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FEDERAL ENERGY REGULATORY COMMISSION  
TECHNICAL CONFERENCE  
ENTERGY SERVICES, INC.  
DOCKET NOS. ER04-699-000, ET AL

THURSDAY, JULY 29, 2004  
1:15 P.M. - 5:10 P.M.

CITY OF NEW ORLEANS CITY COUNCIL CHAMBERS  
1300 PERDIDO STREET, FIRST FLOOR  
NEW ORLEANS, LOUISIANA

REPORTED BY:

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1                                   OPENING REMARKS

2           CHAIRMAN WOOD:

3                           Good afternoon. I am Pat Wood,  
4           Chairman of the Federal Energy Regulatory  
5           Commission and it is our pleasure and honor to  
6           be here today in the City Council Chambers of  
7           New Orleans to have our technical conference  
8           with Entergy and a number of the market  
9           participants and customers and fellow regulators  
10          down here in the Entergy service area. Before I  
11          start with the introduction of the day's events,  
12          I want to turn it over to our host from the  
13          Council of New Orleans, Councilwoman Cynthia  
14          Willard-Lewis.

15          COUNCILWOMAN LEWIS:

16                           Thank you, Mr. Chairman. To all of  
17          the dais guests, platform guests, to all of you  
18          who have come assembled in New Orleans for this  
19          very important and initial deliberation that  
20          discusses a very critical matter to yourselves  
21          and to our consumers, I am honored to sit before  
22          you on behalf of our illustrious Mayor, The  
23          Honorable C. Ray Nagim, and all members of the  
24          New Orleans City Council, but, in particular,  
25          our chair and committee members of our utility

1 commission which regulates these matters.

2 We welcome you with a heart of genuine  
3 hospitality and say that we are so delighted to  
4 have you here in this wonderful, historic city,  
5 discussing such a pivotal item that impacts all  
6 Americans. We are very grateful for the  
7 presence of our FERC members from Washington and  
8 all of the staff that have prepared with great  
9 length and depth of research all of the matters  
10 that will be presented.

11 We are very blessed here in the City  
12 of New Orleans to represent a great population.  
13 You come to a queen city of the South. You come  
14 to a city blessed with history, with  
15 architecture, with music, with food and with a  
16 people willing to take a bold and courageous  
17 stand so that New Orleans will not only speak to  
18 the past, stand in the present, but also move  
19 forward into the future and that is what this  
20 day is all about. We are very delighted for the  
21 economic development that you will drop into our  
22 great city over the next 48 hours, remembering  
23 your spouses and your children. We're very  
24 delighted about the friendships that you will  
25 form and that you began these proceedings in our

1 hallowed chambers, the chambers where the people  
2 of this city come and share with their heart and  
3 their mind what is on their mind.

4 We've had many, many animated  
5 discussions in these chambers, so we encourage  
6 you to hold the peace. We encourage you also to  
7 speak truth and boldness to the matter that you  
8 are deliberating, knowing that at the end of the  
9 day, what will be advanced, hopefully, will be a  
10 model that will bring forth reliable and  
11 affordable energy provisions for all of our  
12 consumers, for you who are on both sides of the  
13 transmission grid. You know we are all in this  
14 together and we must make sure that we all stand  
15 strong and that we advance the best interests of  
16 what makes America great.

17 Louisiana, this day, is called a  
18 battleground state. We don't want you battling  
19 in these chambers. We want you working together  
20 in a spirit of cooperation, but if the gauntlet  
21 has to be dropped, let it be dropped on the side  
22 of the consumer, the average American that may  
23 have difficulty in paying his or her bill and  
24 truly, in this city, where there is such great  
25 wealth, but there is also great poverty, we ask

1       you to be reasonable with your proposals and  
2       always advancing that which represents the  
3       interests of the average citizen and taxpayer.  
4       That is what we are about here in this great  
5       city, working together for the interest of the  
6       people, and we know that is your charge, that is  
7       your heart and we hope that at the end of the  
8       day, the proposals will reflect that.

9               My advisors have prepared some great  
10       bullet points for me to share with you but I am  
11       not going to do that. I am going to yield to  
12       the deference and wisdom of this great Chairman  
13       and let him do that and if you would allow me  
14       the opportunity, at the right time, I will take  
15       the mike again. I'm not shy in doing that, but  
16       if necessary, will. We welcome you to this  
17       great city and we are blessed by your presence  
18       and by all that will occur in this forum over  
19       the next two days. Thank you.

20       CHAIRMAN WOOD:

21               Thank you very much Councilwoman Lewis  
22       for your gracious and warm welcome. We are  
23       honored to be here and so delighted to be joined  
24       on the dais, not only by yourself, but by some  
25       good colleagues and friends. From the end down

1       there, we've got Commissioner Randy Bynum from  
2       the state of Arkansas. Also, Daryl Bassett from  
3       Arkansas, Chairman Mike Callahan, from  
4       Mississippi, Chairwoman Sandy Hochstetter from  
5       Arkansas, my colleague, Nora Brownell, my  
6       colleague Joe Kelliher, and my former colleague,  
7       from the Texas Commission, the head of the staff  
8       on all electric issues, Jess Totten. Also, I  
9       understand that Chairman Irma Dixon Muse, from  
10      Louisiana and Commissioner Jimmy Field will be  
11      joining us in the next hour or so. They were  
12      delayed by travel plans, but asked us that we go  
13      forward. And Commissioner Blossman will also be  
14      here, today, perhaps, but tomorrow as well. So  
15      we are delighted to have everybody here.

16                Just to kind of kick off the day and  
17      what we're here for, the operation of Entergy  
18      systems and its proposals to improve the systems  
19      operations are of concern to all of us, to  
20      federal and state regulators, as well as to the  
21      industry segments that do business with Entergy  
22      and most importantly, Entergy's wholesale and  
23      retail customers. We appreciate the opportunity  
24      to meet with all of you today and undertake an  
25      open dialogue on what can be done to improve the

1 efficiency of transmission service across  
2 Entergy's system.

3 Entergy has made an effort to improve  
4 the allocation of scarce transmission capacity  
5 to wholesale customers and also decide who  
6 should properly pay for upgrades of the  
7 transmission grid. We know that this is an  
8 important issue to the state regulators, to  
9 Entergy, to the independent generators who have  
10 invested in these states and to all of their  
11 customers. In order 2003-A, which is one of our  
12 commission dockets, we clarified how the cost of  
13 these upgrades should be appropriately recovered  
14 in a way that makes those responsible for the  
15 upgrades pay for them, and we also clarified  
16 what rights that those people who pay for them  
17 should receive.

18 The FERC acknowledges Entergy's effort  
19 to increase the ability of non-Entergy owned  
20 generation plants to utilize this system more  
21 efficiently. The question before us today and  
22 tomorrow is, can we do more, and where should we  
23 focus our efforts to further improve the system  
24 to achieve the greatest benefits for all the  
25 customers, both wholesale and retail customers.

1           I think there is common agreement  
2           between FERC and state regulators as to what  
3           many of the challenges there are before us, such  
4           as the need to build more energy infrastructure,  
5           to provide greater regulatory certainty to all  
6           market participants, to insure that the grid  
7           remains reliable, to insure that there is fair  
8           access to the marketplace for all market  
9           participants and their customers, to insure that  
10          not just some states, but all states share in  
11          the benefits of the improved wholesale  
12          marketplace and to insure that as we undertake,  
13          in all that we undertake, native load customers  
14          of Entergy and of other retail suppliers are  
15          protected.

16                 Entergy has proposed changes to its  
17          weekly procurement plan, intending to give  
18          merchant plants more opportunity to serve  
19          Entergy load and to promote wholesale  
20          competition, however, some have said to both  
21          FERC and state regulators that this proposal,  
22          which is a step in the right direction, can be  
23          further improved upon because if it captures  
24          many of the benefits that could be gained from  
25          least-cost dispatch of all available generation,

1 that would be a good thing. For example, Dr.  
2 David Dismukes, of Louisiana State University,  
3 performed a study last year that detailed the  
4 economic benefits of further generation  
5 development in Louisiana.

6           During our first day, this afternoon,  
7 we would like to explore the potential benefits  
8 of least-cost economic dispatch on the Entergy  
9 system and talk about how Entergy could work it  
10 into the proposed weekly procurement process  
11 that they have proposed. Economic dispatch  
12 could potentially benefit customers throughout  
13 the Entergy system. There are approximately  
14 17,500 megawatts of new, efficient, clean  
15 burning natural gas units attached to the  
16 Entergy system. Economic dispatch of those  
17 units would benefit all customers, including  
18 native load customers of Entergy in several  
19 important respects.

20           First, the use of more efficient  
21 natural gas generating units that have lower  
22 running costs could lead to lower electricity  
23 prices for the customer. Moreover, natural gas  
24 is on the margin. That is the incremental fuel  
25 most of the time in the Entergy system as it is

1 throughout most of the Sunbelt. This leads to a  
2 wasteful use of gas, which could contribute to  
3 higher prices across the nation. Better use of  
4 efficient gas units through the economic  
5 dispatch could put downward pressure on gas  
6 prices, not only here in Louisiana, but across  
7 the country. Lower energy prices benefit not  
8 just industrial and commercial customers, but  
9 also residential customers of electricity.

10 Second, lower energy prices will  
11 attract new business to our region and it will  
12 also mean lower operating costs for businesses  
13 that are already here. It will help keep plants  
14 open, which, of course, means jobs for our  
15 states down here.

16 Third, because the newer units are  
17 more efficient and burn clean natural gas, they  
18 are less polluting. It's hard to put a price  
19 tag on the value of environmental benefits and  
20 better air quality to our communities, but I  
21 think we would all agree that the value is  
22 tangible and significant.

23 Entergy has also made proposals to  
24 establish an independent entity, called the  
25 independent coordinator of transmission, which I

1 think will be referred to as the ICT over the  
2 next two days, to oversee the administration and  
3 operations of its transmission system. Tomorrow  
4 morning, we will explore this ICT proposal in  
5 more detail and also its alternatives, such as  
6 the Southwest Power Pool. We will also explore  
7 the other issues related to transmission access  
8 on the Entergy system, which this proposal and  
9 the related dockets posted for today entail.

10 In summary, my FERC colleagues and I  
11 recognize Entergy's efforts to move in the right  
12 direction and we look forward to working  
13 collaboratively with Entergy, the other market  
14 participants, and particularly, our state  
15 Commissioners and the New Orleans City Council  
16 in finding win-win solutions that will benefit  
17 the wholesale and retail customers of our  
18 region. So I want to welcome you here today and  
19 ask if any of my other colleagues on the dais  
20 have anything to add before we go to our panel  
21 from Entergy.

22 (All other members indicated a negative  
23 response.)

24 PRESENTATIONS ON BEHALF OF ENTERGY

25 MR. WOOD:

1           To kick off the conference today, I'd  
2           like to invite Rick Smith, who is the group  
3           president of utility operations from Entergy to  
4           begin the day. Rick.

5           MR. SMITH:

6           Thank you, Mr. Chairman, and good  
7           afternoon everyone. I would like to express our  
8           appreciation to all our regulators, both retail  
9           and federal, for the establishing and  
10          participation in this technical conference. The  
11          issues being addressed by Entergy's filing are  
12          important to our region and we look forward to  
13          hearing the comments of all the parties. We are  
14          optimistic that we will have a constructive  
15          discussion over the next two days. As you begin  
16          this technical conference to address the  
17          reasonableness of Entergy's voluntary proposal  
18          to establish an independent coordinator of  
19          transmission, the ICT, I would like to offer our  
20          thoughts on how the ICT proposal should be  
21          measured.

22          Some would argue that the proposal  
23          should be measured against the FERC's RTO  
24          requirements and that the ICT proposal comes up  
25          short. Entergy believes this is the wrong

1 standard, the wrong yardstick. The ICT is not  
2 an RTO and it is not intended to be one. As I  
3 will discuss in some detail in a moment, there  
4 is not a feasible RTO option for Entergy at the  
5 present time. There is no fully specified RTO  
6 to join. SPP is not fully specified, nor is  
7 there sufficient retail regulatory support for  
8 our joining SPP or another RTO at this time.  
9 Faced with this reality, the ICT was proposed  
10 and represents a pragmatic step that can be  
11 implemented now and produce benefits for the  
12 region.

13 With that in mind, it is Entergy's  
14 opinion that rather than measuring the ICT  
15 against the Commission's RTO requirements, it  
16 should instead be measured against the following  
17 three standards. One, is the ICT proposal a  
18 substantial improvement over the status quo.  
19 Two, can it be implemented without protracted  
20 litigation and delay. Three, does the ICT  
21 proposal create a bar to future RTO  
22 participation by Entergy.

23 I'd like to take a minute to discuss  
24 each of those standards. First, is it a  
25 substantial improvement over the status quo? We

1 believe the answer is clearly yes. It provides  
2 three substantial improvements in three areas.  
3 The proposal establishes an independent  
4 coordinator of transmission that will oversee  
5 the planning and operation of the Entergy  
6 transmission system, thereby increasing its real  
7 transparency in the provision of non-  
8 discriminatory transmission service on the  
9 Entergy system. While some have argued that  
10 oversight is not an improvement, this position  
11 is clearly inconsistent with the Commission's  
12 own findings that market monitors who function  
13 primarily to oversee and report on the conduct  
14 of market participants and/or the transmission  
15 provider are in the public interest. This is  
16 the case even when the transmission provider  
17 being monitored is the RTO itself. So oversight  
18 and monitoring clearly provide benefits.

19 The proposal also establishes pricing  
20 rules for the funding of the transmission system  
21 expansion that will increase efficiency, reduce  
22 cost shifts and provide visible pricing signals  
23 for the next round of generation sighting, plus,  
24 it implements the Commission's higher up pricing  
25 principles to provide the native load protection

1 as recognized and reaffirmed by the FERC in  
2 Order 2003-A. Tomorrow, Michael Schnitzer of  
3 Northbridge, will go over the pricing proposal  
4 in more detail.

5 The proposal also establishes a weekly  
6 procurement process, the WPP, to better  
7 integrate 17,000 megawatts of merchant  
8 generation recently interconnected to the  
9 Entergy system and into Entergy's local  
10 commitment and dispatch. Ken Turner, from  
11 Entergy, will discuss the specifics of the WPP  
12 proposal, following me.

13 Moving on to the second standard, can  
14 the ICT proposal be implemented without  
15 protracted litigation and delay? Once again, we  
16 believe the answer is yes, because we will show  
17 our retail regulators that the benefits of the  
18 ICT proposal will exceed the cost, allowing  
19 these benefits to be obtained in the near term.  
20 However, to be clear, we are still in the  
21 process of reviewing the proposal with our  
22 retail regulators and have specifically  
23 requested that the FERC not act on our proposal  
24 until the retail regulators have made their  
25 determinations.

1           The ability to measure the costs and  
2           benefits of the ICT proposal is one of the  
3           critical elements that distinguishes the ICT  
4           proposal from the alternative of having Entergy  
5           join the SPP RTO that has been avocated by  
6           certain parties. Again, let me emphasize, the  
7           SPP RTO is not fully specified, therefore, we  
8           and our retail regulators are unable, at this  
9           time, to determine whether it would be  
10          beneficial or not to our customers. Again,  
11          Michael Schnitzer will get into a more detailed  
12          analysis of costs and benefits of these options  
13          tomorrow.

14                 Additionally, there are other aspects  
15                 of an RTO that have created concerns among our  
16                 retail regulators. These include the loss of  
17                 local jurisdiction over bundled retailed  
18                 transmission rates once we join an RTO and also  
19                 the operation of a day ahead and realtime  
20                 locational marginal pricing markets inherent in  
21                 a day two RTO. In light of these circumstances,  
22                 we do not have the necessary retail regulator  
23                 support to join an RTO. And so, joining the SPP  
24                 RTO, or any other RTO, is not an alternative for  
25                 Entergy at this time. Therefore, Entergy

1 believes that pursuing an RTO would only result  
2 in years of contentious and divisive litigation  
3 with no benefits produced in the interim.

4 However, as I indicated earlier, we do believe  
5 that we could obtain the support of our retail  
6 regulators to implement the ICT proposal at this  
7 time, a proposal that would produce benefits  
8 immediately for the region.

9 Finally, on the third standard, does  
10 the ICT proposal create a bar to future RTO  
11 participation by Entergy? We believe the answer  
12 is no. Implementing the ICT proposal will not  
13 preclude Entergy or its retail regulators from  
14 continuing to evaluate the development of  
15 surrounding RTOs, including the SPP RTO.

16 Entergy commits to continue to participate in  
17 the SPP working groups so that we may articulate  
18 our concerns and positions, and at such time as  
19 the SPP RTO is fully specified, to assess the  
20 costs and benefits of Entergy's participation.

21 With that said, we strongly believe  
22 that implementing the ICT proposal will provide  
23 immediate benefits to the operating companies'  
24 customers and the region. It will increase the  
25 independence over the granting of transmission

1 service and the expansion of the transmission  
2 grid and will provide an appropriate platform  
3 from which to monitor the development of the SPP  
4 RTO, and once defined, to evaluate whether it  
5 will provide benefits to the companies'  
6 customers. As a practical matter, the timing  
7 necessary to implement the ICT proposal has  
8 significant advantages, when compared to the  
9 alternatives.

10 In closing, Entergy remains hopeful  
11 that there may be ways to bridge some of the  
12 differences related to the ICT proposal. As an  
13 example of our willingness to be flexible and  
14 reflecting our efforts to address concerns that  
15 have been expressed, Entergy has indicated in  
16 comments filed with the APFC that it would be  
17 willing to enter into a seams agreement with SPP  
18 that would address, among other things,  
19 coordinated regional planning. In addition,  
20 Entergy approached SPP itself to see if it would  
21 be interested in serving as the ICT. SPP has  
22 indicated to us that, at this time, it is not  
23 interested in discussing the option.  
24 Nonetheless, I mention these efforts as examples  
25 of our willingness to be flexible and open

1           minded. Thank you for your time.

2                       I now ask Mr. Ken Turner to go over  
3           the WPP proposal.

4           MR. TURNER:

5                       Thank you, Mr. Smith. Mr. Chairman,  
6           the other Commissioners, I want to take just a  
7           minute and review with you a description of one  
8           element of the ICT proposal that was included in  
9           our April filing, which is the weekly  
10          procurement process. I will refer to that  
11          during the presentation, most often, as WPP, and  
12          I believe we had this up on the screen. If you  
13          would go the next slide, Michael. Thank you.

14                      The WPP is designed to facilitate the  
15          granting of more transmission service and to  
16          allow for the displacement of existing network  
17          resources in favor of cheaper alternatives.  
18          This will be accomplished through a simultaneous  
19          optimization of existing service and new  
20          requests subject to transmission constraints and  
21          we believe that this will facilitate the  
22          provision of additional transmission service.

23                      As far as the granting of transmission  
24          service, the WPP will offer weekly and daily  
25          service to network and point-to-point customers.

1 Our network customers who choose to participate  
2 -- Entergy will participate, but the other  
3 network customers can choose to participate or  
4 not, but network customers who do participate  
5 will submit cost information for their existing  
6 network resources as well as market bids from  
7 new resources and request an optimization of  
8 those resources. Point-to-point customers will  
9 also submit their megawatt requests and their  
10 point of injection and point of withdrawal and  
11 also indicate a cap that they're willing to pay  
12 for redispatch costs, in order to be granted  
13 additional point-to-point service.

14 All previously granted firm service  
15 will be protected in the WPP. The AFCs are  
16 really irrelevant in the WPP process. They are  
17 not a limit on what firm transmission can be  
18 sold out of a resource as a result of the WPP,  
19 and I'll talk about AFCs a little bit more  
20 later. Coming out of the WPP, there will be a  
21 new transmission base case for what will be used  
22 by the transmission organization that will  
23 reflect the firm service that has been granted  
24 through the WPP that will then be used from that  
25 point forward for granting of additional short-

1 term transmission requests.

2 To get into a little more detail about  
3 the WPP, I want to describe the bids that will  
4 be received into the WPP. Any merchant  
5 generator that's connected or already has firm  
6 service to the transmission system may  
7 participate in the WPP. There is no requirement  
8 for a generator to participate, but they may  
9 participate. Each bid for network status must  
10 be specific to a particular network customer and  
11 submitted through that network customer. The  
12 WPP will not receive the bids directly from the  
13 generators. Those will come through the  
14 particular network customer who chooses to  
15 participate. The bids themselves will be heat  
16 rate bids, either curves or blocks, indexed to  
17 gas prices. The bids may also include start-up  
18 and minimum run costs, but importantly, no bid  
19 can be contingent on the acceptance of another  
20 bid.

21 In the comments that have been filed,  
22 there are a number of comments concerning the  
23 various roles of various entities that will be  
24 involved in the WPP and I want to go through the  
25 roles of those entities now, the first being the

1       role of the ICT in the WPP.

2               The ICT would oversee the  
3       administration of the WPP. Included in that  
4       administration and the oversight would be  
5       reviewing the model, the optimization model that  
6       we use that would insure that the transmission  
7       service that is being granted through the WPP is  
8       being done in a non-discriminatory fashion. The  
9       ICT would monitor the calculation and the  
10      allocation of redispatch costs and would oversee  
11      the recalculation of transmission capacity after  
12      the WPP.

13              The group within Entergy that would be  
14      running the WPP is a group called weekly  
15      operations and, as we gain more experience with  
16      the WPP and move on down the road, it's our  
17      expectation that the weekly operations group  
18      would consult with the ICT on any structure  
19      improvements to the process that may be  
20      implemented in the future.

21              The next group I wanted to focus on  
22      their role is the role of the weekly operations  
23      group. As I said, the weekly operations will be  
24      responsible for running the WPP. The first step  
25      in that process will be to enter into the models

1       -- and the presentation has an acronym called  
2       SCUC. That's a security constrained unit  
3       commitment optimization model that will be used  
4       by the WPP. So the first thing we have to do is  
5       enter the most current transmission data, the  
6       base case data, into the model. Next, the  
7       weekly operations group will accept and enter  
8       into the model the bids that have been passed to  
9       the weekly operations group by the participating  
10      network customers. As I said, Entergy will  
11      participate, but the other network customers can  
12      choose whether or not they will participate.

13                 The weekly operations group, then,  
14      would determine the results of the WPP and one  
15      of those results would be informing the network  
16      customers which resources it is most economic to  
17      purchase for the upcoming week. The WPP would  
18      also calculate a redispatch rate that would then  
19      be applied to the new point-to-point service  
20      that is being granted. Weekly operations would  
21      also notify the participants of the results and  
22      then approve what's called conditional network  
23      resources. I'll get into that in a little more  
24      detail later.

25                 There has been a lot of discussion

1       about the role of the EMO, the Entergy EMO,  
2       which is our operations that does the economic  
3       dispatch and the wholesale procurement, as well  
4       as the role of the participating network  
5       customers. As it exists today, and would  
6       continue under WPP, EMO and the participating  
7       network customers will be responsible for  
8       contracting with the bidders. It will be the  
9       network customer's responsibility and the EMO's  
10      responsibility to establish the bid  
11      requirements, for example, any kind of credit  
12      requirements that may be on the bid. The EMO  
13      and the network customers would actually receive  
14      the bid data and then determine whether or not  
15      those bids meet those requirements before  
16      passing those to the weekly operations.

17               Based on the WPP results, it would be  
18      the role of the EMO and the network customers to  
19      settle with the winning bidders. There will be  
20      enabling contracts already in place, but it will  
21      be the EMO's responsibility to contract with the  
22      winning bidders. It will also be the EMO, in  
23      the case of Entergy, and the participating  
24      network customers, otherwise, to pursue any  
25      claims for non-performance with the winning

1 bidders.

2           The EMO and the network customers,  
3 however, can continue to contract outside of the  
4 WPP for either shorter or longer term supply.  
5 The WPP is not going to change that from the way  
6 it is today. The EMO and the participating  
7 network customers will also have to designate  
8 the conditional network resources, which I  
9 discuss on the next page.

10           The participating network customers  
11 who do secure new resources as a result of the  
12 WPP will be required to de-list existing long  
13 term NITS resources within the same area. Those  
14 resources that are de-listed are what we are  
15 calling the conditional network resources.  
16 Those resources can be requalified if another  
17 unit experiences a forced outage.

18           They can also be used to sell off-  
19 system, as long as there are AFCs or ATCs  
20 available. The reason we're doing this is it  
21 prevents the transmission system from being over  
22 reserved. It's really analogous to the de-  
23 listing and displacement option that's currently  
24 offered today for network service. It just will  
25 be done on a weekly basis.

1           There are several key principles that  
2 we will follow in granting service in the WPP.  
3 The first is that all network transmission  
4 customers, including the EMO, will have equal  
5 priority in the granting of service through the  
6 weekly process. No participating entity can be  
7 made worse off as a result of participating in  
8 the WPP process, but in order to assure that,  
9 all participating network customers must submit  
10 bids equal to their displacement requests. The  
11 WPP is not an exchange of energy among the WPP  
12 participants. It's not a central market or a  
13 pooling arrangement. And finally, the point-to-  
14 point customers will pay the higher of  
15 redispatch or embedded costs.

16           In discussing redispatch, I want to  
17 emphasize that weekly operations calculates a  
18 cost-based redispatch rate that will be applied  
19 to the new transmission service. That's not  
20 necessarily calculating the dollars that will be  
21 collected for redispatch, but it's calculating  
22 at a rate that will be applied to those  
23 transmission service requests. That is being  
24 done as one of the final optimization runs in  
25 the WPP.

1                   What we will do is, we will have an  
2                   optimization run that determines what units  
3                   should be displaced by market purchases and  
4                   then, on top of that, once that optimization run  
5                   is done, there will be another optimization run  
6                   where we fold in the new point-to-point service  
7                   requests and determine what the redispatch costs  
8                   would be as a result of those point-to-point  
9                   service requests. The redispatch rate, then,  
10                  would be applied to the new service, both point-  
11                  to-point and NRIS, on a pro-rata basis and then,  
12                  finally, any new service that's granted through  
13                  WPP will be considered firm.

14                  What are the protections for our  
15                  customers through the WPP process? The very  
16                  first optimization run is made without any of  
17                  the bid information, without any of the new  
18                  point-to-point service requests and that run is  
19                  made so we can determine what the cost for the  
20                  network customers will be if they did not  
21                  participate in the WPP. We then compare that to  
22                  the production costs for the network customers  
23                  to determine whether or not their costs have  
24                  gone up and if so, then the point-to-point  
25                  customers will not pay more than their cap for

1       that service.    The network customers, also,  
2       will not pay more than the cost of serving their  
3       load through their existing resources.

4                What are our next steps?  Obviously,  
5       we need to obtain regulatory approval.  We do  
6       not have, at this time, a security constrained  
7       unit commitment model that will do the WPP  
8       process.  We need to acquire that model and get  
9       trained on the model and, obviously, we're going  
10      to have to staff this weekly operations group.

11               Mr. Chairman, that concludes my  
12      presentation on the WPP.

13      CHAIRMAN WOOD:

14               Thank you, Mr. Turner.  At this time,  
15      while we've got the Entergy folks here, if there  
16      are any questions from Commissioners or staff on  
17      some of the details of this proposal before we  
18      go on to the market participant panel, this  
19      would be a good time to ask.  Let me ask just  
20      kind of a central one.

21               You had mentioned on page 9 that this  
22      is not a central market or pooling arrangement.  
23      What's the impediment to doing that and why did  
24      you choose weekly, as opposed to monthly or  
25      daily or hourly or something more like the other

1 pools we've seen in the world?

2 MR. TURNER:

3 Let me try the second part of that  
4 first, if I may. Today, we believe that the big  
5 bucks are in the displacement of units that can  
6 be decommitted. We currently do our commitment  
7 on pretty much a week ahead basis. To the  
8 extent that we can fold these bids into this  
9 optimization model and determine that we can  
10 shut down a unit and not commit that for the  
11 upcoming week, as opposed to buying a cheaper  
12 resource from the market, we think that's where  
13 the large dollars are and that is why it's being  
14 done on a weekly basis.

15 CHAIRMAN WOOD:

16 Is it just because of the  
17 characteristics of the power plants themselves  
18 that there is some ramp up, ramp down?

19 MR. TURNER:

20 Yes, sir.

21 CHAIRMAN WOOD:

22 Is that why we're doing this on a  
23 weekly?

24 MR. TURNER:

25 Right. It's possible that as we gain

1 more experience, we can do this on a shorter  
2 time period, but I don't think you're going to  
3 see the large benefits on a shorter time period  
4 because of the decommitment of the existing  
5 units.

6 CHAIRMAN WOOD:

7 So what's been the reluctance of the  
8 independent generators to participate in  
9 whatever process you're using today, prior to  
10 the adoption of an WPP? I mean, is Entergy  
11 buying any resources from the independent  
12 generators?

13 MR. TURNER:

14 We have a process today. It's not the  
15 same process, because WPP will also have the  
16 transmission system modeling and will be  
17 granting additional transmission service. That  
18 is, the existing weekly RFP is being run by our  
19 EMO, which is on the generation side of the  
20 total conduct, not the transmission side. As to  
21 why the generators don't participate in that  
22 process, I'm not the one to answer that.

23 CHAIRMAN WOOD:

24 They'll be here.

25 MR. TURNER:

1                   Okay.

2           CHAIRMAN WOOD:

3                   Where do you get the optimization  
4           model. We've seen them, obviously, in other  
5           parts of the country that have organized  
6           markets, but where would Entergy go to get the  
7           model and what type of training and preparation  
8           would be necessary to make this effective?

9           MR. TURNER:

10                   We are in the process of developing an  
11           RFI to send out to various vendors, specifying  
12           the type of model that we're looking for and  
13           there are five or six entities that we plan to  
14           send that RFI to and I don't have those off the  
15           top of my head right this minute.

16           CHAIRMAN WOOD:

17                   Would the way the bids work here -- I  
18           understand from reading the proposal, I don't  
19           know if you mentioned it here today, I might  
20           have passed over it -- is it really just a pure  
21           energy bid that you're looking at from the  
22           generator participating in the procurement  
23           process, or is just an all in bid that covers  
24           all their costs?

25           MR. TURNER:

1                   Okay. I'm going to be sure I  
2 understand --

3 CHAIRMAN WOOD:

4                   A one part bid?

5 MR. TURNER:

6                   Well, it's a multiple part bid, but it  
7 does not -- I think what you're getting to, it  
8 does not include a capacity or demand component.  
9 Is that your question?

10 CHAIRMAN WOOD:

11                   Right.

12 MR. TURNER:

13                   The reason -- and you're right. It  
14 does not include a capacity or demand component.  
15 The reason for that -- there are a couple of  
16 reasons. The units that will be displaced as a  
17 result of any purchases that are made as a  
18 result of the WPP optimization, the cost of  
19 those units, the O&M cost, the fuel cost, all  
20 that is being run through fuel today. That is  
21 really the cost. We're not going to avoid, so  
22 to speak, any capacity costs as a result of  
23 displacing those units.

24                   The second thing is, today, in our  
25 current regulatory environment, we don't have a

1 mechanism in any of our regulatory jurisdiction,  
2 retail regulatory jurisdictions, to recover the  
3 capacity costs that we might incur if we had a  
4 bid that included a demand component.

5 And then finally, we believe that the  
6 bid structure, as it is right now, allows the  
7 merchants to specify a heat rate, an O&M  
8 component, and start up cost component that  
9 would cover the cost and whatever profit that  
10 they have. This is a pay-as-bid system. It's  
11 not a market clearing price, so to speak.

12 CHAIRMAN WOOD:

13 That was one of the issues that I  
14 think the commentators on the WPP part of your  
15 proposal have raised about it was that it was,  
16 in fact, not a market clearing price system.  
17 We've seen, kind of, the pros and cons of pay-  
18 as-bid around the country and I just wonder what  
19 was driving Entergy's selection of the pay-as-  
20 bid mode, as opposed to the market clearing  
21 price?

22 MR. TURNER:

23 I'm going to defer that to Mr.  
24 Schnitzer, if that's okay.

25 CHAIRMAN WOOD:

1                   That's always okay.

2           MR. SCHNITZER:

3                   Good afternoon. Mr. Chairman, I think  
4           as you know from Entergy's prior efforts with  
5           SETRANS that the company, in those contexts,  
6           have supported L&P based locational market  
7           clearing price markets. Mr. Smith, in his  
8           opening comments, alluded to the portions of  
9           various proposals for which we currently have  
10          support from our retail regulators and those for  
11          which we do not currently have support.

12                  The L&P based system market clearing  
13          prices, charging for congestion, FTRs, those are  
14          a set of issues where we don't currently have a  
15          comfort level with our retail regulators in  
16          aggregate to implement that as part of an RTO  
17          proposal, and so we thought as part of the ICT  
18          proposal, given as Mr. Smith described, that our  
19          principal objective was to get something that  
20          could be implemented and produce benefits in the  
21          near term, to go with the pay-as-bid type of  
22          system.

23          CHAIRMAN WOOD:

24                  And so the pay-as-bid, then, would, if  
25          you got the Entergy generation, which is

1 recovering its capacity through the fixed rates  
2 paid by retail customers and perhaps some  
3 bundled, some wholesale customers as well? I  
4 assume there are some.

5 MR. SCHNITZER:

6 A few.

7 CHAIRMAN WOOD:

8 So the capacity payments are recovered  
9 through that means as to the existing Entergy  
10 generation and any contracted for or QF  
11 generation as well? There is some independent  
12 generation that's included in Entergy's rates  
13 now, correct, retail rates for contracts?

14 MR. SCHNITZER:

15 We have some long-term purchases,  
16 that's right.

17 CHAIRMAN WOOD:

18 So you've got those over here, then  
19 we've got the other generation out here that may  
20 be more efficient, but are you really getting an  
21 apples to apples comparison for the purposes of  
22 the most efficient one?

23 MR. SCHNITZER:

24 Yes.

25 CHAIRMAN WOOD:

1                   How? Because you're just comparing  
2                   variable cost to variable cost?

3                   MR. SCHNITZER:

4                   Well, that's right. To state it a  
5                   little differently, in the context of the weekly  
6                   time frame, which is what this proposal is  
7                   about, the question is what costs are avoidable  
8                   in that week. And the costs that are avoidable  
9                   in that week are the fuel and variable O&M of  
10                  Entergy's oil and gas units, versus an  
11                  alternative. And so that's a fair competition,  
12                  if you will, an efficient competition. The  
13                  weekly procurement is designed to displace those  
14                  units when the costs that can be avoided are  
15                  greater than the market alternative, and so the  
16                  more efficient units can get their profit, if  
17                  you will, on a weekly basis, from the fact that  
18                  their heat rates are lower and that they don't  
19                  have to bid their costs, they can bid a profit.

20                  In a different time step, a year or  
21                  more, O&M and things like that can be avoidable.  
22                  We talked about mothballing units and things  
23                  like that, and in that context, where EMO runs  
24                  different procurements of those time horizons, a  
25                  different set of costs are avoidable and in

1 choosing whether to accept a bid or not, a  
2 different set of costs would be relevant to that  
3 comparison, but in the context of the weekly  
4 procurement, all that's avoidable in the weekly  
5 time step are the fuel and the variable O&M.

6 CHAIRMAN WOOD:

7 Based on your assessments prior to  
8 filing this program, based on your assessments  
9 of just that differential, the heat rate  
10 differential, primarily, what kind of range of  
11 savings for customers are we talking about here  
12 if this program is up and robust?

13 MR. SCHNITZER:

14 That's a difficult question to answer.  
15 Let me try it this way and see if it's  
16 responsive. As you alluded to in one of your  
17 prior questions to Mr. Turner, there currently  
18 is a weekly procurement process that EMO engages  
19 in which doesn't have the transmission  
20 integration, and they also do a monthly  
21 procurement as well, but there are substantial  
22 purchases made through those programs and  
23 substantial displacement of Entergy oil and gas  
24 units on that basis.

25 If we look at the success of that

1 program, the data I'm about to describe, I think  
2 we'll talk again about tomorrow and I'll have a  
3 picture, but basically, the Entergy oil and gas  
4 units in 2003 calendar year generated about 20  
5 percent of the total retail energy pie, so of  
6 all the gigawatt hours necessary to serve retail  
7 load, 20 percent came from the Entergy oil and  
8 gas units, which is down substantially from  
9 prior years. Based on the pricing -- and that's  
10 what's up for grabs, if you will, can we do  
11 better in the weekly procurement. Will that 20  
12 percent of the energy pie, can that be further  
13 reduced by economic displacements.

14 Based on the pricing that has been  
15 obtained on average to get down to 20 percent,  
16 for each percentage point, you would decrease  
17 that generation further. In other words, so you  
18 get 20 percent of the pie now, if you were to  
19 move the 20 percent down to 19 percent through  
20 the weekly procurement, that's worth about \$30  
21 million a year for each percentage point. So  
22 it's a question of how much better bidding  
23 behavior and how much the transmission  
24 optimization that Mr. Turner described, what  
25 they produce, but each percentage point of

1 further displacement of Entergy oil and gas  
2 generation translates to about \$30 million.

3 CHAIRMAN WOOD:

4 That's helpful. Thank you. A final  
5 question from me. On the difference between the  
6 way that Entergy operates today and the way it  
7 would operate under this WPP proposal would be  
8 that the generation issues we've just talked  
9 about are integrated with the transmission  
10 optimization, I guess, is what, the phrase we  
11 would use?

12 MR. TURNER:

13 That's correct.

14 CHAIRMAN WOOD:

15 It is an issue that, I think in our  
16 order responding to this, we acknowledge, as you  
17 all pointed out, that this is going to require a  
18 different approach toward interaffiliate  
19 standards of conduct that we've had for eight or  
20 so years. Talk to me about why that can't be  
21 done today by the EMO. Does anyone not have the  
22 kind of transmission model that should do that  
23 on that side of the fence?

24 MR. TURNER:

25 That's correct. It is my

1 understanding that the code of conduct prohibits  
2 that. If you will recall, I think our original  
3 WPP proposal had the WPP actually receiving the  
4 bids and contracting for the results. We've now  
5 changed that with this April filing to avoid the  
6 code of conduct issue, because the WPP is going  
7 to be on the transmission side of the code of  
8 conduct. So in order to avoid the code of  
9 conduct issue of transmission being involved in  
10 the wholesale market, that function remains a  
11 role of the EMO, as I described earlier in the  
12 presentation.

13 CHAIRMAN WOOD:

14 So the EMO would bring that, as a  
15 customer, for generation to the transmission  
16 company?

17 MR. TURNER:

18 Well, the scheduling is a different  
19 issue. What the EMO would do, they are going to  
20 bring a group of bids and say we would like to  
21 displace "X" number of megawatts of generation  
22 for the upcoming week. Based on the bids that  
23 they had prequalified and bid for the WPP, that  
24 all is put in the optimization model. The model  
25 determines what the most economic purchase is

1 and which units to shut down and de-list. That  
2 information, then, is fed back to EMO and the  
3 EMO will actually do the contracting.

4 CHAIRMAN WOOD:

5 Now, how much load, and this is just a  
6 general question, one tenth, one fifth, how much  
7 of a load in the Entergy system is not delayed  
8 to service existing loads. In other words, how  
9 many people already have a carve out of the  
10 transmission capacity before you optimize all  
11 the network load?

12 MS. DESPEAUX:

13 I don't know that we have it broken  
14 down. About 15 percent is to our wholesaler,  
15 but that can also be point-to-point.

16 CHAIRMAN WOOD:

17 The way this process works is,  
18 basically, they have the rights they've got  
19 today and then you're taking the other 85  
20 percent and optimizing it, based on what  
21 transmission is available, which generators  
22 would be the most efficient.

23 MR. TURNER:

24 That's correct. That's the first step  
25 in the process. Then the second step is, once

1 we determine what units will be displaced and  
2 what additional purchases will be made from the  
3 IPPs or the QFs, then we fold in the new point-  
4 to-point service requests and grant additional  
5 point-to-point service, as long as they're  
6 willing to pay redispatch rate, the cost  
7 incurred as a result of the dispatch.

8 CHAIRMAN WOOD:

9 And today, what happens instead of  
10 that?

11 MR. SCHNITZER:

12 The first step that you described  
13 where we pool the other 15 percent with their  
14 rights and optimize ours. Certainly those  
15 customers also have the right to participate and  
16 reoptimize so it's at least Entergy, but all  
17 those who are not participating are held at the  
18 side. Their rights are protected and held, then  
19 whoever wants to offer up some competing bids to  
20 see if they have economic displacement,  
21 including, but not limited to Entergy, would  
22 then go into that step that was described.

23 CHAIRMAN HOCHSTETTER:

24 I'm Sandy Hochstetter, with the  
25 Arkansas Public Service Commission and I do have

1 a couple of concerns and questions that I wanted  
2 to raise. While I recognize that the WPP  
3 process may be an incremental improvement over  
4 the status quo, my main concern is the fact that  
5 we may be leaving, or you may be leaving, the  
6 biggest bucket of dollars on the table from the  
7 standpoint of not looking at midwest coal as  
8 able to displace some of the gas-fired  
9 generation that's on your system.

10 To me, the proposal that you have  
11 presented is very insular in its approach and I  
12 might note that on the very first page of your  
13 presentation, you say that this all is subject  
14 to transmission constraints. Therein lies the  
15 really big issue, the transmission constraints,  
16 because we are only seeing the ability to save  
17 right here, in this region, the biggest amount  
18 of bucks by bringing excess midwest coal  
19 capacity and displacing existing gas-fired  
20 generation capacity.

21 The SERA group, Cambridge Energy  
22 Research Group, recently completed a user  
23 information study, about a month ago, and they  
24 showed that if Entergy spent, I think, roughly,  
25 \$150 million on transmission upgrades to

1 eliminate the key bottleneck areas, that if that  
2 relatively insignificant amount of money was  
3 invested in transmission to relieve congestion,  
4 the southern Louisiana rate payers could save  
5 about 11 percent on their wholesale generation  
6 costs. By your own calculations, that would be  
7 \$330 million, I guess, if \$30 million is  
8 equivalent to 1 percent of the fuel cost  
9 displacement.

10 So, I guess my question for you is,  
11 what are we going to do about that big elephant  
12 in the room? While WPP may be making a good  
13 baby step forward, I think the bigger issue, in  
14 my mind, from a retail regulator standpoint is,  
15 what are we going to do to eliminate these  
16 transmission constraints that are preventing us  
17 from getting the cheapest power into Arkansas,  
18 Louisiana and Mississippi?

19 MR. SMITH:

20 Well, we haven't -- I haven't heard  
21 about this study, but if it has those kind of  
22 benefits, you make that kind of investment. So  
23 it sounds like it's something that we need to  
24 look at and see if we agree that \$150 million in  
25 upgrades and at connection points would produce

1       \$330 million in benefits.

2       CHAIRMAN HOCHSTETTER:

3               Because obviously, it would include a  
4       regional economic dispatch system, which I don't  
5       believe the ICC encompasses.

6       MR. SMITH:

7               That's correct.

8       CHAIRMAN HOCHSTETTER:

9               So, you know, that is something that I  
10      think you all would need to consider, in order  
11      to truly maximize the cost savings benefits that  
12      are out there.

13      MR. SMITH:

14              We will look at it.

15      COMMISSIONER BROWNELL:

16              Maybe you could get back to all of us  
17      with your analysis of that study and we could  
18      have another meeting to discuss that.

19              I have a question about the  
20      optimization model and that approach. Models  
21      are as good as the integrity of the data that  
22      goes into them. I think we've been looking at  
23      some things that processors have concerns about,  
24      how some models have been created and used. How  
25      would you guarantee and give the retail and

1       wholesale regulators confidence that these  
2       models, in fact, are being utilized  
3       appropriately, are built on the right data;  
4       would you be willing to have that audited before  
5       it went into implementation, by an outside  
6       auditor?

7       MR. SMITH:

8                 Part of our intent was that the ICT,  
9       independent coordinator, would be there with us  
10      hand-in-hand as those are developed, but I  
11      wouldn't have a problem with an outside auditor.

12      MR. TURNER:

13                 In addition to that, our retail  
14      regulators regularly look at our procurement  
15      decisions and all our other decisions and I  
16      would think that there is a certain amount of  
17      procurement that is being made as a result of  
18      the WPP. I'm sure our retail regulators are  
19      also going to want to grill them and be sure the  
20      WPP is giving them the right answer.

21      COMMISSIONER BROWNELL:

22                 And I think that an independent audit  
23      actually might satisfy a number of concerns and  
24      could be done in a way that shared data between  
25      the state and the federal regulators. It could

1 be helpful in providing the basis of an ongoing  
2 dialogue.

3 COMMISSIONER KELLIHER:

4 I have a few questions about the ICT.  
5 I'm having a little bit of difficulty  
6 understanding what the relationship would be  
7 between the ICT and Entergy. I'm trying to  
8 understand your analogy. I'm trying to think of  
9 what is an analogous situation, or an analogous  
10 relationship. Is it an auditor; is it Inspector  
11 General; how would you characterize what the  
12 relationship would be between the ICT and  
13 Entergy? Is there some other comparable thing  
14 out there?

15 MR. SMITH:

16 It probably would be like an  
17 independent auditor, at least, the role they are  
18 playing more and more in business today, that  
19 they are in there on all your transactions, all  
20 your accounting records and those type things,  
21 with you every step of the way. They're there,  
22 on a daily basis. They will run their own  
23 models and be able to look at exactly what we're  
24 looking at.

25 COMMISSIONER KELLIHER:

1                   Also, can you describe what the  
2 difference would be between an independent  
3 market monitor and the ICT; what are the  
4 differences in responsibilities?

5 MR. SCHNITZER:

6                   I'll take the first stab at that. It  
7 would be most analogous to our situation if you  
8 think about the independent monitor, MISO, which  
9 is not a day two market, so it would be more  
10 analogous to our situation. There are certain  
11 similarities there. The market monitor MISO  
12 looks at the rate of transmission service, looks  
13 at the flow gauge, looks at all the things that  
14 have been described here, but the ICT is more  
15 than that. The market monitor MISO is not the  
16 security program, whereas with the ICT proposal,  
17 the ICT really becomes the security coordinator.  
18 But the scope of the oversight and review is, at  
19 least, as extensive as market monitoring and  
20 there is this realtime capability, as well as  
21 the security coordinator capability and  
22 responsibility. There are responsibilities that  
23 go beyond the market monitor. So the core is  
24 the same, but there is a much broader set of  
25 responsibilities for the ICT and the market

1 monitor.

2 COMMISSIONER KELLIHER:

3           Some of the concerns expressed by the  
4 intervenors regarding the ICT proposal including  
5 the fact that Entergy can dismiss the ICT, at  
6 will, without cause, makes them believe it's not  
7 truly really independent. Have you looked into  
8 alternatives, or might you define what the  
9 circumstances would be when the ICT could be  
10 dismissed? Have you looked at setting a term or  
11 providing cause for termination?

12 MR. MOOT:

13           I think we do have that and I think  
14 that some of the statements are really  
15 overstatements, because we have a list of core  
16 causes for dismissal, and for us to trigger  
17 termination in those instances, we could serve a  
18 termination notice, but the FERC would approve  
19 the ultimate act of termination, so it is very  
20 well defined and it's a very specified list of  
21 actions. It's not at our will and our  
22 discretion and it's fairly standard in  
23 contracts. The one area that's caused a little  
24 more consternation is our ability to terminate  
25 with our average regulatory permission and

1           that's a different kettle of fish, but the  
2           actions that the ICT takes, if they are actions  
3           that we don't like and we propose to terminate,  
4           it would have to be approved.

5           COMMISSIONER KELLIHER:

6                         But when you're saying the average  
7           regulatory permission, that's not defined in the  
8           contract?

9           MR. MOOT:

10                        It is not.  It's, again, a fairly  
11           standard but broad clause.

12           COMMISSIONER KELLIHER:

13                        One last ICT question.  The ICT is not  
14           a public utility, correct?

15           MR. MOOT:

16                        No.

17           COMMISSIONER KELLIHER:

18                        It doesn't have any control over  
19           transmission?

20           MS. DESPEAUX:

21                        It's not created to, no.

22           COMMISSIONER KELLIHER:

23                        It has no control?

24           MR. MOOT:

25                        Only as the security coordinator.

1 COMMISSIONER KELLIHER:

2 A few questions on the WPP. Mr.  
3 Turner, in your PowerPoint, you said that the  
4 WPP is to allow displacement of existing network  
5 resources in favor of cheaper alternatives. The  
6 implication is it's somehow not allowed now. I  
7 thought that Mr. Schnitzer said there is some  
8 substantial displacement occurring now. It  
9 appears the magnitude of this displacement would  
10 be substantial.

11 MR. SCHNITZER:

12 Yes. I think it's going to solve any  
13 further displacement, but I believe that in the  
14 same calendar year 2003 data, if we split out  
15 the types of purchases that involve midwestern  
16 coal, which Chairman Hochstetter was referring  
17 to, and focus only on the gas competition that  
18 was earlier described, those types of purchases,  
19 whether made on a weekly or monthly basis, in  
20 2003, were about 17 percent of the Entergy pie,  
21 so if Entergy fossil is at 20 percent, the  
22 purchases of that character were about 17  
23 percent. To that, one would have to add some of  
24 the QF efforts because some of the 17,000  
25 megawatts to which the Chairman referred in his

1 opening comments are new QFs. And they, I  
2 think, are now running in aggregate more than 10  
3 percent of the Entergy pie, so the displacement  
4 that has occurred, in aggregate, is the 17  
5 percent that was the non-QF purchases, plus some  
6 portion of the perhaps 12 percent of the pie.  
7 So over 20 percent of the Entergy pie is coming  
8 from merchant-type units, rather than from  
9 generation, in 2003. I'll have some data on  
10 that tomorrow morning.

11 COMMISSIONER KELLIHER:

12 So the QF efforts are not actually  
13 economic displacement, right?

14 MR. SCHNITZER:

15 Well, the intent would be they're  
16 economic, in fact, based on the prices they were  
17 paid, in the customer's respect, that is.

18 COMMISSIONER KELLIHER:

19 So, I'm sorry to be slow on this, but  
20 you are saying currently non-QF purchased power  
21 makes up 20 percent of Entergy's pie?

22 MR. SCHNITZER:

23 Just about that and if I could fill  
24 out the picture a little bit. Coal is about 50  
25 all by itself, so that's, you know, the big

1 piece. The QF piece is about another 10  
2 percent, so we're up to 60. The non-gas  
3 purchases are another 3 or 4 percent. Coal or  
4 imports from the midwest and then we have the  
5 merchant purchases, the gas-fired purchases and  
6 then the balance is basically the Entergy fossil  
7 generation. So that's the 2003 numbers. The  
8 2004 numbers are a little more QFs than 2003.

9 MR. MOOT:

10 Commissioner, if I could add, we have  
11 somewhat of a time set problem wherein we  
12 anticipated success in the process. We  
13 developed this in the Spring of 2003, more than  
14 a year ago, and at that time, I think the weekly  
15 procurement process had a modest success in  
16 which a certain concern was expressed in public  
17 forums that we weren't buying enough, and we  
18 developed the process that we thought the market  
19 would have more confidence in.

20 I think the record will show that at  
21 our last technical conference on the WPP, even  
22 in the year 2003, alone, without our enhanced  
23 process, the purchases had gone up dramatically,  
24 and so we were, for whatever reason, having a  
25 lot more success than we have had in the past.

1 The WPP still has the opportunity to produce  
2 even greater successes due to the optimization  
3 model, including other network customers and  
4 giving the point-to-point customers additional  
5 opportunities for a buy into the redispach  
6 service.

7 COMMISSIONER KELLIHER:

8 Mr. Schnitzer, you talked earlier  
9 about the 20 percent figure. Are you saying  
10 that accounts for an additional 20 percent  
11 beyond the current level or is 20 above and we  
12 are already at 17?

13 MR. SCHNITZER:

14 No. I'm sorry. As it stood on the  
15 average, in 2003, 17 percent from merchants.  
16 70 percent of the total energy requirement for  
17 retail is met through these merchant purchases  
18 and 20 percent was met from Entergy oil and gas.  
19 So the question is, how much more can we shift  
20 the 17 up and the 20 down. That's what the WPP  
21 is designed to try and facilitate further  
22 displacement of that character.

23 Back to my answer to the Chairman, for  
24 each 1 percent shift, we increase the merchant  
25 purchases and decrease the Entergy oil and gas.

1 1 percent shift between is -- 1 percent point is  
2 \$30 million, at current pricing.

3 COMMISSIONER KELLIHER:

4 Thank you very much.

5 COMMISSIONER TOTTEN:

6 Have you all consulted with other  
7 buyers and sellers and is this what they want in  
8 terms and energy market?

9 MS. DESPEAUX:

10 I can tell you that we had -- this is  
11 a second technical conference. We also had the  
12 additional technical conference and I want to  
13 say it was back in December. We had some  
14 discussions and this weekly procurement for  
15 Entergy has been ongoing now for, I think it was  
16 started in, like, the Spring of 2002. And I  
17 know that as part of that, we've also brought in  
18 some other generators to discuss with them the  
19 process, to discuss answers to that process and  
20 then, like I said, after we made the original  
21 filing on the WPP, a technical conference was  
22 held in December of last year to try and get  
23 additional input and feedback from the  
24 generators and other market participants,  
25 including other network customers.

1 COMMISSIONER TOTTEN:

2 Are they on board now or is that an  
3 area where you'd like to see additional  
4 discussion?

5 MS. DESPEAUX:

6 I think, based on this proceeding,  
7 that there are some that would like to see  
8 additional enhancements.

9 COMMISSIONER TOTTEN:

10 And I guess one of the areas they may  
11 be concerned about is the protection of market  
12 sensitive information; am I correct about that?

13 MR. TURNER:

14 I believe that there were some  
15 comments about that and there was a reluctance  
16 to provide the bid information to the EMO, and  
17 because this is a pay-as-bid system, they're not  
18 necessarily giving us their incremental cost  
19 information. They give us bid information today  
20 and there's really no difference in what they  
21 give the EMO today and what they will be giving  
22 in this WPP process.

23 COMMISSIONER TOTTEN:

24 Thank you.

25 COMMISSIONER BYNUM:

1                   Mr. Chair, I guess our question would  
2                   be, to whom does the ICT report and what will  
3                   the transparency to the market be at that  
4                   report?

5                   MR. SMITH:

6                   Well, I mean, it's an independent body  
7                   and I mentioned that we approached the SPP as  
8                   playing that role, so I mean, they are a good  
9                   analogous situation of what kind of entity it  
10                  could be and they would be following quarterly  
11                  reports with both our retail regulators and  
12                  federal regulators and if they have any other  
13                  issues with how we're operating the transmission  
14                  system, they can make reports in between those  
15                  quarterly reports. So it's a separate entity  
16                  from us.

17                  MR. MOOT:

18                  And I think that's the big difference  
19                  between the auditor relationship with publicly  
20                  traded companies and this entity. This entity  
21                  is certainly charged with auditing Entergy, but  
22                  it's charged with reporting the results of that  
23                  audit publicly to the regulators and also being  
24                  able to recommend changes publicly to the  
25                  regulators in the way we do business and we

1 don't have any ability to filter that, to stop  
2 them from recommending changes or to reporting  
3 things that they think we should be doing  
4 better.

5 COMMISSIONER BASSETT:

6 Let me just briefly get my arms around  
7 something, then, Mr. Smith. I believe it was  
8 you, Mr. Smith, in your comments where you said  
9 that, or you alluded, rather, to your belief  
10 that SPP was not fully specified and that at  
11 this juncture it's really impossible for Entergy  
12 to determine if it is in anyone's best interest  
13 to join the SPP RTO. I'd like you to just, if  
14 you're able to at this point, highlight where  
15 you feel they should show more specificity.

16 MR. SMITH:

17 I mean, probably the two areas most  
18 important to us would be around participant  
19 funding and really what transmission upgrades to  
20 the system, whether they're going to be rolled  
21 in or as we've proposed in our filing, that we'd  
22 use a higher up pricing that would really push  
23 costs to whoever causes the costs. In rolled  
24 in, you don't worry about who caused the costs,  
25 you just assume there's going to be some benefit

1 to everybody some day. So that's the issue. I  
2 know there are conferences going on at SPP and  
3 proposals being reviewed. It's a key linchpin  
4 of our proposal, our pricing mechanism. Until  
5 we know how that sorts out, we can look at a  
6 variety of different options, how they might  
7 sort those proposals out, but until we know how  
8 that gets implemented by SPP, we're not going to  
9 know.

10 And then, the second is really the  
11 setting up the day two market. I think that's  
12 longer term down their path. It could be a  
13 couple of years away, but like Mr. Schnitzer  
14 mentioned, that was one of the issues that we  
15 were struggling with our retail regulators,  
16 whether or not there was really a benefit to go  
17 on to day two markets. So those would be the  
18 best examples I could give you.

19 MS. DESPEAUX:

20 And I would just add to that that the  
21 cost benefit study that was recently requested  
22 by the -- or not recently, but a couple of years  
23 ago -- by the Southeastern Association of Retail  
24 Regulatory Commissions regarding -- there were  
25 three RTOs at that time, or proposed RTOs, Grid

1 South, SETRANS and Grid Florida. And in that  
2 study, I mean, they kind of reached the same  
3 conclusions that you need to -- the benefits, in  
4 order to determine the benefits, the pricing for  
5 the expansion of the transmission system and the  
6 day two market and native load protections a  
7 really, you know, they drive whether or not  
8 there are going to be costs, whether the  
9 benefits will exceed the costs.

10 And they're just critical elements  
11 that you have to know and they have very  
12 significant effects on the costs and benefits to  
13 native load customers. So those two elements  
14 were confirmed that they are critical in the  
15 SERUC study.

16 COMMISSIONER BYNUM:

17 Mr. Smith, do you -- and I guess  
18 whoever wants to answer this -- do you see the  
19 ICT proposal and the WPP proposal, do you see  
20 this as an end result or do you see it as an  
21 incremental step, and if it's an incremental  
22 step, what would you see would be the next  
23 logical step that you would take?

24 MR. SMITH:

25 You know, we've had discussions with

1       our retail regulators. I don't know if it's an  
2       incremental step or the final step. The way we  
3       have proposed it to the retail regulators in  
4       meetings we've had with them, is that it's a  
5       good first step and it gets us along the way,  
6       but they're going to have to -- all of you are  
7       going to have to come to grips with whether or  
8       not you're comfortable giving up control of  
9       jurisdiction over the transmission component of  
10      bundled rates and going to an RTO is what really  
11      gets there and most of the feedback we've had  
12      from our retail regulators, they're not ready to  
13      take that step.

14                So what I have suggested to them is  
15      let's head down this path, and the closest one  
16      to us is the SPP RTO, let it develop and then we  
17      can keep monitoring it and see how it sorts out,  
18      and if you get more comfortable with those kinds  
19      of markets, then maybe we can all be of one mind  
20      and join an RTO, but I think that's a couple of  
21      years off. So I honestly don't know if it's an  
22      initial step or the final step. We haven't  
23      characterized it that way.

24      CHAIRMAN HOCHSTETTER:

25                Mr. Smith, as a member of the SPP

1 regional state committee and serving as its vice  
2 president right now, I'd like to update you on a  
3 couple of things you may not be aware of, to  
4 give you some factual information and then, I'll  
5 suppose a hypothetical to you.

6 First of all, the cost-benefit  
7 analysis for retail rate payers in the SPP  
8 region will be completed by the end of October,  
9 so we will know whether or not there are net  
10 benefits to retail consumers by virtue of the  
11 SPP RTO formation and most of the Arkansas  
12 utilities that are, if not all, that would be in  
13 the SPP RTO have nice, low generation rates and  
14 I think you all's are just maybe a little bit  
15 higher than theirs, so ostensibly, if there are  
16 benefits to the Arkansas retail rate payers of  
17 those utilities, there would probably be  
18 benefits to the Entergy rate payers as well.

19 Secondly, the regional state committee  
20 will be finishing our cost allocation  
21 methodology proposal within the next couple of  
22 months and we'll be making that recommendation  
23 to the board no later than the end of October.  
24 We'll be making our decision in September, and  
25 per the SPP bylaws, our recommendation as a

1 group of state regulators, the RSC, will be put  
2 into their 205 filing, so you'll know in about  
3 two months what the cost allocation methodology  
4 will be that we'll be proposing and that will go  
5 into their 205 tariff filing. And I would bet  
6 you dollars to donuts that it will probably be a  
7 cost causer pay sort of approach. I don't know  
8 what all of the specifics will be. It may not be  
9 a peer participant funding, but it would be a  
10 cost causer pays, beneficiary pays, approach.

11 Thirdly, depending upon what the  
12 FERC's order on rehearing says, which, of  
13 course, we can't talk about today, to the extent  
14 that the RSC is successful in its desire to, for  
15 now, perhaps, stay at RTO day one and not go to  
16 RTO day two, and at a minimum with respect to  
17 day two functions, have the ability to only  
18 implement them if they are net beneficial to  
19 retail rate payers.

20 With that factual background, is that  
21 something that you would reassess in terms of  
22 comparing that with your ICT proposal?

23 MR. SMITH:

24 Well, in fact, our plan is we make and  
25 we've already made filings with yourself and the

1       Arkansas Commission, but in the other filings  
2       we'll be making in the other state  
3       jurisdictions, it will clearly cull out that  
4       question and it may be up to the state  
5       commissions. I mean, this is not really  
6       Entergy's decision, at the end of the day. It's  
7       our state commission's decision whether or not  
8       we join an SPP RTO. I mean, we've been  
9       supportive of RTOs and we've been at this a lot  
10      of years, but we're trying to be responsive to  
11      our retail regulators as we go down this path.  
12      So I don't know the answer to that, but we'll  
13      pose it to them as we make these state filings.

14      CHAIRMAN WOOD:

15                 When are the rest of the filings going  
16      to be made. I think I read it's before  
17      Arkansas, Texas -- not before Texas, or Texas  
18      has done their own, right?

19      COMMISSIONER TOTTEN:

20                 We're not expecting SWEPCO to file one  
21      in Texas.

22      CHAIRMAN WOOD:

23                 What about Entergy's filing of this  
24      ICT, though?

25      COMMISSIONER TOTTEN:

1                   Well, they have made an ICT proposal  
2                   in Texas as a part of the transition to retail  
3                   competition, and the Commission has issued an  
4                   initial order concluding that it doesn't provide  
5                   sufficient independence and, of course, the time  
6                   for motions for rehearing has not run and that's  
7                   why the Commissioners are not here today, but  
8                   the order was unanimous and so it's not the kind  
9                   of thing I would expect to see changed  
10                  drastically on rehearing.

11                 CHAIRMAN WOOD:

12                   And has the filing of the ICT been  
13                   made to the Louisiana commission?

14                 MR. SMITH:

15                   No. We're looking --

16                 CHAIRMAN WOOD:

17                   The end of August?

18                 MR. SMITH:

19                   Yes.

20                 CHAIRMAN CALLAHAN:

21                   Mr. Chairman, we have a hearing set  
22                   for August 25th and 26th.

23                 CHAIRMAN WOOD:

24                   And then does the council, Paul, does  
25                   the council put that into --

1 MR. NORDSTROM:

2 There has been a public presentation  
3 of the ICT. No formal filing has been required.  
4 If Entergy were to start looking at SPP as an  
5 alternative, we'd have to re-evaluate.

6 CHAIRMAN WOOD:

7 So what's your plan for, kind of,  
8 getting to closure, here? I mean, if it's not  
9 filed everywhere, we've had it now for several  
10 months; what do you see the steps here being?

11 MR. SMITH:

12 Well, we're working with a variety of  
13 councils for the commissions in Louisiana and  
14 New Orleans and I would expect we would make  
15 some kind of filing in August with those two  
16 bodies.

17 CHAIRMAN WOOD:

18 And that would be everything you need  
19 to do, then, as far as --

20 MR. SMITH:

21 Yes, I think so.

22 CHAIRMAN WOOD:

23 I did notice an earlier comment. I  
24 just want to kind of clarify it on the record.  
25 The Commission has been very assiduous about

1 making sure that creation of RTOs does not  
2 implicate the state's ability to set retail  
3 rates for its transmission service and I don't  
4 know if there was an imprecision in one of the  
5 comments you all have made, but we have held to  
6 that through a number of orders now and don't  
7 intend to change that at all. Just so you all  
8 know, and I think, certainly, we said that in  
9 the SPP order, too, that the Commission does  
10 not, on the bundled retail rate, which includes  
11 transmission, have any interest in going on to  
12 the state's turf in that regard, at all.

13 Just so I understand the magnitude  
14 here, 17 percent of the total gigawatt hours of  
15 Entergy comes from Entergy's oil and gas plants?

16 MR. SCHNITZEL:

17 Mr. Chairman, in 2003, it was closer  
18 to 20 percent from Entergy's oil and gas units.  
19 I expect that number is probably a bit lower in  
20 2004. I don't have, obviously, the comparable  
21 data yet.

22 CHAIRMAN WOOD:

23 And so your \$30 million figure would  
24 be \$30 million per percentage, swapped out from  
25 the older vintage plants that Entergy owns to

1 the newer vintage plants, provided there is, I  
2 guess, transmission to integrate those into the  
3 system and they come on at the right spot?

4 MR. SCHNITZEL:

5 And provided that the offers, if you  
6 will, for that merchant capacity are comparably  
7 priced to the offers that have been accepted  
8 thus far in that displacement.

9 CHAIRMAN WOOD:

10 Okay. So, kind of, they continue to  
11 come out in the marketplace where other  
12 marketplace-type bids have come, which are that  
13 other 20 percent, correct; or teams that you  
14 already are procuring from the newer generation?

15 MR. SCHNITZEL:

16 That's correct, and as I think -- as  
17 many of you know, that of the Entergy generation  
18 that is currently running, some of it is running  
19 for transmission reliability reasons and so that  
20 may be harder to displace. That's one of the  
21 potential benefits of the optimization model is  
22 to see whether combinations of merchant plants  
23 can provide some of that displacement, but  
24 that's -- the opportunity to remains, on top of  
25 what's been accomplished today.

1 CHAIRMAN WOOD:

2 Well, I do look forward to the next  
3 panel telling us what they think are the  
4 obstacles to us grabbing hold of that \$600  
5 million low hanging fruit. So, any other  
6 questions for this group?

7 COMMISSIONER BASSETT:

8 There is one other question and I  
9 think this goes to Mr. Smith. Mr. Smith, you  
10 said -- and very quickly -- you said you had  
11 made an overture, or someone had made an  
12 overture to SPP to serve as the independent  
13 coordinator of transmission and they had not --  
14 had refused the overture. Do you have any  
15 indication or did they give you any indication  
16 as to why they would not entertain such an  
17 offer?

18 MR. SMITH:

19 I mean, talking to their CEO, they  
20 were concerned that they need to get through  
21 their process with FERC and formalize their RTO  
22 and then they may be more open to it, but Mr.  
23 Nick Brown is here and I think he is on a panel  
24 tomorrow, so you might ask him that question.

25 CHAIRMAN WOOD:

1                   Thank you all. We'll take a short  
2 break and give the court reporter time to rest  
3 and invite out next panel to come on up here,  
4 please.

5                   (A brief recess followed.)

6 CHAIRMAN WOOD:

7                   All right. We'll go ahead and start.  
8 I want to thank, again, our first panel for  
9 their participation and our intervenor panel has  
10 five folks here to visit with us and what I  
11 think we'll do is, if my colleagues up here are  
12 agreeable, is maybe let each of you all present  
13 your thoughts based on what you've heard and  
14 what you were going to say anyway, and then,  
15 based on some of the questions that the panel up  
16 here raised with the Entergy folks, if you all  
17 want to do that. Conversations are more welcome  
18 than canned presentations, so feel free to just  
19 talk to us and tell us what's on your mind.  
20 We'll just go down the list here and end with  
21 you, Jolly, and then we'll do like we did the  
22 last time around. Mr. -- I'm sorry --

23 MR. MALMSJO:

24                   That's Malmsjo.

25 CHAIRMAN WOOD:

1                   Malmsjo, just like it says, that's  
2                   easy. Mr. Malmsjo from Arkansas Cities and  
3                   Cooperatives. I want to welcome you here.  
4                   Thank you.

5                   MR. MALMSJO:

6                   My name is Al Malmsjo and I'm here  
7                   representing a group called the Arkansas Cities  
8                   and Cooperatives or ACC, who filed in the  
9                   ERO4699 case. That group, really, is comprised  
10                  of six Arkansas municipal utilities and one  
11                  Arkansas cooperative and what I would first like  
12                  to do is tell you a little bit about the cities  
13                  and their current situation and the cooperative  
14                  and their current situation.

15                  In order to put the comments I'm going  
16                  to make about the WPP in perspective, these are  
17                  seven utilities that are very small compared to  
18                  Entergy. They range in size from 20 megawatts  
19                  to 250 megawatts and combined, they have a load  
20                  of only 665 megawatts, which is similar to a  
21                  large Entergy unit. All of them are  
22                  interconnected with Entergy and six of the seven  
23                  are in the Entergy control area and one is in  
24                  the SPP control area and is interconnected with  
25                  both Entergy and SWEPCO.

1           Five of the systems currently purchase  
2           their wholesale power from Entergy Arkansas on a  
3           cost based service, either on full requirements  
4           or partial requirements service. One formerly  
5           purchased from Entergy and now they purchase  
6           from a Duke subsidiary and one currently  
7           purchases from ADP SWEPCO. Two of the systems  
8           actually jointly own two coal units with Entergy  
9           and one of the systems has a very small hydro  
10          unit that is located off it's system.

11          All these systems currently buy firm  
12          transmission service under various arrangements  
13          and all of the systems have been operating  
14          distribution systems in Arkansas and providing  
15          for their retail load for decades. The majority  
16          of the power associated with this service has  
17          been through wholesale purchases with Entergy.  
18          The systems that are currently purchasing from  
19          Entergy Arkansas really have no desire to change  
20          their current arrangements, however, Entergy  
21          Arkansas has made it clear that the existing  
22          arrangements would not continue as us,

23          In testimony before the Arkansas  
24          Public Service Commission and in front of the  
25          Federal Energy Regulatory Commission, Entergy

1 has let these customers know that they could no  
2 longer expect to see cost based service and that  
3 they would have to turn to the market for their  
4 future service. As a result of Entergy's  
5 position and the fact that several of the other  
6 city's contracts for wholesale power are now  
7 expiring, the cities have gathered together to  
8 try to create a sufficient load to gain in some  
9 economies as scale and we are working for these  
10 cities to try to obtain for them cost effective  
11 power supply resources so that when Entergy and  
12 other contractual arrangements that are  
13 currently in place end in the next two years,  
14 they have an alternative to go to.

15 All of these systems, as I noted, are  
16 transmission dependent utilities and they will  
17 all be using, probably, network service on the  
18 Entergy system under the new arrangements that  
19 we're trying to develop for them. As  
20 transmission dependent utilities, these systems  
21 are very concerned about the changes that are  
22 being proposed by Entergy, especially with  
23 regard to the pricing issues and the ACC systems  
24 want you to know that they agree with  
25 essentially all of the positions that are being

1 taken by the other intervenors with regard to  
2 transmission pricing and the ICT that will be  
3 discussed tomorrow.

4 With regard to the weekly procurement  
5 process, or WPP, that's what we're here to talk  
6 about today. In addition to being transmission  
7 dependent utilities, these ACC systems are also  
8 what I call competition dependent utilities.  
9 Their ability to survive and compete is  
10 dependent on the existence of both reasonable  
11 transmission access and reasonable wholesale  
12 markets and the associated competitive power  
13 prices that would result from a reasonable  
14 wholesale market. Again, that's what we're here  
15 to discuss today, the wholesale markets and the  
16 WPP.

17 Normally, any change that would  
18 enhance competitive power markets would be  
19 viewed as a positive step forward by entities  
20 such as the ACC systems that are competition  
21 dependent utilities, but this really isn't the  
22 case with what Entergy is currently proposing in  
23 the WPP. The WPP is actually somewhat of a step  
24 backward for the ACC systems and the other  
25 systems that are going to be dependent on the

1 markets. As proposed by Entergy, the WPP would  
2 likely disproportionately advantage Entergy and  
3 further diminish the competitive situation for  
4 the ACC systems and other wholesale purchasers  
5 in the region.

6 Before I discuss the specific issues  
7 that the ACC systems have raised with regard to  
8 the WPP, I want to discuss, kind of, a global  
9 point that's been made by Entergy several times  
10 in their filings and in their answer, and that  
11 is that the Commission has already determined in  
12 the declaratory order in ELO3132 that including  
13 realtime and daily markets, as well as including  
14 third party network customers or load serving  
15 entities in the WPP was beyond the scope of what  
16 Entergy had filed at that time. Entergy is  
17 therefore concluding that they can limit what  
18 they are filing now to the weekly market and the  
19 addition of the load serving entities or network  
20 customers is really a big step forward from what  
21 they had proposed before.

22 There is a very important factor,  
23 though, that is being left out of this argument  
24 and that is when the Commission made its prior  
25 determinations, the WPP was to be in addition to

1 the markets that were being set up in SETRANS.  
2 With the demise of SETRANS, the situation is  
3 really a lot different and the creation of only  
4 a weekly market that essentially only benefits  
5 Entergy really needs to be re-examined by the  
6 Commission, given the current circumstances.  
7 Utilities such as the ACC systems that are being  
8 forced to go to the markets to obtain  
9 competitive power supply need to have access to  
10 short-term markets in addition to the weekly  
11 market, especially with regard to balancing  
12 service, especially in a situation like you have  
13 in the Entergy area where the imbalance charges  
14 are very significant.

15 In addition, we've already heard  
16 Entergy say that the WPP process, as proposed,  
17 will recoup a lot of the benefits from the  
18 markets that are out there and if Entergy is  
19 extracting most of the benefits for itself  
20 through the WPP, it's going to make it more  
21 difficult to justify adding shorter term markets  
22 in the future when the main beneficiaries of  
23 those shorter term markets may be entities other  
24 than Entergy. So, given the current  
25 significantly changed situation, the ACC systems

1 believe the Commission really needs to  
2 reconsider its prior determinations and should  
3 now cause Entergy to either implement short term  
4 and longer term markets simultaneously or cause  
5 Entergy to become a member of the SPP RTO.

6 Now, with regard to the specific  
7 comments that the Arkansas Cities and Coop have  
8 on the current Entergy WPP filing, if the  
9 Commission determines that going ahead with this  
10 filing is the appropriate action, going ahead  
11 with just the WPP, or with the WPP as the  
12 appropriate action, then we believe there are  
13 four major issues that need to be addressed.

14 The first and most important major  
15 issue is that having this separate, but unequal  
16 WPPs for Entergy and the load serving entities,  
17 is like a product producer being given an  
18 ultimatum by Wal-Mart. Right now, as proposed,  
19 bidders will either be able to bid into the  
20 Entergy WPP or into the load serving entity WPP  
21 with a single resource, but they are not allowed  
22 to bid into both WPPs simultaneously. Again,  
23 this like Wal-Mart telling suppliers that either  
24 you can sell to the Wal-Mart Corporation, or you  
25 can sell the small, local community stores, but

1 not to both.

2           What's going to happen is, all the  
3 suppliers are going to focus on the Entergy WPP  
4 and it's going to dramatically reduce the  
5 opportunities to the other entities that are  
6 trying to compete in the market. As a matter of  
7 fact, the way it's set up now, Entergy's non-  
8 regulated affiliates can only bid into the load  
9 serving entity WPP and so they will probably end  
10 up having significant market power within the  
11 load serving entity WPP.

12           The proposed bifurcated market will  
13 also result in very inefficient use of  
14 resources. Efficient resources that are bid  
15 into the Entergy WPP and that are not even  
16 selected by Entergy, will not have been bid into  
17 the load serving entity WPP and will not be  
18 available for them to use as part of  
19 optimization process. Not participating in the  
20 load serving entity WPP has been proposed by  
21 Entergy as a way of addressing some of the  
22 issues, however, that's also not a reasonable  
23 alternative, given the way the process has been  
24 set up.

25           A system that doesn't participate in

1 the WPP as a load serving entity would be  
2 totally excluded from competing for the other  
3 resources that are bid into the WPP, and in  
4 addition, as proposed by Entergy, these load  
5 serving entities that didn't participate in the  
6 WPP would be subject to be exposed to congestion  
7 costs that are caused by the WPP, and unlike  
8 those who participate, they wouldn't be  
9 entitled to any of the offsetting congestion  
10 revenues that were collected.

11 A final issue with regard to the  
12 separate but equal, or unequal, WPP  
13 arrangements, is related to a situation that  
14 exists with regard to the coal units that are  
15 jointly owned between some of the Arkansas  
16 cities and Entergy. These jointly owned coal  
17 units will participate and will be involved in  
18 the Entergy WPP and it's likely that the joint  
19 owners will be affected by those units being in  
20 the Entergy WPP, however, those joint owners  
21 won't be allowed to participate in the same  
22 transactions that are affecting their units.

23 The second major issue that we believe  
24 needs to be considered is the methodology for  
25 calculating and allocating congestion costs. We

1 don't believe the methodology is appropriate or  
2 reasonable. Participants in the load serving  
3 entity WPP are not given an opportunity to  
4 compete for the resources that are going to be  
5 available in the Entergy WPP, but they may be  
6 penalized by having to pay congestion costs  
7 associated with Entergy's use of those  
8 resources.

9 In addition, contrary to Entergy's  
10 descriptions in the filings that the modeling of  
11 the optimization and congestion costs is a  
12 simple numbers in and answers out process, it  
13 really isn't. There are a lot of assumptions  
14 and a lot of detailed information that needs to  
15 go into these models and many of the assumptions  
16 and many of the estimates have several valid  
17 answers. Any employee of Entergy who is doing  
18 the modeling would be remiss in their  
19 responsibilities or in their duties if they  
20 didn't choose the valid alternative that favored  
21 Entergy, rather than the other alternative.

22 The third issue with regard to the  
23 WPP, as proposed, is the requirement for certain  
24 resources to be de-listed and designated as non-  
25 firm conditional network resources in order to

1        have access to the WPP. This requirement could  
2        significantly limit the ability of small  
3        systems, such as the ACC systems, to participate  
4        in the WPP resources. Unlike Entergy, these  
5        small systems typically would only have a few  
6        units, maybe one or two units, that are serving  
7        their retail loads. They don't have hundreds of  
8        units spread across the entire energy system  
9        like Entergy does and there could be a lot of  
10       situations in which those one or two units are  
11       in situations such as -- so that they wouldn't  
12       qualify as conditional resources and the systems  
13       wouldn't have the ability to participate in many  
14       of the resources that were bid into the WPP,  
15       because they wouldn't have a comparable  
16       conditional network resource to offset in the  
17       WPP.

18                    Fourth and finally, having Entergy  
19        operate the WPP market through its weekly  
20        operations group, with the ICT only in an  
21        oversight authority role, is viewed as not  
22        adequate. There has been -- I think we joked  
23        about it before. There has been significant  
24        evidence provided over the last several years  
25        that an outside independent auditor simply

1       overseeing business activities can miss a lot of  
2       what's going on, especially when those  
3       activities are very complicated, both from a  
4       financial and technical standpoint. A truly  
5       independent market really needs to be operated  
6       by an independent entity.

7               Those are my prepared comments. Thank  
8       you for your time and we hope that you give the  
9       ACC comments proper consideration.

10      CHAIRMAN WOOD:

11               We will. Thank you, Mr. Malmsjo. Mr.  
12      Priest, representing Clarksdale PUC and others.  
13      Welcome.

14      MR. PRIEST:

15               Thank you, Mr. Chairman. Chairman  
16      Wood and Commissioners, Commission staff  
17      members, my name is Bob Priest. I am the  
18      general manager of Clarksdale Public Utilities  
19      Commission of the city of Clarksdale,  
20      Mississippi. I'm here today on behalf of the  
21      Mississippi Delta Energy Agency, the Clarksdale  
22      Public Utilities Commission and the Public  
23      Service Commission of the city of Yazoo City,  
24      Mississippi. I'll refer to the entities I  
25      represent as the MDEA cities.

1           I'm here to discuss our concerns with  
2           Entergy's proposed weekly procurement process,  
3           or WPP. MDEA is a joint action agency in  
4           Mississippi, of which Clarksdale and Yazoo City  
5           are the current members. Clarksdale and Yazoo  
6           City own and operate municipal electric systems  
7           embedded within the Entergy service area and are  
8           network customers of Entergy, pursuant to its  
9           OATT. The maximum peak load of the MDEA cities  
10          is approximately 80 megawatts and the average  
11          load is approximately 40 megawatts.

12           To promote workably competitive  
13          markets and achieve comparability of  
14          transmission service, network transmission  
15          customers must have operational flexibility and  
16          access to substitute resources comparable to  
17          Entergy operating companies. Entergy proposes  
18          the WPP as a mechanism for allowing Entergy  
19          economic substitutes for designated network  
20          resources on a weekly basis.

21           Although Entergy's most recent version  
22          of the WPP theoretically will allow  
23          participation by network customers such as the  
24          MDEA cities, the structure of the program, as  
25          proposed by Entergy, effectively would foreclose

1 participation by network customers. As a  
2 result, network customers would not have a  
3 comparable access to available resources and  
4 Entergy would enjoy preferential access as a  
5 buyer.

6 Contrary to Entergy's revised WPP  
7 proposal, there should be no restrictions on the  
8 ability of suppliers to offer the same resources  
9 to all WPP participants. If a particular  
10 resource is selected by multiple participants,  
11 the resource should be allocated among  
12 participants that wish to purchase it in  
13 proportion to the total capacity sought by such  
14 participants under the WPP for the week. The  
15 primary obstacle to affect the participation in  
16 the WPP by network customers is Entergy's  
17 proposed restriction against the seller offering  
18 the same resource to more than one WPP  
19 participant.

20 Given Entergy's size, over 20,000  
21 megawatts, compared to MDEA's size of 80  
22 megawatts, because of this size, as compared  
23 with the much smaller network customers like us,  
24 it is inevitable that most, if not all sellers,  
25 if forced to choose among potential buyers

1 through the WPP, will offer their resources to  
2 Entergy. Entergy's proposed restrictions means  
3 that fewer resources will be available to  
4 network customers and fewer potential buyers  
5 will be available to sellers.

6 In addition, Entergy proposes that  
7 resources selected through the WPP will  
8 automatically qualify as substitute network  
9 resources, for which Entergy will provide firm  
10 transmission service. Entergy proposes no such  
11 assurance of transmission availability for  
12 substitute resources selected by network  
13 customers outside of the WPP process. For  
14 smaller load serving entities, such as the MDEA  
15 cities, this would result in more limited  
16 resource alternatives and reduce flexibility in  
17 resource acquisition. From the perspective of  
18 sellers, the WPP, as proposed by Entergy, will  
19 restrict the pull of potential buyers because  
20 only a sale to Entergy through the WPP will have  
21 assured availability of firm transmission  
22 service.

23 Entergy's July 15 answer to protests  
24 in the ERO4-699 docket notes at page 51 that the  
25 Commission's September 30, 2003 order in docket

1 no. ELO3-132 determined that Entergy is not  
2 required to establish a joint procurement  
3 process. That determination does not suggest,  
4 however, that the Commission will permit a WPP  
5 process or structure that allows Entergy  
6 preferential access to firm transmission  
7 service. If Entergy is unwilling to structure  
8 the WPP in a manner that allows network  
9 customers to participate on a truly comparable  
10 basis, which Entergy's current proposal does not  
11 achieve, then the Commission should direct  
12 Entergy to implement parallel changes to its  
13 OATT that will provide network customers the  
14 same flexibility to designate substitute network  
15 resources with firm transmission that Entergy  
16 would enjoy under the WPP.

17 Entergy's WPP proposal continues a  
18 pattern of Entergy efforts to limit the  
19 operational flexibility of network customers or  
20 create advantages for Entergy, due to it's size.  
21 Primary examples are contested penalty  
22 provisions in the ancillary services rate  
23 schedule proposed by Entergy in docket no. ERO1-  
24 2214. Without addressing the merits of the  
25 contested issues in that docket, which is still

1 before the Commission on request for rehearing,  
2 MDEA cities wish to emphasize that the penalty  
3 provisions as proposed by Entergy now have been  
4 in effect subject to refund through three Summer  
5 peak seasons. Although network customers  
6 ultimately will receive refunds of penalty  
7 charges that the Commission concludes are unjust  
8 and unreasonable, refunds cannot make customers  
9 completely whole for the loss of operational  
10 flexibility or sellers whole for the loss of  
11 potential sales opportunities during the time  
12 when unwarranted restrictions are pending before  
13 the Commission.

14 For these reasons, the MDEA cities  
15 urge the Commission to give top priority to  
16 identifying and promptly relieving features in  
17 Entergy's proposal that have the effect of  
18 unreasonably limiting the operational  
19 flexibility of Entergy's transmission customers  
20 or allowing Entergy preferential access to the  
21 transmission system, including the WPP proposal.

22 Thank you.

23 CHAIRMAN WOOD:

24 Thank you, Mr. Priest. Our next  
25 speaker is Mr. James Dauphinais, from the

1 Southeast Electric Customer Association.

2 MR. DAUPHINAIS:

3 Very close.

4 CHAIRMAN WOOD:

5 Consumer's Association.

6 MR. DAUPHINAIS:

7 Yes.

8 CHAIRMAN WOOD:

9 Welcome.

10 MR. DAUPHINAIS:

11 Thank you and good afternoon. On  
12 behalf of the Southeast Electricity Consumer's  
13 Association, or simply SeECA, I would like to  
14 thank the Commission for the opportunity to  
15 speak in regard to the WPP proposal as well as  
16 to speak to the representatives from the various  
17 retail commissions that are present here as  
18 well.

19 SeECA is a non-profit organization  
20 organized in the state of Alabama and its  
21 members consist of large end-use customers who  
22 have facilities in the service territories of  
23 the Entergy Corporation operating companies, and  
24 the operating companies of the Southern Company,  
25 or in both corporations. A number of SeECA

1 members also operate qualifying facilities.  
2 SeECA was a major voice for large end-use  
3 customers in the failed SETRANS RTO effort as  
4 well.

5 SeECA has filed a protest in this  
6 proceeding in regard to both the ICT proposal,  
7 as well as the transmission pricing expansion  
8 proposal. I don't want to dwell on these very  
9 long because the subject of this panel is really  
10 the WPP, but large end-use customers in SeECA  
11 really see little benefit from the ICT as  
12 proposed. If there is a perception problem,  
13 it's not a real problem, and why do we have a  
14 perception problem. That needs to be dealt  
15 with, but do we need to spend the money on an  
16 ICT to do that. We don't think that's a very  
17 efficient way to spend money. If there is a  
18 real problem, we don't see ICT being sufficient.

19 Mr. Schnitzer earlier talked about the  
20 ICT kind of doing more functions than the  
21 independent market monitor in the MISO. Well  
22 the independent market monitor -- the MISO  
23 doesn't, right now, have any markets it is  
24 operating for generation and if it did have  
25 markets, it would be much more like the market

1 monitor, for example, on TJM or an ISO in New  
2 England. So I don't find the ICT proposal,  
3 really, to be sufficient in addressing what  
4 needs to be done to deal with issues with  
5 Entergy's vertical market power and  
6 transmission. Something more sufficient, like  
7 an RTO, would be necessary, if there is a real  
8 problem.

9 In regard to their transmission  
10 pricing policy, Entergy's pricing policy, we  
11 really see more as a form of "and" pricing. We  
12 quite frankly feel that it attempts to twist  
13 Order 2003 and 2003-A in terms of the way higher  
14 of pricing is looked at. Entergy likes to talk  
15 about the higher of revenues they would get, or  
16 their compare revenues they received rather than  
17 the cost the customer is paying. Order no. 2003  
18 and 2003-A is pretty clear in their prohibitions  
19 on "and" pricing, when we do not have an  
20 independent transmission provider.

21 In this proceeding -- in this panel,  
22 returning to the subject of the WPP, we really  
23 think there is little relationship between the  
24 ICT and the transmission expansion pricing  
25 proposals in the WPP. The WPP has an origin

1       that came before the ICT in the request for a  
2       declaratory order that Entergy had previously  
3       run before the FERC. We also believe the WPP  
4       should really be focused on developing a way for  
5       Entergy and other network transmission customers  
6       on the Entergy transmission system to reduce  
7       their costs to serve their respective bundled  
8       customers to greater utilization of the large  
9       fleet of merchant generation that's established  
10      itself in the Entergy transmission system.  
11      That's just the beginning. I think as  
12      Commissioner Hochstetter mentioned, there may be  
13      surplus coal fired generation in the Midwest.  
14      Well, that should be reached as well through  
15      this type of mechanism.

16             In addition, the WPP should not be a  
17      mechanism that enhances Entergy's market power,  
18      so we shouldn't be doing this in a way that  
19      favors Entergy's own generation. The WPP must  
20      provide all suppliers with a non-discriminatory  
21      opportunity to serve the native load of Entergy  
22      and other participating network customers in the  
23      WPP.

24             SeECA does not support the WPP as  
25      filed. As filed, the WPP could be used as a

1 vehicle by Entergy to favor its own generation  
2 over that of competing non-affiliated merchant  
3 plants. For example, there does not appear to  
4 be any oversight of Entergy's EMO organization  
5 in regard to the latter's determination of the  
6 flexible resources it requires or the actual  
7 cost data it would provide to the Entergy  
8 transmission organization.

9           Furthermore, Entergy has not provided  
10 yet a clear and non-discriminatory means for  
11 merchant plants to qualify to provide automatic  
12 generation control or operating reserves.  
13 Entergy has indicated in an answer to -- answers  
14 that it in fact is working on such a process but  
15 it has also indicated that it doesn't intend to  
16 file those in its tariff. We really believe  
17 that those provisions should be placed in the  
18 tariff to insure that they are non-  
19 discriminatory.

20           We also feel that Entergy's proposed  
21 WPP is being used a mechanism to impose "and"  
22 pricing generation redispatch costs to network  
23 customers, and specifically, Entergy creates two  
24 different classes in network resources in its  
25 proposal. One would be NRIS, network resources.

1 That is, network resource interconnection  
2 service, network resources, and then the other  
3 class would be NITS network resources, which  
4 would be network integration transmission  
5 service resources. Well, the open axis  
6 transmission tariff or the pro forma tariff only  
7 has one class of network resources, so Entergy  
8 has created two classes here.

9 Under the NRIS network resources the  
10 customers would -- with those types of  
11 resources, would be liable for direct assignment  
12 of generation redispatch costs while those who  
13 had NITS network resources would only pay for  
14 redispatch on a pro rata basis and I would be  
15 very cautious when the word pro rata is being  
16 used. Entergy had a slide earlier today that  
17 talked about pro rata allocation of redispatch  
18 costs, but that was really pro rata allocation  
19 of the portion of redispatch costs that they  
20 were directly assigning, and so once they  
21 figured out how much they were directly  
22 assigning, they were allocating that on a pro  
23 rata basis to those customers that were going to  
24 get directly assigned redispatch charges.

25 From the filing, we don't see anything

1 to suggest that any of Entergy's own generation  
2 facilities would be NRIS network resources.  
3 They would all be NITS network resources, so  
4 Entergy would only be subject to paying for  
5 redispatch on a load ratio share basis, or pro  
6 rata basis. Even if some of Entergy's network  
7 resources were classified as NRIS network  
8 resources, because Entergy intends to  
9 participate in the WPP, it would be exempted  
10 from the directly assigned redispatch costs  
11 because generators that are submitted through  
12 the WPP are not subject to -- those network  
13 resources are not subject to redispatch charges  
14 on a direct assignment basis unless those  
15 network resources are going to be self  
16 scheduled.

17 Nothing in order no. 888 provides two  
18 classes of network resources, as I said, and  
19 furthermore, nothing in order no. 2003 or 2003-A  
20 introduced two classes of network resources.  
21 Order no. 2003-A did allow for non-  
22 discriminatory proposals to allocate redispatch  
23 costs using a method other than load ratio share  
24 allocation, however, Entergy's proposal is not a  
25 non-discriminatory proposal. A proposal in

1       which its generation would not be subject to  
2       directly assigned redispatch costs, but most of  
3       the other generation in its footprint would be  
4       non-discriminatory.

5                To conclude, for the reasons I've  
6       outlined and for those additional reasons that  
7       SeECA has outlined in its protests, SeECA  
8       believes the WPP proposal which is really  
9       separate and apart from the ICT should either be  
10      rejected or substantially modified and I look  
11      forward to your questions. Thank you.

12      CHAIRMAN WOOD:

13               Thank you, Mr. Dauphinais. Next, we  
14      have Lynne Mackey who is the director for  
15      regulatory policy for InterGen North America.  
16      Welcome.

17      MS. MACKEY:

18               My name is Lynne Mackey and I'm  
19      pleased to be here today speaking on the issues  
20      surrounding Entergy's weekly procurement process  
21      proposal. I work for InterGen, as the Chairman  
22      said, which is the developer and owner of  
23      independent power plants located throughout the  
24      U.S. and around the world. One of InterGen's  
25      U.S. projects is called Cottonwood. It's a

1       1,235 megawatt facility located in Entergy's  
2       control area and interconnected to Entergy's  
3       transmission system in Deweyville, Texas.

4               Many believe that because there are  
5       17,000 plus megawatts of efficient low cost  
6       independent generation located in the Entergy  
7       footprint, that Entergy's native load would  
8       directly and immediately benefit if Entergy  
9       established a wide ranging program to displace  
10      its older, costly generation with purchases from  
11      newer, more efficient units.

12              InterGen was heartened by Chairman  
13      Wood's comments today and also in the OG, the  
14      claims section 203 proceeding on this subject  
15      where he made specific statements regarding  
16      economic dispatch and the value it provides to  
17      the retail rate payers. Entergy's current  
18      dispatch regime, however, appears to be based  
19      more on the rate recovery treatment of the asset  
20      dispatched than on providing the lowest overall  
21      cost to rate payers.

22              The WPP could, assuming modifications,  
23      move Entergy closer to a regime of economic  
24      dispatch, but to reach that point, Entergy's  
25      proposal requires substantial clarification and

1 changes as has already been mentioned by my  
2 colleagues up here on the dais. Maybe if it  
3 does have those clarifications and changes, it  
4 can begin to look more like a truly competitive  
5 wholesale market and bring true benefits to the  
6 rate payers.

7 InterGen put a lot of comments in for  
8 this ICT proposal and those stand. What I'd  
9 like to do for the rest of my remarks is just  
10 focus on a few big picture issues.

11 At the outset, the Commission should  
12 recognize that the WPP, as currently proposed,  
13 naturally favors generation from Entergy and its  
14 affiliates at the expense of IPPs and Entergy's  
15 rate payers. Entergy's WPP proposal calls for  
16 procuring energy at weekly installments as  
17 everyone here is already aware. In RTOs,  
18 however, procurement auctions are likely to be  
19 done on a daily and realtime basis.

20 We understand that Entergy uses a  
21 weekly process because it better matches the  
22 dispatch profile of Entergy's own units, but by  
23 using a procurement mechanism specifically  
24 accommodating the operating limitations of  
25 Entergy's own units, the WPP artificially favors

1       Entergy's power plants, when compared to the  
2       more efficient IPP units, which have shorter  
3       ramp times and are highly responsive to daily  
4       cycling requirements. This is just a simple  
5       example of how the WPP helps EMO's ability to  
6       compete and hurts the prospect of a level  
7       playing field for the more efficient IPPs.

8               Now, similar to the concerns that  
9       InterGen and others had in the AFC process that  
10       was recently instituted by Entergy, we do agree  
11       also with the other speakers that the WPP needs  
12       to be more transparent. The currently proposed  
13       version of Entergy's WPP is little more than  
14       another black box. WPP participants would  
15       provide their offers to EMO or another network  
16       customer, but when not chosen, those would-be  
17       sellers have no real prospect of knowing what  
18       were the actual criteria used for selection of  
19       the winners; by how much did they miss the mark  
20       with their offers; what assumptions were used in  
21       the analysis of the offers or how were those  
22       assumptions applied to every offer.

23               I would add a few other questions.  
24       When are Entergy's own units baked into this  
25       process of analysis? What level of costs are

1 attributed to Entergy's own units? I think we  
2 heard earlier with Entergy comments that this is  
3 variable cost to variable cost only, but there  
4 are multiple costs associated with running their  
5 own units and those costs should also be  
6 incorporated when evaluating the various bids  
7 and the structure of those bids.

8           Having the information, as I just  
9 said, if we found by how much we missed the  
10 mark, you know, how could we do better as a  
11 seller to Entergy, we would be able to better  
12 tailor our products to what our customer wants,  
13 or what our customer needs, therefore, likely  
14 making more sales in future WPPs. The concept  
15 of sellers wanting more information is hardly  
16 revolutionary. Any good seller works to find  
17 out what its customer wants and what products  
18 would best suit its needs, but to Entergy,  
19 allowing this type of transparency isn't  
20 considered necessary or appropriate.

21           Entergy has suggested that providing  
22 IPPs this information increases the opportunity  
23 for manipulation. We say this is a red herring.  
24 There are 17,000 megawatts of IPPs competing  
25 for, we know, a very small piece of the Entergy

1 business. There is not a lot of room for any  
2 kind of collusion there.

3           So with this black box WPP process,  
4 potential sellers with thousands of megawatts of  
5 power for sale would be precluded from offering  
6 an optimum mix of products to Entergy, because  
7 it won't tell us what it really needs. IPPs are  
8 confined to offering products every week on a  
9 hit or miss fashion, without having true price  
10 or product preference signals. I kind of -- I  
11 tried to describe it as throwing spaghetti on  
12 the wall and seeing if anything sticks. We hope  
13 something sticks. That's the way the process  
14 feels when we are making our bids every week.

15           The market usually sees a single type  
16 of product on a single pricing basis, a heat  
17 rate based offer for small amounts of economic  
18 energy whose quantity and term are determined  
19 when one assumes Entergy's units are run on a  
20 weekly basis. By requiring the IPPs to submit  
21 offers using only heat rate base pricing and not  
22 considering the full costs of running its own  
23 units to determine economic dispatch, including  
24 costs like reserves and ancillary services, like  
25 regulation services.

1           Entergy is missing out on purchases of  
2           lower priced energy via a multitude of products,  
3           which would certainly lower overall rates for  
4           the rate payers. In competitive energy markets  
5           today, daily and realtime purchases are the  
6           norm. In competitive energy markets, the  
7           participants must understand how the process  
8           works and what the selection criteria will be  
9           before they offer their products at the best  
10          price. Participants should be able to determine  
11          why they were and were not selected and no  
12          participant should be able to change the rules  
13          in the middle of the process.

14                 Entergy's WPP proposal fails to  
15                 contain these key elements necessary for true  
16                 transparency and it must be modified before it  
17                 is accepted by the Commission.

18                 The second main concern about the WPP  
19                 is that an independent third party must be in  
20                 place to administer the WPP process. Entergy's  
21                 current WPP proposal provides a limited  
22                 oversight role for the ICT, but the majority of  
23                 decisions and rules are determined by Entergy.  
24                 Under Entergy's proposal, Entergy would choose  
25                 the products, establish the creditworthiness,

1 control the assumptions, collect the  
2 confidential offers and submit the offers and  
3 load forecast to the weekly operations group.  
4 They state in their reply comments to the ICT  
5 docket that we should trust that it will apply  
6 all the assumptions on an apples to apples basis  
7 when doing a bid analysis and comparing unit  
8 costs, but as of now, none of these rules are  
9 clearly spelled out in any tariff filing or  
10 business practice, and, based on Entergy's track  
11 record to date, truly independent supervision, a  
12 trial period and perhaps regular reports on the  
13 effectiveness of the WPP to the Commission would  
14 be a more prudent way to determine the accuracy  
15 of Entergy's assertions.

16 After all, EMO is not just a customer  
17 of the IPPs, as you said, Mr. Chairman, it is a  
18 direct competitor. Entergy's proposal is unduly  
19 discriminatory and it vests far too much  
20 autonomy and power in EMO. While the Commission  
21 expressed concern that the Entergy transmissions  
22 role -- that there was a concern about Entergy's  
23 transmission role, memorializing the situation  
24 in which all offers go through EMO cannot be the  
25 answer. It will allow the IPPs' primary

1 competitor to establish the rules of the game  
2 and equally important, enable itself, alone, to  
3 collect huge amounts of data about its  
4 competitors. How ironic.

5 As sellers, we are continually asking  
6 our customer, Entergy, for feedback, for  
7 information about the products that it needs, so  
8 we can be better salesmen, and yes, sell more  
9 power, but with Entergy's WPP, as proposed, we  
10 would instead give our biggest competitor  
11 critical operating data and pricing data. It  
12 would be theirs to use as they see fit, possibly  
13 to find new and clever ways to further undermine  
14 competition. How does this reduce costs  
15 overall?

16 Entergy should instead convert the WPP  
17 into a more market-like structure as discussed  
18 by the other speakers, allowing all suppliers  
19 and all buyers to compete in one centralized  
20 market, producing the most efficient market  
21 economics.

22 In conclusion, Entergy's WPP is a  
23 wholesale market and FERC should require Entergy  
24 to use the industry's best practices, which have  
25 been well established in other regions around

1 the country, when it is establishing -- when  
2 Entergy is establishing it's WPP. This would  
3 certainly help facilitate the development of a  
4 robust and competitive wholesale market in the  
5 Entergy control area. InterGen appreciates the  
6 attempt to create a more market-like structure  
7 in the Entergy region, but a modified WPP is  
8 what would be a step in the right direction.  
9 Thank you.

10 CHAIRMAN WOOD:

11 You're welcome. Thank you, Ms.  
12 Mackey. We'll end with Jolly Hayden, from  
13 Calpine.

14 MR. HAYDEN:

15 Thank you, Chairman. It's a pleasure  
16 to be here before this distinguished panel on  
17 top and particularly right here with the folks  
18 who are to my right. The sad part is, I had to  
19 change everything I was going to present,  
20 because these folks here to my right covered all  
21 the high points and concerns that Calpine has,  
22 but as I listened to the questions, the Q and A  
23 from earlier, from the panel, here, as well as  
24 the presentation from Entergy, needless to say,  
25 I'm never one short for thoughts and comments.

1           So what I thought I would do is  
2 discuss a little about markets and what are the  
3 benefits of markets, because, as it was  
4 correctly stated before, I mean, what this is  
5 all about is, we're all consumers, we're all  
6 rate payers and we want -- we love competition.  
7 So we're going to talk a little bit about that,  
8 and obviously, it would be a key component of  
9 good, healthy markets, as mentioned earlier, is  
10 the elephant in the room, it's transmission, or,  
11 in this case, the problems we've got with  
12 transmission.

13           We will then touch a little bit on the  
14 ICT and then, of course, I'll add a few comments  
15 on the WPP, but that will be a little bit  
16 limited because of what has already been said.  
17 Then, I will throw up what I believe, what  
18 Calpine believes, is the better solution.

19           Markets -- again, from our own  
20 personal lives, we love choices. We love  
21 transparency. We love competition. We benefit  
22 from that in our everyday lives at home, and one  
23 of the things that -- the fundamentals of  
24 markets, if you look at any of the commoditized  
25 markets or anything is non-discriminatory access

1 to transportation, whether it be widgets or  
2 electrons. The other areas, you will want to  
3 see a lot of liquidity and transparencies,  
4 multiple buyers and sellers, similar to what we  
5 see in some of the other markets that are  
6 developing or matured in this industry. ERCOT  
7 being on the, kind of, the lower end of the  
8 development scale, but it's seen, you know,  
9 hundreds of millions of dollars of benefits to  
10 me, a consumer, in the ERCOT market, to billions  
11 of dollars up in PJM, which, you know, Entergy  
12 knows those markets because they participate in  
13 those markets, because they own assets in those  
14 markets. So they understand what markets are  
15 about.

16 In PJM alone, there are over 250  
17 buyers, sellers and traders. 250. Lots of  
18 transparencies, lots of liquidity. That creates  
19 a lot of options for load serving entities to  
20 mitigate their risk. Lots of flexibility,  
21 short-term, long-term, intermediate capacity  
22 markets, you name it, you have the choices.  
23 Obviously, this creates stability in the capital  
24 markets for the development of new generation  
25 resources and that is the key component of the

1 market structure. And of course, the big thing  
2 is, you have a market that's being run by an  
3 independent entity, who is not a stakeholder in  
4 the market per se. They do not serve well.  
5 They do not own generation. They do not own the  
6 wires. They are the air traffic controller.  
7 That's the only thing they focus on is managing  
8 the grid and facilitating the markets to make  
9 sure that everything is safe and running  
10 properly.

11 Now, we get into the transmission.  
12 Again, as I emphasized, you think about the  
13 other commoditized market. Delivery is all but  
14 assured. There is just a price risk we've got  
15 to contend with, except in events of force  
16 majeure. Well, that's not the case here and  
17 it's well documented over the last 20 years  
18 across the country of how little investment  
19 we've been doing in our transmission system.

20 Entergy, a case in point. Looking at  
21 the FERC form 1 filings, which I believe  
22 captures new line construction, which is not  
23 completely reflective of reality here, but it  
24 gives you a good indication. Over the last four  
25 years, I think the number is somewhere in the

1       \$30 million of investment range and at the same  
2       time, merchants have contributed in excess of  
3       \$200 million. So, I mean, there's something  
4       wrong there.

5                 Here we are 17,000 megawatts,  
6       approximately, of new clean, efficient, combined  
7       cycle generation in the market, and yet this  
8       past week, the city of Lafayette had scarce  
9       delivery problems. They were asking their  
10      consumers to turn up their thermostats.  
11      Something is wrong here and to the point that  
12      this panel asks Entergy about let's look at  
13      transmission, what do we need to do to upgrade  
14      the transmission, the economic benefits, the  
15      cost-benefit analysis of upgrading the wires to  
16      allow more access to lower cost supply, whether  
17      it be within the territory or from the mid West,  
18      from the coal belt.

19                Well, the question I have for that, I  
20      believe that question has already been asked. I  
21      think it was asked three years ago by the  
22      Louisiana Public Service Commission and I think  
23      we're still waiting for an answer, you know,  
24      three years later.

25                We get into, then, the independent

1       entity, the ICT and, you know, there were the  
2       concerns that were mentioned by Mr. Smith today.  
3       Why not go into the ICT? Well, there is a seams  
4       issue internal to the state of Louisiana that  
5       Entergy and others are having a hard time  
6       managing and it just seems to me, you know,  
7       electrons do not care about political  
8       boundaries. They flow the path of least  
9       resistance. Larger, looking through across the  
10      region is a better option and some of the  
11      obstacles that I heard today, I think, were  
12      countered by Chairman Wood on why the -- you  
13      know, I don't believe it is an obstacle for them  
14      to join the ICT.

15                The WPP. I'm going to differ slightly  
16      from the panel because they refer to the WPP as  
17      a market. I would argue the WPP is not a  
18      market. It's a procurement program. Earlier I  
19      defined, you know, in simplistic terms, what  
20      makes up a market. This is a procurement  
21      program and we believe that this is not going to  
22      allow the Public Service Commission to really  
23      see the transparency and the competition that  
24      will help them insure that they are getting the  
25      lowest cost to the consumers, all of the

1 consumers of the entity.

2 Calpine believes that the better  
3 solution is with SPP and again, there were three  
4 or four hurdles that were mentioned by Entergy  
5 that I believe are not as big a hurdle as were  
6 advertised earlier and we would highly encourage  
7 -- while we believe the WPP is a step in the  
8 right direction, the better solution is going to  
9 a larger regional and the true independent  
10 market monitor facilitator, and that is SPP.  
11 Thank you.

12 CHAIRMAN WOOD:

13 Thank you, Mr. Hayden. Ms. Mackey,  
14 you raised an interesting point about the black  
15 box and I think actually, what our plan was was  
16 to ask our questions of you and then invite the  
17 folks from the Entergy panel back up front for  
18 some, maybe more give and take along the table,  
19 and then open it up for questions. So let me  
20 hold that question until I get them up here,  
21 because I do want to explore the black box  
22 nature because that raised some interesting  
23 points about transparency.

24 Mr. Malmsjo, are you -- from listening  
25 to the concerns that you had with the WPP, and I

1       guess, to some extent, Mr. Priest, you are in a  
2       similar position as a small wholesale customer  
3       embedded in the system, is the status quo -- I  
4       guess, two versions of the status quo -- one  
5       with the GOLs and then with the AFC; is the  
6       status quo on Entergy really better than what  
7       the WPP would bring; is that truly a step  
8       backwards from the perspective of a small  
9       wholesale customer?

10      MR. PRIEST:

11                 If you're looking at Entergy, no. Let  
12      me give you an example. We're a network  
13      transmission customer. As I said earlier, we  
14      have a total maximum load to the MDEA cities of  
15      about 80 megawatts. We're buying 35 megawatts  
16      that are remote from our cities. The balance of  
17      the generation used is internal. We are buying  
18      -- we are replacing most hours all of the  
19      internal generation with purchases from the  
20      market, because it's more efficient than our  
21      generation.

22                 One recent day, we could not get ATC  
23      to acquire a substitute purchase, but we were  
24      informed by the transmission dispatcher at  
25      Entergy that there was no available transmission

1 capacity to deliver the generation that was  
2 inside the city limits of Clarksdale to the city  
3 limits of Clarksdale. You don't get a warm,  
4 fuzzy feeling if that's the way the system is  
5 being managed.

6 CHAIRMAN WOOD:

7 Aren't you -- you're a network  
8 customer, though, correct?

9 MR. PRIEST:

10 Yes, but it's more complicated than  
11 that was what they kept saying over the  
12 telephone. You don't understand the issue.

13 CHAIRMAN WOOD:

14 I do understand.

15 MR. PRIEST:

16 I hope so.

17 CHAIRMAN WOOD:

18 You ought to call on some of those  
19 events. We've got a hotline just for that  
20 purpose. I'll give you a card with the number.  
21 But that's exactly the kind of issues we need to  
22 know about in dealing here and I think our  
23 fellow regulators who are in charge of sighting  
24 transmission want to know about that, too,  
25 because it doesn't help -- let me follow up on

1 the same issue. Jolly, you mentioned something  
2 and I was greeting my dear friend, Irma, when  
3 she walked in, but what was going on in  
4 Lafayette?

5 MR. HAYDEN:

6 Well, it was -- I guess there was the  
7 request by Lafayette and, Lafayette, you should  
8 probably ask them more specifically, because  
9 this has been an ongoing problem for the last --  
10 since last August, but they basically got in a  
11 situation this past week where they had to go  
12 out for voluntary, you know, appeal, public  
13 appeal in order to reduce, you know, their  
14 consumption, the constraints. And again, we've  
15 got 17,000 megawatts and, you know, they're  
16 having a hard time getting access to the market.

17 COMMISSIONER FIELD:

18 Chairman Wood, if I could comment on  
19 that. Lafayette is in my district and I just  
20 made a PSA yesterday and asked people to turn  
21 their thermostats up and close their drapes and  
22 blinds during the day and so forth. It is very  
23 frustrating. I want to give Entergy credit.  
24 They have approved the construction of three  
25 sets of transmission upgrades that are designed

1 to improved system reliability. There will also  
2 be positive economic consequences for these  
3 upgrades.

4 Second, Entergy has identified and the  
5 Entergy operating committee has approved a set  
6 of three projects directed primarily at lowering  
7 fuel costs on the Entergy system. These so-  
8 called economic projects include an upgrade to  
9 the existing Colevine (phonetic) 230 KV line and  
10 the Conway Bagtelli (phonetic) 230 KV line, as  
11 well as construction of a new 23 KV line  
12 connecting Panama and Dutch Bayou substations.  
13 These projects have a total nominal cost of  
14 approximately \$43 million, but are projected to  
15 produce a total of at least \$127 million, and  
16 possibly as much as \$260 million in net present  
17 value savings over the next 20 years.

18 They have commenced engineering, site  
19 acquisition and related work for both  
20 reliability and economic upgrades. Their 2004  
21 budget includes funding for portions of these  
22 projects and those projects are now underway.  
23 All of these projects are projected to be in  
24 service by the end of 2007, and Entergy has  
25 committed the Amite south import capability, a

1 consistent problem, will be increased to  
2 approximately 2,440 megawatts by the end of  
3 2005. However, I want to give them credit for  
4 that, because they have done that and they have  
5 made those commitments and they are in the  
6 budgets and they have been reporting to us.

7 On the other hand, I don't understand  
8 why something hasn't been done in the Lafayette  
9 area. Lafayette, for instance, and I'm speaking  
10 for them, but they have their own municipal  
11 system, which we don't have jurisdiction over,  
12 but they have a coal facility at Rodemacher  
13 (phonetic). They can't bring the power in.  
14 Because of the imbalance in the transmission  
15 system, they have to run two old units in the  
16 city of Lafayette to keep the system in balance  
17 and the CLECO, further south, has to run two  
18 units at Teche that are old and expensive units  
19 to operate. We did approve a co-gen project  
20 near the Teche units, which is about 22  
21 megawatts. Hopefully, that will help balance,  
22 but, of course, it's not up and running.

23 My question, and I didn't really mean  
24 to get into details, but it is an issue, with  
25 all the TLR-5s that we've had over the past

1 year, I don't understand why this wasn't in the  
2 budget and maybe Entergy could answer that  
3 because we do have a serious problem. Lafayette  
4 does have two small gas units under construction  
5 right now that are efficient and have a shorter  
6 start up time if this system gets out of  
7 balance, but we do have a serious problem in the  
8 Lafayette area and it is frustrating to know we  
9 have so much new generation.

10 Now, on the other hand, a lot of this  
11 generation wasn't located where it should be and  
12 I don't think anybody went to Entergy and asked  
13 them, where should we locate this, where do you  
14 really need it. They just built it wherever  
15 there was a gas pipeline and surface water and  
16 that's just the way some of them have been  
17 located, because I don't know why we have that  
18 serious problem in Lafayette, but it is. We can  
19 have -- they called me Saturday afternoon to say  
20 that they might have to start cutting off firm  
21 power and that is a little hard to answer when  
22 the constituents know how much generation we  
23 have.

24 Now, I'm not saying it's located  
25 properly and we did have two units down Saturday

1       afternoon. LUS had a unit down and CLECO had a  
2       unit down at the same time, but it is something  
3       we've been communicating on. I want to give  
4       Entergy credit. Entergy, LUS, CLECO, SLEMCO,  
5       they have all been meeting and they communicate  
6       daily. They are cooperating, but it is  
7       something that needs to be upgraded and I  
8       understand that there may be an upgrade in the  
9       neighborhood of \$25 million proposed between  
10      CLECO, Entergy and LUS for next year, but you're  
11      right, it was a problem last year and it should  
12      have been dealt with before now.

13                 But that's about the extent of my  
14      knowledge of the problem in Lafayette. Maybe  
15      somebody else knows what the issue is.

16      MR. HAYDEN:

17                 I can add some more to it, because, I  
18      mean, this situation, it was -- I totally  
19      understand your point of how did this happen  
20      kind of thing. I mean, this was a classic of a  
21      seams issue, because you had the city of  
22      Lafayette, you had Entergy, you had CLECO and it  
23      involved, you know, some studies done,  
24      interconnection studies done several years ago,  
25      but because of a coordination issue, or a seams

1 issue between these entities, this overload was  
2 not caught and it was not captured and, you  
3 know, it was an oversight. It was an easy to  
4 understand mistake, because of the seams issue,  
5 but, within the state of Louisiana, because of  
6 these different entities, it could have been  
7 captured, some of this overload, some of this  
8 problem

9 CHAIRMAN WOOD:

10 Who is the current security  
11 coordinator under the NRC rules for this region;  
12 is it Entergy or is it --

13 MR. PRIEST:

14 It's Entergy.

15 UNIDENTIFIED MEETING PARTICIPANT:

16 It's SPP also.

17 CHAIRMAN WOOD:

18 Where does one start and the other  
19 stop as far as within Louisiana?

20 MR. McCULLA:

21 I'm Mark McCulla with Entergy  
22 transmissional operational planning. There are  
23 two security coordinators in the area. Entergy  
24 acts on behalf of Entergy and Cleco in the area  
25 as security coordinator and SPP acts for the

1 city of Lafayette, Lafayette utility systems, as  
2 well as LEPA and maybe some municipals in the  
3 area as well. This area is an area that as  
4 Jolly has mentioned, has several utilities that  
5 are represented in this Acadiana area as we  
6 defined it. It is an area that's under study.  
7 None of the new generation that's been added has  
8 been added in this Acadiana area, but the  
9 transmission system was designed, historically  
10 to serve the load of that area, assuming those  
11 historical units in the area were available. As  
12 units were added outside of this area,  
13 certainly, they want to bring in the generation  
14 into that area. As they ramp the units down, it  
15 does tax the transmission system in this area,  
16 so that is an area that we have under study  
17 right now and being reviewed.

18 COMMISSIONER FIELD:

19 I think we'd better move it up, too,  
20 and give it top priority, because what happens  
21 in Lafayette, for instance, is, LUS cannot use  
22 the coal power from Rodemacher, they have to run  
23 those two units, which they are voluntarily  
24 doing at the cost of the Lafayette rate payers,  
25 sort of to keep the system in balance. We just

1 need to have more coordination and get a -- move  
2 it up, because we could have a blackout tomorrow  
3 and that shouldn't happen.

4 COMMISSIONER BROWNELL:

5           Could I just ask a question and maybe  
6 the representatives from the RFC want to answer.  
7 Isn't this the very issue that would be solved  
8 by having an independent regional planning  
9 process that was open and transparent and  
10 conducted by someone with no dog in the hunt?

11 MR. MCCULLA:

12           I'm more involved in the operations  
13 group, so --

14 COMMISSIONER BROWNELL:

15           Would you identify yourself for the  
16 court reporter?

17 MR. NEWELL:

18           If I may be so bold. Mr. Chairman,  
19 I'm Gary Newell and I'm counsel for Lafayette  
20 and I'm familiar with some of the problems that  
21 they have encountered and have been encountering  
22 for the last, oh, considerable period of time,  
23 at least a couple of years, with respect to  
24 Rodemacher. Commissioner Field mentioned that  
25 problem. The specific instance that you've

1 alluded to, I am not familiar with, however, I  
2 am on a panel tomorrow and I will commit to find  
3 out everything I can about that particular  
4 circumstance and report back to you tomorrow.

5           The problem that has been persistent  
6 and recurrent and just a situation that's  
7 costing Lafayette's rate payers a lot of money,  
8 is that Lafayette is a joint owner in the  
9 Rodemacher plant, which is a large, relatively  
10 low cost coal-fired unit that was developed by  
11 CLECO and Lafayette bought a share of this  
12 second unit, a fairly large share of the second  
13 unit. They have been asked, frequently, to  
14 curtail their deliveries from Rodemacher and to  
15 dispatch their much more expensive in-city gas-  
16 fired boiler units in order to unload flow gates  
17 on the Entergy system. They have been asked to  
18 do that by SPP, as the security coordinator, but  
19 it's to deal with problems of loading on the  
20 Entergy system.

21           Commissioner Field suggested that  
22 perhaps there was a problem here of units being  
23 located in the wrong place on the transmission  
24 system. That is not the case with Rodemacher.  
25 Rodemacher was a large unit that was built, as I

1 say, planned by CLECO some number of years ago.  
2 The problems of flow gates getting congested,  
3 too highly loaded on hot days, is a problem  
4 that's happening on the Entergy system. I can't  
5 tell you why. It may be because of other  
6 generators, merchant generators. It may be  
7 because of Entergy's own transactions. I'm not  
8 certain. What I do know is that Lafayette has  
9 often been asked to curtail deliveries from the  
10 cheap Rodemacher unit, fire up their expensive  
11 units within the city and they're not getting  
12 paid a dime to do that and that is just wrong.

13 The answer to the question that you  
14 raised, Commissioner Brownell, I think you're  
15 right on target. That's the kind of situation  
16 that you internalize in an RTO. Redispatch  
17 problems are handled and people are compensated  
18 when they are asked to redispatch by the RTO to  
19 relieve congestion and the situation that we  
20 have here, where Lafayette sits at a seam,  
21 between two reliability coordination areas, is  
22 being asked by SPP to redispatch for problems on  
23 the Entergy system and not getting compensated  
24 for it, is the sort of problem that would be  
25 resolved if Entergy were a part of the SPP RTO

1 and the RTO was deciding how best to dispatch  
2 units and relieve excessive loading on  
3 transmission lines. So, I think you're on  
4 exactly the right track as to how problems like  
5 this ought to be dealt with.

6 With respect to the question you  
7 raised, Chairman Wood, I'll see what I can find  
8 out and report back to you about the specific  
9 instance.

10 CHAIRMAN DIXON:

11 I have a question. Can you come back,  
12 Mr. Newell?

13 MR. NEWELL:

14 Yes.

15 CHAIRMAN DIXON:

16 So you're telling me that you all are  
17 asked to curtail your operation in order allow  
18 other things to happen; do you see anything in  
19 the future allowing that to cause blackouts like  
20 you had, maybe, last weekend?

21 MR. NEWELL:

22 Well, I don't -- I don't know enough  
23 about the details of the transmission operations  
24 in --

25 CHAIRMAN DIXON:

1                   Well, not blackouts, excuse me. Let  
2 me get it clear. Asking people to, maybe,  
3 curtail their use or raise the thermostats or  
4 whatever.

5 MR. NEWELL:

6                   Well, I think that has -- it's  
7 happened in the past. I know it happened last  
8 Summer and it could easily happen again. There  
9 are some severe constraints in and around the  
10 Lafayette area, but they're not Lafayette's --  
11 it's not Lafayette's poor transmission planning  
12 that's caused those, these are constraints on  
13 the Entergy system and the interfaces with CLECO  
14 around Lafayette. But Lafayette is a  
15 significant load. It's a city of about 80,000  
16 people, so when those transmission lines get  
17 overloaded and they are in need of trying to  
18 unload some of those lines, they look to  
19 Lafayette.

20                   Lafayette is also a control area so  
21 there is a certain amount they can do to unload  
22 lines, but for goodness sake, they ought to be  
23 compensated when they have to fire up their  
24 expensive units and back off their cheap units  
25 in order to help out a problem on the Entergy

1 system.

2 CHAIRMAN DIXON:

3 Thank you so much.

4 COMMISSIONER FIELD:

5 Mr. Newell, if I could ask you.

6 First, I want to clarify. I wasn't referring to  
7 the Rodemacher plant as being located in the  
8 wrong place. I was talking the new generation  
9 that we have in Louisiana, some of it is not  
10 located where it could be better used to the  
11 Entergy's network system, basically, because  
12 they have most of the transmission network.

13 Secondly, maybe you could share with  
14 us the units that are under construction by  
15 Lafayette now. I know part of it. You know the  
16 details more than I do. Could you share that  
17 with the panel?

18 MR. NEWELL:

19 I'll come back with the specific  
20 numbers. I know they have four combustion  
21 turbines planned for service starting two for  
22 service April of next year and then two more the  
23 following year and I am thinking the total is on  
24 the order of -- it's in excess of 200 megawatts  
25 and I'm thinking it may be more than that.

1       These are units that will be built within the  
2       city's system. The city has access to gas  
3       within their service area, so that's not a real  
4       issue for them. And it's possible that those  
5       units will also assist in unloading some of the  
6       lines that have gotten congested on the hot  
7       days, but, you know, the real problem, in my  
8       mind, is how do you establish a framework so  
9       that units are sighted in the right places so  
10      that the transmission system doesn't experience  
11      these problems. That requires some sort of  
12      regional planning process, which currently, we  
13      do not have. And how do you compensate the  
14      owners of generation that is dispatched in order  
15      to relieve transmission loading problems on  
16      adjacent systems. Again, that's a situation  
17      that requires some sort of regional framework in  
18      order to make the dollars flow to the right  
19      people, and right now, there is no such regional  
20      framework to accomplish that.

21      COMMISSIONER FIELD:

22                    Thank you, Mr. Newell.

23      CHAIRMAN HOCHSTETTER:

24                    Can I make a couple of quick comments?

25      This illustration just brings several points, I

1 think, to my mind, that just kind of cry out,  
2 some of the comments that we made in the FERC  
3 docket. I'm looking at the ICT versus RTO  
4 proposal and to me they illustrate a couple of  
5 huge reasons as to why we need to look at this  
6 from a net cost-benefit standpoint. Let's look  
7 at the costs and benefits of the ICT approach  
8 versus the cost and benefits of the RTO  
9 approach. It seems to me if you look at the  
10 cost of not doing regional transmission  
11 planning, and the cost of not investing in  
12 transmission, and the cost of not having  
13 coordination of regional economic dispatch,  
14 because, you know, right now, all that stuff is  
15 subsidized.

16 We don't know how much money we could  
17 be saving and how much more we're spending in  
18 generation costs because of cheaper units that  
19 can't run so people are having to buy on, you  
20 know, buy high prices on the spot market, or  
21 plants that have to shut down and can't run, or,  
22 you know, who knows what kind of economic  
23 losses, in addition to generation cost increases  
24 we're having to pay because of this and that all  
25 gets rolled into the fuel adjustment clause

1 right now. That all gets, you know, subsidized  
2 and it's -- we don't know how much that amounts  
3 to.

4 So it seems like, you know, that is a  
5 huge potential cost savings that regional  
6 planning could bring to bear, both with respect  
7 to new transmission investment that needs to be  
8 made and also reducing some of these seams  
9 issues. And I think also the regional state  
10 committee entity could help with this, because  
11 it seems like the Louisiana commission, the  
12 Arkansas commission, the Mississippi commission  
13 could work together to identify where these  
14 transmission constraints are and, you know,  
15 where they need to be improved, what  
16 transmission needs to be built to prevent high  
17 cost power plants from having to run in lieu of  
18 lower price plants and where we can bring in  
19 cheaper capacity from outside the region.

20 So, you know, looking more broadly at  
21 this seems to me something that we really need  
22 to look at from that cost-benefit standpoint.

23 MR. HAYDEN:

24 Chairman, I'll add a point and remind  
25 her of a study that FERC did in, I think it was

1 late '02, related to transmission investment.  
2 If you look at our utility bills at home, on  
3 average, across the country, it's about 6 or 7  
4 percent of our bill and I think generation is  
5 about 70 T&Ds, our distribution makes up the  
6 balance. And my recollection from that study  
7 was, you know, I think you looked at various --  
8 if you just took a 20 percent upgrade in the  
9 capitol, the infrastructure of our transmission  
10 system, it would be offset by as little as 1.3  
11 percent reduction in wholesale through, you  
12 know, increased competition. So there's a lot  
13 of leverage is the point I'm trying to make to  
14 just kind of supplement what you just said,  
15 Chairwoman.

16 MR. BARTLETT:

17 Chairman, if I may, I'm George  
18 Bartlett with Entergy and as Mr. McCulla  
19 indicated, he's not responsible for long-range  
20 planning. I am. The answer to Commissioner  
21 Brownell's question, I think, is no. One  
22 independent regional planning entity could not  
23 or would not necessarily have solved this  
24 problem in the city of Lafayette.

25 We do transmission planning in

1       accordance with network resources designated by  
2       the customers, and in this, Lafayette's  
3       designated resources include units internal to  
4       the city, as well as external to the city. They  
5       contract with CLECO to bring the energy from the  
6       external unit to the city of Lafayette. If they  
7       choose to shut down the generation internal to  
8       the city of Lafayette, but the plan doesn't  
9       indicate that, then there will be no  
10      transmission plan to allow them to do so. So  
11      it's really a question of coordinating  
12      designated network resources for a load serving  
13      entity with future transmission plans.

14             And, I think more and more in the  
15      region, we're finding problems where load  
16      serving entities want to shut down high priced  
17      generation and they are finding that their  
18      reliability must run units. You cannot shut  
19      down local generation and expect the  
20      transmission system to be able to bring in  
21      enough resources externally, when it just has  
22      not been planned that way.

23             It's my understanding that CLECO has  
24      plans in place, and we're coordinating with  
25      them, as well as LUS, to put some transmission

1 improvements in place to solve this problem,  
2 hopefully, by next year, but I would not  
3 classify this as an Entergy transmission system  
4 problem. It's, if anything, a combined  
5 generation transmission problem and again, a  
6 single entity would not have picked this problem  
7 up unless plans had been demonstrated for the  
8 requirement or need to shut down the local  
9 generation and build transmission to bring in  
10 additional resources externally.

11 CHAIRMAN DIXON:

12 Excuse me, Mr. Chairman. Is that  
13 done; do you plan and coordinate now?

14 MR. BARTLETT:

15 Yes. Entergy plans, coordinates,  
16 with all the CERT companies. We coordinate  
17 closely with all interconnected utilities.  
18 We're involved in SPP planning, so we do a lot  
19 of regional planning.

20 CHAIRMAN DIXON:

21 Well, what happened last Saturday,  
22 last week or whatever?

23 MR. BARTLETT:

24 Well, last Saturday, the city of  
25 Lafayette has local resources and CLECO has

1 resources local to that area. Entergy doesn't  
2 have any generation in the Acadiana area. The  
3 city of Lafayette had a contingency where a unit  
4 went down and CLECO had a contingency where a  
5 larger unit went down. So the two generating  
6 units in the area, which went down in an  
7 unplanned manner, the load was fairly high, or  
8 very high, because of the Summer heating load  
9 and as a result it was deemed beneficial to put  
10 out a notice to customers asking them to  
11 conserve, so that if we did have a transmission  
12 contingency in the area, we would not have to  
13 shed any firm load. So it was a precautionary  
14 measure to ask customers to cut back  
15 voluntarily.

16 CHAIRMAN DIXON:

17 But there was no formal planning on  
18 that?

19 MR. BARTLETT:

20 Well, as was mentioned, we have weekly  
21 and when the situation gets as it was last  
22 Friday, daily conversations with CLECO and the  
23 city of Lafayette involved in these operational  
24 meetings, which Mr. McCulla is involved in, to  
25 coordinate daily operations in the area.

1 CHAIRMAN DIXON:

2 But, if you're the planner, that's  
3 what I'm wondering. Are you involved in that as  
4 well?

5 MR. BARTLETT:

6 Well, I -- yes. I'm responsible for  
7 long-range planning and when we do long range  
8 planning, we look at what resources the load  
9 serving entity intends to run out in the future  
10 and we plan around that and if they don't tell  
11 us they want to shut down generation in the  
12 future, then we don't plan to accommodate that,  
13 necessarily.

14 CHAIRMAN DIXON:

15 Thank you.

16 COMMISSIONER KELLIHER:

17 Excuse me, I have a couple of  
18 questions for you. Could you come back to the  
19 podium? Thank you.

20 Mr. Bartlett, is it?

21 MR. BARTLETT:

22 Yes.

23 COMMISSIONER KELLIHER:

24 I believe it was Mr. Hayden that said  
25 that the Louisiana commission had asked for some

1 kind of transmission plan three years ago; was  
2 it Mr. Hayden who had said that?

3 MR. HAYDEN:

4 That was my recollection, and I saw  
5 Ms. Dixon kind of nod her head, so.

6 COMMISSIONER KELLIHER:

7 And that plan has not been produced?

8 MR. BARTLETT:

9 No, it has. About three years ago, we  
10 undertook a study at the request of the  
11 Louisiana Public Service Commission to look at  
12 constraints which would have economic impact to  
13 our customers. Normally, we plan for  
14 reliability. We used to do integrated planning  
15 years ago, but that sort of fell by the wayside  
16 with the wall between transmission and  
17 generation.

18 As a result of the request from the  
19 Louisiana Public Service Commission, we were  
20 forced, if you would, to develop processes that  
21 enabled us now to do a form of integrated  
22 planning for economic purposes. What came out  
23 of the study was identification of several  
24 economic projects that will enable us to ship  
25 more energy into the load pockets and shut down

1 the higher priced generation within the load  
2 pockets utilizing more energy from the new  
3 merchant plants that are being constructed both  
4 within the Entergy service area and externally  
5 to the Entergy service area.

6 The projects have been approved by  
7 Entergy, and as Commissioner Field indicated,  
8 the completion date for the last of those is  
9 2007. It involves the addition of a new line,  
10 the upgrade of two other lines. We're also  
11 doing some work up in Arkansas. It was  
12 identified as part of the study and actually,  
13 OG&E is installing a transformer on the Entergy-  
14 OG&E border that was also identified in the  
15 study, but OG&E is taking care of that.

16 CHAIRMAN DIXON:

17 Excuse me. The nod of the head, Mr.  
18 Hayden, I'm trying to get over jet lag.

19 MR. HAYDEN:

20 Oh, okay.

21 CHAIRMAN DIXON:

22 Don't pay attention to that, please.

23 COMMISSIONER KELLIHER:

24 And those projects that you mentioned,  
25 are those reliability upgrades or economic

1 upgrades?

2 MR. BARTLETT:

3 The ones I mentioned are economic  
4 upgrades. There is no requirement to put those  
5 in place for reliability at this point in time,  
6 but the expenditure of about \$40 million in the  
7 south Louisiana area will lead to these  
8 potential \$200 million in fuel savings over the  
9 next 20 years.

10 MR. DAUPHINAIS:

11 The report that's referred to actually  
12 had three different subsets or sets of  
13 reinforcements. Set A is one that Entergy is  
14 going forward with, as Mr. Bartlett has talked  
15 about. A transformer, I think the OG&E  
16 transformer is part of either B or C, but there  
17 was more to B or C, and then the other third set  
18 exists as well. We haven't heard what's going  
19 to happen with these other sets, other than  
20 they have been brought into the regular Entergy  
21 transmission planning process. So there are  
22 still additional economic transmission upgrades  
23 that could, might possibly make sense to be  
24 pursued.

25 It took a long time to get to the

1 point where we could get commitments from  
2 Entergy in Louisiana to go forward with three  
3 portions they are going forward with and if the  
4 SERA study that Chair Hochstetter mentioned  
5 turns out to show there are quite a few other  
6 improvements that maybe haven't been looked at,  
7 we may be just scratching the surface with this  
8 study that was done in Louisiana and the  
9 reinforcements that are being pursued at this  
10 time. There may be a lot more out there.

11 CHAIRMAN DIXON:

12 May I? If I understand you correctly,  
13 you're talking about the transmission study that  
14 we commissioned?

15 MR. DAUPHINAIS:

16 Yes, Chairman Dixon.

17 CHAIRMAN DIXON:

18 That will be done. You know, "thy  
19 will be done"? That will be done. You have two  
20 Commissioners here that can assure you of that  
21 and the other three too. We didn't do this for  
22 no reason at all. We did it because we needed  
23 it and it's going to be done.

24 MR. DAUPHINAIS:

25 And we very much appreciate the

1 vigilance.

2 CHAIRMAN DIXON:

3 I don't want you sitting here or going  
4 away from here with second guessing or being  
5 disappointed. It will be done.

6 MR. DAUPHINAIS:

7 Thank you.

8 CHAIRMAN DIXON:

9 Thank you.

10 COMMISSIONER KELLIHER:

11 Excuse me, could I ask Mr. Bartlett to  
12 respond on something else Mr. Hayden said? Mr.  
13 Hayden said that over a period of time, and I  
14 don't think he mentioned the period of time,  
15 that the independents have funded \$240 million  
16 worth of transmission upgrades and that Entergy  
17 funded \$30 million of upgrades.

18 MR. HAYDEN:

19 Yes. Based on FERC form 1 and again,  
20 that's -- there's a little bit of -- I think  
21 it's by definition, new line construction, but  
22 it was, like, \$31 million in '98 to -- '99 to  
23 '03, I believe, when the merchants have done  
24 about 220, or 225, which by the way, you know,  
25 we're allowing network transactions to occur,

1       which, of course, occurred because there was  
2       economic benefit to the consumer, so.

3       COMMISSIONER KELLIHER:

4               I just wanted to ask Mr. Bartlett  
5       whether he agrees with those figures.

6       MR. BARTLETT:

7               Between '98 and 2002, that five year  
8       period, we invested \$350 million in transmission  
9       capitol improvements and I believe Mr. Hayden  
10      got a number out of FERC form 1 and I don't know  
11      how that number got there or what it represents,  
12      but in fact, we have spent, like I said over  
13      that five year period, \$350 million, just in  
14      additions to the transmission system.

15      COMMISSIONER BROWNELL:

16              Could you submit that for the record,  
17      and Jolly, could you submit yours? This is a  
18      huge issue, I think, in terms of getting clarity  
19      over the investment level, the stability, the  
20      import/export. I'm sorry to jump in,  
21      Commissioner, but this is a problem and we need  
22      to resolve it with accurate figures.

23      COMMISSIONER KELLIHER:

24              And your number, that 300-something  
25      number is not transmission upgrades that Entergy

1 implemented, in part funded by merchants, it's  
2 what you funded on your own dollar?

3 MR. BARTLETT:

4 That's correct. The number -- when  
5 you add in what the merchants put forward that  
6 will be returned to them through refunds or  
7 credits, it's much higher than this, then. This  
8 is what Entergy contributed.

9 COMMISSIONER KELLIHER:

10 And do you have any idea of how that  
11 breaks down into reliability upgrades and  
12 economic upgrades?

13 MR. BARTLETT:

14 These are, I think, all reliability  
15 upgrades.

16 COMMISSIONER KELLIHER:

17 Okay, thank you.

18 MR. BARTLETT:

19 We have not -- well, we haven't really  
20 begun spending money yet on the economic  
21 upgrades that were just identified in the LPSC  
22 study. We have committed some money to that  
23 this year, but most of it comes next year and  
24 the year after.

25 COMMISSIONER KELLIHER:

1 Thank you.

2 MR. BARTLETT:

3 You're welcome.

4 COMMISSIONER WOOD:

5 Well, I hate to shift the gear back,  
6 but I do want to shift the gear back on the WPP  
7 program to an issue raised by, particularly, Ms.  
8 Mackey, about the transparency of this bidding  
9 process that would be used by Entergy to procure  
10 capacity for service to its load. And one of  
11 the concerns of the several you raised, Ms.  
12 Mackey, was that there was a black box nature to  
13 the WPP process and you advocated more  
14 transparency. Let me just get you to kind of  
15 repeat that thought again, then I want to have  
16 the Entergy folks respond to that and then maybe  
17 follow up on that.

18 MS. MACKEY:

19 I was speaking about the fact that  
20 when we submit bid -- well, let me first of all  
21 clarify that. I am director of regulatory  
22 policy and I am not the person responsible.  
23 There is a commercial side. There is a clear  
24 delineation between the two groups, so there  
25 could be some details that I don't have

1       mastered. The people who are in the trenches  
2       every day working on this are the ones who have  
3       communicated to me this information.

4                We are -- we submit a bid in a  
5       spreadsheet format and we -- only by iteration  
6       do we, over time, glean an idea of what Entergy  
7       seems to want to buy. So we could do a 5 by 16  
8       product, we could do a 7 by 16, we can do a 5 by  
9       14, a 5 by 12 and really, we have made offers to  
10      Entergy with all of those various products,  
11      trying to figure out just what it is that they  
12      want. But the overarching response is usually,  
13      just give us your best price, just give us your  
14      best price, and you know, by virtue of the heat  
15      rate, and that's not the best way for us to be  
16      able to, let's say, best serve our customer. If  
17      we know that they want a 5 by 14 product, then  
18      we're going to put the best price in, but if we  
19      have to prepare multiple bids, you know, every  
20      day, preparing multiple -- or every week, I  
21      should say, that would be a dream every day --  
22      that would be a good problem to have.

23               We want to know how we can best do it  
24      and how we would best price it. It's going to  
25      be different because we're limited to heat rate

1 products, running 5 by 12 or 5 by 14 does make  
2 an economic difference and when we're putting in  
3 the bid, we're not sure which -- what they're  
4 looking for, so we've got to have some bit of  
5 hedge in our heat rate price in the hopes that  
6 it's going to work.

7 CHAIRMAN WOOD:

8 So, who am I looking to over here, Mr.  
9 Schnitzer?

10 MR. MOOT:

11 Just one second, if you will.

12 CHAIRMAN WOOD:

13 Can this process be more transparent,  
14 can you lay out the specifications about what it  
15 you're looking for and then get the bids based  
16 on that?

17 MR. HURSTELL:

18 Chairman, my name is Hurstell.

19 CHAIRMAN WOOD:

20 Again?

21 MR. HURSTELL:

22 I'm John Hurstell. I'm with the EMO  
23 group, as we're labeled, with Entergy. I guess  
24 I have to take some exception to Ms. Mackey's,  
25 in that we do think we provide a great deal of

1 feedback to the participants in the marketplace.

2 CHAIRMAN DIXON:

3 Excuse me, John. I can't hear you.

4 MR. HURSTELL:

5 Oh, I'm sorry.

6 CHAIRMAN DIXON:

7 Come just a little closer to your  
8 mike.

9 MR. HURSTELL:

10 Sure.

11 CHAIRMAN DIXON:

12 You said you work with the E&O group?

13 MR. HURSTELL:

14 EMO, yes. We do routinely meet with  
15 potential suppliers, but we don't provide  
16 specific feedback on their bids and in terms of  
17 asking -- giving them information as to what  
18 they should bid, the problem is that as we all  
19 heard, there is plenty of generation out there  
20 in the marketplace.

21 We buy a great deal of energy in the  
22 marketplace and different generators offer us  
23 different things all the time, so we can't tell  
24 one generator, here's what you need to offer,  
25 because we get offers from five or six other

1 generators, offering us very flexible products  
2 some weeks, not such flexible products other  
3 weeks. So we don't know what we're going to get  
4 in the marketplace, so we can't tell one  
5 customer or one supplier, this is what you need  
6 to do in order to get the business.

7 What we tell all of them is that the  
8 more flexibility you provide us and the lower  
9 the heat rate, the better chance you have of  
10 fitting into our mix. Our load shape is  
11 different every week. The resources we have on  
12 line are different every week. The resources  
13 that we have offered to us are different every  
14 week. I wish I could sit down with every  
15 supplier and say, this is exactly what you need  
16 to offer us in order for you to get our  
17 business, but we operate with just taking bids  
18 in and we have to respond to those bids.

19 CHAIRMAN WOOD:

20 In listening to and reading the  
21 comments on response to this particular proposal  
22 about having a WPP, I'm struck by the statistic  
23 that we got from Entergy in the first panel,  
24 where about 20 percent of the gigawatt hours  
25 come from contracts with merchants already. Is

1 that correct from the EMO's perspective?

2 MR. HURSTELL:

3 Well, I want to be careful when we say  
4 merchant. It's about 20 percent in purchases.  
5 Some of those may be from TBA, Southern, and  
6 then from and then from the merchants as well.

7 CHAIRMAN WOOD:

8 From somebody other than Entergy's  
9 rate base?

10 MR. HURSTELL:

11 Exactly.

12 CHAIRMAN WOOD:

13 How did you get to that, and is that  
14 sort of procurement process that got you to do  
15 half of gas and oil load, I assume most of  
16 that's gas and oil from TBA -- well, maybe not.  
17 To say of the 40 percent that's kind of divvy-  
18 up-able here, between Entergy and non-Entergy?

19 MR. HURSTELL:

20 Well --

21 CHAIRMAN WOOD:

22 How did that process work to get the  
23 first half of that slug done and why can't  
24 something similar to what got you the power for  
25 that 20 percent not be used to fill in the rest

1       here, if this program is so fraught with peril,  
2       according to the customers and the suppliers  
3       here?

4       MR. HURSTELL:

5               Let me answer your first part of your  
6       question as to how we got as much as we have.  
7       Historically, Entergy has always gone out and  
8       tried to buy power, particularly from TBA and  
9       Southern, even before the advent of the IPPs and  
10      marketers. We have always taken advantage of  
11      economic opportunities available to us. You  
12      know, somebody has said EMO is a competitor of  
13      the generators and we don't see ourselves as a  
14      competitor of the generators. Maybe our fossil  
15      fleet, may be. We are the ones who are looking  
16      for the lowest priced and lowest cost energy for  
17      our customers, whether it comes from our  
18      generators or somebody else's generators, we  
19      don't care.

20      CHAIRMAN WOOD:

21              Let me ask you a quick question on  
22      that. Do you have a financial incentive to  
23      minimize the cost; what is that financial  
24      incentive?

25      MR. HURSTELL:

1           Well, we have to face our state  
2 regulators and we have to stand up and testify -  
3 - and I have to do that, and say the cost of the  
4 energy that we acquired was the lowest cost we  
5 could possibly have paid to acquire reliable  
6 energy, and we have to go before each one of our  
7 state commissions to do that.

8 CHAIRMAN WOOD:

9           But if that's true and I just heard  
10 from the first panel that there is \$600 million  
11 out there that could potentially be gained, is  
12 this just the first attempt at doing what has  
13 been a historic obligation on Entergy to  
14 minimize the cost?

15 MR. HURSTELL:

16           Well, not having seen the SERA report,  
17 with --

18 CHAIRMAN WOOD:

19           No. I'm using Mr. Schnitzer's number  
20 of \$30 million per percent of old Entergy  
21 generation versus newer, better heat rate  
22 generation.

23 MR. HURSTELL:

24           Okay. Well, let me -- I'll address  
25 that one point. Right now, we have gone out and

1 actively solicited generators to come in and  
2 offer us flexible capacity. In other words,  
3 capacity that we can adjust to meet the output  
4 of the load on our system. You know, a typical  
5 load shape during the Summer, you can imagine  
6 it's going to be low.

7 CHAIRMAN WOOD:

8 Exactly.

9 MR. HURSTELL:

10 So we need generation that can respond  
11 to that load change and historically the IPPs  
12 have been reluctant to provide us that in our  
13 weekly bids. We ask them to provide us that  
14 flexibility.

15 CHAIRMAN WOOD:

16 Okay, hold that thought.

17 MR. HURSTELL:

18 Okay.

19 CHAIRMAN WOOD:

20 Why is that the case?

21 MR. HAYDEN:

22 We do -- I mean, I go look across the  
23 country. We are one of the top suppliers of  
24 regulation services in the West and the  
25 Northeast and ERCOT. I mean, we do offer that

1 service. Our units are very responsive. We  
2 have offered all across the country to plug the  
3 AGC into the -- whether it be the utility or the  
4 ISO. I mean, we will do that. The issue is,  
5 what's the price?

6 CHAIRMAN WOOD:

7 You can't beat the price of an old  
8 Entergy unit?

9 MR. HAYDEN:

10 No. I think it's not an issue of what  
11 it is that we believe it's worth, versus what is  
12 it that they think it's worth, as an example. I  
13 mean, we know what Entergy's tariff is for  
14 regulation service that they offer to some of  
15 their munies. It's a published document, you  
16 know. I mean, we are actively out there working  
17 with customers, not just Entergy, but with  
18 others, trying to offer those services. We  
19 welcome that. That's one of the flexibilities  
20 that our large fleet provides us.

21 CHAIRMAN WOOD:

22 But your problem with your ability to  
23 do that is the transmission access issue?

24 MR. HAYDEN:

25 Transmission access is a big part of

1       it, transmission access. I mean, again we look  
2       at the other markets we were talking about and  
3       as Ms. Mackey was mentioning, we participate in  
4       all the markets in every part of the country.

5       CHAIRMAN WOOD:

6                 But are you bidding the peak power  
7       needs that he needs in the middle of the Summer?

8       MR. HAYDEN:

9                 We participate in the weekly RFP, as  
10      it stands today.

11      CHAIRMAN WOOD:

12                This is the current EMO way that  
13      things are procured; is that right, sir?

14      MR. HURSTELL:

15                Well, as far as I know, we have not  
16      received any offers for AGC capability through  
17      the weekly power procurement. The weekly power  
18      process that we have right now is in place.  
19      What we ask generators to give us is, give us  
20      the minimum load that we have to take from you  
21      as give us the maximum load that we can take  
22      from you during the day. Then, by definition,  
23      that would give us the ability to move it as we  
24      go and we've asked for that. And in general,  
25      well, not general, but the vast majority of the

1 times, generators come back with very little, if  
2 any, variability during the day on what they  
3 will provide to us and I'll be happy to go back  
4 and check --

5 CHAIRMAN WOOD:

6 Can you offer, with the type of plants  
7 you all build at Calpine, the load following  
8 attributes that he's talking about they need to  
9 serve their load?

10 MR. HAYDEN:

11 As I said before, we've got some  
12 gentlemen here that are better qualified to  
13 answer from the physics point, or from the  
14 actual operations, but again, we are actively  
15 participating in a large, large share of the  
16 market in the various markets and we are  
17 providing, you know, regulation services in  
18 these markets.

19 CHAIRMAN WOOD:

20 I would like, as a follow up to this,  
21 you to confirm that and you to look into your  
22 records and find out what you have found from  
23 these, because --

24 MR. SMITH:

25 Mr. Chairman, if I might, I just think

1 I can maybe clarify a little of this. I didn't  
2 mean to create the impression that there was a  
3 \$600 million realistic opportunity. I said  
4 there is 20 percent left. If you look at the  
5 composition of the 20 percent of the energy pie  
6 that comes from the Entergy oil and gas units,  
7 two big characteristics. Must run for  
8 reliability reasons, or not just regulation, but  
9 load following, okay. Regulation is a small tip  
10 of the iceberg. When a load goes from 10,000 to  
11 20,000 megawatts in a day, 500 megawatts of  
12 regulation isn't going to get that. We're  
13 looking for 10,000 megawatts of power ascension  
14 in a day. N

15 Now, Entergy's units have high heat  
16 rates, that's true, but the ratio of their  
17 minimum block to their maximum capability is  
18 quite favorable and their ramp rates are  
19 favorable. It's not saying they can't be beat  
20 by somebody else, but if you have a unit that  
21 has 100 megawatt minimum segment and a 500  
22 megawatt maximum segment and a high ramp rate,  
23 and you have somebody else come in and say, I'll  
24 bid you a 300 megawatt minimum and a 500  
25 megawatt maximum, you don't have the same

1 flexibility.

2           So I think we have to get, I think, a  
3 little more specific and a little sharper in how  
4 we do this because the remaining opportunity is  
5 of this character. The average load factor of  
6 the units that are left in that 20 percent, the  
7 average weekly load factor in the weeks that  
8 they are committed is somewhere less than 30  
9 percent. That's what left and that's not, you  
10 run Monday and Tuesday and you don't run  
11 Wednesday, Thursday, Friday; that's you run at  
12 the minimum all night long and you ramp up  
13 during the 16 hours and back down every day,  
14 depending on the weather, and that's the product  
15 that's going to be required to get more of this  
16 displacement. We're happy to get that, but the  
17 bids that we're getting currently in the weekly  
18 procurement are not of that character.

19 CHAIRMAN WOOD:

20           Then, back to Ms. Mackey's question.  
21 Is it very clear, then, what it is that Entergy  
22 is asking for its suppliers to supply it.  
23 Because what I'm hearing from her is it's not,  
24 they have to kind of do a little discovery.

25 MR. HURSTELL:

1           If it's not, then I will commit to you  
2           that we will -- we had a series of meetings  
3           before we developed the weekly power procurement  
4           process -- I keep using that term. I'm talking  
5           about the one that's in place right now. We  
6           will call them together again and we'll go  
7           through it in great detail what we're looking  
8           for.

9           MR. SMITH:

10           But, Mr. Chairman, in a given week,  
11           there will be an appetite for 5 by 16, and this  
12           cycling product that I described, so, you know,  
13           the fact that it may be more attractive from an  
14           operations perspective for the merchants to get  
15           the block products, there's going to be an  
16           appetite for that every week and there will  
17           continue to be purchases of that every week, but  
18           this other market is also there every week and  
19           it requires a different kind of bid, And that's  
20           what's going to have to be required if we're  
21           going to economically displace some of that last  
22           chunk. And I didn't mean to create the  
23           impression that I thought it was realistic to  
24           displace at all. I don't.

25           CHAIRMAN WOOD:

1           Oh, no. I think certainly it's an  
2 outer envelope that the 20 percent would be  
3 completely replaced. We've seen RMR across the  
4 whole country, where you've got to have some  
5 units there to maintain, as apparently Lafayette  
6 does, the voltage.

7 MR. SMITH:

8           And roughly half of that 20 percent  
9 are currently RMR units, so I just -- I think it  
10 would be -- while we think there's an  
11 opportunity there, I don't want to leave -- I  
12 hope I didn't create the mis-impression that we  
13 thought realistically it was anything  
14 approaching \$600 million.

15 MR. HURSTELL:

16           And let me add one other piece of  
17 information to it. The 20 percent was gas and  
18 oil, and oil, I think, accounts for about 4  
19 percent, and oil-fired generation has been  
20 cheaper than even the offers we've gotten from  
21 the IPPs, so it's not 20. It's even less than  
22 that that is displace able by the IPPs.

23 CHAIRMAN WOOD:

24           Let me shift to the issues raised by  
25 the wholesale customers here about, I guess I

1       could characterize it generically as the  
2       monopsony power that the WPP would represent.  
3       Why is it necessary in the WPP proposal to have  
4       a generator only play in one game versus the  
5       other?

6       MR. SMITH:

7                 It's not, Mr. Chairman and that's not  
8       the requirement. The only requirement of the  
9       WPP is that you can't bid at the same megawatts  
10      to two players, so that if both bids got  
11      accepted, they were infeasible. You can't run  
12      an optimization where the results can be  
13      infeasible and you can't have a linked bid, you  
14      know, you can't have a bid -- so you have to bid  
15      independently, but generators are free to bid  
16      some to Entergy and some to another network  
17      customer, so long as they're willing to perform  
18      either of those bids, if accepted independently.

19      CHAIRMAN WOOD:

20                 Can the network customer also -- I'm  
21      trying to understand and I don't know from when  
22      I read the PowerPoint from you all a moment ago  
23      -- can the wholesale customer also be in there  
24      and just get a slice of the system, or is the  
25      WPP procuring only for Entergy's native load?

1 MR. SMITH:

2 The portion of the WPP that is EMO's  
3 cost based resources and EMO's qualified bids is  
4 available to serve only Entergy's retail load  
5 and to provide, you know, redispatch among those  
6 resources, as may be cost effective to help  
7 somebody else get either point-to-point service  
8 or network service, so the total quantity of  
9 generation that comes from either EMO resources  
10 or EMO qualified bids, will equal Entergy's  
11 retail load for that week, but the dispatch can  
12 be affected and the choice can vary, based on  
13 being able to accommodate additional  
14 transactions of other participants, including  
15 other network customers and point-to-point  
16 transactions, as Mr. Turner described earlier  
17 this afternoon.

18 CHAIRMAN WOOD:

19 A final question. How would you  
20 differentiate the WPP program that Entergy is  
21 proposing from the day two market that was  
22 proposed in SETRANS. I mean, kind of walk me  
23 through and the other Commissioners, took  
24 through the distinguishing factors here.

25 MR. SMITH:

1           I'd be happy to try, Mr. Chairman.  
2       And let me start with the day two markets, if I  
3       can, just to make sure we have the same  
4       understanding of those and then contrast the WPP  
5       to those.

6           The SETRANS proposed day two market  
7       was very similar to PJM's and the attributes  
8       that are important and that led to different  
9       opinions than some of the panelists reached  
10      here, there is a separate capacity requirement  
11      and a capacity market, resource adequacy  
12      requirement, in PJM, as there would have been in  
13      SETRANS. Capacity resources -- all load serving  
14      entities are obliged to contract with a certain  
15      amount of capacity resource and those capacity  
16      resources assume obligations.

17           In particular, they assume the  
18      obligation either to schedule or bid, as  
19      available, every day, in the day ahead and  
20      realtime markets, okay. They also agree to be  
21      subject to the market monitoring and mitigation  
22      and whatever that would have been part of the  
23      SETRANS proposal.

24           So that's -- I think that's the fuller  
25      picture and those capacity resources, to have

1       gotten to be eligible to be designated by a  
2       network customer, had to pass a deliverability  
3       test, and if there were transmission upgrades  
4       required to be deliverable, the generator has to  
5       fund them without credits and without rolling  
6       in. So that's the deal that is in place in PJM,  
7       and the SETRANS proposal would have mirrored  
8       that in every respect.

9               Now, the WPP, we have a number of  
10       constraints that we can't solve at the same  
11       time. We don't have any obligation of any of  
12       the merchants to bid or schedule every day. We  
13       don't have any bid caps or market monitoring of  
14       their bids in place to impose them and none of  
15       those merchants in the first instance have been  
16       subject to a deliverability test and have had to  
17       fund the transmission upgrades necessary to pass  
18       that deliverability test. Those are just facts.  
19       They would have been remedied in the SETRANS day  
20       two world, but unfortunately, we weren't able to  
21       get enough support to go there.

22               So to suggest the WPP should just be a  
23       market without all these other pieces, without  
24       the deliverability test, without the capacity  
25       resource obligation, the obligation to bid or

1 schedule every day, is looking at much less than  
2 the full picture. And so the reason we're doing  
3 it on a weekly basis, as opposed to a daily  
4 basis, is not to preferentially treat our  
5 generators, as was suggested, but to recognize  
6 the reality that there is no obligation of  
7 somebody who wins the bid today, and therefore  
8 we don't commit to our unit, to show up tomorrow  
9 and to bid --

10 CHAIRMAN WOOD:

11 Hold on for the court reporter. We've  
12 got to do a reboot.

13 MR. SMITH:

14 I'll try to come to the end of a  
15 thought here and so -- try to remember where I  
16 was. But those are the, that's the problem that  
17 Entergy has from a reliability perspective. If  
18 you don't commit a unit that takes 24 or 48  
19 hours to get hot, and based on the bids you got  
20 for tomorrow, and tomorrow, they don't bid  
21 again, or they bid three times the price, you  
22 know, you have a problem.

23 Organized RTO markets have mechanisms  
24 of the character that I described that deal with  
25 these issues all or apiece and in a coordinated

1 and integrated fashion, and to suggest that  
2 without the rest of those pieces, that we should  
3 just make the WPP like the day ahead market, has  
4 been considered, but for the reasons that I've  
5 articulated, we thought that we need to do it  
6 the way it's been proposed, in the absence of  
7 those other RTO characteristics.

8 CHAIRMAN WOOD:

9 What is the WPP most like; what's it  
10 analogous to that I know of somewhere else in  
11 the world?

12 MR. SMITH:

13 It is like either PJM or New York SCUC  
14 day ahead markets, but done with a seven-day  
15 horizon, as opposed to a 24-hour horizon. It's  
16 a security constrained unit commitment and  
17 dispatch for the period, but it has a seven day  
18 look, as opposed to a 24 hour look, as is the  
19 case in PJM in New York.

20 (A brief recess followed.)

21 CHAIRMAN WOOD:

22 We'll go back on the record.

23 MS. MACKEY:

24 Mr. Chairman --

25 CHAIRMAN WOOD:

1 Commissioner Bassett had a question.

2 MS. MACKEY:

3 Okay. I've got, like, back -- I've  
4 got multiple comments going back to Mr.  
5 Hurstell, so I just -- I'm --

6 CHAIRMAN WOOD:

7 We'll do that. Let me let Daryl ask  
8 his question.

9 COMMISSIONER BASSETT:

10 Let me just kind of go back to  
11 something that you were kind of investigating  
12 earlier, Mr. Chairman. I certainly applaud your  
13 patience. It concerned the allegation -- I  
14 believe it came from Ms. Mackey that, basically,  
15 you are bidding in the dark. You don't really  
16 know what they're asking for and we had Entergy  
17 come and Entergy said to you, Mr. Chairman, that  
18 they, in fact, were giving a range, that they  
19 were asking for the minimum that we could take  
20 and maximum that we had to take.

21 With all fairness, we Texas two-  
22 stepped around that. We didn't really get an  
23 answer. It seems to me it seems very clear.  
24 Either Entergy has asked for flexibility, asked  
25 for the minimum that they need to take or the

1 maximum that they have to take, or they haven't.  
2 If they haven't, then we need to identify why  
3 they haven't. So, I mean, I don't think we ever  
4 got an answer from the table, here, as to  
5 whether or not Entergy has made it clear that  
6 they want flexible bids and are you actually  
7 tendering flexible bids?

8 And then the second questions is, on  
9 page 4 of the WPP, I noticed that the very last  
10 sentence, it says that no bid can be contingent  
11 on the acceptance of another bid and I'd just  
12 like for someone to expand on what type of  
13 scenario that caveat is designed to prevent.

14 MS. MACKEY:

15 Well, I would like to allow my  
16 colleague, Andy Shearer, who is VP of commercial  
17 execution, to elaborate on the WPP process and  
18 the scope of the bid requests, if that's okay  
19 with you.

20 MR. SHEARER:

21 Hello. I think it's important to  
22 understand exactly what it is that the WPP is  
23 designed to provide Entergy with, and that is  
24 economic energy. It's not a market that's  
25 designed -- it's not a market per se, but it's

1 not a process designed to give them regulation  
2 service, spinning reserves, non-spinning  
3 reserves, what I would call ancillary products.  
4 There is no mechanism for me to offer that  
5 market, those products, into them.

6 For instance, if I were to offer AGC  
7 into this market, there is no way -- under  
8 current guidelines I can't tag AGC products and,  
9 you know, according to the tag, I'm going to be  
10 charged an imbalance penalty if my unit is off  
11 of that schedule, and so, because the very  
12 nature of regulation service is instantaneous,  
13 they take what they need as they need it and as  
14 the load swings on the system. I can't tag  
15 those products, and so, that simply means, just  
16 by definition, I can't offer it in, because the  
17 GIA, as is currently constructed, doesn't allow  
18 for that. So those are products -- just to be  
19 clear -- we can't offer them. I mean, my unit  
20 is capable of providing regulation if there was  
21 a market that would allow me to sell it into.  
22 We're currently investigating installing the  
23 equipment necessary to do that, but there is no  
24 market for me to sell that to, and quite simply,  
25 the whole concept of a black box really doesn't

1       come down to how my unit is evaluated and  
2       whether I make it or not.

3               For instance, if I'm in PJM or I'm in  
4       New England, I know very well if I made it or  
5       not, because I get a price signal. It tells me,  
6       okay. I offered my unit at \$50 and the market  
7       is at \$48. I was \$2 off. Not exactly hard to  
8       figure out. What's unclear is how my unit is  
9       stacked and evaluated against Entergy's units  
10      and it's not done, quite frankly, by someone who  
11      we view as being independent and unbiased. I'm  
12      not saying that Entergy is doing it incorrectly.  
13      They may very well be doing it precisely right.  
14      I just don't know.

15      COMMISSIONER BASSETT:

16             I can appreciate that and before we  
17      get to the last point, let me just get this  
18      clear. I haven't been a Commissioner very long,  
19      so I'm probably off base. You're offering the  
20      customer a product and your main contention is  
21      that you don't know what the customer wants to  
22      buy, so you want the customer to tell you what  
23      it is they want to buy. Now, in this instance,  
24      you're saying that you need to get closer to  
25      what Entergy's operations are. Well, if Entergy

1 tells you what their heat rates are, then aren't  
2 they competing against themselves; why would  
3 they have an incentive to do that; why should  
4 Entergy work specifically with one company to  
5 make certain that they know exactly what to bid  
6 without --

7 MR. SHEARER:

8 They should not.

9 COMMISSIONER BASSETT:

10 Okay.

11 MR. SHEARER:

12 They should not provide me a single  
13 piece of information that they don't provide to  
14 the entire market. Again, that's what an ISO  
15 and RTO does, in terms of their clear pricing  
16 signals that are obvious to everyone in the  
17 market, not just me. It's not a matter of me  
18 making a phone call and getting some information  
19 on the side. That's wrong and inappropriate,  
20 and quite frankly, Entergy is very good about  
21 not sharing proprietary information.

22 It's simply a matter of how this quasi  
23 market clears and how, if I don't run for next  
24 week, well, I'm not quite sure that there isn't  
25 some energy sitting on the table that I could

1       have displaced, but for some reason, I wasn't  
2       selected. I don't know what the selection  
3       criteria was. I was just told, you didn't make  
4       it.

5               And so, in an RTO or an ISO based  
6       market, you can clearly see what the price is on  
7       the system. You can clearly see. You know, you  
8       know what you offered, you know, a mix of  
9       products perhaps. You know exactly why you  
10      cleared the market or why you didn't. In terms  
11      of, I think, the flexibility of resources, it's  
12      very true that a steam unit has an enormous  
13      amount of flexibility in its ability to get down  
14      to its very low minimum operating level and to  
15      come back up.

16             My question to that is, well, if the  
17      process was a daily process, and not a weekly  
18      process, some of those concerns are mitigated,  
19      simply because you have much greater knowledge  
20      about where the load is, what the constraints  
21      are on the system, what units are available,  
22      what units are not. When it's a weekly process,  
23      it's very difficult to do that because you're  
24      not quite sure where a load is going to be for  
25      next week. You're not quite sure what the

1 transmission limitations are going to be. I  
2 mean, as far as obligating generators to offer  
3 their products in on a daily basis, speaking for  
4 InterGen, we're more than happy to be obligated.  
5 I've managed units in California, in PJM, in New  
6 England, in New York and I've always been  
7 obligated to offer my services into the market  
8 and I'm more than happy to do that here.

9 CHAIRMAN HOCHSTETTER:

10 Would the existence of a spot energy  
11 imbalance market or a spot energy balancing  
12 market solve some of your problems where, if  
13 there is a centralized way of seeing those  
14 prices and they come out every 15 minutes and  
15 thereby, if you had that, then we could have  
16 this high cost generation displacement and save  
17 a lot of money? Is that something that would  
18 help you?

19 MR. SHEARER:

20 Yes, it would. And clearly, you know,  
21 not all this is going to be solved, you know, by  
22 having an L&P based market. There are real  
23 transmission constraints and sometimes you do  
24 need to run older, less efficient units, because  
25 of the constraints on the system and that's all

1 legitimate.

2 My point is that I don't know what's  
3 legitimate and what isn't, but when I see this,  
4 for instance, in PJM, I know where my unit is  
5 located, I know where my customers are located,  
6 and I can see the pricing signals very clearly.  
7 Here, I'm just guessing.

8 MR. HAYDEN:

9 And I would add to that point a well  
10 constructed market where you've got the multiple  
11 -- I mean, where you've got, you know,  
12 regulation market to spin, non-spin markets,  
13 capacity markets, both in longer term and in  
14 shorter term, if anything, it will make it  
15 easier for the entity, Entergy in this case, to  
16 manage their system. They won't have some of  
17 the problems that they have with a bunch of  
18 generation hitting at once and all that. The  
19 market is more responsive. They help manage the  
20 grid better. It improves reliability. Good  
21 market signals will help enhance reliability. I  
22 believe that to, you know, to my grave.

23 COMMISSIONER BROWNELL:

24 We certainly agree with you in terms  
25 of the options that markets would offer since

1       it's apparent that the Entergy folks don't  
2       believe that the Commissioners are, at this  
3       point, ready to support that. It seems to me  
4       that we should take Entergy up on the offer that  
5       they made earlier. I think Mr. Hurstell made  
6       it, that we have heard, on a consistent basis,  
7       the inability of others to offer a variety of  
8       products with a variety of options. We also  
9       heard pretty clearly at this end of the table,  
10      some frustration that they can't take advantage  
11      of that. So, I think we ought to take Entergy  
12      up on their offer to discuss this and perhaps,  
13      kind of, bring some more transparency to that  
14      black box and we would like to be notified,  
15      because we would like to have some folks there  
16      as well.

17      CHAIRMAN WOOD:

18                We had provided, in our public agenda,  
19      for an open mike opportunity, so I just want to  
20      say, as time is running out, we would like to  
21      have anybody make any comments on this part of  
22      the proposal, which again, is the wholesale  
23      procurement process. The mike is on. Please  
24      introduce yourself and jump right in.

25      MR. STANTON:

1           Thank you, Chairman. I'm Jim Stanton,  
2           with Calpine Corporation. There have been a  
3           couple of comments today about the elephant in  
4           the room, or some big, overriding issues, and  
5           you know, I heard the phrase several times  
6           today, lack of sufficient retail regulatory  
7           support for RTO participation.

8           Two points to that, which I heard  
9           discussed, was the loss of local jurisdiction  
10          over retail bundled rates, which there seems to  
11          be a lack of clarity on people's understanding  
12          of that, and the second point was concern over  
13          day ahead and realtime markets. I would  
14          encourage whatever regulators have concerns with  
15          this to maybe work with the regional state  
16          committee. They are working through these  
17          issues. The issue of the, you know, the bundled  
18          load, I think Chairman Wood alluded that that  
19          may not be the case and what that concern points  
20          to.

21          CHAIRMAN WOOD:

22                 That actually is not the case. There  
23                 is no condition tense there.

24          MR. STANTON:

25                 Right. And the day ahead markets are

1 specifically designed to facilitate competition  
2 to benefit end-use customers. That's the only  
3 reason they exist. So I guess I'm having a  
4 little trouble and obviously I'm from the  
5 merchant perspective, trying to understand the  
6 sufficient retail regulatory support when  
7 really, the RTO is about benefit to the end-use  
8 customers.

9 CHAIRMAN WOOD:

10 Thank you. Anyone else?

11 MR. SPRUILL:

12 Thank you Mr. Chairman and the panel.  
13 My name is Terry Spruill. I work for CLECO  
14 power. I have a prepared statement.

15 CLECO believes the weekly procurement  
16 process, as currently proposed by Entergy, would  
17 inversely impact CLECO's access to competitive  
18 price power. CLECO would be interested in  
19 collaborating to craft an alternative approach  
20 that would provide all market participants an  
21 equal opportunity to procure energy resources  
22 with a rational methodology for the allocation.

23 Thank you.

24 CHAIRMAN WOOD:

25 Thank you, sir.

1 MR. HURSTELL:

2 I wonder if I might add one piece of  
3 information I think is very valuable. The IPPs  
4 have been making the point that we maybe should  
5 be doing it on a daily basis, as opposed to a  
6 weekly basis and I just want to make sure that  
7 the Commission knows that we buy probably as  
8 much energy on a daily basis as we do on a  
9 weekly basis, as well. We don't procure all of  
10 energy weekly. We buy some seasonally, some  
11 monthly, some weekly, some daily and some  
12 hourly. I wanted to make sure you didn't think  
13 we bought all our energy weekly.

14 COMMISSIONER WOOD:

15 In the daily market, how is its  
16 structured to buy in the daily market; just

17 MR. HURSTELL:

18 It's generally bids submitted over the  
19 phone for the next day. It could be 16 hour  
20 blocks. It could 12, 14, whatever the  
21 generators want to offer, and they might be  
22 graduated blocks, meaning start off low and work  
23 up high during the day. I mean, we have phone  
24 calls with generators and other suppliers all  
25 the time. But I just wanted to make sure you

1 are aware we don't just buy weekly. We buy  
2 daily and hourly and monthly, as well.

3 CHAIRMAN WOOD:

4 Do you know of that 20 percent slice,  
5 what would you expect if the WPP worked as you  
6 anticipate, or you would want it to work, what  
7 percentage of that would at least be, if not  
8 chosen, at least contested through the WPP.

9 MR. HURSTELL:

10 Well, Mike could probably give you a  
11 better number, but the opportunity is that when  
12 we get economic offers where we don't know if we  
13 can get firm transmission, we have to make that  
14 balance between reliability and economics and  
15 when reliability and economics clash,  
16 reliability is going to win out, and that's --  
17 the benefit is going to be about -- the new WPP,  
18 we won't have that unknown, as the transmission  
19 will be able to make that decision. You would  
20 probably know a better number than I do.

21 CHAIRMAN WOOD:

22 Half of the 20 percent could be  
23 acquired weekly, or is that just something you  
24 can't really answer?

25 MR. HURSTELL:

1                   Well, if -- in the -- it's a question,  
2                   Mr. Chairman, as to how the bids come in and  
3                   from which generators and all the rest. But as  
4                   I said, there is roughly half of that 20 percent  
5                   is reliability must run type of generators. I  
6                   think we know that in some areas, there aren't  
7                   even any -- there aren't any merchants anywhere  
8                   close to those units, so it would be pretty  
9                   unlikely that we could get much effective  
10                  displacement, so -- but there is some portion of  
11                  that reliability must run piece that different  
12                  combinations of merchants bid on this basis,  
13                  might be able to be optimized in different  
14                  dispatches, but we don't -- I wish I had a  
15                  number for you, but I don't. I can't tell you  
16                  if it's, you know, 1 percent, a half a percent  
17                  or 4 percent. I just don't know.

18                 CHAIRMAN WOOD:

19                         Thank you. Yes, sir.

20                 MR. SAVAGE:

21                         Paul Savage, NRG. I just want --  
22                         there was a reference made that --

23                 CHAIRMAN DIXON:

24                         Excuse me. We can't hear a word  
25                         you're saying.

1 MR. SAVAGE:

2 Paul Savage, NRG. Can you hear me  
3 now? Okay. There was a reference made that the  
4 weekly procurement was similar to PJM in New  
5 York, but only on a weekly basis. That's not my  
6 understanding of it. I mean, let me just be  
7 sure. PJM and New York have a centralized  
8 market where there is one clearing of all  
9 sellers and all buyers.

10 I think some of the concerns you had  
11 referenced by -- I think the Clarksdale  
12 representative and the Yazoo City representative  
13 and I think also other people who are load  
14 servers as NRG is. What the weekly procurement  
15 actually is, is it's going to be separate  
16 procurement processes for each load server.  
17 They may be cleared at the same time, but make  
18 no mistake, you cannot bid in a portion of -- I  
19 think it's going to be hard to bid in a portion  
20 of a unit from, let's say, Entergy and for  
21 Clarksdale. One of the reasons for that is you  
22 see Entergy come out here, and from their  
23 perspective, they're looking for very flexible  
24 resources. That means it's going to be very  
25 hard to have what I consider either a slice of

1 system or a slice of a unit because of the very  
2 nature of a weekly procurement.

3           You have to have a process. In  
4 order to win, you have to have -- they're going  
5 to want flexibility, because nobody knows a week  
6 in advance what the load is. What's really  
7 going to happen is that if someone wants to bid  
8 in -- has two generating facilities, they may  
9 say, I want to bid in generating facility A into  
10 Entergy, do I want to bid generating facility B  
11 into Entergy or to Louisiana Generating's load  
12 or Yazoo City's load or anyone else's load, and  
13 that's the problem.

14           The problem of the load servers is  
15 that if you are not in that process, you can in  
16 essence be shut out of the weekly market, simply  
17 because any merchant generator they're going to  
18 view -- there is a better chance of going to  
19 Entergy as the big dog in the game.  
20 Correspondingly, depending on who actually --  
21 and how this process is running, the people who  
22 win the weekly procurement process, if the other  
23 load servers are shut out, depending on how the  
24 process works, they could also be shut out of  
25 merchant generation in daily or day ahead basis.

1           The reason why I'm saying that is if  
2     you think of the process, what is happening here  
3     is you're going to change the network and who  
4     has firm rights. Depending on how the system is  
5     put together, depending on what the SCUC system  
6     looks like, depending on who actually is picking  
7     the winners and losers, you can have a situation  
8     where once the deck is reshuffled and the other  
9     load servers do not have a chance, simply  
10    because of their simultaneous multi-market or  
11    multi-procurement process, they may -- the  
12    transmission system may not be -- may not be  
13    firm network service available to procure other  
14    resources in, let's say, day ahead, three days  
15    ahead, four days ahead or even in realtime.

16           That is, I think, I'm -- that to me is  
17    an issue here. It's especially an issue when  
18    you don't know how the SCU system is actually  
19    operating. What the assumptions in that system  
20    are are critical to determine what you actually  
21    see. And I'll just point to the fact, if you  
22    look at some of the concerns raised in even the  
23    day ahead, the realtime system in New York,  
24    which is now being changed, it becomes an issue.  
25    It becomes an issue that you could actually

1       either wittingly or unwittingly cut the ability  
2       of non-Energy load servers. They have a  
3       diminished capacity to tap into the merchant  
4       generation. That is the problem with this  
5       process.

6       CHAIRMAN WOOD:

7                Any other comments? Yes, sir.

8       MR. MILLER:

9                Billy Miller, Calpine. I've got a  
10       couple of comments. One thing we've talked a  
11       lot about, the weekly procurement process and  
12       Energy says they want flexibility in moving.  
13       Regulation service and load following service is  
14       generally a capacity product. It's not an  
15       energy product, and that's what the WPP is.  
16       It's strictly energy. You're not going to bid  
17       in a product where they can move you around if  
18       you're not going to get paid for energy that you  
19       don't take. If you bid in 500 megawatts and  
20       they can move you between 3 and 5, they keep you  
21       at 3, you can't do anything else with the other  
22       2.

23               Another comment. Commissioner Bassett  
24       asked a question about no bid can be contingent  
25       on the acceptance of another --

1 CHAIRMAN WOOD:

2 Let me ask you a question. Would you  
3 not reflect the fact that that other, the  
4 opportunity costs of the 200, in your bid?

5 MR. MILLER:

6 You would, But then that would make  
7 your bid on the 300 so high, it wouldn't be  
8 accepted. It's, like I said, Entergy filed a  
9 GRS that states that they feel like load  
10 following and regulation service is capacity.  
11 And like I said, Mr. Bassett's question, I'm not  
12 sure why Entergy put that on there, but what it  
13 would prevent me from doing, if I've got a  
14 combined cycle plant, a 500 megawatt plant at  
15 250 megawatts, it's a one-on-one. I can sell it  
16 into the market at, say an 8/5 heat rate. Then  
17 I could sell the next 250 megawatts at, say an 8  
18 heat rate, but it would be contingent on the  
19 first 250 being taken. That would give -- I  
20 could bid in more flexibility. Or another  
21 thing, I could bid 400 megawatts in to Entergy  
22 and bid 80 megawatts into the Arkansas group,  
23 contingent upon Entergy taking it, but I can't  
24 do that with this statement in here.

25 MR. EDWARDS:

1                   Good afternoon, Mr. Chairman,  
2                   Commissioners, various agencies. My name is  
3                   Lanny Edwards. Tractebel, North America's FERC  
4                   counsel is, along with counsel for other  
5                   agencies, is in trial today and asked me to  
6                   appear on behalf of Tractebel North America to  
7                   raise a few questions, but since Entergy's  
8                   people are not here, I'll just make comments out  
9                   of it and at the end, I'd like to make a few  
10                  comments of my own.

11                  The existing affiliate preference case  
12                  or affiliate abuse case ongoing with respect to  
13                  the Entergy RFP process, many of the same issues  
14                  that arise in that case are prevalent for  
15                  purposes of the WPP process. A big concern  
16                  whether it is legitimate or not arising out the  
17                  lack of transparency is the fact that detailed  
18                  proprietary information of merchant plants was  
19                  taken by EMO to the operating committee meeting  
20                  of the Entergy Companies under the system  
21                  agreement and it then reviewed that and  
22                  submitted its own separate bids or made separate  
23                  contracts with other Entergy operating companies  
24                  to purchase power.

25                  The rest of us will never know whether

1       that was the lowest price we could have gotten  
2       for that power, whether they were a non-  
3       regulated affiliate or a regulated affiliate, so  
4       the big concern for the IPPs is to make sure  
5       that if they're going to go forward with the WPP  
6       process, that there is some mechanism to protect  
7       the information being provided by the IPPs from  
8       being used by Entergy operating committee  
9       personnel to develop their own bids and their  
10      own proposals, so that we see that, in fact,  
11      it's each bidding at the same time, independent,  
12      and in the absence of knowledge on Entergy's  
13      part of what the IPPs are bidding.

14               The Chair of the Arkansas Commission  
15      raised an issue with respect to the GIA  
16      penalties and the problems presented in the way  
17      this bidding is being done. It is -- it would  
18      very much be enhanced. You are now subject to  
19      potentially three penalties in a low load period  
20      of you don't meet exactly what you generate with  
21      what you scheduled. A system comparable to that  
22      in Texas is a example of a balancing energy and  
23      ancillary market where companies are bidding  
24      into it on a day ahead basis, or make it a week  
25      ahead basis, in terms of providing that

1 balancing energy, would assist in seeing that  
2 the cheapest power price to meet the balancing  
3 when it's needed is, in fact, actually there and  
4 not putting it at whatever Entergy's next  
5 avoided cost is, which obviously is going to be  
6 a much higher cost, based on a high heat rate  
7 natural gas unit.

8           The ICT situation is also comparable  
9 in the sense and I know that each of you will  
10 have your staffs and your own lawyers  
11 participating in what's going on in the trial at  
12 the FERC right now, but the fact that you have  
13 someone who is coordinating the planning and the  
14 movement of power and coordinating these  
15 purchases that is hired and paid by Entergy, is  
16 very interesting and I encourage you to have  
17 your staff report to you exactly what the person  
18 hired by Entergy was allowed to see and what  
19 information they weren't allowed to see, what  
20 they looked into and what they didn't look into.  
21 It turns out they were actually contracts that  
22 would have met the mark that didn't get put in.  
23 You know --

24 MR. MOOT:

25           Mr. Chairman, at this point, I hate to

1 do this, but --

2 CHAIRMAN WOOD:

3 Let me just say, on the pending case,  
4 we did check. We didn't post the docket on this  
5 meeting for that, so I will put the transcript  
6 of your remarks in there. Why don't you just  
7 move on to something else.

8 MR. EDWARDS:

9 I was just making the statement to  
10 show that it's comparable, the proposed WPP  
11 process, is comparable to the existing RFP  
12 process and so the IPPs are looking to, as you  
13 go forward with the WPP, to get some adequate  
14 protections that information generated in these  
15 bids is not used for Entergy's companies to bid  
16 on that and secondly, to make sure that we have  
17 a truly independent.

18 A question was raised -- this is my  
19 own comment, not one that I'm delivering on  
20 behalf of Tractebel. A question was raised  
21 about why wouldn't Entergy want to buy more  
22 power and they answer may lie in the fact that  
23 if I'm a regulated utility, I would rather  
24 generate the power with a unit that I own, then  
25 buying power, because of rate base. And that

1       also requires, there's another issue that will  
2       be coming before the Commission soon that will  
3       then be taking up an awful lot of transmission  
4       capacity that might otherwise have been  
5       available for movement by IPPs in conjunction  
6       with their effort to sell into Entergy or into  
7       markets as long as they are trapped in the  
8       Entergy system. Thank you.

9       MR. MOOT:

10               Chairman Wood, if I may. Just to  
11       clarify the record, Entergy has stated that its  
12       affiliates will not participate in the WPP as  
13       sellers.

14       CHAIRMAN WOOD:

15               Thank you. All right, folks.  
16       Tomorrow, we're going to talk about the ICT half  
17       of the proposal and I think you all for your  
18       helpful comments and information today.

19               The meeting is adjourned.

20               THE MEETING WAS ADJOURNED AT 5:10 P.M.

21                               \* \* \* \* \*

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