BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

In re: Collaborative to Study Barriers that	)	
May Exist to Robust Competition in the	)	
Wholesale Generation Markets in the	)	Docket No. U-27836, Subdocket A
Entergy Region	)	

REPORT OF THE COMMISSION STAFF ON THE INTERMEDIATE RFP COLLABORATIVE

July 31, 2006

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

In re: Collaborative to Study Barriers that May Exist to Robust Competition in the Wholesale Generation Markets in the Entergy Region	))))	Docket No. U-27836, Subdocket A

A. **Procedural Background**

As requested by the Parties, the Staff of the Louisiana Public Service Commission (LPSC) submits a final report summarizing the results of a collaboration process concerning the intermediate-term RFP (Request for Proposal) planned by the Entergy Companies for the Fall 2006. The concept of an intermediate RFP grew out of a collaborative process conducted in the second half of 2005 intended to find ways to improve the operation of wholesale markets in the Entergy region. That collaborative process was the result of a stipulation reached among certain parties in the Perryville certification proceeding, approved by the Commission in May 2005. Staff believes that the 2005 collaborative, which focused to a large degree on Entergy RFP design issues, was highly successful and led to substantial agreement among the Entergy Companies and merchant power participants.[1]

One of the accomplishments of the 2005 collaborative was a commitment by the Entergy Companies that as a follow-on to the planned RFP for long-term resources they would also conduct an RFP for "intermediate term" power supply resources. However, at the conclusion of the collaborative the parties only reached this conceptual agreement, and Entergy was not able to

[1] Please see the Staff's final report in this subdocket filed December 2005 for a discussion of last year's collaborative issues and their resolution.

provide greater specificity concerning the design features of the intermediate RFP that it had agreed to including timing, product definitions, procedures and so forth. At the time, the parties accepted this conceptual commitment by Entergy with the understanding that Entergy would soon address the key details.

At various times during the winter and spring 2006, the Commission sought status reports on the plans for the intermediate RFP and encouraged Entergy to expedite the process. After consultations took place between Staff and the Entergy Companies, the Commission approved an expedited schedule for the intermediate RFP. This expedited schedule was to include a front-end collaborative process, prior to the issuance of a draft RFP, to be conducted as a continuation of last year's collaborative subdocket, with Staff serving as facilitator. The schedule called for the Staff to initiate the collaborative by issuing an outline of issues in early June, with discussions by interested parties to begin in late June. The collaborative would be expedited and conclude at the end of July, with Energy filing its RFP package (reflecting collaborative agreements) by August 31, 2006. The approved schedule permits a finalizing of the RFP by October 24, 2006, or 54 days after the issuance of the draft. This approved schedule is specified in LPSC Special Order No. 26-2006, attached to this report as Appendix A.

In accordance with this approved schedule, Staff circulated a collaborative issues list on June 9, 2006 to interested parties, and requested comments on the issues list by June 21, 2006. (The original Staff issues list is attached to this report as Appendix B.) Staff undertook a number of informal discussions with both the Entergy Companies and merchant power suppliers (as well as email communications) both before and after the preparation of the issues list.

Staff convened an in-person meeting among the collaborative parties in Houston (in order to minimize travel burdens) on June 28, 2006, with the meeting lasting most of the day. The meeting served both to provide background information on a range of power supply and market participation issues as well as to discuss positions on the items identified in Staff's issues list. Entergy provided a brief presentation of its RFP design features, and the Joint Participants (a group consisting of Union Power Partners, Williams Power and Suez Energy) presented its concerns. The Staff compiled meeting notes, which were circulated to the parties and revised based on parties' comments. The revised Staff meeting notes for the June 28 meeting (inclusive of a participants list) is attached to this report as Appendix C.

At the conclusion of the June 28 meeting, the parties agreed to hold a conference call on July 19, 2006 to discuss the resolution of open issues remaining after the June 28 meeting. This conference call was chaired by Staff in its role as facilitator. However, Staff made it clear that it is also a "party of interest" and would advocate its positions, when necessary. Following the July 19 conference call, Staff prepared a summary of what transpired during the conference call, as well as providing a "Staff Assessment" of each open issue. This document was circulated on July 25, and we requested any feedback on this by July 28. In response, Staff received informal, email comments from Williams and UPP on certain discrete issues, focusing mostly on the bid evaluation methodology. The Entergy Companies submitted relatively brief formal comments. The Staff conference call summary is attached to this report as Appendix D.

B. Listing of Collaborative Issues

The Staff conducted some initial, informal discussions with both the Entergy Companies and various merchant power suppliers to identify potential RFP design issues. Based on these discussions, as well as Staff's experience with previous RFPs, Staff developed and circulated for comment an initial issues list. This list and discussion focused on the following items:

- Identification of Eligible Bidders. All qualified wholesale suppliers could participate in the RFP. This would include Entergy competitive affiliates, but no self-build resources would be proposed.

- Bid Fees. Entergy would include Independent Monitors (IMs) for the RFP and was considering bid fees to help defray the cost, as permitted under the MBM order.

- Products Sought. Entergy had indicated to Staff that it would be seeking a wide range of product types, similar to what it had sought in its 2004 limited-term RFP.

- Contract Term. Entergy proposed soliciting contracts with terms of one to five years, while other parties favored an opportunity to bid contracts somewhat longer than that.

- Transmission Service. Numerous issues were identified pertaining to transmission service in the RFP, most prominently Entergy's proposed contract option to terminate a contract after one year if firm transmission cannot be arranged; the provision of information to bidders concerning transmission service; and how transmission will be included in the bid evaluations.

- Capacity Block. RFPs typically identify the amount of capacity (as approximations or ranges) that the utility seeks to acquire. At present, Entergy is not able to do so because

(a) it is presently working on its 2006 Business Plan; and (b) the results from the pending long-term RFP are not known. In addition, the capacity block will reflect a commitment to include "displacement" capacity acquisitions, with amounts to be determined based on bid results.

- Evaluation methodology. Entergy expects to use methods similar to what it has used in the past, including the ProSym model and detailed transmission evaluations (prior to obtaining System Impact Study results). An important issue is how the evaluation/bid ranking will be applied to PPA bids of varying length.

- Collateral/Credit. Like other utilities, Entergy establishes standards for credit protection for PPA obligations, particularly for counter parties with weaker credit ratings. Entergy is in the process of clarifying its requirements and providing greater flexibility for bidders, to allow them to meet collateral/credit requirements.

- Other issues. Staff invited input on other issues not initially identified by Staff. This prompted extensive discussion on the 2006 Transmission Study, RMR mitigation and certain practices of the Entergy transmission organization.

Entergy generally found Staff's issues list to be satisfactory and did not respond in writing. At the June 28 meeting, the Companies provided a short presentation describing the RFP schedule, defining with greater provision the products to be sought and discussing in an overview fashion its bid evaluation methodology, including delivery service aspects.

Calpine was the only party that specifically addressed the products sought. Calpine proposed a combined dispatchable/baseload (i.e., must run) product that would address the operational needs of co-generators participating in the RFP.

The Joint Participants submitted written comments in outline form addressing several issues. These included a heavy emphasis on the role of "displacement resource acquisitions" as being the central purpose of the RFP; a range of transmission evaluation issues including Entergy's contract cancellation option; concerns regarding the bid evaluation methodology; and soliciting bids as long as ten years, rather than the five-year limit proposed by Entergy. The Joint Participants also raised issues that may go beyond the pending RFP such as an "RMR exit strategy" and obtaining a balanced resource mix.

These issues were discussed at length at the June 28 meeting and some narrowing of differences took place. Staff requested that the parties respond in writing by July 12 (changed to July 14) on the disputed issues, and a follow-on conference call was scheduled for July 19. Staff then prepared a written summary of the conference call and its assessment of the disputed issues, and requested written responses by July 28. Staff received informal email responses at that time on certain discrete issues from Williams and UPP discussing issues not yet resolved. Entergy submitted formal comments that seemed to recognize that complete consensus had not been achieved on all issues, but generally agreeing with both Staff's description of the issue (subject to some clarifications) and Staff's assessments.

In general, the collaborative achieved a substantially narrowing and focusing of issues, although not a complete resolution of all issues. With the exception of the cogeneration combination product, there were no disputes over RFP products, nor were there any substantial concerns raised regarding bid fees or credit/collateral. Differences regarding transmission were substantially narrowed, although not completely eliminated. Parties appeared to find acceptable Entergy's year-one termination option, provided any such decision is purely transmission-related and is reviewed by Staff and the IM. (Entergy agreed to the former but not necessarily to the latter.) Entergy also agreed to make available to bidders the load flow cases associated with denials of transmission service. The parties also seem to be in agreement on the role of "displacement capacity", with the RFP not specifying either a "floor" or "ceiling" on amounts to be acquired. The Entergy proposal follows the Commission's directive on this issue.

Some discrepancies and disputed issues remain, however, and the next section identifies these unresolved issues.

C. Unresolved Issues

The final comments of the parties submitted on July 27 evidenced the substantial narrowing that took place, but they also identified issues not fully resolved. These include:

$ the structure of the proposed "cogeneration product;

$ allowed contract length;

$ transmission cost allocations; and

$ evaluation methodology for PPAs.

Each of these items is briefly discussed in this section. Since the purpose of this Report is merely to summarize what has transpired with the collaborative, Staff is not at this time providing its analysis of or position on the disputed issues. We reserve the right (as do all parties) to do so at a later date.

(1) The cogeneration product

Entergy, Calpine and Staff are all in agreement that the RFP design should facilitate bidding by cogenerators, recognizing that a portion of the cogenerator's output may be "must run" due to steam supply contracts or other operational reasons. Entergy and Calpine identified somewhat different design proposals to meet this common objective. Staff believes this can be resolved through bilateral discussions between Calpine and Entergy (no other party commented), and we encourage such discussions to take place. A key to obtaining a workable product design is in defining a product that is amendable to the RFP bid evaluation and ranking process.

(2) Contract length

Throughout the collaborative, Entergy proposed limiting contact length to five years, with certain merchants proposing an allowable length of up to ten years. As a compromise, Entergy proposed limiting the RFP term definition to five years, but in the case of winning five-year bids, Entergy would be willing to include a longer contract length as part of the contract negotiations. This most likely would be for displacement capacity.

(3) Transmission cost allocations

All parties agree that if a network upgrade need for a PPA bid is identified, but the upgrade is part of the Entergy "Construction Plan" (which extends out at least three years), the upgrade cost should be disregarded in the bid evaluation. If the upgrade is not in the Construction Plan but nonetheless provides System benefits, certain merchants suggest that its cost also should be disregarded. Entergy disagrees stating this is contrary to the ICT plan cost allocation adopted by both the FERC and LPSC. An important practical question is precisely how this “System benefit” attribute of the upgrade would be determined. Staff is assuming that Entergy is not referring to an “economic upgrade” that had previously been verified, such as those in the Phase II Transmission Study or those that might be identified in the pending 2006 Transmission Study.

In addition, Williams argues that a “bias” against short-term bids caused by amortizing transmission upgrade costs over a shorter contract time period should be avoided.

(4) Evaluation Methodology

There are at least two unresolved issues concerning PPA evaluations and/or bid rankings. As discussed in the July 19 conference calls, contracts of different lengths would be separately ranked in order to obtain candidate bids or a short list for further evaluations. For example, the best 1, 3- year PPAs and the best over 3-year PPAs first would be identified. However, the final selection would allow comparisons across contract length categories for these short-listed bids. While there seemed to be agreement on the appropriate method for the initial screen, certain merchants disagreed with the concept of cross category comparisons in the final evaluation, expressing concern that such comparisons could be unduly influenced by uncertain modeling assumptions. Entergy supports allowing for such cross category comparisons as necessary to identify the best proposals.

A second issue has to do with the role that economy purchases play in the bid evaluation process. UPP proposed conducting the ProSym modeling “with and without” the inclusion of economy purchases. This would allow a direct comparison of the savings that a PPA could provide versus the savings believed to be available from the economy market. Entergy does not support this proposed modeling treatment of economy energy. UPP's central point, however, is that a PPA has a defined contract price and therefore mitigates risk as compared to the very uncertain pricing from the future economy energy market. UPP believes this risk mitigation attribute of the PPAs must be recognized.

D. Conclusion

Staff believes that the collaborative process was very successful in both resolving issues and even in narrowing differences on issues that were not fully resolved. We expect that Entergy will proceed with preparing its draft RFP package for public release on August 31, and that package will reflect the commitments and compromises Entergy has agreed to in this collaborative. Although the collaborative has ended, we encourage further bilateral discussions among the parties on the remaining issues.

As indicated in Section C above, there are certain differences that remain, and Staff is treating these issues as unresolved and "on the table" for further discussion. These issues (and potentially others) can be taken up again as part of the post-August 31 stakeholder process on the draft RFP. At that time, Staff expects to provide input on any disputed issues as well.

APPENDIX A

LOUISIANA PUBLIC SERVICE COMMISSION

SCHEDULING ORDER

FOR INTERMEDIATE-TERM RFP

SPECIAL ORDER NO. 26-2006

MAY 25, 2006

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

SPECIAL ORDER NO. 26-2006

ENTERGY LOUISIANA, LLC AND ENTERGY GULF STATES, INC.
EX PARTE

In re: Entergy Services, Inc.'s Fall 2006 Request for Proposals for Limited-and Intermediate-Term Supply Side Resources.

(Decided at Business and Executive Session held on May 25, 2006)

On November 30, 2005 Entergy Louisiana, Inc. (now Entergy Louisiana, LLC) and Entergy Gulf States, Inc. (collectively "the Companies") filed its notice that Entergy Services, Inc. ("ESI") intended to conduct a 2006 Request for Proposals for Long-Term Supply Side Resources ("2006 Long-Term RFP") in which the LPSC-jurisdictional Entergy Operating Companies will participate. This matter was published in the Commission's Official Bulletin dated December 2, 2005. Subsequent to publication, the 2006 Long-Term RFP began to unfold pursuant the procedures set out in the Commission's General Order dated February 16, 2004 ("Market-Based Mechanisms Order"). During discussions regarding ESI's 2006 Long-Term RFP, the Companies informed that they planned to conduct an RFP for limited- and intermediate-term supply side resources ("2006 Limited- and Intermediate-Term RFP") in the fall of 2006.

At the Commission's Business and Executive Session held April 26, 2006, the Commission informed the Companies that it would like for the timing of the 2006 Limited-and Intermediate- Term RFP to be accelerated; on its own motion, the Commission established the following procedural schedule:

May 15, 2006	The Companies file notice of RFP;
Early June 2006	Staff provides and outline of issues to review to the Companies and interested parties;
Late June 2006	Collaborative discussions, facilitated by Staff, between the Companies and interested parties;
July 2006	Conclusion of collaborative discussions;
August 30, 2006	The Companies file Draft RFP; and
October 30, 2006	The Companies file Final RFP.

The Companies complied with the Commission's directive and filed the notice of its 2006 Limited- and Intermediate-Term RFP on May 15, 2006. The notice informs that ESI intends to acquire limited-term (one to three year) and intermediate-term (three to five year) resources through this RFP. As the notice filed on May 15, 2006 indicates that ESI is seeking resources with terms that exceed four years, the Market-Based Mechanisms Order requires that the period between the filing of the Draft and Final RFPs be no less than 75 days; however, these requirements may be waived or modified by the Commission for good cause.

At the Commission's Business and Executive Session held May 25, 2006, the Companies requested a modification in the procedural schedule in order to shorten the time period between the filing of the Draft and Final RFPs to 54 days. On motion of Commissioner Field, seconded by Commissioner Blossman, and unanimously adopted, the Commission voted to modify the procedural schedule. Therefore,

IT IS ORDERED that the following procedural schedule is implemented for the 2006 Limited- and Intermediate- Term RFP:

May 15, 2006	The Companies file notice of RFP;
Early June 2006	Staff provides and outline of issues to review to the Companies and interested parties;
Late June 2006	Collaborative discussions, facilitated by Staff, between the Companies and interested parties;
July 2006	Conclusion of collaborative discussions;
August 31, 2006	The Companies file Draft RFP; and
October 24, 2006	The Companies file Final RFP.

This Order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA

DISTRICT II
CHAIRMAN JAMES M. FIELD

DISTRICT I
VICE CHAIRMAN JACK "JAY" A. BLOSSMAN

DISTRICT IV
COMMISSIONER C. DALE SITTIG

DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

LAWRENCE C. ST. BLANC
SECRETARY

DISTRICT III
COMMISSIONER LAMBERT C. BOISSIERE, III

APPENDIX B

LOUISIANA PUBLIC SERVICE COMMISSION

STAFF

INITIAL ISSUES OUTLINE

JUNE 9, 2006

ENTERGY SERVICES, INC.
FALL 2006 INTERMEDIATE-TERM RFP

INITIAL OUTLINE OF THE
LOUISIANA PUBLIC SERVICE COMMISSION STAFF
Docket No. U-27836, Subdocket A

A. Introduction

The Louisiana Public Service Commission (LPSC) has directed the LPSC-jurisdictional Entergy Operating Companies (Entergy) to conduct an RFP for intermediate term power supplies, pursuant to the Market Based Mechanisms (MBM) General Order. To prepare for this RFP, stakeholders will engage in a collaborative process, with Staff serving as facilitator. That process is to be concluded by the end of July so that Entergy can take collaborative results and prepare a draft RFP (with required supporting material) by August 31, 2006.

Entergy has indicated that the RFP will not include a self-build or self-supply option but at this point intends to allow its competitive affiliates to bid. Entergy therefore has retained Elizabeth Benson as the process Independent Monitor (IM) and Potomac Economics as the evaluation IM for the RFP.

After some discussion with Entergy, Staff has agreed to a schedule an initial in-person meeting on June 28, 2006 at the Houston International Airport Marriott Hotel. This location is convenient both for Entergy and most market participants. The meeting will begin at 9:00 a.m. and continue as long as needed to explore and resolve issues. Staff intends to circulate an agenda at a time closer to the meeting date. This will not be a "meet and greet" type of meeting, but a substantive negotiating session (or to use a softer phrase, "a meeting to reach agreement on RFP design issues”). At that meeting, we will attempt to determine whether additional in-person meetings are required (as opposed to conference calls and exchanges of paper). Staff is mindful of the difficulty of scheduling plenary meetings for this group during July.

Staff is circulating this outline to parties to this subdocket, and Entergy has agreed to assist by circulating it to all participants in its current 2006 Long-Term RFP. All interested persons are welcome to attend and participate. Please contact both Staff and Entergy as soon as possible if you expect to attend.

We are circulating this Staff outline following some very limited discussions with Entergy and various merchant suppliers, and we have tried to reflect what we have heard. However, please treat this as a “straw man” and provide us with your pre-meeting comments, positions, and proposals, as soon as possible. (If your preference is to do so on a confidential basis, Staff will accept that.) We would prefer to receive your feedback no later than June 21, 2006, so that we can make effective use of it during the June 28th meeting. We would like to hit the ground running on this.

B. Issues Outline

(1) Eligible Participation

All suppliers (merchants, other utilities, IPPs, cogenerators, Entergy competitive affiliates, etc.) but no self-build or self-supply option.

(2) Bid Fees

Entergy is permitted to charge bid fees to cover IM costs, but has not yet made a decision on this.

(3) Product Type

Potential products for intermediate PPAs could include:

- Fully dispatchable gas CCGT capacity;
- Gas CCGT call option capacity;
- Quick start peaking
- High heat rate reserve capacity (not quick start); and
- Baseload

These clearly are separate products, with bids in each category evaluated separately (at least initially). For this RFP, it may be necessary to pare down this list somewhat.

(4) Contract Term

Entergy has indicated an interest in maintaining its one and three year limited-term contracts, and also intends to solicit contracts for a four- or five-year delivery term for certain products with the main purpose of these four- or five-year resources being to “fill in” pending the acquisition of the long-term resources in its current 2006 Long-Term RFP, which may take several years. On the other hand, some merchants have indicated an interest in terms somewhat longer than five years, i.e., perhaps 7 or 8 years. Entergy presently intends that deliveries under any contracts would commence beginning summer 2007.

(5) Transmission Service Arrangements

At this juncture, it appears that Entergy intends to use a method similar to that used in its Fall 2004 RFP. (Please see the Fall 2004 RFP on Entergy's web site if you are unfamiliar.) All contracts must obtain firm transmission service to go forward, but it is not the responsibility of the bidder to obtain such service in order to submit a proposal in response to the RFP. Rather, Entergy plans on using its AFC process for that purpose, managing transmission access using displacement or de-listing as needed (and as feasible). However, failure to obtain network integration transmission service after the first year could result in a multi-year contract being cancelled after the first year. Entergy retained this option in its Fall 2004 RFP-procured contracts and plans to use this approach for all contracts greater that one year in duration.

(6) Capacity Block to be Solicited

Entergy must determine the capacity need (type and total amount) based on its planning data, expectations of capacity acquisitions from its current RFP and other information. The capacity block selected needs to be supported, with the support provided by Entergy to appropriate representatives of the collaborative parties (subject to normal confidentiality protections for highly sensitive data).

Staff understands that Entergy's basic approach has been one of conducting a series of periodic RFPs and acquiring capacity to meet identified needs gradually, rather than a "once and done" process that attempts in one RFP to meet all identified capacity over the entire planning horizon. Staff believes the multiple RFP approach has certain advantages and has worked well.

(7) Unit Shutdown and Replacements

The current 2006 Long-Term RFP may go beyond the identified capacity block. If that target is met, Entergy will determine whether there are remaining bids sufficiently attractive as to displace existing capacity.

This intermediate term RFP essentially should do the same thing. However, it is likely that only bids for terms of three years or more could fill that shutdown/replacement role.

(8) Phase III Transmission Study

Staff has received numerous inquiries concerning the potential role in this RFP of the Phase III transmission constraint study. This can and likely will be a matter of some discussion at the June 28 meeting. However, at this juncture (and based on Staff's understanding), we do not see a role for this study in the RFP. Assuming the term of the PPAs sought in this RFP are on the order of one to five years, beginning in 2007, the contracts will be largely over before any of the transmission upgrades resulting from the study are in service. If any party has a contrary view we are willing to discuss it, but we see this largely as an issue of practicality.

(9) Evaluation Methodology

We would expect evaluations to be conducted in a similar fashion to the current RFP (initial screening and more detailed ProSym modeling). However, there will be no need to consider options such as asset ownership, self-build, etc. There is also no need here to raise the debt imputation issue.

Staff is concerned about the problem of how contracts of different lengths are evaluated -- e.g., one year versus five years. If Entergy uses a "fill-in" methodology for missing years, there is the potential for the evaluations to be tilted entirely toward one contract length. We would like to discuss further the contract length issue and its implications for bid ranking.

(10) Credit / Collateral Requirements.

At the conclusion of the collaborative discussions that occurred during the second half of 2005, Entergy agreed to review its credit requirements for limited-term contracts and consider alternative forms of collateral. Staff requests an update from Entergy on this issue and subsequent feedback from market participants.

C. **Other Issues**

There may be some critical issues that Staff has omitted, and we request that collaborative participants bring them to our attention. To the extent that an issue is not addressed, we assume that it would be treated the same way as in Entergy's current RFP, which has been vetted through a stakeholders process. There will be a further stakeholders process for this intermediate RFP beyond this collaborative beginning August 31, when Entergy makes available its draft RFP.

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APPENDIX C

STAFF MEETING NOTES

FOR

COLLABORATIVE MEETING

JUNE 28, 2006

LPSC DOCKET NO. U-27836, SUBDOCKET A
INTERMEDIATE RFP COLLABORATIVE
STAFF MEETING NOTES
JUNE 28,2006

FINAL DRAFT

A. Introduction

An initial meeting of the Intermediate RFP Collaborative was held on June 28, 2006, at the Houston Intercontinental Marriott Hotel from 9 AM to about 3 PM. A list of meeting attendees is attached to these meeting notes. Staff chaired the meeting and served as facilitator, but Staff also indicated that it will participate as an interested party advocating positions that it believes are in the best interest of Louisiana customers. Several representatives of Entergy Services, Inc. (ESI or Entergy) attended as well as representatives of merchant generation plants in the region. Betsy Benson, the RFP Process Independent Monitor, and Dr. Robert Sinclair, the RFP Evaluation Independent Monitor, attended the meeting (Dr. Sinclair telephonically).

At the outset, Staff summarized the planned agenda for the first meeting, and the agenda was agreed to by the attendees. (The meeting agenda is attached.) It was agreed that the meeting discussions would not be treated as a confidential settlement, unless a party specifically requested such treatment for its positions. No party did so. The parties requested that Staff prepare meeting notes to memorialize the meetings and circulate its meeting notes for comment. Staff was also asked to prepare a final report on the collaborative, to be submitted around the end of July.

Staff had circulated a preliminary issues outline on June 7 for review by the parties, and requested comments by June 21. No written comments were received by that date, although Staff did receive a written outline of a joint position statement sponsored by Suez, Williams and Union Power shortly before the meeting (referred to in these notes as the Joint Merchant Group).

B. Background Topics

Before turning to the issues to be resolved in the collaborative, Staff raised two background topics that it believes are of substantial interest to the stakeholders -- Entergy's strategic plan (and planning objectives) and the ongoing 2006 transmission planning study. Staff invited questions and comments on Entergy's strategic plan.

ESI provided basic information regarding its Strategic Supply Resource Plan and referred interested parties to the planning information included in its current (long term) RFP. Staff expressed its concern over the amount of generation from Entergy's high heat rate oil/gas units, which totaled more than 20 million MWh per year in both 2004 and 2005. Substituting market generation supplies for this expensive self-generation can provide substantial savings. Staff also stated that an important strategic objective is for Entergy to improve its fuel mix, which is overly dependent on gas/oil.

Staff provided a brief overview of the Entergy 2006 transmission study. It was explained that the study will focus on two main areas. The first is the expansion of transfer capacity into WOTAB to reduce the RMR requirements for EGS local generation (e.g., Sabine, Lewis Creek, Nelson). The second is the Amite South load pocket, with the focus being the timing of previously planned upgrades in light of the loss of load in that region. The candidate transmission projects are listed on the Entergy OASIS site along with expected in-service dates. The WOTAB projects cannot be completed prior to 2010. Staff reviewed and explained the study methodology, indicating that Promod runs were not likely to be completed prior to late August or September. It was indicated that Entergy transmission will provide a presentation at its July 13 transmission summit in New Orleans. Parties discussed the possibility of a LPSC technical conference on the study prior to its completion. Staff indicated its concurrence with the technical conference idea.

The parties raised a number of questions concerning the study. This included the cost/benefit methodology, including whether the study would consider retirement of RMR issues and replacement with new purchased capacity. Questions were also raised regarding whether data on increased in transfer capacity and relieving of security constraints from candidate upgrades would become publicly available, and the potential differences between transmission planning and the RFP evaluation. Staff indicated that the study results were not likely to be available for inclusion in the intermediate RFP, and noted that the vast majority of the older units were not RMR.

B. RFP Issues

(1) Bid Fees.

Entergy is considering bid fees (at $500 per bid) as permitted under the MBM order, although it has not yet made a determination. Parties are invited to provide feedback on this question.

(2) Schedule/Participation.

Entergy had a short handout, which included a tentative RFP schedule. Entergy plans to issue a final RFP on October 24, with proposals submitted in mid-November and RFP process completion in March 2007.

All potential wholesale sources may participate, including Entergy competitive affiliates, but there will be no self build proposed.

No disagreement was expressed over schedule or eligibility for participation.

(3) Products.

The proposed products generally follow the Staff outline and are comprehensive. Entergy provided detailed product definitions in its meeting handout. The parties did not object to these products, although Staff expressed concern that the range of products may be too extensive, given the overall scope of the RFP. Calpine suggested that a modification may be needed for QFs that have a "must run" component. This could either be a "hybrid" must run/dispatchable resource, or bidding in as two separate but contingent products. Entergy agreed to consider this suggestion.

(4) Contract Term.

Entergy proposed contact terms of 1 to 5 years, with baseload resources of 4 to 5 years. The purpose of these contract lengths is to meet immediate capacity needs (starting summer

2007) and providing a bridge until new baseload resources now being sought in the long-term RFP become available in the 2011 time frame. Entergy did note that it may modify the start date to September 2007, with the contracts to terminate in August of the calendar year in which the contract terminates.

The Joint Merchant Group disagrees, suggesting contract terms as long as ten years should be permitted. There was no disagreement with permitting contracts as short as one year. There also was no disagreement with a potential start date of June 2007.

(5) Evaluation Methodology.

The evaluation methodology was discussed in some detail, with Entergy indicating that it would employ methods similar to its recent RFPs. Different product types will be evaluated separately. There will be an initial screening, with the short-listed bids then being subject to more detailed evaluations using the ProSym model. Entergy indicated that the net savings per $/kW-year would be the measure used to rank bids. It is not clear at present whether 1 and 3 year contract bids would directly compete with longer-terms bids.

A number of questions and concerns were raised. Commenters suggested that relatively longer term contracts provide a “certainty” benefit compared to shorter contracts, and the evaluation should recognize that. Entergy disagreed, stating that the contract terms it uses are driven by its Strategic Supply Resource Plan, which contemplates a mix of longer and shorter term resources, the need to ladder contract termination dates in order to be able to respond to changing market circumstances, and that longer contract terms expose customers to price risk with no offsetting benefit. There were a number of questions concerning the market price curve for economy energy in ProSym and whether it was overly speculative for longer term resources (e.g., 5 years or more). Staff indicated that the economy market assumptions used in the evaluations are subject to careful review by the Evaluation IM and Staff.

Entergy advised that the bid evaluation does not include the SSRP purchases, but does include economy purchases.

The Joint Merchant Group generally seems to favor ranking bids of like terms. (This needs further discussion and definition.) No firm conclusion was reached on this issue.

(6) Evaluation Methodology - Transmission. For 1-5 year products, Entergy will use the AFC Scenario Analyzer, when applicable, to evaluate the deliverability of resources during year one of a multi-year contract, with the purchasing Operating Company to take the risk of transmission deliverability during the first year, if the contract is selected for a definitive agreement. For subsequent years, ESI will obtain System Impact Studies from the Entergy Transmission Business Unit, and the contracts will contain a provision to allow them to be terminated if the SIS results in the denial of transmission service and ESI does not believe that transmission service may be managed through delisting or active transmission management.

The Joint Merchant Group objected to Entergy's contract termination rights. However, Entergy explained that this is an exceedingly limited option. It can be exercised only one time (when essential transmission information is obtained) and can only be exercised due to lack of transmission, not due to changing economics. Given these limitations, the Joint Merchant Group agreed to reconsider its opposition.

Questions also were raised concerning what transmission upgrades would be considered in ESI's modeling for evaluation purposes. Staff suggested using the new ICT Base Plan, which will extend out three years (through 2009) and may be available to ESI by this fall. Entergy agreed to consider this as a possible resolution but currently intends to use the Construction Plan as determinative of the transmission upgrades to be considered. The Staff stated, and Entergy agreed, that Entergy does not expect material differences between the ICT Base Plan and the Construction Plan. Entergy also acknowledged that it will have to include transmission upgrades that are scheduled to come on line during the term of a proposed contract.

The Joint Merchant Group had a number of other suggestions.

- Entergy must explain why it cannot obtain transmission service for a bid resource in those instances where it is unable to do so.

- Entergy must provide load flow cases in instances where a proposal is rejected due to transmission unavailability.

- Certain recommendations were made concerning the allocation of transmission upgrade costs to bidders versus System. (In response to Staff, it was clarified that this is only intended as a bid ranking issue, not a ratemaking issue.)

There was also extensive discussion (and complaints) concerning Entergy TBU's methodology for granting transmission service. The complaint was that TBU ignores actual, normal operation of short-term economy operations and QF puts. The Joint Merchant Group is concerned that this problem impacts bid ranking and evaluation because of the potential for a transmission cost adder. While a very important issue, Staff is of the opinion that this cannot be resolved in this collaborative.

(7) Retirement/Replacements.

Entergy agreed to follow the Staff recommendation that unit displacements and shutdowns (not necessarily retirements) would be considered as part of the RFP, but only after the identified capacity need has first been satisfied. Staff asserts that this fully complies with the Commission's directive on this issue. Staff believes that this "retirement/replacement" should occur to the extent that it can provide net, identifiable System cost savings. The Joint Merchant Group did not oppose the use of the RFP to meet incremental load needs, but did not believe that incremental load needs should be given priority status.

(8) Capacity Need.

The amount of capacity that Entergy needs to acquire as part of the RFP was only briefly discussed and was not resolved at the meeting.

(9) Contingency.

Entergy indicated that parties may bid into the RFP even if they have a bid for the same generating unit pending in the long-term RFP. Entergy agreed to work with bidders on this problem in the event that such a conflict arises and would be flexible.

(10) Credit/Collateral.

Tom Moran gave a short overview discussion of the credit/collateral issue, indicating that Entergy's position is generally consistent with its current RFP. Entergy is intending to provide more standardization of credit requirements across products in order to simplify requirements. Entergy also indicated that offsets (e.g., payable balance) will be reflected in credit requirements. Entergy also agreed to some flexibility in how credit requirements can be met. For example, asset liens might be considered as a possible option for a counter party to comply with credit requirements. No security will be required while a contract is pending.

There were no comments from the parties on Entergy's presentation on this issue.

C. Next Steps

Staff requested that the parties report back in writing to Staff by July 12 identifying the issues that were resolved at the initial meeting versus those that appear to remain in dispute. This can be submitted to Staff via email, as well as simultaneously to other collaborative parties. Please email comments to Melissa Watson at melissa.watson@la.gov and Matt Kahal at mkahal@exeterassociates.com. There is also a contact list attached, compiled from the sign-in sheet from the meeting.

The parties agreed to have a follow-on conference call at 9 AM Central on July 19. Entergy agreed to set up the call.

APPENDIX D

STAFF MEETING SUMMARY AND ASSESSMENT FOR

JULY 19, 2006 CONFERENCE CALL

ENTERGY LOUISIANA, LLC
ENTERGY GULF STATES, INC.
Docket No. U-27836, Subdocket A

STAFF SUMMARY OF THE
JULY 19, 2006 CONFERENCE CALL

A. Introduction

As a follow-on to the June 28 Houston meeting and written comments of July 14, 2006, the parties held a conference call on July 19 to discuss the outstanding collaborative issues. This memo summarizes the issues discussed on the conference call, with an emphasis on the unresolved issues, and Staff's assessment of the status of these issues. There were a number of items not discussed at any length on the July 19 conference call, and for the present we are treating those items as not presently in dispute. However, the parties remain free to revisit and comment on these (presently) uncontested items when the draft RFP is issued on August 31.

Attached to these comments is a listing of the participants on the July 19, 2006 conference call. Most of the discussion and position statements were expressed by the Entergy Companies and the Joint Participants (Williams, UPP and Suez), with Calpine stating its position on the need for a combination MUCCO/Baseload product.

At this time, Staff is not proposing an additional conference call or meeting. However, we do request that parties submit statements (formal or informal) by close of business this Friday, July 29 on the status of any open or disputed issue (and any responses to this memo). While we realize that this is short turn around, Staff is obligated to issue a final report on the collaborative by July 31, i.e., the following Monday.

B. Issues to be Resolved

(1) Products

Calpine had proposed a combination MUCCO/Baseload product that would facilitate QF participation in the RFP. Entergy sought to address that need, although not necessarily with a combination product, as proposed. The acknowledged difficulty is how such a product would be evaluated since it differs from a standard MUCCO contract. Instead, Entergy suggested keeping the MUCCO and baseload components as two separate products (although the bids could be conditional on Entergy accepting both products). Entergy would then evaluate the two products within its portfolio evaluation. Calpine asked whether Entergy would factor into the evaluation the benefit derived from the QF power being scheduled and relatively certain, compared to obtaining uncertain hourly puts in the event there is no QF contract. Entergy stated that it would not do so.

Bill Mohl also emphasized that notwithstanding Entergy's proposed product definitions, the Companies very much want highly flexible generation, with intra-day dispatch capability and even AGC for real-time load following. These attributes will maximize the savings that Entergy can obtain from the bid resources, including the (non must-run) QF supplies.

Staff Assessment

Generally, there seems to be little dispute over the product definitions at this point. Both Entergy and Calpine seem to share the same objective -- facilitating in a workable manner QF participation in the RFP -- although differences remain on exactly how that should be done.

Staff supports this objective, but the defined product(s) must be amendable to bid rankings and evaluation in a reasonably transparent manner, and we are not sure that either the Calpine or Entergy proposal accomplishes that. In the event that this issue is not fully resolved by July 31, we suggest that Entergy and Calpine continue to discuss this issue and keep Staff apprised.

(2) <u>Contract Length</u>

The conference call revealed a clear difference in position, with Entergy proposing PPA lengths of one to five years and Joint Participants favoring PPAs going out to up to ten years. Entergy noted several problems in going out beyond five years including uncertainty, complications with evaluations and keeping older units in shutdown status. Joint Participants noted that with a longer contract transmission upgrades can be amortized over a longer contract length, thereby making displacement more feasible.

<u>Staff Assessment</u>

Staff conducted discussions with Entergy to encourage compromise on this issue. Entergy again emphasized the difficulties in going beyond five years. However, Entergy has indicated that in the event it selects five-year PPAs, as part of final negotiations, it is willing to discuss with the bidder a modification to a contract length longer than five years. Staff hopes this can serve as the basis for an acceptable resolution.

(3) <u>PPA Evaluation</u>

The issue of alternative contract lengths and evaluation categories was discussed. The Joint Participants favor bid rankings within contract length categories. Entergy generally agrees that this approach is appropriate in the initial screening to develop a short list for each contract type. However, the final evaluation must allow some economic comparisons across PPA categories. Unless such cross comparisons are allowed, Entergy may be forced to accept relatively unattractive bids in a given category when much more attractive bids are available in another category.

Another evaluation issue concerns the role of economy energy in the ProSym modeling. It appears that the Joint Participants would like ProSym evaluations performed with and without economy energy due to the speculative nature of the economy market. Entergy is insistent that economy energy transactions opportunities must be recognized.

Staff Assessment

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. Economy energy will be reflected in ProSym modeling, but it is subject to review by IM and Staff, and sensitivity cases would be considered. Also, Entergy has acknowledged that economy energy prices in ProSym will reflect expectations of a gradual tightening in the market over time.

(4) Transmission-Related Issues

A number of transmission-related issues were raised, with the most contentious linked to the Entergy option to cancel a contract after year one in the event the resource cannot obtain firm transmission service. The Joint Participants proposed that Entergy should not have termination rights in the event that transmission service is adequately managed during the first year of a contract. Entergy opposed that restriction as creating too much exposure, but explained it would only exercise this option for an inability to obtain transmission service and not due to economics (i.e., changes in market conditions). Also, the exercise of a termination would be subject to Staff review (but not necessarily IM review).

The Joint Participants requested that in the event transmission service for a winning bid is denied, Entergy should provide the load flow case underlying the decision. Entergy expressed concern that this would include highly sensitive System dispatch information, and therefore it was not willing to do so.

A final transmission issue related to cost allocation. The area of disagreement involved transmission upgrades required for a PPA to obtain network service. The Joint Participants argued that if the upgrade provides System benefits, then it should not be included as part of the PPA's cost for bid evaluation purposes. Entergy's position is that the cost of the upgrade should not be included if and only if the upgrade is part of the TBU Construction Plan.

Staff's Assessment

Staff has continued to pursue these issues and believes that they can be resolved. We now understand that Entergy's Construction Plan will extend out three years, which is the same as the ICT's Base Plan. (It is uncertain when the Base Plan will be available.) Thus, the use of the Construction Plan should capture all approved upgrades through 2009. Staff agrees with Entergy that for purposes of this RFP it is not practical to ascribe "System benefits" to any transmission upgrades that (a) are not in the Construction Plan; or (b) have not been subject to an economic cost/benefit test. The RFP itself is not intended to be an economic transmission planning study. However, if such an economic transmission study is available (and accepted by the Commission) and identifies cost/beneficial upgrades, those upgrades should <u>not</u> be considered part of the cost of the PPA.

Based on further discussions with Entergy, it appears that the load flow studies that serve as the basis for denying transmission to a winning bidder can be made available. They will be posted on the TBU OASIS site and will be publicly available.

Finally, Staff agrees that Entergy must have discretion to terminate a contract but <u>only</u> due to failure to obtain transmission service. Any such termination and its basis will be reviewed by Staff provided it is an EGS-La or ELL contract. We will <u>not</u> review terminations of PPAs with the other Entergy Operating Companies. Since the PPAs in question will be certified by the LPSC, the Seller clearly would have the right to protest a termination to the LPSC in the event the Seller believes the termination to be improper. Staff would encourage Entergy to subject any termination decision to IM review as well.

(5) <u>Displacement Purchases</u>

As far as Staff can determine, there is no dispute remaining concerning the role in the intermediate RFP of capacity displacement. Entergy agreed to evaluate remaining bids for cost savings displacement of existing installed capacity once its incremental needs are met. Entergy did indicate that net savings are required for a displacement transaction, and for that reason

Entergy would not target an acquisition floor. Similarly, the Joint Participants would oppose an arbitrary ceiling on the displacement capacity.

Staff Assessment

It appears that both sides are in agreement that there should not be either a restrictive floor or ceiling on displacement resources. Entergy's proposal to meet incremental needs first before moving forward with displacement transactions is both proper and consistent with the Commission's directive.

(6) Broader Issues

At various times during this collaborative issues have been raised that transcend the intermediate RFP itself and involve other areas of operation. This would include the absence of a well-defined "RMR exit strategy" and improper criteria used by TBU for denying firm transmission service (network and point to point). Entergy expressed the view that these issues are not properly part of the collaborative.

Staff Assessment

While Staff believes the discussion of these issues was useful, they cannot be resolved within the intermediate RFP process itself, and particularly, as part of this fast track collaborative process. In the near future, the ICT will be the entity providing transmission service and the ICT stakeholder process is likely to be a much more productive and appropriate mechanism for addressing complaints over how transmission service is granted. Initiatives such as the 2006 Entergy transmission study are part of the path for addressing an "RMR exit strategy."

C. **Next Steps**

Staff would encourage the parties to hold bilateral discussions this week to obtain any needed clarifications and to attempt to resolve outstanding issues. We would appreciate hearing back in writing from the parties by the end of this week so that we may complete our collaborative report by July 31, in accordance with the approved schedule. We hope that as many issues as possible can be resolved, but there will be opportunities to discuss these issues further as part of the MBM stakeholder process after Entergy submits its draft RFP on August 31.