

**ENERGY 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 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 than 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.