and revenue requirements of an acquisition) associated with the proposal. The Net System Benefit is to be based on the net present value effect (on a dollar per MW ($/MW) basis) of the proposal on the Entergy System's total production cost, levelized over the relevant term.

The Net System Benefit economic analysis will be supplemented with other information, such as imputed debt cost for PPA's and estimated cost of transmission service, including cost required to qualify a resource for Long-Term Network Integration Transmission Service. Also, detailed fuel evaluations from the FET, and other criteria assessments, may be considered in order to identify the proposal or proposals that best meet the Entergy System's supply objectives.

2.4 Candidate Proposals and Portfolio Evaluation

Upon completion of the Fundamental Economic analysis and Net System Benefits analysis of individual proposals, the EET will identify candidate portfolios made up of the highest ranking proposals given economic factors and the Entergy System's supply objectives. Candidate portfolios will include the long-term Candidate Proposals selected as a result of the individual proposal evaluation process. The EET will evaluate

portfolios of limited-term proposals in combination with existing System resources, economy market purchases, and the long-term Candidate Proposals to identify the portfolios that result in the greatest net system benefit. Candidate portfolio selections also will consider the results of the transmission evaluations performed by TAG and fuel evaluations preformed by the FET.

The EET will identify a portfolio of one or more proposals that results in the lowest evaluated total production cost consistent with the planning principles and objectives. 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 addition of more resources and higher cost resources. Since the one-year delivery term does not overlap with the delivery term for three-year and longer proposals, the one-year delivery term proposals will be assessed in portfolios separately from three-year and longer proposals. For three-year and longer proposals, since the System seeks to obtain a portfolio mix of products with varying delivery terms, the portfolio evaluation will seek to fill incremental resource needs first from Long-Term proposals then from the Limited-Term proposals. Portfolios may be stress tested for sensitivity to changes in planning assumptions, e.g., sensitivities based on changes in natural gas prices.

2.5 RMR Assessment

The TAG will assess the potential for each individual proposal to relieve Reliability Must Run (RMR) requirements associated with certain existing Entergy-owned generating units, as further described in Appendix E-2 of this RFP. To the extent the TAG identifies a potential change to the RMR guidelines issued by the Transmission Business Unit (TBU) resulting from the addition of a proposal, the EET will include the TAG's RMR assessment in the Fundamental Economic analysis and/or Net System Benefit analysis.

2.6 Environmental Compliance

All proposals will be evaluated using the appropriate assumptions for environmental compliance consistent with whether a proposal represents a power purchase agreement or an ownership acquisition.

Existing Regulation

For purchase power agreement proposals, regardless of term, the seller is expected to include the full cost of complying with all existing environmental regulations in their proposal terms. For acquisition proposals, ESI intends to model the cost of compliance with existing regulation of SO_2 and, where applicable, NO_x emissions. ESI reserves the right to model any other environmental compliance cost it deems appropriate, subject to the concurrence of the IM and after review by the Staffs of regulatory commissions participating in overseeing the Summer 2008 RFP process.

Potential Future Regulation

For all Long-Term proposals, ESI intends to model the cost of compliance with potential future regulation of CO_2 emissions using consistent estimates for implementation date and estimated CO_2 emissions allowance costs, unless specifically addressed by the Bidder in the Special Considerations as described below. ESI reserves the right to model any other environmental compliance cost that it deems appropriate, subject to the concurrence of the IM and after review by the Staffs of regulatory commissions participating in overseeing the Summer 2008 RFP process.

With regard to Bidders unwilling to assume the full risk of an Environmental Change in Law, ESI will account for the following factors in its evaluation based upon the information provided by Bidders in the Special Considerations section of the applicable product package regarding Environmental Change in Law: (i) the amount of the deductible (the amount exclusively for Seller's account before Buyer's obligation to share in change in law costs becomes effective), if any, on a per occurrence and/or on an aggregate basis; (ii) the amount or percentage increase in Buyer's costs due to an Environmental Change in Law (whether on an aggregate, per occurrence, percent increase in monthly costs, or other basis) or other event that will trigger Buyer's right to terminate the contract or its participation in any further sharing of Environmental Change in Law costs; (iii) the economic effect of a "dead zone" (i.e., a period in which no Environmental Change in Law costs will be borne by Buyer after the start of the delivery term); (iv) the fixed percentage share of Environmental Change in Law costs to be borne by Buyer or the basis for sharing such costs with Buyer (e.g., pro rata share based on energy takes from the Facility); (v) the minimum notice to Buyer required prior to any Buyer sharing of Environmental Change in Law costs taking effect; (vi) if Seller proposes for Buyer to share in Environmental Change in Law capital costs, Seller's proposed discount or finance rate for purposes of calculating Buyer's payment obligation for capital items and term of amortization (10-year or greater products only); and (vii)

any other material term concerning the proposed cost sharing between Seller and Buyer of Environmental Change in Law costs.

2.7 Common Assumptions

During the Fundamental Economic analysis, the EET will evaluate proposals in each product category using common assumptions for annual capacity factors and number of starts per year. In the Net System Benefits analysis, these common assumptions will be replaced with proposal specific results from the production costing model and reflected in the production cost savings results.

The EET will develop the common assumptions and provide them to the IM prior to the receipt of proposals.

2.8 Normalizing Term

The start and end dates of proposals received in response to this RFP may vary within the limitations set forth in the RFP documents. Long-Term proposals will be evaluated on common 30-year horizon (June 1, 2010 to May 31, 2040) while Limited-Term proposals will be evaluated on a 1-year term (June 1, 2009 to May 31, 2010) for 1-year-term proposals, a 3-year term (June 1, 2010 to May 31, 2013) for 3-year-term proposals and a 5-year term (June 1, 2010 to May 31, 2015) for 5-year-term proposals. For Long-Term proposals, the EET will define replacement power costs for periods not covered in a given proposal. For example, if a proposal ends two years before the end of the common 30-year evaluation period, then predefined post-delivery costs for those two years will be added to the proposal costs for evaluation purposes.

2.9 Terminal Value

During economic evaluation, the EET may consider whether a proposal, such as an acquisition, offers potential benefit beyond the defined planning horizon and evaluate this additional value for proposals to which it applies.

2.10 Qualitative Assessment

In addition to the quantitative evaluations, the evaluation teams may review specific proposal characteristics to assess any qualitative factors that cannot be easily included in the quantitative evaluations, but that may be deemed to be important characteristics of a proposal. The qualitative assessment may include considerations of a wide range of factors including, but not limited to, operational flexibility (ramp rate, load following capability, AGC, etc.), fuel supply flexibility (number of interconnected pipelines, daily/hourly swing capability, access to gas storage, etc.), and transmission impacts. To the extent possible, these qualitative factors may be incorporated into the decision process.

2.11 Fuel Delivery Evaluation

In the Fundamental Economic analysis and Net System Benefit analysis, the FET is to provide the EET with the expected per-unit fuel delivery cost adder (transportation rate, basis differential rate, fuel charge, and fuel taxes) for each conforming proposal. The EET will use this fuel delivery cost adder as a component of the expected fuel cost for MUCPA and Ownership products. Expected fuel cost will consider the cost of the commodity in addition to fuel delivery cost adder. Those costs will be estimated based on ESI's internal assessment.