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I N D E X

OPENING REMARKS

CHAIRMAN WOOD:

We would like to reconvene our technical conference in the various Entergy dockets that were posted for this day and this place. Before we go further, I'd like my good friend, Irma Dixon to have the mic.

COMMISSIONER DIXON:

Good morning. I want to welcome the Federal Energy Regulatory Commission officially to the great City of New Orleans, the great State of Louisiana on behalf of the Louisiana Public Service Commission and Mississippi and Texas and Arkansas. Unfortunately, I caught up in the air all yesterday and did my best to get back here and caught the end of the hearing with jet lag and all, but this morning we are fresh, we are ready. And again, I just want to welcome you. We had a wonderful time. It's good bonding. My good friend, Chairman Pat Wood, thank you for coming here today.

CHAIRMAN WOOD:

We love being here. We have the other half of what we were talking about. Entergy's proposal filed earlier this year had a number of aspects to it. But the one we danced around a bit yesterday and talked about somewhat but did not get into thoroughly was the ICT part of the proposal, and it also had some pricing issues involved with it that some of the intervenors mentioned yesterday, but we didn't really fully engage on. So we'd like to ask the Company and their witnesses to start with that, and we'll go after that as we did yesterday with the intervenor panel and then have hopefully some lively questions and answers following that before we wrap up for the day. So I believe, Mr. Schnitzer, we'll start with you.

PRESENTATION ON BEHALF OF ENTERGY

MR. SCHNITZER:

Good morning, Mr. Chairman. Thank you. I believe there's a handout, and I'm also going to put that up on the screen, so we can do it that way. As the Chairman just said, I'm going to try and address some of the other aspects of the proposal beyond the WPP focusing on pricing, a little bit on independence, and then on some of the ICT benefits that Entergy sees with the proposal. Let me start with the pricing piece if I could and just with a little overview here. We're talking particularly about the pricing for transmission expansion particularly associated with the integration or qualification of new network resources. That, I think, was the central part of the pricing policy that has attracted quite a bit of attention from parties. So let me just quickly summarize that on this page, and then we'll get into some of the issues associated with it directly.

The pricing proposal basically is that reliability investments, those required to serve native load with adequate reliability, are automatically rolled into the OATT rate base and charged to all customers who were based on that rate base. Upgrades beyond that so-called base plan are treated according to the higher of principle, Mr. Chairman, that you articulated in your opening remarks yesterday that was reaffirmed in Order 2003A to afford the native load protection.

The determination of how much -- what transmission is in which of the buckets, which is a base plan and which is determined to be incremental, those determinations are important, and they are made by the ICT, not by Entergy. So it's the independent entity deciding which gets the automatic rolled in treatment and which is subject to the higher of native load protection principles, which I'll discuss in a moment.

There is also comparable treatment. This policy applies equally to all services requests related to network resource integration, be they those made by Entergy operating companies or on behalf of the operating companies and affiliates or non-affiliated entities. So that's the quick summary of the proposal, and what I'm next going to do is talk some more about this higher of principle. We'll talk about what happens to the second bucket, the incremental beyond the base plan.

What is the higher of principle that we're talking about? I believe, Mr. Chairman, you alluded to it in your comments yesterday at the outset, and what's here is one of several quotes from 2003A which addresses this issue, the first bullet her. But the essence is that allowing transmission providers to apply the higher of ensures that other transmission customers including the TP's native load don't subsidize the cost of network upgrades required for these sort of network resourcing interconnection and integration.

How does that work? Why does the higher of principle actually provide such native load protections? And I think it's fairly straightforward that what's underneath the higher of principle is that when someone wants some transmission service that can't be provided from the existing assets and you have to spend some more money, higher of stands for the proposition of let's look at the incremental revenues that we'll get if we provide this service, and let's look at the incremental costs of having to upgrade the network, and let's make sure that the revenues exceed the cost, that they're at least equal to the cost. And that's what the higher of policy does, is it says we'll go ahead and price this service such that the incremental revenues are at least equal to the revenue requirement associated with the new investment, so at worst, native load will be held harmless, and they might actually get a benefit, you know, under the higher of kind of approach.

So that's my understanding of why it works and what underlies it. It's fairly straightforward in a point-to-point context. You have a situation where absent the investment you can't make the point-to-point transaction, it won't happen, and if you make the investment, you get a point-to-point transaction you couldn't otherwise have made, so your billing determinants go up because now there's a new transaction that but for the investment wouldn't have been made, so that's the incremental revenue. And so then you can compare that to incremental costs, and that makes a lot of sense in most of the precedents that we've been able to find on the application of higher of are in the context of point-to-point, and we have no quarrel with that and no issue with it. That will work adequately, more than adequately, to protect native load for point-to-point transactions.

The network service application, however, that principle is just not as clear to us. First is what is the definition of incremental revenue? Network service tariffs are load based. They don't depend on which generator you use, they're based on your aggregate load, and once we get by that one, what the definition of incremental is, how should the higher of principle be applied when incremental revenues are zero when, as I'm about to describe, in many circumstances they are. So those are the two vexing policy questions that we've addressed in our filing to try and implement the higher of principle that was described in 2003A, and I'd like to just maybe illustrate that with an example and then come back to our specific proposal again.

So the next page here, I'm on page four for those of you on your handout, let's imagine a network customer, not the transmission provider, and in this example say there are 3000 megawatt peak load, which represents a 10 percent load ratio share of all the network load on the transmission system, so that's their allocated share of the transmission revenue requirement is 10 percent. And let's say that 10 percent is $36 million, so the aggregate transmission revenue requirement is 360. This customer share is 36 because they have a 10 percent load ratio share.

Let's say their supply contract is expiring, and they've done a solicitation or whatever they've wanted, and they've narrowed it down to two choices: Supplier A who has $10 million power costs, $10 million lower power cost than supplier B, but to quality the resources of supplier A as a network resource, they're going to require transmission upgrades, the revenue requirements associated with which are $20 million a year, so supplier A is cheaper at the bus, but when you factor in the transmission required to get network status you have to add $20 million0 a year to it; supplier B on the other hand is $10 million more expensive for power at the bus, but has already qualified network resources or network resources which can qualify without incremental investment so that they don't have the upgrades required.

And so that's the choice. And the question is how will higher of -- what will the customer do, and how will higher of serve to protect native load in this circumstance. And before I go through that, let me just say that if we step back for a moment and look at from a global perspective and say considering generation and transmission simultaneously what's the right answer? The right answer is supplier B because taking into account both power cost and transmission cost, supplier B is $10 million a year cheaper than supplier A. So that's if it was one integrated entity doing this whole thing, you would choose supplier B. I'll come back to that in a minute, but now let's go see how the higher of operates and influences choices in this instance.

So recall the first question I raised is what's incremental revenue in a network resource qualification context, and so suppose on page five we assume that the whole niche charge, the whole network service charge which was $36 million, that we say that's incremental revenue, so you get -- when you apply the higher of test, you say you've got $36 million to play against these upgrades. And in that case, once -- the way the higher of test is applied is we recalculate that rate and that charge after the investments are rolled in, so when we put the extra 20 associated with supplier A and to rates, the revenue requirement goes up from 360 to 380, and this customer's 10 percent share is now $38 million as shown there, and that's higher than charging them just a pure incremental rate of 20. So the classical higher of test would say they're either going to pay $38 million, which is the rolled in rate with the investment rolled into rates, or they're going to pay the incremental rate kind of a thing if we attribute all of those incremental revenues -- all of that charge as an incremental revenues. So in that circumstance, $38 million is the higher of and we roll these investments in.

What would happen then? The customer -- excuse me, I'm going to flip back -- the customer would say, okay, if I choose supplier A, I'd say $10 million, but my transmission cost goes up by $2 million. So as I show here on page five, the customer says I'm going to save $8 million by choosing supplier A, and so that's what I'm going to do. What happens to native load? Native load says I just picked up $18 million of revenue requirement, the 90 percent of the 20 that were added to make these new network resources be qualified. And so native load costs increased by $18 million.

So by our definition of native load protection, by I think the definition that's implicit in the point to point example, that doesn't provide native load protection if we apply it that way, nor does it give the proper incentive for economic behavior. Recall what I said a moment ago that looking at the whole thing you would want supplier B to be the cheaper -- is the cheapest solution. You'd want supplier B to be chosen. Here there is a clear incentive for the customer to choose supplier A and the consequence to native load customers of choosing supplier A.

Well, you say higher of says you don't have to charge them the average rate. What if we charge them the incremental rate? And the answer here on page six, the result is even worse if the customer pays the incremental rate, which is $20 million instead of the average rate, which would have been $38 million as we just described. What happens now? Now the customer says, let's see, I can save the $10 million at the bus from supplier A, and my transmission charges that used to be $36 million go down to $20 million, so I save another $16 million. So now I save $26 million. I'm for sure going to choose supplier A. And what happens to native load? Native load says, okay, they paid for the $20 million of the upgrade, but the $36 million for the preexisting rate base that they used to pay for, they don't pay for anymore, and that gets shared by the rest of native load. So native load costs increase by $36 million in this example.

And that is the problem, which I've tried to summarize on page seven. In a network resource qualification context, the incremental revenue associated with new network resource qualification is generally zero. It's always zero for resource displacement, replacement. The example that I just gave was a resource replacement kind of a thing, an expiring contract. The incremental revenue is always zero in that context. It's also zero when load is growing, except for the limited case where the transmission customer's load growth is higher than the average of all the other customers who are paying a load ratio share. Because if everybody's load is growing at the same rate, you're just -- the load ratio shares stay the same, and so there is no incremental revenue associated really with anybody's load growth.

So the fact of the matter is in a network resource context that the incremental revenue is almost always going to be zero. And as we've just illustrated in the previous example, when incremental revenues are zero, neither the average rate nor the incremental rate will provide native load protection, and we don't -- we would welcome anybody who can show us a way where that's not so, but we have come to the conclusion through as vigorous an inquiry as we can have internally that that is in fact the case, which has led us to the proposal that is embodied in the ICT proposal, and now I'm on page eight.

For the new network resource qualification issue, the requesting party pays the incremental rate, and as I said earlier, the ICT determines what is incremental. That's not

Entergy, that's the ICT determining what is incremental. They also get, in return for that, they get what we've loosely determined here to be property rights. In the ICT proposal, they get a portable network resource status, which is to say that they can then be a network resource for any network customer on Entergy's transmission system. We also provide an allowance for free point-to-point service out of that qualified unit on an ATC available basis on the theory that that would represent incremental revenue, and so there we could offer an allowance or a credit against that. Where there is incremental revenue, we will, and they have that property right. But under the proposal, the load based network service charges are not affected. So that's the proposal, and that's why from the previous example, Which then raises the question and the criticism shown on page nine.

Isn't that and pricing? And I guess we have -- our answer, Commissioners, is we don't think so for two reasons. One, it's designed to be as similar as possible to other FERC-approved approaches, and here I'm thinking of, as an example but not exclusively, PJM. What you get in the circumstance under our proposal is a portable network resource status. It is not customer specific. It doesn't have to be reapplied for, for subsequent service. You get this point-to-point allowance where there is incremental revenue, this property right out of that unit on an ATC-available basis. Where you are getting NITS level integration you do get a congestion hedge bundled into this. We don't have FTRs in this system as PJM has, so we can't give the FTRs that are created, but if people ask for NITS level integration, we will give them and provide them the congestion hedge, and we will have the determination of the incremental investment made by an independent third party, the ICT. I might add parenthetically, even though 2003A states that this native load protection is available to non-RTO participants, in our proposal we have added this independence on top of that to more closely meet the existing precedence where this treatment has been approved.

So that's reason number one why we think it's not and pricing. We think it's as equivalent as we can make it to approaches that FERC has approved as not being and pricing. The second reason is that any other approach that we can think of would in fact not provide the native load protection that Order 2003A describes, and to conclude that this is and pricing would therefore read those words out of the order. We don't choose to read those words out of the order. We think you meant them, and this is the only way that we can think of to achieve that native load protection.

So that's -- those are the reasons why we don't believe this to be and pricing. We believe it to be the appropriate proposal under the circumstances to achieve the native load protection. But I would also say that this is a matter of more than academic interest because of the particular circumstances in which Entergy finds itself. And again, Mr. Chairman, you mentioned the approximately 17,500 megawatts of new merchant generation interconnected to the Entergy system. To my knowledge, there's not much if any of that that has yet achieved network resource status, and so what we have here is a real issue associated with what are going to be the rules that govern the treatment, the pricing treatment of interconnecting some or all over time of these 17,500 megawatts. We think that distinguishes us from almost anybody else. It matters a lot, as I'll speak in a moment, to our assessment of the costs and benefits of where we end up and how transmission expansion pricing is different. WE think we're unlike any other SPP member, for example, in that respect, and I'll touch on that in a few more minutes. But that's the central issue on transmission pricing is how to implement native load protection when network resource integration is a big dollar issue on your system, and that's the circumstance in which Entergy finds itself, okay?

So a quick summary on the transmission pricing on page ten. We think it's consistent with Order 2003A pricing principle that protects native load. Indeed, it's the only way that we can think of to actually implement that principle that's articulated in 2003A. We think it also sends efficient price signals for customers to choose the right resources taking into account both generation and transmission costs, and it provides full comparability between Entergy and its affiliates and other network customers. And obviously, I'll be happy to take questions on this, you know, following, following the rest of the presentation, but that concludes the pricing part of the opening remarks.

Just a word here under the next topic was independence, and so the next slide just deals with that. We had some conversation about that yesterday, some questions about that. I expect we'll have some more today. But just a couple of points to put out there to spark more questions if that would be helpful. The ICT will be independent from Entergy and all other market participants. It will meet your FERC's independent status for market monitors. It will have a full staff including a 24/7 desk or desks. We're not talking about, you know, a small group of people who come in for a week every three months and take a look at what's gone on. We're talking about people who are there 24/7 and who have access to all the realtime information in the transmission system that Entergy system operators would have.

Entergy cannot unilaterally terminate the ICT if a disagreement between Entergy and the ICT comes up. FERC approval would be required, and FERC will resolve any disputes over budgets, access to data and the like. And so those are the basics there. I won't go into the full scope of the ICT activities unless -- in the prepared remarks, but if people have questions about the scope of their activities or further questions, we'd be happy to address those. So that's independence.

So now we come to the last topic, which is the benefit cost of the ICT proposal. Is it a good idea for retail customers? Why do we think it is? The benefits of this proposal as we've discussed fall into these two categories. The weekly procurement savings/additional revenues from additional point-to-point service being granted, and reduced exposure to these transmission expansions costs and particularly these network integration costs of which we were just speaking. The costs of course are the incremental costs associated with the proposal. We do not expect the ICT will work for free. They will need an adequate staff, and those costs need to be measured and accounted. And it's clear from the conversation that we had yesterday that we need to compare these benefits and the costs both to the status quo of Entergy standalone and to Entergy as an RTO member, and I just want to give you a quick summary of that.

Let me start with the Entergy cost savings, the WPP, and it might have been helpful if I had had this slide up yesterday, so let me take a minute because we talked a fair bit about this in the context of the WPP yesterday. This is a pie chart which basically shows how Entergy's 2003 native load energy requirements were sourced, okay? And the biggest block, which you can see, the 37 percent, is nuclear and hydro. I don't think anyone is arguing that we ought to be trying to displace that with any other source of generation. Likewise, the next 12 percent is coal from Entergy's coal units and the same thing there.

The next block there, 11 percent, is mandatory QF purchases. I'll come back to that in a minute. The next block is economy purchases not from gas. That is the coal-based economy purchases, and I believe Chairman Hochstetter made some reference to those opportunities, and those that are being realized are represented in that block, and I'll talk some more about that in a moment. Then we have the purchases that are sourced from gas. That would be the merchants, our 17 percent, and the remaining two pies, the 11 and the 9 are the proportion of generation that came from Entergy's existing oil and gas steam units. Broken into the two buckets, 9 percent are those that ran at minimum load for reliability reasons, so-called must run, and then the 11 percent being generation that was not related to meeting a transmission must run requirement from those units.

So that's the picture for 2003, but in light of yesterday's conversation and how much opportunity is left and how much opportunity has been realized, I want to put that in a historical context if I may. And some of you I believe we may have seen these numbers, but we've prepared a similar pie chart for 2002, and it's -- in many respects it's similar. The nuclear is 35 percent in 2002. The coal is 12 percent in 2002. If anybody wants to write these numbers in, they're welcome to. QF in 2002 was only 6 percent, because as I alluded to yesterday, some of the 17,500 of merchants is QF, and so their share of the energy pie went from 6 percent to 11 percent between 2002 and 2003 reflecting the new cogen that came into service in that time period. More about that in a minute.

Our must run -- excuse me -- our purchases, just to stay in the same category, from the coal-based purchases in 2002 were about 5 percent, and from gas-based purchases were about 12 percent, a total of 17 percent between them. And the combination of must run and non-must run oil and gas generation from Entergy's units was 30 percent.

So what you see already is between 2002 and 2003 the generation from Entergy's oil and gas steam units went down by a third. It was 30 percent of the energy pie in 2002. It was 20 percent of the energy pie in 2003. Why is that? That's because that's when the merchant generation started to become on line in quantity and started to make itself available to us. In 2000, as Mr. Hurstell alluded to yesterday, starting in 2002 Entergy started the existing weekly procurement process, and that proposal like the one before you now was voluntary, no one ordered us to do that, but it was put in place to recognize that there was an opportunity that ought to be realized to the benefit of customers. And so that process was in place beginning in April 2002, but it was not until April 2003, as some of you are aware, that we began to get meaningful participation from the merchants. The level of bids into the weekly procurement was quite low through most of 2002. Starting April of 2003, that level of participation improved, and the nature of the products offered also improved. Not that we got fully dispatchable products then or now, but we at least got shaped products and on-peak only products and things of that character. And the consequence of that is in the numbers that I just described, 30 percent in 2002 and 20 percent in 2003, a dramatic change in the space of a year.

So that's what happened there, and I just want to underscore just one other point. Mr. Chairman, in your opening remarks you mentioned the study, I believe, that sometimes is referred to as the DISMUTE study about the opportunity that might exist, and that study implies that that's perhaps an unrealized opportunity. And I believe that we have formally responded to that study. Mr. Burnell I believe in a letter from Mr. Leonard to you, I believe perhaps almost a year ago. I'm not sure the date of that. But let me just reiterate, you know, some of the points so that we all are focused on what's really transpired and what the remaining opportunity is as opposed to numbers that may not fairly represent it.

That study was not based on the current 2003 or even 2004 level of what's actually happening. It went back to a level of a historical period when the merchant generation wasn't here. It said hypothetically what could we do now assuming we were still there? We're not still where we were in 2001 and 2002. We have already realized a substantial opportunity. The study also didn't recognize transmission constraints and must run constraints, and as you can see from the pie diagram before you, that's a material part of the remaining opportunity, and we have to deal with that. Those are real reliability constraints.

And finally that study and others have assumed that the merchants' bid to us at their incremental heat rate was no profit, and I'm not going to divulge any confidential information, but I can tell you that they don't bit, and we don't expect them to bid a no-profit kind of a price. They bid a number that they think is acceptable to them and studies which calculate the hypothetical benefits to customers assuming that the merchants will run at variable costs really don't provide very helpful estimates of the remaining opportunity.

So that's where we've in 2002 and 2003. Where are we in 2004? Well, in 2004 things are shifting even some more. We have -- and let me talk a little bit about the QF purchases for a moment. Thos QF cucumber purchases are not exclusively but they're largely off peak, and that's a time when they would compete with coal imports from the Midwest and other places. And what we find over the last six months is that we have bought -- I believe seven months -- we have bought I believe that number is roughly over 4 million megawatt hours of coal-based economy energy, but we have turned down over 3 million megawatt hours of coal-based offers not because we didn't have a transmission but because we didn't have units to back off that were burning gas, that we were fully displaced, if you will, in the off-peak period. Why is that? Well, the answer to that is in the 6 percent to 11 percent on the QF which is currently running I think at about the same level, and what's happening there is that some of the coal that we're buying is basically QF power priced at coal because when we turn down a coal purchase to take a mandatory QF purchase, the QF purchase is priced at the purchase opportunity that we did not realize.

So the reason the 5 percent coal went to 3 percent coal is not because we have transmission limits. It's because in the off-peak periods when that coal is mostly available to us, we are often in a situation where we can't take it because the combination of our nuclear, our coal, our reliability gas at minimums and the QF powerfully meets our off-peak power needs. So when you look at the QF 11 percent, you should read some effective coal into that number because some of it is priced at off-peak coal. Similarly, you should read some merchant gas into that number, so when you say what are we purchasing from the market, it's more than 17 percent. It's 17 percent plus some portion of the QF kind of a bucket. So that's where we are at this point.

I won't dwell on this slide but a little bit more, which is just to say that looking forward we're not saying there is no opportunity left. We have realized a significant opportunity largely through the WPP, the existing weekly procurement which the company voluntarily implemented. What we're telling you is we think to get the next increment, however big or small it is, we need to do something a little bit more, and that's why the current WPP proposal is before you. If we're going to be able to see if there's an opportunity to eat into that 9 percent must run gas and oil, we're going to have to have some simultaneous optimization and look at what all the generating units in the region competing and our footprint competing together, whether they can do some things that we can't do on our own, and we're going to have to see if in this structure we'll get more flexible bids. We don't get any dispatchable bids. We don't get many dispatchable bids at this point. Most of what we get is block or shaped block, and shaped block is better than pure block, and we use a lot of it, but we're hopeful that we can go to the next step and get something that looks more like load following that we can control.

And that's what it's going to take. It's not -- I don't want to leave the impression that through laziness or worse that there's opportunities there that we're just not taking advantage of some of those suggested to protect our existing generational life. That's just not the case. I think these numbers tell the real story as to what we've done, what's left to be done, and why the WPP proposal is the appropriate way to realize that additional potential. So I apologize that great length, but I will now stop on that one.

Okay. Now to benefits and costs of the ICT proposal, and as I alluded to a few moments ago, we're looking at two ways. We're looking at the ICT proposal versus the status quo, Entergy standalone, and then we look at it vis-a-vis an RT alternative, in this case, SPP. So let me start on the left side of the page. The savings versus the status quo are in these two buckets. The transmission investment, particularly network resource integration costs, and those as best we can estimate are in the $24 million to $35 million range, and they basically relate to the full implementation of the higher of principles that we've proposed as would govern network resource integration. On a present value basis, those numbers are also shown $240 million to $360 million, but that's our estimate of the benefits in terms of protecting native load from cost increases they might otherwise experience and from transmission related and also giving incentives for other wholesale customers to make the right decisions.

The WPP as we alluded to is this $30 million per percentage that we can decrease that 19 percent, which is probably already down to about 16 percent this year, 2004 year to date. It's probably already down a little bit more, but every percentage point we can improve that is $30 million. There is an incremental cost to this of staffing up the ICT, you know, those staffing estimates that have been offered, I think, are somewhere in the range of 35 full-time equivalents, the 7 by 24 desks, the planning and engineering staff, et cetera, so that our estimate there is $15 million for the Entergy retail share, and I'm sorry I should have said at the outset these are costs and benefits for Entergy retail customers, and that's the locust here, and I should have been clear about that.

So that's -- we think there's a net benefit there if you take the transmission and attribute any WPP benefits and compare it to the $15 million. We think that there is a benefit to retail customers from pursuing this alternative, and how big it will be actually will be determined by the success of the WPP, but in all cases, it appears to be a positive number based on these numbers.

So that's versus the standalone. What about versus the RT alternative and the current RT alternative being SPP? And there what we show here is that the transmission investment savings are much larger. And why is that? Because -- and the answer is that were we to be an SPP, the universe of other wholesale customers who could choose merchants' and Entergy's footprint to be their network resources is much bigger because now it's anybody within the SPP footprint, you know, can choose a merchant within the Entergy footprint as a network resource. And we have no problem with that, but the question is going to be who pays. And under the grid south policy that currently operates, you know, in that circumstance and we understand to be consistent with where SPP is at this moment, putting aside, as Chairman Hochstetter said yesterday that there may be other proposals forthcoming, but under the current state of the tariff that when upgrades are required on a transmission system where the generator is located and the network customer is in a different license plate, the cost associated with that transmission upgrade are borne in the source license plate, not the sink (phonetic) license plate.

And so there we have a situation where other network customers with the SPP footprint could choose Entergy resources as network resources, and the required upgrades would become part of the Entergy license plate revenue requirement, and that exposure is much larger than it is under the current Entergy system because there is many more wholesale customers who have that option, who have that opportunity. That's why the number is as shown there, $125 million a year and over $1 billion present value. So that's one category of benefits of the ICT, and it's the pricing proposal basically of the ICT versus the current SPP pricing proposals as we understand -- pricing tariffs -- as we understand them.

The second is the WPP that we don't believe that the WPP can be implemented just on a license plate basis in SPP because it involves the granting of transmission service. And if we're an SPP, then the transmission service models look at that whole footprint, and we don't know how to run an optimization of the subset of the transmission system. It's not clear to us how or if that could be done, so we think that if we join SPP That until such time as day ahead markets or something like that materialize that the WPP benefits are put on hold.

There was mention made yesterday of the bouncing market that SPP is proposing, and that's a fair point, but just to observe from -- I didn't mean to do that -- just to observe from the previous page that this remaining opportunity again is largely going to be realized through commitment decisions, not through realtime balancing decisions, and so we don't think that the SPP balancing market will be a substitute for the WPP in terms of producing those particular benefits. So we think that again, until such time as some more comprehensive markets exist in SPP, that that $30 million would not be realized in the SPP. And I'd be happy to hear from others who think that maybe there is a way to do that, but that's our take on that situation.

And then again from an Entergy retail customer's perspective, the $15 million a year cost for the ICT seem to be roughly equal to what the Entergy retail share would be of the SPP costs, and so from an Entergy retail customer perspective, it looks like there is no cost difference between the two. So that's -- you know, I just put that out there for discussion and for questions, but that's our view of the cost benefit situation from the perspective of retail customers and why Entergy believes the ICT proposal can provide the near term benefits that Mr. Smith described yesterday. And with that, I think I'll stop.

CHAIRMAN WOOD:

Just to follow up on that, you don't believe that the WPP-type program potential savings are achievable under the SPP?

MR. SCHNITZER:

They are achievable under a circumstance where you can have this integrated transmission generation commitment algorithm SCUC-type thing. We can do that on a standalone basis and have proposed it. SPP could do it with day two like markets of some sort, but we don't know -- we haven't yet figured out a way for SPP to do this in one part of its footprint and something else in another part of its footprint when this involves granting transmission service and has to represent the rest of the system. Now, if there is a way that that can be accomplished, then fair enough, but we have not been able to -- we have not been able to see how that can be done, nor do we understand there to be a current proposal at SPP to implement this approach SPP-wide.

CHAIRMAN WOOD:

In the first bullet, the difference between the Entergy proposal and SPP or as to transmission investment would be different if they adopted a different sort of participant funding cost, causer pays approach, but this is just based on the source license plate approach that --

MR. SCHNITZER:

This is based on what we know today, that's right, and, yes, it could be different, and as Mr. Smith said yesterday in his prepared remarks in response to questions, you know, we're more than happy to monitor and participate in the development of SPP in these respects, and when it is fully specified and we know what the answer is, then that answer will be what it will be, and we would know what to do accordingly.

CHAIRMAN WOOD:

Just some facts back on the prior page, are any of the I guess light blue, yellow or orange, are any of that from affiliated generators to Entergy that are not in rate base? And are there any here in the footprint?

MR. SCHNITZER:

I think that some of the QF -- we have a part interest in the QF, and that may well be some of that. I don't know that for a fact, but I wouldn't be surprised that it is, and I don't -- I don't know about the market purchases. I wouldn't think so, but I don't know for certain.

CHAIRMAN WOOD:

Rick, are there affiliated nonrate-based generation in Entergy? I'm just not familiar.

MR. SCHNITZER:

Yes, there is -- excuse me -- there's three plants in the -- other than the cogen that Michael talked about which would -- we own a part interest in that, but that really gets put to us by the industrial customer.

CHAIRMAN WOOD:

Yes.

MR. SCHNITZER:

Other than that, we're not making any purchases from our affiliates.

CHAIRMAN WOOD:

The three plants are what?

MR. SCHNITZER:

Warren Power.

CHAIRMAN WOOD:

Which is the peaker, I believe.

MR. SCHNITZER:

A peaker that really is contracted to another wholesale customer in our footprint, and is it Harrison?

MS. DESPEAUX:

Harrison County but now in our control area.

MR. SCHNITZER:

Say it again.

MS. DESPEAUX:

Harrison County but I don't believe that's in our control area.

CHAIRMAN WOOD:

Wholesales sales customers?

COMMISSIONER DIXON:

Wait one minute, Mr. Chair. I didn't get those three plants. I think you all mentioned them, but I didn't hear it.

MR. SCHNITZER:

Warren Power, Harrison County and then RS Cogen and then Kim was correcting me.

MS. DESPEAUX:

There's Richie II. One of our affiliates owns Richie II, I'm sorry, it's a plant in Arkansas, and a portion of ISIS II as well.

COMMISSIONER DIXON:

How many is that? That's -- I believe you gave me ISIS II.

MS. DESPEAUX:

Yes, and I believe Harris -- I don't believe Harrison County is within our control area.

MR. SCHNITZER:

That's right.

COMMISSIONER DIXON:

Thank you.

CHAIRMAN WOOD:

So how does Entergy make wholesales sales? Is it from those units or from a mixture of some of the rate based units, or are you making wholesale sales?

MR. SMITH:

We make long-term wholesale sales, kind of legacy sales with some of our wholesale customers that we've had for years, and, you know, many of them own part of our existing facilities, and they have also bought into some of these nonreg affiliate units.

CHAIRMAN WOOD:

And based on yesterday, is that -- well, if that was 15 percent of the footprint is native load other than that served by Entergy, correct?

MR. SMITH:

I believe that was native load and point-to-point billing determinants, Mr. Chairman.

CHAIRMAN WOOD:

Which could go outside the control area?

MR. SMITH:

Yes, sir.

CHAIRMAN WOOD:

So what percent of the total megawatt hours generated by Entergy-owned units serve customers other than Entergy's retail negative load? Would that be less than 10 percent?

MS. DESPEAUX:

Wait. Hold on one second.

CHAIRMAN WOOD:

Just ball park. I don't need a --

MR. HURSTELL:

John Hurstell, with Entergy. I think the -- Rick mentioned the legacy, the partial requirements and full requirement customers who may have a total of 400 megawatts, a peak load on the system, and that's -- a system peak load is 20 thousand, so what is that? Two percent, so it's not a huge portion. Then we do make short-term sales, but it's a very small amount. I'd say less than 1 probably even possibly 2 percent of our total generation.

CHAIRMAN WOOD:

Thank you.

COMMISSIONER HOCHSTETTER:

I have a couple of questions, Michael and Rick, based on your cost benefit comparisons here between the ICT and the RTO. I think that you can probably safely assume that there is going to be a beneficiary pays approach in the SPP and as I mentioned yesterday we'll know that in the next two to three months, which would totally negate the concern that you've expressed with respect to the current default policy in the SPP tariffs that's more of a socialized rolled in approach, but if we have the beneficiary pays approach in SPP, then you don't have any net costs to worry about compared to your WPP proposal.

And then on incremental benefits, I guess one of my focal points is this 9 percent of the must run gas and oil units which you say are must run for reliability reasons due to transmission constraints. I mean, you yourself said transmission constraints. So if you have a regional planning process looking at the transmission systems within SPP's footprint and yours and it identifies going back to the SERUC study that I mentioned yesterday, it identifies some bottlenecks that could be improved with some transmission investment, but then you're spreading across a much wider group of payers, a much wider group of folks in the SPP RTO that would also allow you to get some of the cheaper coal-based capacity in the Midwest. It seems to me just intuitively that you could more quickly reduce that 9 percent amount and achieve greater savings more quickly with the additional transmission investment that's paid for by a bigger group of people allowing you to bring down that coal capacity in the Midwest. Is that not a feasible outcome?

MR. SCHNITZER:

Well, it's possible. I think it's not likely, but let me respond if I could to both. On the first, what you say is correct. Were SPP to adopt -- to propose and have approved a transmission pricing proposal identical in all respects to what we're describing here or what was proposed, what was developed as part of the SETRANS effort, then, yes, your statement would be correct, and those dollars shown on the upper right-hand side would go away, and that's absolutely correct. But the details do matter, and as I think as we all know, that there are many different proposals that are made underneath the beneficiary pays concept and not all of them are identical to what we're talking about and those details would matter, but as Mr. Smith said, you know, we would certainly look at what SPP does and if it does just what this proposal would do, then absolutely right. There would be no relative advantage to the ICT relative to SPP on that dimension. But the details do matter is all I would say.

On the second, it's not the case in the main that those transmission constraints that give rise to the must run situation or external to Entergy's footprint or unknown by Entergy. It's a question of economics. It's a question of whether the benefits of alleviating that constraint and allowing more cheaper power are greater or less than the cost of alleviating the constraint. And those analyses are undertaken all the time by Entergy. The WPP facilitates that because now we know what Entergy is available from the weekly market to displace the commitment of our existing units, and there was allusion yesterday to the LPSC study on the transmission upgrades, and the estimation of the benefits from those upgrades is very much facilitated by the results of the weekly procurement because we could see week in and week out this is how much economy energy we could get and import, and so let's go ahead and do the investments because now we know the merchants are bidding every week, and that this power is available.

So it's not -- I don't think it's a regional planning issue. It's an economic issue. And, yes, if the transmission upgrades are feasible and economic, then, yes, they would be made under the beneficiary pays philosophy, however, we would expect that our native load customers would pay for them, because we would not be reliability investments. They would be beneficiary pays investments to eliminate the must run. And that's the way we look at them today. Are the economic, relative, are the replacement power costs cheap enough to justify the transmission upgrades, and where they are, those investments get made, and where they're not, we live with the must run, and what the WPP will do is answer the question whether a different pattern of generation can reduce overall costs within the existing transmission system.

COMMISSIONER HOCHSTETTER:

I guess one of my key points, though, is if you were to do transmission planning over a wider footprint, coordinated transmission planning, which you don't do right now in conjunction with, you know, all of your neighbors in SPP to look at macroeconomic savings over the whole footprint, you know, looking at all the generation available and all the transmission investments. If you were to do something like that, isn't it possible that you could see a wider spread between transmission investment and generation cost savings? In other words, the net cost savings could potentially be broader, bigger, so that -- you know, in other words, if more people can benefit from the transmission investment, than just your customers, you're spreading the cost amongst more people, and on top of that you're bringing down that cheaper coal capacity from the Midwest. I mean, isn't that a feasible possible outcome when you're looking at it from a broader standpoint with more folks to pay?

MR. SCHNITZER:

It is a possible outcome. As I alluded to earlier, I think our experience recently is that we're turning down coal energy not because of transmission constraints but because at the times in which it's offered our load is so low that we can't make use of it. But if there are circumstances when we're turning it down because of transmission constraints, and if that implicates a lot of different systems, then a regional view could benefit that. I just -- I think -- and I don't know whether I'm not the right person to respond, but I think there is a certain amount of regional transmission planning and coordination which takes place today. I don't want to leave the impression that there's none. I don't know that it's -- I can't speak to the details of that and how it would be different, but there is regional planning that goes on today, and I think Mr. Smith alluded yesterday to the company's willingness to enter into a SEMS agreement with SPP under the ICT proposal to enhance that regional planning or transmission planning if that were acceptable to everyone.

COMMISSIONER DIXON:

Real quickly, you alluded to a study. You only spoke of one. There were three that we're referring to. Can you tell me which one you were speaking of that I guess provided some savings, and can you at least speak to the SERUC study and what the impact would have been?

MR. SCHNITZER:

Chairman Dixon, I can I think respond a little bit to the first. I'm not sure I can to the second, but let me try. The first I think is, you know, at the request of the LPSC that there were these studies done of transmission upgrades for economic regions into the Mid South region.

COMMISSIONER DIXON:

Okay. That's the one you're referring to the --

MR. SCHNITZER:

That is correct, and I think there were a couple of different buckets of investments that were looked at, but the estimates of the benefits increased through time, and the reason that those investments look more attractive now is because 18 months ago we didn't have the weekly procurement experience to know that this power was available at the heat rate it was available, and now we know and gas prices are higher, so now we know there are bigger benefits, and as you said yesterday, those investments, a set of them have been approved, and they are going forward.

COMMISSIONER DIXON:

And that's the inclusion of the cogen facilities, that's the inclusion of some of the merchant plants, that's the inclusion of just some of the things that you all have been doing just to be economical --

MR. SCHNITZER:

That is correct.

COMMISSIONER DIXON:

-- and efficient?

MR. SCHNITZER:

That's correct. On the SERUC study that was mentioned yesterday, that's a nonpublic study thus far. We're trying to get our hands on it to be able to respond in more detail, and I believe we had a request from Commissioner Brownell to give a response to that, and we're working on that, but we have to see what we can have access to, to give a considered response to that, and we will when we've had an opportunity to do that.

COMMISSIONER DIXON:

I would be really curious, because I think if you did you would find in your cost benefit or benefits and costs the incremental costs and a few other things would probably change, but I'm really interested in that. The other thing is I'd like you to further break out the QF purchases at some point. I'm interested in seeing what the mix is in there and the must run facilities. I really want to know which ones those are. Thank you so much.

COMMISSIONER FIELD:

Mr. Chairman, if I could ask a couple of questions to follow up on Commissioner Dixon's question, Mike, I noticed that in 2002 you had 6 percent QF purchases, and it went to 11 present. That's of the energy requirements, that's not necessarily a dollar amount; is that correct?

MR. SCHNITZER:

You are correct, sir. That is on a megawatt hour basis, not on a dollar basis.

COMMISSIONER FIELD:

Now, I believe I'm correct in at least Arkansas and Louisiana you changed the way you compensated QF generators. Did that have an impact on how much energy you used from those sources?

MR. SCHNITZER:

I don't believe materially, Commissioner Field. I believe that -- and these are estimated numbers, so we got them quickly. But I believe year to date, 2004, that QF number is running about 10 percent of the energy pie, so it appears to be at a comparable level, but I don't know if Mr. Hurstell would care to amplify or amend my answer.

MR. HURSTELL:

Mr. Commissioner, the -- it's hard for us to know exactly what motivates the QFs to put to us or not put to us, so they may be able to give you a better answer as to why we've seen a decrease form the QFs that were on line last year, year to year. The trouble we have is that they have new QFs that came on line in December of last year, so the quantity is a little lower on a whole, but if you just look at the QFs from year to year, it looks like the output from the QFs have gone down.

COMMISSIONER FIELD:

Well, I know some of the QFs have complained that they don't know whether to run or not, and we have some units in Louisiana, they just don't run them because they don't know what price you're going to pay, but that's another issue. But I just wondered what effect it had had on your QF purchases, and so thanks for bringing me up to date on that.

MR. HURSTELL:

If I could add one thing. It's to the extent that they aren't running, it's no economic impact on our customers because then we are acquiring the energy that we would -- that would have been avoided if they had run. So whether or not the QFs run or not as our customers are economically indifferent to the fact that the QF put has gone down, it just means that our purchases have gone up.

COMMISSIONER FIELD:

Well, it also could mean, though, that the environment is being harmed if you're running older units or purchasing from older units, because most of these QFs that we have in Louisiana are either cogen or they're the combined cycle gas units.

MR. HURSTELL:

That may be the case. We don't necessarily know. To the extent that we're buying from Midwest Coal, I'm assuming that they have the emission allowances to over their energy because that's usually reflected -- it will be reflected in the price, but --

COMMISSIONER FIELD:

Okay. A final question for Michael. I was pleased to see that the must run units, I believe, went from 30 percent -- the must run and other gas and all went from 30 percent in '02 to 20 percent, so you did have a reduction in those units.

MR. SCHNITZER:

Yes, sir.

COMMISSIONER FIELD:

Now, what was the must run unit in '02; what percent was that? It was 9 percent in '03. I was just wondering how many of those were you able to --

MR. SCHNITZER:

The must run portion of the energy pie, Commissioner, was effectively the same in both '02 and '03 that we have -- that's one of the reasons why we've got the current WPP proposal in place. On a one-for-one basis, there are no merchants that are able to displace our existing must run units. What we don't know is whether there might be combinations or different sets of dispatch that might achieve that and that the current -- the WPP proposal is addressed to get after that opportunity.

COMMISSIONER FIELD:

Well, I think all the state regulators and federal regulators would like to see if -- because I know those must run units in a lot of cases are antiquated and have high heat rates, and so that's what we'd like to see is maybe an aggressive approach to see if some of the merchant power units are located in close enough proximity they can help with the reliability.

MR. SCHNITZER:

That's precisely one of the major reasons why the current WPP proposal has been developed and is before us is to try and do just what you've said.

COMMISSIONER FIELD:

Thank you.

CHAIRMAN WOOD:

Has Entergy conducted an RFP for someone to do this job, the ICT? I mean, I've read some things, but I honestly can't remember where it stands on it.

MS. DESPEAUX:

Chairman, you're asking about the --

CHAIRMAN WOOD:

Relative to the ICT.

MS. DESPEAUX:

The ICT? We were in the process of developing an RFP. We did visit with SPP. Our initial focus was really on SPP as a result of some of the comments that were submitted in the Arkansas proceeding. It just seemed like SPP serving in this role would make some sense and would be the preferred course because then you would have a single reliability coordinator for the entire region. So we did approach SPP, but they have indicated that at this time they're not interested in pursuing that. And so we're in the process of preparing an RFP to go out and see what other entities would be able or willing to perform this role.

CHAIRMAN WOOD:

Stepping back including that item, though, what's the timeframe here? Again, yesterday --

MR. SCHNITZER:

You mean the whole proposal?

CHAIRMAN WOOD:

We've got five jurisdictions. You filed it with us. We're a sixth one. We've got a time -- just kind of walk me through what would be your dream scenario for the next "X" months because, for example, I got asked by a gentleman in the press yesterday what's the next step. And I think customers, when they see all these things, are going to want to know how do we get there, and the changes that may need to be made to accommodate some of our shared concerns here. We need to kind of be planning ahead here, so let's just kind of cut down to a schedule. What would be from the company's perspective as the filing applicant the ideal schedule for the next months ahead?

MR. NORSTROM:

Well, as I mentioned yesterday, I think our intent is to make the additional filings we need to make in the month of August, preliminary indications I think between Tim, our counsel for the company, and the jurisdiction's counsel, we can get through those in a month or two.

MS. DESPEAUX:

Probably later this fall we would hope to get through those proceedings, the various proceedings.

MR. NORSTROM:

And then we have --

COMMISSIONER DIXON:

Excuse me, is that around October or early November?

MS. DESPEAUX:

Yes, October, November. We think a lot of the -- we had several meetings with the retail regulators early on before we filed this, and hopefully that will serve as a foundation. You know, they're reasonably familiar with it, and we actually found those productive where we gathered all the retail regulators together and could, you know, get their view on that. So we would hope to be through our retail proceedings in the fall, October, November time frame.

CHAIRMAN WOOD:

Is that -- I mean, let me just ask my fellow regulators here, is that realistic?

MS. HOSTETLER:

Well, there will be a lot more information available with respect to the SPP/RTO comparison within a couple of months, so I would think that that would be a very logical part of the evaluation process that we all should engage in, and Entergy should as well because that may potentially totally change the dynamics of this discussion and the direction that they choose to head and that we all decide is appropriate.

CHAIRMAN WOOD:

Irma?

COMMISSIONER DIXON:

I think it's a welcome schedule. We're busy anyway. So it would be great. It will be great to get it started and just get rolling to see what we have.

COUNCIL MEMBER NORSTROM:

I think the council could certainly handle the issue of the ICT proposal by the fall, but as has been suggested, if we're talking about looking at the SPP, that would extend the analysis.

CHAIRMAN WOOD:

Mike, you mentioned yesterday --

COMMISSIONER CALLAHAN:

Mr. Chairman, yes, they -- we've been talking with Entergy about this proposal going back to January of this year, and they actually filed their filing in Mississippi in May, and it is scheduled to be heard the 25th and 26th of August. So while everybody else's is being filed, we expect to have a decision.

CHAIRMAN WOOD:

Okay. And Jess?

COMMISSIONER TOTTEN:

I'm not optimistic that we could do something that quickly in Texas.

CHAIRMAN WOOD:

From what we talked about yesterday, is a state approval required for Entergy to adopt a WPP/ICT or some version of that?

COMMISSIONER TOTTEN:

It's not clear to me that it would be required.

CHAIRMAN WOOD:

For the -- okay. Because the existing proceeding was to say if it qualified under state law for the purposes of retail competition in Texas, right?

COMMISSIONER TOTTEN:

Exactly. You know, what they're proposing here really has a different purpose, different focus. You know, if this were to serve as their facilitator for retail competition, then obviously it would need to be approved, but if it's solely for the purpose of wholesale, it's not really clear.

CHAIRMAN WOOD:

Okay. Mr. Smith, you mentioned yesterday that this -- one of the three things you mentioned, that this would not be a cul-de-sac on a road to an RTO long term. One of the things we notice in transitions of all sorts is that from one regime to another a claim for stranded costs, and while I appreciate your desire to talk with SPP if that's maybe an ultimate harbor for the ship, if it's not, is there some way you can guarantee that IT issues, computer costs, et cetera, would not become stranded costs that would later have to be recovered from customers once an -- in other words, I don't want to see the ICT stranded cost claim be a bar to a future path toward an RTO. How do you do some -- how do you make those sort of guaranties?

MR. SMITH:

Well, I think there's always a risk that a certain amount of that would, but the -- I mean, a lot of the -- what have we got here 15 million -- is operating costs related to that 24/7. I mean, we've already got the systems as it relates to our control area, and we'll have to add some or the ICT will have to add some computer capabilities and hardware, software, those type things, but I don't think that's a very large cost at all. Most of it is labor associated with the oversight piece, so I think it would be very little.

MR. SCHNITZER:

And, Mr. Chairman, if I could just amplify on that, in other circumstances with which you've had to deal, people were dealing a new control center, and all the attended real estate, hardware, software, remote telemetry and all the rest, what is proposed here for the ICT is a realtime feed off of the -- you know, it's a desk, a console off the operating systems, but it doesn't require a brand new control center or anything of that kind of nature. It just -- you just find a building with some fiber in it that the ICT could be housed in and then give them a console just like the Entergy operators have to have all that access.

COMMISSIONER DIXON:

Chairman Dixon, I think the realtime desks would not involve any newt technology. It would just basically say the Entergy system currently drives all the operating data, and it goes, I believe, largely to Pine Bluff to show them all, and it's within existing technology you could still give the people in Pine Bluff all that same information and give somebody else that same information at the same time unfiltered, and that would not involve any grand technological leap is my understand. It's not my field, but it's my understanding that it's possible.

COMMISSIONER DIXON:

I didn't really want to go there, but, you know, we're talking about communications over electric lines, and I don't know. I guess while we're looking and planning, we might as well start looking and planning. Thank you so much.

COMMISSIONER HOCHSTETTER:

To your point, Chairman Wood, though, I think that that's one of the reasons that the Commission docketed -- the Arkansas Commission docketed the proceeding several months ago, to look at the ICT option versus the SPP/RTO option because, you know, it seemed to us intuitively that the choice should be made, you know, at the outset to go one route or the other because there are so many different issues that arise as to who one would morph from one to the other or change gears, you know, once you've entered into long-term contracts, you know, even if they may be for five years. So I think the analysis of which option is in fact best on a net basis for the region. It makes a lot of sense to do, you know, as the first step, as a prerequisite to taking any action.

CHAIRMAN WOOD:

Mike, in your analysis of ICT savings versus the RTO alternative, I think I understand what you're saying about the enhanced WPP process and the $30 million. If you were to go to the RTO, would that have any impact on the existing WPP program and the savings you're realizing from that, and should we factor that into this analysis?

MR. SCHNITZER:

It's a fair question, and I'm not sure I have an answer, but it would -- the answer would hinge on what the provision of short-term transmission service procedures would be in SPP, and I'm not an expert on those because that's what the WPP would do for us and other network customers is grant short-term transmission service in a more efficient way.

CHAIRMAN WOOD:

Well, that's the inherent program.

MR. SCHNITZER:

That's one program.

CHAIRMAN WOOD:

And I'm talking about the existing program.

MR. SCHNITZER:

And the existing one stands right now on Entergy's existing short-term transmission service procedures. I'm not familiar enough with SPP's existing short-term transmission procedures to know how those compare. There may be others here, but I think we're going to have to get back to you on that one with an answer.

CHAIRMAN WOOD:

Fair enough.

COMMISSIONER DIXON:

I have a quick question. On the summary with the cost and -- benefits and cost, when you did status quo and when you did RTO alternative, that was a study that you did to come up with these two sides?

MR. SCHNITZER:

It was an analysis that was done, Chairman Dixon --

COMMISIONER DIXON:

In-house?

MR. SCHNITZER:

It was done, I think, and portions of this had been filed in the Arkansas proceeding, I believe portions of it have been provided to the City of New Orleans in response to an interrogatory request, and I think it would be part of our filing in Louisiana.

COMMISSIONER DIXON:

But is all of it in anything?

MR. SCHNITZER:

I'm not sure whether we just did jurisdiction level numbers in the filings or whether we put the system numbers as well?

MS. DESPEAUX:

In the filings we included the jurisdictional numbers, although I believe we have provided in discovery the system wide numbers to the City of New Orleans.

COMMISSIONER DIXON:

And you have, I guess, premises on all of this, and this is what you're ending up with.

MS. DESPEAUX:

Yes.

COMMISSIONER DIXON:

No way the incremental costs could be more on the RTO side? And give me a 1, 2, 3, if you will, on your real, real problems on the right side with the RT alternative.

MR. SMITH:

Well, we talked -- I talked about that yesterday.

COMMISSIONER DIXON:

I know I was jetlagged -- and by the way, my nods today, they really mean yes.

MR. SMITH:

And Michael talked about it before, you know, and the chairman from Arkansas has suggested that they're going to resolve that issue by October, and that's the --

COMMISSIONER DIXON:

So that, you think, will --

MR. SMITH:

That will determine this transmission investment. And like Michael said, really the devils will be in the detail for that to come out.

COMMISSIONER DIXON:

So you're thinking by October we'll be much closer with this and get a better feel what the savings is going to be. My concern is --

MR. SMITH:

That's what I appreciated come out of the SPP process. Okay. When you look at the SERUC study, I think you will appreciate what I've seen, and I think for some reason I know there is one other study, but I'm told last night that there might be another even, so that's three. I'm just curious because all of them, at least the two that I've seen, do show a great cost savings benefits to the rate payers, and I'm just wondering, and that's why I asked you give me your one, two, three, your best one, two, three on what your real problems are. Because if it's going to be beneficial, you know, that's something we really, really need to focus on quickly and start trying to act, implement if it's --

MR. SCHNITZER:

I need to make sure that it's clear that we see the ICT is a savings versus an RTO as specified today, so this is incremental costs to customers on the right side of the column.

COMMISSIONER TOTTEN:

Mr. Chairman, Chairman Hochstetter has expressed a view on how the discussion on funding for transmission is going to come out in the Southwest Power Pool, and she and I have gone a couple rounds on this, and we have I would say fundamentally opposing views, and so, you know, my expectation is that the discussion on that issue is going to come out differently. It's my view that -- and I think the discussion we've had here yesterday and today bears out that in this region, and I think it's true in the SPP as well, that the transmission system is not doing the job that it ought to be doing for us, and that it needs to be improved to bring economical power to customers more effectively and to give small companies better access to competing sources of power. And if you're going to do that, somebody is going to have to pay for those upgrades, and they're going to have to be broadly distributed. So my expectation is that out of the discussion in the Southwest Power Pool, there will be a process for identifying economical and market necessary transmission upgrades and for spreading the cost of those fairly broadly.

COMMISSIONER FIELD:

Kim, if I could suggest, since you haven't filed in Louisiana, would you please just go ahead and include in the filing everything that's been requested in discovery from the other jurisdictions rather than just our jurisdictional numbers because, since you haven't filed in Louisiana, if we want to have it timed where we have some answers from the SPP analysis as well and cost benefit study, we will need to move as rapidly as possible, and I think that would save some time.

MS. DESPEAUX:

We certainly will, Commissioner.

COMMISSIONER DIXON:

Just to piggyback on Commissioner Field, you do have a schedule for filing in Louisiana, don't we?

MS. DESPEAUX:

Yes. Well, we have a filing meeting, and then we anticipate we will be making the in early August probably next week, and we can go ahead and include all the information on this system-wide analysis as an attachment.

COMMISSIONER DIXON:

Are you going to be able to have all of that available?

MS. DESPEAUX:

We have the cost benefit analysis available on a system-wide basis, so we will just include it as an attachment.

COMMISSIONER DIXON:

Anything that you have, any study, information, anything that you all have really looked at in-house, procedures, papers, anything we'd like to have them.

MS. DESPEAUX:

Okay.

COMMISSIONER DIXON:

Thank you.

COMMISSIONER FIELD:

I forgot. This isn't one of the cases where you all are kind of dragging your feet on discovery. You've got incentive on this one.

MS. DESPEAUX:

We will make sure we provide it to you.

COMMISSIONER KELLIHER:

I just have a couple questions about your transmission planning. Your documents refer to it as a base plan. Is that something that -- do you have a current transmission plan the base plan represents or is this a new process that you're talking about?

MR. SMITH:

No, I mean, it's our current plan. That gets updated annually.

COMMISSIONER KELLIHER:

And the base plan currently is limited to upgrades necessary to maintain compliance with reliability standards; there's no economic aspects to it?

MR. SMITH:

That's where it starts, and then we look at like what we did with the Louisiana Commission, look at those opportunities for economic upgrades. So we've already been down that path.

MR. SCHNITZER:

Right. And I think, Commissioner Kelliher, what we anticipate is when this proposal or if these proposals are approved, that the current transmission plant, which Entergy does, which Mr. Smith has just described, we would then split it into the two pieces. There is no reason to split it right now, but we would then say, okay, here are the ones that are the base plan, and here are the ones that we think are for economics such as the -- I mean, south upgrades. And the ICT would get to basically pass judgment as to whether they agreed with that delineation.

CHAIRMAN WOOD:

So the base plan in the future would be more limited than it is currently/

MR. SCHNITZER:

Well, we don't -- we have a transmission planned today. I don't believe the term, the base plan, will only arise when we get this proposal approved. Right now we have a transmission plan, but were we to implement this and the ICT comes on board, then we would have to say, okay, here is our transmission plan, it's in two parts. Here is what we think is the base plan, here is what we think is for economics, but you, the ICT, who have been involved all along in the planning process, you pass your judgment as to whether you agree with where we drew the line, what's base plan and what's not.

COMMISSIONER KELLIHER:

But your current transmission plan reflects, in effect, the elements of the new base plan, those upgrades necessary to maintain compliance with reliability standards, plus those economic upgrades where state regulators have indicated they support rolling in those costs?

MR. SCHNITZER:

Right.

COMMISSIONER KELLIHER:

So that seems to be a bigger universe than the base plan would be in the future. The base plan in the future would be limited to that first set?

MR. SCHNITZER:

Yes.

COMMISSIONER KELLIHER:

Notwithstanding --

MR. SCHNITZER:

Or any projects that we've already rolled in as economic for our native load customers.

COMMISSIONER KELLIHER:

But the support -- what if the state regulators support rolling in some economic upgrades. What happens then?

MR. SCHNITZER:

That's goes into the base plan.

COMMISSIONER KELLIHER:

In the future?

MR. SCHNITZER:

No. We would base it. Let's suppose that this proposal were already in place, that were the ICT to agree, for instance, that the Mid South economic upgrades that have been discussed were economic and not reliability. They would make the judgment. But were they to agree that those were economic, then we would say those costs were recoverable only from Entergy retail customers. They would not go into the wholesale OATT rate base. They would basically say they were the beneficiaries, and that case would be the Entergy operating companies, and internal Entergy agreements would determine the allocation of those costs among the operating companies, but basically those costs would not go into the wholesale revenue requirement. That's how this works. That's why it's comparable. As I said, you know, the stuff that is determined not to be part of the base plan on behalf of Entergy, and is not treated any differently. Entergy would seek retail rate recovery for those costs but would not put them into the wholesale transmission revenue requirement.

COMMISSIONER KELLIHER:

But what if state regulators wanted to roll in certain economic upgrades in the future. Let's say your proposal as is, is approved, but the Louisiana Commission wants certain economic upgrades to be rolled in.

MR. SCHNITZER:

I'm sorry, when you say -- we're going to have economic transmission projects that benefit retail customers, be in retail rates, and if that's -- so that's in a retail rate base, but I don't believe that the state commissions or the retail commissions can cause something to be rolled in for wholesale purposes. I believe that you had control over what can be rolled in for wholesale purposes.

COMMISSIONER KELLIHER:

Okay. I had another question about the ICT. IF the ICT for some reason hypothetically would believe that a tariff -- Entergy had engaged in a tariff violation. Is there any limitation on there on what they would do? I assume they would not be limited contractually from filing a complaint at FERC.

MR. MOOT:

I think the course that's set out in the tariff provisions that we file is that they would file a report directly with the FERC. I guess we have not envisioned that the ICT itself would file a Section 206 complaint formally, but it would file a report, much as the market monitor would with the FERC, and the FERC would be free to undertake such an investigation or market participants. Could themselves file the 206 complaint, but the key linchpin to our proposal is that the information would be put in the public domain. The ICT wouldn't not have to preclear that with Entergy. IT could go right to the FERC and inform the FERC that there had been such a violation in its opinion.

COMMISSIONER KELLIHER:

And you could not limit their ability to submit that information?

MR. MOOT:

That's correct.

COMMISSIONER KELLIHER:

And you could not limit their ability to characterize the information? I mean, is it huge?

MR. MOOT:

We have stated that they do not have an obligation to preclear their reports, and so, you know, if they chose to talk with us before, that would be their decision, but they were not be required to.

COMMISSIONER KELLIHER:

And yesterday we talked a little bit about your discretion in terminating the contract, and there was the one general category about -- I can't remember exact words, but somehow a regulatory changes category. You don't think that kind of activity by the ICT would fall into that category?

MR. MOOT:

The ICT's action would not if it's theoretically possible that the ICT could raise an issue and that the Commission could act and so substantially propose to change t4he ICT proposal that Entergy would seek to exercise its ability to withdraw it, but nothing -- it wouldn't affect the ICT, it would not hamstring the ICT, it would just be an issue as between Entergy and its regulators whether we felt that the conditions were unacceptable or changed the bargain that we thought we had.

COMMISSIONER KELLIHER:

But do you think it's permissible for you to terminate the contract because of that kind of a filing?

MR. MOOT:

If the ICT were to make a filing saying I believe Entergy may have engaged in a tariff violation, could you terminate on that basis. I don't believe so. For that particular filing, I guess the only thing that could ever arise is I guess we could consider some activity that the ICT had engaged in might be a breach of the contract, but in that instance it would be the FERC that would approve the termination, so we could not do it unilaterally, but that's very unlikely.

COMMISSIONER KELLIHER:

And they would inform -- the same information they submitted to the Commission they would supply to Entergy, or would they -- that's a question.

MR. MOOT:

We anticipate them filing the reports with all the regulators and Entergy and they are made available to the market participants as well.

COMMISSIONER KELLIHER:

Thank you.

CHAIRMAN WOOD:

Just a final question from me. What is Entergy's five jurisdiction-wide revenue requirement, current year approximately?

MR. SMITH:

I think it's somewhat above $6 billion dollars, but I'd have to give you --

CHAIRMAN WOOD:

About $6 billion?

MR. SMITH:

Right.

CHAIRMAN WOOD:

And what would the transmission revenue requirement be for the same footprint?

MR. SMITH:

Well, the $6 billion includes fuel, so --

COMMISSIONER WOOD:

Fuel, power plants, transmission distribution, other retail services.

MS. DESPEAUX:

You're asking for the transmission revenue requirement? I think it's about $300 million, but I would have to confirm that with you. I think that's based on one of our recent filings.

CHAIRMAN WOOD:

So about 5 percent of the total that Entergy's -- okay. Thank you. Anything else before we go to the intervenor panel? We'll take a short break while the intervenor panel comes forward, and then after they're done we'll do some questions and invite you all to come back.

(A brief recess followed.)

INTERVENOR PANEL

CHAIRMAN WOOD:

We have an intervenor panel to talk about the issues that were raised in this half of the application, which is the ICT application. I do expect, as we did yesterday, a little spillover, which is not at all unwelcome since it's all really on the same transcript. I think we'll just start as we did yesterday with Mr. Newell on behalf of Lafayette, and we'll go right down the panel with Mr. Brown, and at that time, we'll do some "Q" and "A" and invite the folks from Entergy perhaps to come back up and then wrap up the panel hopefully around 1:00. Mr. Newell?

MR. NEWELL:

Thank you, Mr. Chairman. Good morning, and good morning other Chairs and Commissioners. I'm pleased to be before you this morning on behalf of not just the Lafayette, Louisiana Utilities System, but also the Louisiana Energy and Power Authority and the Municipal Energy Agency of Mississippi, the latter two of which are municipal joint action agencies operating and serving municipal wholesale customers in Louisiana and Mississippi respectively.

Before I get to the subject at hand, we had a good bit of discussion yesterday on some of the problems that Lafayette has had with transmission service and uncompensated redispatch, and there were several questions that I had committed to get back to you all on. I've actually done something even better. I have with me today two officials from the Lafayette Utility System, Mr. Frank Ledeaux and Mr. Edgar Rivera, and they'd be happy to address any further questions that you have about either the recent events that we discussed yesterday or the more persistent problem they've been having with uncompensated redispatch, and I'll leave it up to you, Mr. Chairman, as to when to take that up, but the folks with the answers are here, and they are at your disposal.

To the matter at hand, the ICT proposal and pricing, I guess we probably win the prize for having filed the longest protest of the ICT submittal, but I promise you I'm not going to try to summarize that lengthy document. What I'd like to do instead is touch on just a handful of points that I think represent key issues and that I hope you'll keep in mind as you evaluate the proposal. So if it seems like I'm jumping around a little bit, I hope you'll forgive me.

The first point really has to do with the question of the role and the function of the ICT, and I think we'll agree that in most areas what we're talking about is a role that consists of simply oversight and reporting. And the question really then becomes is that enough? And when I say enough, what I mean is, is it enough to ensure over the long term that Entergy conducts its transmission and market operations in a nondiscriminatory manner. And in that regard, I would submit to you that the authors of the wholesale market platform white paper that the FERC issued last year had it right on that point when they said that where a transmission operator also owns generation, there is an inherent conflict of interest that, and I quote, "Cannot be remedied through oversight and enforcement." And I think that is still a true statement, and I think it highlights very clearly what is probably the most fundamental defect in the ICT proposal.

In terms of ensuring that Entergy conduct its operations without discrimination, the ICT proposal relies on an approach that is correctly viewed as inadequate and ineffective. And I think we all heard quite clearly yesterday from a variety of market participants that there is a profound lack of confidence that the ICT would have enough authority and enough independence to solve the problems that have hampered the development of competitive markets in the energy region. And that, in my view, is a very serious problem.

So before leaving the subject of the ICT's function, there's one point I want to come back to very quickly. It came up in yesterday's discussions, and it came up again this morning when Commission Kelliher asked Mr. Schnitzer -- I'm sorry, it was yesterday he asked whether the ICT could be likened to an independent market monitor. I guess not too surprisingly Mr. Schnitzer agreed with that and went on to say that there is even more functionality for the ICT because it will have a 24/7 desk and so forth. I thought that was kind of an interesting answer because to go back and look at the filing, Section 1.1(B) of Attachment S to Entergy's April first filing with the FERC states in part, and this is a quote as well, "The ICT will not function as a market monitor, impose market mitigation measures or otherwise monitor bidding behavior and withholding."

So I think, you know, at that point on the limitation if you will, on the scope of the ICT's role, is driven home in a number of limitations on what role the ICT will play. For example, it will have no oversight or reporting role in connection with bilateral energy, capacity or ancillary services markets or on producement decisions made by Entergy either under the WPP or otherwise, and it also has no role, oversight or otherwise, with respect to Entergy's provision of transmission service for grandfathered contracts. The problem is that term isn't defined in the filing, and so we don't really know what the scope of that is, but if you go back, as we pointed out in our filing, if you go back and look at what Entergy had characterized as grandfathered contracts during the SETRANS discussions, it was a pretty broad category. So we're worried that there's a large carve out from even the oversight authority of the ICT.

So the long and short of it is that even granting a little bit of leeway for poetic license where you're trying to draw analogies, I think that the analogy between the ICT and an independent market monitor is really not a very good one. In truth, it's actually easier to say what the ICT isn't than what it is, and in that regard is one important point that I really think is important to stress, and that is that the ICT will not be a, quote, public utility, the defined term under the Federal Power Act. And what that means is that the FERC would not have any direct authority over the ICT or the performance of its duties. So if at some point allegations arose that the ICT wasn't doing its job or was favoring one set of parties over another, the FERC would have no authority to deal with the ICT directly on that point. It would instead have to work through Entergy, and Entergy confirms this in the answer they filed recently to get at the ICT.

Well, I think at best that's an unwieldy mechanism, and at worst it's going to be ineffective if the allegations are that the ICT is favoring Entergy. What would Entergy's incentive be to deal with that? So I think that's a very serious -- another very serious problem, particularly when you consider that the ICT's purported role here is to serve as the cop on the beat for -- in the Entergy region.

Let me turn quickly to the subject of independence. There's been a lot said and written on the subject, and I'm not going to belabor it, but there was one point that came up yesterday, and this is the point that Commissioner Kelliher raised again this morning, and that has to do with the provision in the form ICT contract that would allow for forced renegotiation, which really is another way of saying a right to terminate if there are regulatory changes. I urge you to take a very hard look at that provision and the rights that would confer. The triggering language is that renegotiation and possible termination right is triggered -- if those regulatory changes rendered an arrangement, quote, no longer viable for energy. There was one point that came up yesterday, Section 4.4. Now, it's all regulatory, but the purchases of energy in contracts before the FERC. Well, it may be common in contracts for purchases of energy or some other commodity, but I will submit to you that this is a very different sort of contract, and that the presence of a regulatory out provision, which is by the way not limited to initial review, it's a continuing right, is a serious issue, and here is why.

Put yourself in the position of the ICT. You're going to spend probably a couple million bucks maybe, a substantial amount of money, but, you know, a fair bit of change to put yourself in the position of serving as the ICT to hire the staff and all those full-time employees we talked about to have that 24/7 desk, and, you know the infrastructure may be less than a full-blown control center, but it's still going to be a pretty substantial investment that the ICT is going to have to make to get in place to serve that role.

And then you're charged with the duty of reporting to regulators if your oversight of Entergy's transmissions operations indicates that maybe they're doing something wrong. I would sort of put the question to you, how anxious would you be if you were in that situation to go to the FERC and say, gee, you know, look at what they're doing knowing in the back of your mind and probably in the front of your mind that energy -- that if the FERC then said, well, gosh, that is a problem, we're going to make some changes in this arrangement, that that gives Entergy a walkaway right, and it's going to leave you with a staff and whatnot, but no job as the ICT anymore. I think with that sort of Damocles hanging over the ICT's head, that it's unavoidably going to have a pretty profound impact on their willingness to be particular aggressive in discharging those functions.

Let me turn quickly to some of the discussion that's been had about whether SPP is a viable alternative that Entergy should be pursuing instead of the ICT proposal, and of course the Arkansas Commission has correctly put that very important question on the table, and I think we can skip over the arguments about state jurisdiction and what the transmission pricing eventually will look like. I think we dealt with those already yesterday.

But one part of the argument that Entergy made that I think does merit a moment of our attention is the claim that, gee, we can't evaluate SPP as an option because it's not a fully developed, full formed proposal. I think the terms they used was -- oh, what was it -- a fully specified proposal. Well, in my mind, the fact that SPP nay not be a fully fleshed out proposal right now is the very reason that Entergy should be in there with the rest of us in the trenches working to flesh out those details and to try to get the proposal molded in a way that they would find acceptable at the company level and that they believe their state regulators would find acceptable. There's just something, you know, and I point out in that regard, by the way, that, you know, it's true, yes, there are a number of provisions in the SPP proposal that are very much on the table, up in the air right now including things that Entergy had said are very important to it like transmission pricing and like what kind of markets eventually will take hold of the SPP. So for Entergy to claim that they support RTO formation but then they want to sit on the sidelines and say that SPP isn't viable because it isn't a fully specified proposal just doesn't to me make a whole lot of sense, but that's where they are right now, and that's where they appear to plan to stay.

If I'm not running over on my time -- and, Mr. Chairman, cut me off -- but I did want to say a couple of quick things on pricing because it is a pretty fundamental part of the package that's before us today. You know, I guess the old expression timing is everything may be true here. We talked a little bit about some of the economic upgrades that Entergy is pursuing actively right now, and believe me there's nothing wrong with upgrades to the transmission system. As counsel for Lafayette, I'm here to tell you that there is some improvements that need to be made, but what's interesting is what we heard this morning, is that all those economic upgrades they're making now are going to get rolled in. Those are going to get shared by everybody, but after the effective date for their revised transmission pricing proposal, economic upgrades for them or for network customers are going to get directly assigned.

So like I say, timing is everything, and it is interesting that as many of those are getting made now as they are given the treatment those will receive, there was also a discussion this morning of the fact that, well, there should be some confidence in the proposal on how to decide which upgrades are going to be directly assigned versus rolled in because the ICT is going to make the determination of what upgrades are subject to incremental pricing. What's interesting, though, is when you look at what happens in connection with that. The truth of the matter is when you go back and look at it's Attachment T of the filing, Section 1-A, specifies that Entergy designs the base plan, so once you design the base plan you've pretty much decided what's going to be in the category called supplemental. So you sort of decide by exclusion, which sort of decide by exclusion which facilities are going to get -- are subject to direct assignment and which aren't.

And the other thing is this is protocol U-1 of the filing. Section 1.3 states that Entergy is responsible for determining what upgrades are necessary to meet deliverability standards. So what you've got there is that we're going to design the base plan and they're also going to decide which upgrades are needed to meet deliverability requirements. So, yes, it may be that the ICT will make this determination of what is subject to incremental pricing, but I would submit to you that that's almost a ministerial task where the company determines what the base plan consists of and what upgrades are going to be needed.

And I'll make this my last point if I may. The and pricing issue is a very sticky issue, and what the company has done is to -- and what the Commission in 2003 was, well, if you've got an independent transmission provider, we'll allow you to combine both directly assigned upgrade costs with a rolled in access charge if the customer gets something back in 2003 what it said was financial transmission rights. Well, here we don't' have those, so what Entergy has tried to construct is something that says, well, here is some other benefits they're going to get back, and, you know, we're leaving aside the fact that we don't really have an independent transmission provider. What we have is somebody that oversees the transmission provider.

But jumping past that, here are some benefits that ware going to come back, and the big one they point to is this point-to-point service allowance. That, you need to keep a close look at. Our view if that is really illusory, and here is why. What it gives you the right to do is sell some point to point or use some point-to-point service free of charge from the resource in question to any load within the Entergy footprint. Well, the likelihood is who's going to be buying Entergy or energy from that resource. I'm probably going to be another network customer. Network customers can take service from that resource simply by designating it under the tariff as what we call secondary service or an undesignated network resource, and in fact, it looks to me like they might even get a higher priority of service if they do that than if they take point-to-point service.

So if you're selling to another network customer, this point-to-point allowance gives you nothing that isn't already there for a network customer. The other thing is when are you going to be able to do this? When are you going to be able to make these sales? Because by definition, that point-to-point allowance is on an as-available basis. That's another way of saying what you're going to be selling is nonfirm energy out of the resource, which means Entergy, you know, during off hours when the owner of the resource or the party that's buying from the resource doesn't need it.

Well, the likelihood is you're not going to get a whole lot of markup over the marginal cost of production of that resource in the offhours. So if the idea is, you know, by having this free point-to-point service you can make sales and get some dollars back that will offset your upgrade cost, I submit to you you're not going to get many dollars back selling off peak energy. You may get a little bit but probably not very much. So the long and the short of it is, and I'll end my piece here, when you look at all the costs and the benefits of this thing and what we really perceive is there's a lot of costs. We heard about it, 24/7 desks, however many full-time employees and however many millions of dollars that Mike Schnitzer had up in his slide. But what are we getting back? We don't see that we're getting back a whole lot. In return for that, we're getting a duplicative layer over Entergy itself, and I think as a practical matter we are constructing something that's going to prevent future RTO participation. I think there are going to be a lot of costs that are as a practical matter effectively going to serve as a disincentive for Entergy to ever join a full-blown RTO.

So our view is the costs outweigh the benefits, and we would much rather see Entergy participate in a full Order 2000 compliant RTO, and anything the commission can do to facilitate that process is what we think is the right course to pursue. Thank you.

MR. KELLIHER:

Mr. Newell, I just want to correct you on something that -- my question was for Entergy to explain the differences between an independent market monitor and the ICT not -- I wasn't starting from a premise that they're equivalent.

MR. NEWELL:

Okay. If I misheard, I apologize. I did hear a response being that --

MR. KELLIHER:

Right. I think the response was that the ICT would do some of the things like a market monitor, and it would do some things a market monitor wouldn't do.

MR. NEWELL:

Right. Okay. Thank you.

CHAIRMAN WOOD:

Our next panelist actually was on our very first panel when we first started talking about RTO development since we've been on the Commission, and I'm pleased to have you back, Mr. Biddle.

MR. BIDDLE:

Thank you, Mr. Chairman. Distinguished members on the podium, I appreciate being able to ask to participate in this. My name is Ricky Biddle, and I'm with Arkansas Electric Cooperative Corporation. We are a wholesale transmission customer of Entergy in Arkansas. We have about 1200 megawatts of load on Entergy, and we serve all of that under grandfathered contracts. Just so you understand where I'm coming from. And when I start looking at this, I have to look at it from AECC's perspective, and the first thing I ask is, is there any benefit to AECC, and the answer that I come back with is, no, there's not. I mean, it really does not diminish any market power that I can see. Then there is the question of who's actually burying the risk for the cost of this development, and that's not really clear. And I also have to say that when you look at this I don't see how you can view this in isolation of everything else that Entergy has got filed before you. And it's just one of those things that sometimes you have to look at the hole before you know whether there's really impact on market power one way or the other.

But when I look at the ICT proposal, basically one of the questions is, is this really temporary? And even Entergy admitted yesterday they don't know. So to the extent that it is temporary, how much money are we talking about spending on a temporary entity? And even there you're talking about something that's going to be built for a single utility, not something that covers multiple utilities, and so you're talking about spreading that cost over a very limited customer base. And then you have to look at what does it do and what authority does it have, and basically it has oversight authority in most situations, and as a friend of mine said, that's really a right to have an opinion, and really nothing more. And so you've got to look at all of those things, and then when you start thinking about the transmission pricing policy, if you think about in participant funding in its most extreme form, I think you ought to look at it from a market power issue and ask does this raise a barrier to entry? And some of the most radical forms seem that this is a question that has to be addressed.

Now, as far as the WPP is concerned, basically that is a benefit to the Entergy ratepayer customers, and it is not clear that only the Entergy ratepayer customers will be paying the cost of that. And so I think that all of the reasons that were valid in October of 2000 when the SPP and Entergy filed to form an RTO are still valid. There would be regional planning when you're talking about the Southwest Power Pool, you have an opportunity for regional markets. It is truly independent with someone with more than just the right to an opinion. There would be common calculations of either ATC or AFC, whichever way they want to actually look at it, and then there are certain seams agreements or seams issues that go away at least for AECC. I know it creates seams for some cooperatives in Mississippi, but it's just a matter of where is the scene going to be?

And finally, let me say that I think that the ICT would set a bad national precedent. Anytime you've got a single entity duplicating costs and really providing very little value and actually no diminishment of market power, then I don't see any reason for this to go forward. Thank you very much.

CHAIRMAN WOOD:

Thank you, Mr. Biddle. We now have Mr. Brian Adams from NRG.

MR. ADAMS:

Good morning. My name is Brian Adams, and I am the director of regulatory and governmental affairs for NRG Energy. Let me first begin by thanking the Commission for giving NRG an opportunity to speak at this conference. And, you know, I would have hoped to be able to tell you that I'm going to stay something different or something new or something innovative, but I think you're going to hear from me the same concerns you've heard from many of my colleagues yesterday, today and that you'll continue to hear from my colleagues. First, before I go into what our concerns are as it relates to the independent coordinative transmission and weekly procurement process. And for the weekly procurement process, I'll talk about its impact on transmission. I'll give you an overview of NRG Energy. We own approximately 3300 megawatts in CIRC Entergy which is coal- and gas-fired units of which approximately 1500 megawatts come from our Big Cajun II coal plant the remainder of megawatts are from gas facilities throughout the region.

Several of our companies are interconnected to the Entergy transmission system. They're wholesalers of power and have long-term contracts with the 11 distribution cooperatives in Louisiana with a load of approximately -- a peak load of approximately 2000 megawatts. We utilize network transmission service, firm point-to-point and non-firm point-to-point service in accordance with the Entergy OATT.

I want to begin by saying NRG fully supports nondiscriminatory access to the transmission system. We believe that nondiscriminatory access to the system will not occur until the transmission system is controlled and administered by an independent party. Once this occurs, we believe benefits will flow to all customers in the states and the region. These benefits include the efficient use of resources, which will flow to all of the customers in the region. Our recommendation is that FERC should reject the proposal in its entirety. While the proposal has the potential to provide modest benefits or enhancements to the system, we believe in its current state the cost of this proposal will substantially outweigh the benefits, and the potential for discrimination will continue to exist. Also, this proposal cannot serve as a substitute for Entergy's compliance to Order 2000.

Entergy should not be given the perks of independence when they're not proposing independence. The mere fact that the term "independent" is used in the name of the entity that Entergy proposes to hire does not make that entity independent. The current proposal does not meet the minimum requirements of independence. This lack of independence results first from the limited scope of the ICT's responsibility and authority, and second from the contractual arrangement between the ICT and Entergy. In addition, incorporated into this proposal is the weekly procurement process. This process as proposed will allow for discrimination. Entergy will be able to preferentially access low-cost power and avail itself and avail itself to the transmission system to deliver that power. While this may prove superior for Entergy, it is not superior to the existing OATT because this option in reality will not be available to other load serving entities in the region. The weekly procurement process will also impact the available transmission on the system.

When the AFC process was implemented we thought that this has to be better than what we're currently seeing. That wasn't true, at least not for us. What we're seeing as a result of that process is we're not able to get firm day-ahead transmission. We are able to get nonfirm transmission the day of, but we're not able to get firm day ahead transmission. Our concern with the weekly procurement process is that it will continue to create additional problems on the system and continue to create a situation where the available transmission and the available service will begin to continue to deplete itself on the system.

With us having low-cost cogeneration in the region, it concerns us when we're not able to bring that generation to the marketplace. In closing, let me restate that this proposal we believe is not superior to the existing OATT, it cannot serve as a substitute for compliance to Order 2000, and the cost of this proposal outweighs any benefits associated with it. Therefore, without substantial modifications, and even with substantial modifications, without a detailed plan and a schedule showing movement towards a regional transmission organization, the proposal should be rejected in its entirety. This concludes the comments of NRG.

CHAIRMAN WOOD:

Thank you, Mr. Adams. Next is Joe Marone from Occidental Chemical.

MR. MARONE:

Good morning. My name is Joseph Marone, and I'm the director of power purchasing for Occidental Energy Ventures Corporation. I'd like to thank the Commission for sponsoring this technical conference and for inviting Occidental to participate on this panel to discuss the very important issue of transmission access on the Entergy System.

As one of Entergy's largest customers and as a generator, Occidental brings a unique perspective to this discussion. For many years Occidental purchased retail electric service for both its Convent and Taft facilities from

Entergy Louisiana. At Taft, Occidental developed a cogeneration facility that is a QF. The Taft facility is capable of producing 778 megawatts of power. After supplying the electric and steam requirements of the Taft plant, the Taft facility has approximately 400 megawatts of merchant generation capacity available for sale into the wholesale market. The facility is located in the Amite South geographic region of Entergy's service area, a longstanding load pocket, which remains today severely constrained.

Occidental Chemical filed a protest to the ICT proposal because there are real issues that need to be addressed with respect to access to Entergy's transmission system, and the proposed ICT will not address these issues. Quite simply, the ICT proposal is a distraction from the real issue facing the Commission and Entergy's competitors, which is the need to address Entergy's continuing incentive and ability to operate and control its transmission business to the disadvantage of competition.

I will discuss first the overall unreasonableness of the ICT proposal and second describe specific examples of issues relating to the availability of open and nondiscriminatory access to Entergy's transmission system. The ICT proposal is not a solution to discrimination actual or perceived. Even if this ICT had authority to require Entergy to adhere to the rules, tariffs and procedures by which

Entergy operates its transmission business, and the protests that have been filed with this Commission amply demonstrate that it does not have such authority. It will not fix the problem, because Entergy continues to demonstrate its ability to foreclose competition within the very rules, tariffs and procedures the ICT would ensure that are followed. AS this Commission has recognized, the longer the vertically integrated transmission provider can use access to interconnection or transmission service to delay or prevent entry of competing generators to its service territory, the longer it can profit from its own generation of sales with a limited threat of competition.

As a vertically integrated utility, Entergy continues to have incentives to administer the business and disadvantage its this advantage was competition. This was painfully evident to Occidental and other QFs when Entergy in administrating the generation and balance provisions of their FERC interconnection contracts deemed that QF output to be going to serve wholesale transmission schedules first and host industrial loads second. This practice was not evident just from reading Entergy's tariff. Once it was brought to light, however, Occidental and other QFs protested it, and this Commission found it was unreasonable and unduly discriminatory and that it resulted in charges that were excessive.
Moreover, the Commission found this practice effectively

excluded QFs from the wholesale electric energy market in the Southeast, and then Entergy increased its market share by forcing QFs out of the market.

Well, this particular issue of access was resolved. It highlights an important lesson. How Energy interprets and applies its tariffs and rules, not only the terms and languages of tariffs and rules, it is critical to whether it is fulfilling its obligations to provide nondiscriminatory access. Entergy in its answer in the ICT docket makes much of the role of the ICT in detecting discrimination, noting your statement in Order 2000 that the instances of actual discrimination may be undetectable in a nontransparent market, and in any event it is often hard to determine on an after-the-fact basis. Entergy's reference to your statement is ironic because it highlights the fundamental flaw in Entergy's approach. The market here is not transparent. Indeed, the Commission has highlighted this very concern to Entergy about its AFC methodology. The AFC proposal is not sufficiently transparent and could allow Entergy to discriminate in favor of its generators when assigning transmission service. Entergy can and does administer the rules, tariffs and procedures in ways that foreclose competitors from access to the wholesale markets and benefits Entergy's generation arm. It is rather telling that Entergy has not presented you with a solution that adds transparency. Instead, this ICT overseer, despite its purported authority to detect discriminatory practices will have no rights under the Federal Power Act to seek redress for any such practices. The ICT will not stop Entergy from exercising its transmission of market power. The ICT will not enhance Occidental's confidence that Entergy will not discriminate. In fact, Occidental's confidence would decrease.

I'll focus on three examples of Entergy's ability to foreclose competition by its administration of its transmission function all with one exception arguably within the rules. All raise issues as to the availability of open and nondiscriminatory transmission access on Entergy's system. First, Entergy's implementation of the AFC methodology began on April 27, 2004, and there's been a profound impact on Occidental's ability to sell power from its Taft generating facility into the wholesale market. Before then, Occidental regularly obtained transmission service such as Entergy's OATT to support bilateral negotiated sales of power in the wholesale market. But since the AFC methodology took place, even non-firm transmission for power sourced from the Taft facility has consistently been unavailable. As a result of the implementation of the AFC methodology, the Taft facility for all intents and purposes is restricted to selling its excess energy to one buyer, Entergy, at the Entergy set avoided cost rate. Entergy's avoided cost prices, however, have historically been lower than the prices that can be negotiated in the bilateral market. This provides Entergy's generation arm with the opportunity to profit by reselling the lower priced PRPA power at higher market prices. To illustrate the amount of power sold in the wholesale market, we decreased from about 25 percent of the total excess generations sold for the month of April to about 9 percent for the month of May, the first full month under the AFC methodology.

Also, Entergy made changes to its avoided cost methodology that depressed the avoided cost price Entergy pays QFs for wholesale PRPA power. Clearly ICT oversight will have no impact on the discriminatory results of the AFC methodology as those results are grounded in the rules that the ICT were purportedly ensured are followed.

Before moving on to the second example regarding Entergy's failure to relieve congestion, I pause to clarify what I said was an exception to the examples I was describing, being Entergy's discrimination within the rules. Occidental requested that Entergy provide work papers explaining the reasons for the denied transmission service request under the AFC process. The Commission specifically required that the right to obtain such work papers be included in Entergy's OATT to address in part the Commission's concern that the AFC process was not sufficiently transparent. After two months, Entergy has yet to comply with Occidental's request. In fact, Entergy didn't even acknowledge Occidental's request until Tuesday of this week. That acknowledgement, however, merely explained that Entergy did not know when it would be able to provide the requested work papers because they were still working on getting software in place. Those two months after the request and three months after the process was implemented, nothing has been done to address the AFC's lack of transparency. Occidental recommends that instead of spending time and resourcing exploring the ICT proposal, Entergy, market participants and regulators would be better served if Entergy fulfilled its existing obligations under its OATT and provided nondiscriminatory transmission service.

My second example addresses Entergy's ability to foreclose competition by delaying economic transmission upgrades to relieve longstanding congestion. A prime example of Entergy's exercise of its dominant transmission position is the severe import capacity limitations in Amite South, which predate Entergy's 1992 merger with Gulf States Utilities Company. Entergy testified to this Commission over ten years ago that one of the benefits of the merger with Gulf States was to be the elimination of the Amite South transmission constraint.

Imports into Amite South remain severely constrained, and Amite South remains a load pocket. Now generation located in a load pocket like the Taft QF logically should be able to access transmission to service that load. Under Entergy's implementation of its AFC methodology, however, Entergy's system seems to be an exception to the rule, because transmission access to this constrained load as well as load outside the constrained area just isn't consistently available. Entergy's reluctance to relieve congestion is not limited to the Amite South region.

Indeed Entergy's chief executive officer in a speech to investment bankers in 2000 regarding the then planned merger with FP&L, stated that to make money in the transmission business and I quote, "You have to have growth, you have to have a greater for transmission service in your territory. You need the users to identify their sources and their syncs, so you have information available that the market place does not have, and congestion is a good thing. It's a good thing because it provides complexity, and with complexity is going to provide opportunity if you can solve the problems." The entire text of that speech is included in my filing if anyone would like to read the entire thing.

CHAIRMAN WOOD:

Included in what?

MR. MARONE:

It's included in our filing as an attachment.

CHAIRMAN WOOD:

Got it.

MR. MARONE:

Thus, Entergy's overall reluctance to relieve congestion is hardly surprising given the chief executive officer's opinion that congestion is a good thing. Such a view is entirely consistent with the practice of fostering congestion in order to provide an environment suitable for use of its transmission market power. This ICT will have absolutely no impact on this problem. My last example also illustrates Entergy's administration of its transmission business to the disadvantage and to the benefit of its generation arm.

As I previously explained, Entergy's application of its AFC methodology has driven the Taft facility from the wholesale to avoided cost sales under PURPA. Entergy has recently changed its avoided cost methodology, and I cite the process by which Entergy has pursued approval of those changes to demonstrate that the corporate ties between generation and transmission within Entergy continue to prove problematic for transmission access.

First, Entergy's avoided costs are set by Entergy's wholesale merchant function, EMO. Entergy's statutory obligation under PRPA for the purchase of energy from QFs is also administered by EMO. Entergy has applications pending before the state commissions of Louisiana and Texas for approval to modify its methodology for calculating its avoided cost payments. The modifications include certain assumptions about the ability of alternative sources of purchase power to access the Entergy transmission system, both externally and internally. Basically, these ignore the possibility of the existence of internal congestion. Based upon these assumptions, the avoided cost calculations produced substantially lower purchase prices offered to QFs than if those assumptions are not used. In Texas, the QFs including Occidental challenged the reasonableness of these assumptions. In response, Entergy arranged for a transmission function employee to proffer testimony endorsing the reasonableness of these transmission assumptions in its generation affiliates' methodology.

Under the principles of independent functioning and equal treatment, we reiterated in Orders 2004 and 2004A, a transmission function employee should not be taking sides in a dispute regarding a purchase price used by its wholesale merchant function. A truly independent transmission provider would have not interest in the merchant functions purchase price it offers to competitors. That Entergy administers its business to provide for this kind of activity creates at a minimum an overt perception of discrimination. The inherently suspect and discriminatory nature of such activity by a transmission provider is only highlighted by the fact as I discussed above Entergy's new AFC methodology drives QF competitors from the bilateral wholesale market to a voided cost sales under PRPA. Entergy transmission's ability to force QF sellers like the Taft facility out of the wholesale market under its AFC methodology and to favorably influence the avoided cost purchase rates that its merchant function pays those QFs raises serious market power issues that warrant investigation and proceedings open to participation by all market participants affected by Entergy's transmission market power. The ICT would not prevent such instances of anti-competitive behavior, it would not enhance market participant's confidence.

In closing, I would like to stress that the ICT proposal is not progress but a step backward. In recommending that the ICT proposal be rejected, Occidental is not advocating nothing being done in the interim. Occidental respectfully requests that the resources being expended to address the ICT proposal be redirected to an investigation into Entergy's discriminatory administration of its transmission system and the prescription of meaningful mitigation measures to Entergy's transmission market power. Entergy's claim that such discrimination action does not exist highlights the absurdity and of reasonableness of asking this Commission to charge Occidental and other customers the cost to hire an ICT whose mission under contract would be to oversee that Entergy complies with obligations that Entergy asserts it is already fully satisfied. Such an investigation, like this conference, should be open to participation by all market participants so that the Commission will have the benefit of their incite into the issues of transmission access on Entergy's system. That concludes my opening statement. Thank you.

CHAIRMAN WOOD:

Thank you, Mr. Marone. Next we have representing the East Texas Electric Coops, John Conway.

MR. CONWAY:

Thank you, Mr. Chairman, and thank you, State and Federal Regulators. John Butts, the chief executive officer of the East Texas Electric Cooperatives, and Bob Gross were also here. They may have had to leave early to catch a plane, but otherwise I believe they're behind me if we need to get into or the Commissioners want to get into some technical questions. They're certainly available. The East Texas Electric Coops, Sam Rayburn and TEX-LA, were involved with Entergy and have been involved with Entergy for many years. We buy power from Entergy, we buy transmission from Entergy, we work with Entergy, we're co-owners in generation resources with Entergy. We were working with Entergy on the development of their Transco proposal. Indeed in the later provisions of that Transco proposal, the facilities of the East Texas Coops were part and parcel of what would have been the Transco. We work very closely as transmission owners with Entergy and others in the development of the SETRANS proposal. We know what can be done, and that's why we're looking for Entergy's filing here as to what more can be done short of providing an RTO.

Let me be very blunt. We need an RTO in our area. We do not have competitive markets. When we go out to the market to buy power as I was informed this morning what happened yesterday on short-term spot power, while we could locate cheaper power, we could not get it in because of transmission constraints. We need competitive markets, and we need the transmission access. But short of an RTO, what can happen?

As to ETEX's proposal, the East Texas Electric Coops can live with the ICT and its limited functions. We don't see much benefit there, but if Entergy does, we can live with that, and the weekly procurement market does not give us much benefit, but nor does it give us much harm. The participant funding proposal however is something we cannot live with, at least as provided by Entergy, and the reason is as has been stated by others but as a general reason is we view it as a way of keeping out competition, not growing competition.

Now, Entergy provided both in their initial pleadings and today an excellent example going through numbers of how their proposal can work, and I am not going to attack that example or numbers. Mr. Schnitzer is very, very good at this, I wouldn't dream of it, and there's nothing in here in terms of his numbers that I could fight. However, what I want to point out to the Commissions, this is an example that views the question of whether or not to build transmission in isolation, in isolation from benefits when looking at a particular example, and these examples, if East Texas Electric Coop finds a cheaper generator or bills a cheaper generator and needs transmission to bring that generator on, cheaper than the one it's buying from now, and let's say in our example that would be an Entergy System generator, then when you switch generators something happens in the transmission line, load is coming off of the line. The lines come unloaded that had been loaded before. That's not part of this equation. The second thing that's not part of this equation is the benefits that accrue in the future to the entire system. When you build transmission facilities they are lumpy just like building the generators in the old cost of service days, and in the future there will be benefits to the whole system, particularly when you are as we are network customers. But more fundamentally this isolated exampled of how a I look at participant funding through Entergy's lens, doesn't take a count of what we believe should be done, what is done in, I believe, PJM, which is the concept of clustered transmission studies, the concept of Synergy, and I'm using that in the adjectible (sic) word, not in terms of this.

Q. With an "S"?

A. Not a "C."

Q. But when you do your transmission studies into the future, are you looking at an isolated incident and request by isolated incident? And if you do, I will suspect that you most often come up with very high numbers, or you looking at them in groups. And this raises, of course, the question Chair Hochstetter had raised, I believe, yesterday in terms of the regional planning. And by regional, you know, does Entergy do this across the five-state region? I don't know. And there were two significant things I would point out that tells me they may not. The first is what we refer to in our comments as the Louisiana study, and I believe it was the study that was discussed yesterday here by Commissioner Field and by Chairman Dixon, a study that shows I think it's $78 million worth of transmission investment. There can be somewhere around $220 million of benefits to the ratepayers over a 20-year period.

By the way, for the FERC Commissioners a copy of that study was provided in the Occidental comments as one of the attachments to it. They've given you that study. But as I understand it, that study was mandated by the Louisiana Commission. And this raises a question, Commissioner

Kelliher, that I would like your energy and get into more in responding to what you had asked earlier in the concept of doing reliability planning and doing economic planning and let's get a little bit more detail. Does Entergy do that economic planning now? Do they do it when required to do it by a State Commission or on their own? When they're doing it, are they doing it in clustered transmission studies, or are they awaiting for someone to come forward and say we need transmission, and therefore, in an isolated snapshot view come up with the costs they come up with, which would be representative here, which I believe are very high, and I think you might agree. Because --- and here is the second point I would leave you with. This dichotomy between reliability planning and economic planning is something that I would strongly suggest you be very careful in using those words in setting up that dichotomy.

As a practical matter, I believe that engineers can focus on what is reliably necessary for a system upgrade. But when you're looking at economy upgrades, you're going to be looking at reliability issues, and you're going to be looking down the road, and for years utilities did both at once. We heard something -- I heard something interesting yesterday when the chap -- and I don't recall his name -- came up from the Entergy planning process came up to answer some questions and talking about doing reliability studies, and I believe that gentleman talked about how in the past they looked at economy, but the economy studies had fallen by the wayside. And that is the danger here. To divide the world up into reliability camps and economic camps and studies, that is something that regulators can pass, and they do, but then it will be something that lawyers will argue and fight over. And the problems boil down to what are the benefits provided by any upgrade, no matter what it's done for. Who are the parties that receive those identified benefits?

Now, on a network system the commission's consistent view has been when you upgrade the system as a whole, the whole system benefits. Well, who now will make that decision, and that's why the Federal Energy Regulatory Commission has utilized the concept spelled out most lately in 2003 that if you're going to do these sort of things, you have regional planning over a wide area, you have an independent -- truly independent control of the transmission system, you have a planning process that includes all the existing transmission, and you have an open stakeholder involved planning process. That was the recipe in SETRANS. That is not here. That's why for that whole list why we have -- ETEX has real problems with participant funding.

But where do we go from here? It was good to hear that Entergy did respond, as I understood correctly yesterday, it should be pursuing seams work with SPP. I wish they would explain more in their answer back to the Federal Energy Regulatory Commission, how that would be and to move on that. We would also be good to see that they have an ICT that is not just independent but doing more of the control also that they can include other transmission facilities who want to be included under the ICT's control if it's broadened. Can they start and Entergy start building something to be sure of short of an RTO but a lot better than what's here? We think they can.

And to that effect, where do we go from here? I would suggest two things. Entergy in it's answer to the Federal Energy Regulatory Commission agreed -- I believe it was with the Arkansas Commission, that the Federal Energy Regulatory Commission not proceed to judgment until it had heard the results of the Arkansas Commission proceedings and maybe other states. As I understand, I believe Entergy in its answer had suggested that was a good idea, although, they talked about it in the context of the ICT. In fairness, they were talking about the entire package. But I would take -- in addition to that, I would suggest also that the Commission, the Federal Commission, could find that the pleading, and this is the formula, it's not the end judgment of course, but the pleading may be unjust and unreasonable, set the matter for hearing and for settlement judge proceedings. Then we can start a stakeholder process or I should say that this technical conference, I believe, has started that sort of process, but to continue that sort of process in a form that can develop something that can truly bring benefits to the region, benefits to East Texas, and deal with some of the other problems you've heard. Thank you very much. And if you have any questions, I'd be delighted to try to answer them.

CHAIRMAN WOOD:

Thank you, Mr. Conway. Now we end the panel with Nick Brown who is CEO of the Southwest Power Pool. Welcome.

MR. BROWN:

You'll probably be pleased to know that the last speaker on the last panel will keep his comments short and sweet, and I'd be happy to entertain questions. I think a statement was made earlier this morning and yesterday that Southwest Power Pool was not interested in discussing the ICT proposal at this time, and please let me clarify that my position is simply that earlier this week I was not prepared to execute a letter of intent for Southwest Power Pool to serve as ICT for Entergy.

Clearly, we've been in discussions, and I have no problem continuing discussions. We just wanted to stop short of executing a letter of intent moving us further in that direction. The reason is quite simple, and Entergy stated it themselves yesterday. SPP is in pursuit of RTO recognition, recognition that we do not currently have. Hopefully we're this close, but we desperately need closure and certainty in that regard, and that is our highest and something that we need to keep in the forefront of our focus at this point in time.

It should be of no surprise to anyone that Southwest Power Pool would love to have Entergy as a full member of the organization. However, short of that, it makes perfect sense to the extent that the ICT proposal does go forward and clears the regulatory processes for Southwest Power Pool to serve in that capacity. We have a long history with Entergy's operating companies, four of which were charter members of Southwest Power Pool, and all of the operating companies are former members of Southwest Power Pool. You can take a look at any transmission map and see a magnitude of integration of Southwest Power Pool members and Entergy's operating companies.

The one thing in the ICT proposal that I see great merit to is to the extent SPP served as that ICT, having SPP be the regional security coordinator for Entergy. Clearly, short of their participation in the SPP, that is a step in the right direction. It is consistent with one of SPP's value proposition of evolution versus revolution. I think at the end of the day the real question would become if the ultimate result or in state is Entergy's participation in Southwest Power Pool as an RTO, as a member of the RTO, is this getting us there sooner, or is it delaying that. I mean, in my mind that's the real question. Our staff struggles with that, and our board struggles with that. It, again, is a step in the right direction. The question is does it propel us toward our desired in state or does it slow that in state down?

Clearly providing services to non-members under a contract-type arrangement is not new to Southwest Power Pool. We have been working in administering transmission service over AEP's eastern facilities for many years. We have done so very effectively and in a very efficient fashion, and it's been mutually beneficial for both AEP and Southwest Power Pool. So again, we stand ready to reach out. Again, as I stated earlier, we would love Entergy to be a full member of Southwest Power Pool, but our organization is voluntary and it is very much member driven and a stakeholder collaborative process. We would like them to be a member of Southwest Power Pool because they believed it was in their best interest. Again, I entertain any questions and am pleased to be here.

CHAIRMAN WOOD:

We heard about a seam issue yesterday, Mr. Brown, with Lafayette. What -- just help me with the geography here. What -- south of the AEP System, what other members of the Southwest Power Pool are there, kind of south and east --

MR. BROWN:

Yes, City of Lafayette is a member of Southwest

Power Pool. CLECO is a member, but CLECO's transmission facilities are not currently under the Southwest Power Pool regional tariff. We do serve as City of Lafayette's regional security coordinator. We are not the transmission provider of service to the City of Lafayette, however, so it's kind of an interesting arrangement. They prefer us to be their security coordinator, which is fine, and we serve in that capacity. But in that role we are calling for TLR to protect the integrity of the transmission system, but it's the facilities of Entergy and other transmission owners that we're making those calls on.

CHAIRMAN WOOD:

Mr. Newell, who does the planning for Lafayette, transmission-related type planning? Does Entergy do a few as you're being a network customer of Entergy or --

MR. NEWELL:

Mr. Chairman, with your permission, this might be a good time for me to ask Mr. Ledeaux to come to the microphone if that would be okay with you.

CHAIRMAN WOOD:

The podium is on.

MR. LEDEAUX:

My name is Frank Ledeaux. I serve as engineering and power production manager for the Lafayette Utility System. As far as the transmission planning, we have our own transmission system, and we conduct our own internal process to deal with that, but we also coordinate with the Southwest Power Pool and Entergy to share information with them as well. The transmission that we buy primarily is for our base load unit, which is the Rotomaker II unit. We purchased a 50 percent share in that unit in 1982. We buy firm transmission for our share from CLECO. The problem that we've run into is at various times of the year last week we've been asked to redispatch. That's been to TLR-5's, a number of TLR-4's in the last two weeks that have occurred. We've had to redispatch generation. Apparently there are constraints that appear on the Entergy system that require Lafayette to reduce its generation on the Rotomaker coal unit, on the CLECO system, and raise generation, gas generation, internally in Lafayette. To give you an idea of the cost to Lafayette, our coal generation is somewhere around $18 to $20 a megawatt hour. The gas generation internally in Lafayette is $75 to $80 a megawatt hour depending on gas prices, so it's a significant cost to us, but we have redispatched in order to maintain the reliability of the transmission grid. But obviously we're redispatching in order to relieve constraints on the Entergy system and sometimes on the CLECO system.

CHAIRMAN WOOD:

And the redispatch order for that event came from?

MR. LEDEAUX:

It comes from Southwest Power Pool.

CHAIRMAN WOOD:

And that came because of data you got as to the loading on the lines in Entergy's system?

MR. LEDEAUX:

Yes. We coordinate with Entergy serving as the security coordinator for their area. We have also had requests to redispatch at the TLR-4 level to prevent going to the TLR-5 level on several occasions, and we've accommodated those requests as well in the interest of reliability of the area.

CHAIRMAN WOOD:

From your engineering point of view, what's the solution to this?

MR. LEDEAUX:

Transmission improvements.

CHAIRMAN WOOD:

Where exactly, on your system, on Entergy's system, somewhere else, CLECO's system?

MR. LEDEAUX:

I think on both systems it's probably necessary, and there is some discussion ongoing now between CLECO and Entergy, as I understand it, for some proposed improvements that they're going to share with Lafayette once they come up with a solution they think will work.

CHAIRMAN WOOD:

And the nature of your transmission from Entergy is as a network customer under the 888 tariff, or is it some preexisting?

MR. LEDEAUX:

We have a preexisting agreement with Entergy, but we're taking service under a point to point.

CHAIRMAN WOOD:

And just to switch gears, Nick, is curtailment of a point-to-point customer a reliability issue or an economic issue?

MR. BROWN:

Oh, anytime we curtail transmission service that's a reliability issue.

CHAIRMAN WOOD:

Okay.

MR. BROWN:

We don't curtail for any economic reasons.

CHAIRMAN WOOD:

Thank you. Mr. Marone, you had quite a few interesting thoughts there, and I expect that we will want to follow up on a number of those outside this meeting, but it's customer affecting when a prior practice as we just heard, when a prior business relationship is degraded, and the quality of service is degraded. Let me make sure I understand correctly what you said happened to the Occidental plant that you referenced after the AFC program was introduced. You gave two numbers, 25 percent and 9 percent. What were those? Were those with you or systemwide?

MR. MARONE:

Those represented our merchant capacity's ability to sell into the market. It was 25 percent of the total of that available power prior to implementation and dropped to 9 percent the first month afterward. Basically, the enhancement of AFC made transmission capacity disappear. A few more enhancements --

CHAIRMAN WOOD:

The goal was the opposite.

MR. MARONE:

Yes. Well, a few more enhancements like this, and we're going to have some serious problems.

CHAIRMAN WOOD:

Mr. Biddle --

MR. MARONE:

And the other thing I'll point out is the day afterward we had a transaction cut because of a lack of transmission capacity, and that sale was to Entergy at our bus bar. So with -- I built in the load pocket in a severely constrained area, and the first day of full implementation at AFC. I had a sale to Entergy cut because of lack of transmission.

CHAIRMAN WOOD:

Mr. Biddle, if SPP performs the ICT function, i.e., Entergy does not join as a full member of SPP but SPP were to step forward and win or take or do the bid to do the ICT functionality that we heard described from the company, what -- so in other words, it's just an SPP in two different roles kind of comparison. From your perspective as a customer that straddles that scene, what are the impacts of that, both pro and con?

MR. BIDDLE:

Well, the SPP would only be taking up a limited number of functions.

MR. WOOD:

Right.

MR. BIDDLE:

Well, I guess because they would have an independent power monitor that would be involved, there would be some benefits there, but the two primary things that they would be doing is the security administration and the AFC calculation. Both of those would be -- by being done by a single entity, the it really reduces some of the discretion that is there. And a lot -- the electric power system is such a complex entity that there are discretions that can be made, and they will be viewed differently from different parties. Some will view them as adverse, and some will view them as advantageous, just depending on where you are at the time, but those are the two primary things that I see that become an advantage. The other aspects that we're talking about, I'm not sure that they really provide any benefit to me anyway.

CHAIRMAN WOOD:

So the ones that would, would be the common security coordinator and then a common AFC?

MR. BIDDLE:

Well, I guess I did miss one. There is the regional planning aspect of it, too, that that would then be folded into the regional planning aspect, but there again it depends on how that's defined under the contract.

CHAIRMAN WOOD:

Jimmy?

COMMISSIONER FIELD:

I'd like to ask maybe the rest of the panel how you would view the SPP. It says take it on without limited responsibility. Does it eliminate some of your concerns, or is it about the same? Could you all comment on that, please.

MR. BIDDLE:

I missed part of your question.

COMMISSIONER FIELD:

You had just responded to Chairman Woods' question, and I just wanted the rest of the intervenors, the panelists, to comment.

MR. ADAMS:

This is Brian Adams with NRG. I think whether it's SPP or whether it's any entity, our concern will be if the entity is as limited in its scope and its authority as what's proposed by Entergy, even if SPP is doing it, I still have the concern is that entity truly independent?

MR. CONWAY:

Commissioner Field, ETEX in our comments to the Federal Energy Regulatory Commission, we're particularly concerned about the lack of stakeholder process in the development of the entire energy package, including the development of the ICT. But we also said that if SPP took over that job, however limited the ICT might be, that would certainly remove our concerns, vis-a-vis, the stakeholder development of the ICT. So in that respect it would be a plus. I think when you have somebody who would have the weight of an SPP doing reliability coordination, that would also be a plus.

COMMISSIONER FIELD:

Thank you.

MR. MARONE:

Yes. Commissioner, I think I'm looking for transparency, independence and information, and I think if I have those three things and I have a problem, I think I can come to your commission or this commission and get resolution, and it's at least the first step. So those are the three things I'm looking for.

COMMISSIONER FIELD:

Do you think if SPP fills that role, it would answer those three issues, transparency and --

MR. MARONE:

I think it certainly has the potential to do so, yes. Much more so, I would say, than the ICT.

MR. NEWELL:

Commissioner, if I may respond. If the concerns that we have are less tied to the identity of the party that's serving the function as it is to the limitations on the ICT's authority and the contractual provisions that we think would impair its independence, and I think those concerns would exist whether SPP is serving as the ICT or whether it's any other entity that might step into that role. The second concern I have quite frankly is whether SPP has the resources to serve that function simultaneously with getting up to speed as an RTO, and what we heard this morning was a pretty substantial number of full-time employees. Now, unless the functionality of the ICT could somehow be folded in easily to the existing SPP structure, I think you're going to have some real resource problems just in terms of stretching what they have and trying to gear up to provide this service. You know, we've seen in some rapidly expanding RTOs in the country that even well-staffed organizations can be pushed to the limit as to what they can achieve when they take on additional functionality, and I'm concerned that can happen here.

COMMISSIONER FIELD:

Let me ask you this. Suppose you had a couple specific points that you went over, and I won't go over them, but, I mean, I don't know how Entergy feels about possibly amending some of the contractual provisions that gives some of the stakeholders a concern that even if SPP as an independent source were administering it, it would be strong enough, but to me that seams like a possible solution to the transparency and the independence and them maybe look at the contract itself and some of those provisions to see if they can be modified at all where we could have more of an agreement on moving forward. Because I think the Federal Commission as well as the State Commission realizes we need to go to a regional concept of some sort, and that's why I was asking the questions. I would ask Mr. Brown if you could comment on whether you think SPP has the resources or could add the resources and personnel to carry out the function.

MR. BROWN:

Yes, we can add the resources. I have no concerns about that given the timetable that we had previously discussed with Entergy. The challenge on implementation of these types of services, though, always becomes one of timing, you know. If someone wants it done tomorrow, then obviously it's going to cost a lot more and be a much bigger impact on the organization trying to implement the provision of service. To the extent it can be carefully planned and thought out over a six- to twelve-month period which my understanding this would be between a six- and eighteen-month period for implementation, then that pretty much alleviates any concerns that I have for ability to attract staff, get them hired, in many cases relocated and performing the service.

COMMISSIONER FIELD:

I guess Mr. Newell is correct that your first priority right now is to obtain approval of RTO status.

MR. BROWN:

That is exactly correct.

MR. NEWELL:

If I may add one comment, you know, we think in terms of the alternatives here. You can have -- you know, the alternatives are finding a way to get Entergy into the SPP in which instance we don't have to worry about, you know, this ability to serve this other function. And more importantly something we really haven't talked very much about, if Entergy were to come into the SPP, you would eliminate rate pancaking between systems over a very broad area. So even if SPP --

COMMISSIONER DIXON:

Can you repeat that, please? Excuse me. Can you repeat that and speak a little bit closer into your mic. I'm not getting everything.

MR. NEWELL:

I apologize. If SPP were to bring Entergy in as a full member and Entergy were to participate as a full member, you would eliminate transmission rate pancaking for transactions between the Entergy system and the SPP member systems. And that's a very important part of trying to form a regional market. Even if SPP could serve the ICT function and not be stretched to the breaking point, and even if we could amend away all the problem provisions in the contracts that we've talked about, you still would have two separate structures with rate pancaking. There's been no discussion in any of the ICT submittals to suggest that Entergy is prepared to do away with charging a transmission export charge for sales into the SPP. So you would still have a vulcanized market. You'd still have a segmented market. Whereas, folding them into the SPP does away with that.

COMMISSIONER HOCHSTETTER:

And, Mr. Newell, that's -- as a matter of fact, you just pointed out kind of a key disconnect that I think we need to clear up here, and that is that just by virtue of SPP serving as the ICT, I'm not sure that's going to change the ICT proposal, so it seams like we need to kind of sit down and compare, okay, what are the functions that Entergy is, you know, willing for an ICT to do over here if it is SPP, and then, you know, on the other side of the ledger, what are the things that SPP could do for them if they were in the SPP as an RTO, and what would the benefits be to all the market participants and the rate payers, and, look, you know, look at the things on the ICT short list and look at the longer things on the RTO list and see, okay, what are the costs and the benefits of those two categories of things. And it may be that we need some additional technical conferences or some perhaps smaller meetings, you know, for stakeholders and interested commissioners where we explore, you know, those two different lists. Because, you know, even if Nick and them did perform the ICT function, your still not -- if you're going to hold pure to Entergy's ICT proposal, you've still got the deficiencies of not doing regional transmission planning to identify economic upgrades, you know, when you save more money on generation than you've expended on transmission. You've still got the rate pancaking issue, which particularly impacts municipals and I guess coops and QFs and others between control areas, and then the economic dispatch and participation in markets and one control entity.

So I think that we need to -- if we're going to talk about SPP being either the ICT or the RTO, we need to do this apples to apples list, so that we don't get confused and think that, you know, one is the same as the other. And I don't know what -- you know, that might be a suggestion, Mr. Chairman, that you all want to follow up on in terms of where we go from here in our next steps, because I think it would help all the regulators if we looked at, you know, those very specific lists of functions and costs and benefits and get everybody's input on that.

COMMISSIONER TOTTEN:

One of the concerns that I've heard is that this proposal for an ICT is very much a sub optimal solution as compared to an RTO and that if it were to be approved, then utilities in parts of the country that are not in an RTO today might decide that this is the right solution for them, and so that in the long run the approval of this proposal might actually impede development of RTOs in parts of the country, and I wonder if the members here could comment on that.

MR. BIDDLE:

Well, since I was the one that really said that first, I will, and I think that that's one of the precedents that has to be viewed. I mean, is this something that is replicatable in other parts of the country, and does it get you where you want to go? I mean, in effect, is a single system with some form of oversight whatever it is suitable to achieve the outcome that you're looking for in the long term. And I don't think so because you in effect vulcanize the system as it has been in the past, and, you know, if we want to go that way, I think regulation did an extremely marvelous job over the period of time that we've been there, and we cannot assume that we're going into a market and just have unregulated monopolies. That just will not work.

And so if we're going to go toward something where there is a competition, then we need a platform on which we can compete, but if we want to stay with regulated entities, I think that's all right too because I think the regulators do a good job controlling the cost.

MR. NEWELL:

I think you've put your finger on a very serious problem. I mean, I know -- I think we can confirm, you know, what's known publicly that Southern Company has expressed interest in how this is going to come out. I've been on public conference calls, one of these dial-in conferences that you pay to participate in where Jim Carr said the Carolinas are very interested in this whole concept. So, you know, there are portions of the country that have not yet seen fit to comply with Order 2000 and have held back and are very much watching what's going on here.

And I'll tell you, you know, my concern -- not to get too philosophical here, but one of the few things I remember from my political science courses was this thing called policy slip where an agency states a very aggressive policy, and then over time, you know, it has to sort of be modified to bring in proposals that don't quite meet the policy, and eventually over time the policy winds up being diluted so that what's left really bears very little resemblance to where you started out as your policy. And I'm very concerned that that could happen here if this proposal is accepted. I think we'll wind up seeing a lot more filings just like it or maybe even worse, and eventually what the Commission stated as a very strong pro consumer, pro competition policy in Order 2000, we'll wind up being diluted to the point where we will no longer recognize it.

MR. CONWAY:

I would add another point onto that. Entergy in its pleading, in its filing with the FERC made it clear that it had designed its proposal in great regard and consideration for what it perceived to be state regulatory interests and preserving them. That is something then that the state commissions can respond to and answer and thereby working with the FERC to find what it is that will be a viable precedent, and by precedent, I mean practical, implemented, regulatory work within the state's sphere and within the federal's sphere of how to get competitive markets that protect retail and wholesale negative load in place. So I would -- and I hope this is not considered to be impolite, but to turn the question around, that is if Entergy is looking for guidance as to what it can do, the commissions are very well positioned to give them that guidance and should.

COMMISSIONER CALLAHAN:

Well, Mr. Conway, I think Entergy's filing was an attempt to try to placate between the Federal Commissioners on one side and the State Commissioners on the other side. And we thought they had done something that was -- you know, we don't necessarily like it, but it may be something that moves the ball. In the last two days, all I've heard is how terrible this thing is and how it's just horrible, we don't like this, and we want this. So Mr. Newell and Mr. Biddle, my question to you is if your choices are RTO or nothing, which seems to be what you're kind of advocating because I do not want to go to an RTO, and I will fight that tooth and nail, and I will try to keep it tied up in court for as long as possible, changing administrations, change everything. We don't believe in Mississippi that RTOs are the answer for our consumers. And if my son gets up and running or SPP gets up and running and they show us they can do it and they can do it well and they get the market flowing, then maybe we'll look at it. But we have perceived this to be a good first step, something that allows -- we met with the merchant plants back in November or December. We thought the weekly procurement process would be very good to help them get some of their power on the grid and get it sold, to help them out of their financial situation. They complained about not having flexible enough instruments, they couldn't bid in two- or three-hour periods, so we gave them a whole week where they could bid anywhere from one hour to all seven days 24/7 if that's what they wanted, and all along all I've heard is it's terrible, terrible, terrible, terrible. So if you're leaving me with my only options of being either go full-blown into an RTO or do nothing, I'm going to choose to do nothing. Is that what you want, Mr. Biddle and Mr. Newell? Is that what you want, nothing?

MR. BIDDLE:

Well, it wouldn't surprise me when somebody disagrees with me, but if you're asking me that question, if I would choose nothing over the ICT, the answer is yes.

COMMISSIONER CALLAHAN:

So we could get something in place that might be able to stretch all the way from North Carolina all the way down through the Southeast to the border of Texas because, like you said, Southern Company and Jim Carr in North Carolina -- everybody is looking to see if this could be approved by the FERC and by the State Commissioners in this area, in these states. And if you could and they would jump on board and you could have this setup, something -- I mean, you know, we're trying to remedy discrimination in the transmission system.

We're not trying to form a whole new market here in the Southeast I think time and time again the Southeast Commissioners have said we really don't want to go down that path. We're trying to remedy the discrimination, and we believe that maybe this is something that is nearly tailored enough to remedy the discrimination in the transmission. I don't think it goes quite far enough quite frankly, and that's something that we'll flesh out in our hearing in Mississippi in a month. I think there are some things that need to be added, maybe some integrated resource planning, maybe a little bit of control of some other things, but I really can't delve into that because I've got something in Mississippi.

I'm kind of constrained about what I can say. In fact my attorney is probably e-mailing me now telling me to shut up. But nevertheless, if you can do something that can address integrated resource planning, security coordination that has this independent monitoring and oversight of the transmission. Is that not better than the status quo? And if you can add something that will go all the way through the whole Southeastern Region where you're not just having Entergy. And right now it's Entergy standing by themselves; But what if Entergy and Southern Company and what if the Carolinas and Duke and everybody said, you know, we like this, this is a good first step, we'll do that, and then we'll let MISO and SPP and everybody else haggle out the issues, and you know, in five or six years if they're up and running and SPP and MISO are doing well, we may consider forming our own or joining them or something else. Why is this not a good first step to get to where we want to go five or ten years from now. Why do we have to do everything at one time?

MR. BIDDLE:

Chairman Callahan, you vote, I don't, but you've raised an issue that has not been clearly identified in this case. We're talking about what happens within a single utility. You have multiplied it across multiple utilities. I don't know, you know, it's one of those questions that if you say a single entity can do this, well, then it is really within the discretion of the individual public service commissions within those utilities what they do. To the extent that you start moving across utilities and across multiple states, that makes it much more difficult to get agreement on exactly what you're talking about. Now, would Southern Company and Duke replicate exactly what we're talking about here? I don't know. I mean, there is --

COMMISSIONER CALLAHAN:

But we can all agree that they're watching what happens here.

MR. BIDDLE:

Absolutely, and will they take what, the details, or will they just take the principle that a single utility hiring a semi-independent entity to watch over them is okay.

COMMISSIONER CALLAHAN:

I mean, I think that Entergy and Southern and really every other utility in the Southeast, they're kind of caught between a rock and a hard place, between the federal regulators and the state regulators. And they're probably to the point where they're ready to throw up their hands and try to do something, and I'm not by no means defending Entergy, but they worked on a TRANSCO. They've worked on SETRANs. They've worked on this since January this year trying to do something. And quite frankly the last two days they've just sat here taking a beating. You know, if I'm CEO of Entergy, I'd probably shut my notebook, go sit in my office over here on whatever floor I'm on and say, listen, you all tell me what to do and I'll do it. You know, and in the meantime, you know, let me get my cost recovery from the Feds, let me get my cost recovery, and you all go fight it out, and you all just tell me what to do. I am at my wits' end. You know, I can't make the stakeholders happy, the feds happy, the state regulators happy. I've tried, and I just don't know what to do anymore. You know, I'm tired of being everybody's punching bag. I'll just give it up. You all take it and tell me what to do.

And quite frankly I could see where they would be at that point. I'm at that point. You know, I think when I do my third term in 2008, I can be right back here. We'll be having these same issues. And what we're trying to do is move that ball and get off this. And I think as a -- you know, it's very hard, you know, in a political arena. It's very hard to get politicians to take these huge, humongous steps because, you know, if it goes bad, you just ended your career. You know every order I sign possibly ends my political career in the state of Mississippi. So there's a lot of inertia in politics because if you just -- you know, if you don't do a bad job, you just keep things the same, you can ask for a promotion from your constituents and go on. And so when you start talking about changing the whole market structure of an industry that has worked well in your state, that has brought in economic development, that has brought in the Nissan plants, that has brought in Dupont along the Gulf Coast, that has brought in the shipbuilding, and you look at your casino industry and how yours rates at your casinos compare with everyone else in the country, and you see how cheap you are. TO do a wholesale market structure change is very scary because that's the one economic development tool we have in the State of Mississippi that is working and working well.

So I don't think it's unrealistic from our standpoint to say, you know, we understand the ball needs to be moved, and we don't want to move the ball, but we're willing to sit down and we're willing to move and go to this incremental step and try to remedy the discrimination in the wholesale market assuming there is, and I think I've yet to see -- you know, I've heard everybody say it, but I haven't seen a court case that would prove that they were discriminating. But let's assume there is discrimination in the transmission that Entergy is doing. I would think this would be a good first step to move that ball. It allows the mice over in the other markets to develop. It allows us to watch their development, learn from their mistakes and make sue that we don't spend the large sums of money on our consumers to make a mistake. And, you know, what I like most about this plan that Entergy has put forward, it costs Mississippi ratepayers nothing. It is in the band. In Mississippi, they're under a performance base rate base. And our allocated share will keep them and their banta they're earning under the system agreement. So we can actually do this plan, and my consumers will not see one change on their electric bill.

Now, if we've got a process that will allow the merchant generators the ability to try to get some of their power onto the grid, if we have an oversight committee or an oversight company, an independent, that's going to look at Entergy and make sure they're not doing their discrimination -- and I agree, I think there are some things that need to be added to that, I don't think it's complete. I agree with you, Mr. Conway, it is not complete. There are some things that need to be added, and that will be addressed in Mississippi in a month. And then it won't cost my consumers any money. How is that a bad -- how is that bad for me? And how is that bad for you all if you're beginning to move the ball somewhere as opposed to us and Chairman Wood fighting and snarling and growling at each other and maybe ending up in the Supreme Court. I mean, if getting something done and moving the ball, how is that bad?

I know it's not what you want. It's not what I want. I'd prefer to do nothing. It's not what the FERC wants. They would prefer us to go some other way, too. So if nobody is real happy with it, maybe it's a pretty good settlement, and maybe it's a pretty good deal, and maybe it's a pretty good first step. But, yet, no one here the last two days has wanted to do that. It's like we all want all or nothing. I mean, we're all watching Texas Hold 'Em. We're all going all in. We're going all in, you know. Do the flop, the turn in the river, and let's see what happens. Well, let's kind of pull back a little bit and play it a little bit more conservative, and, you know, especially in a region of the country that, you know, we've got a pretty good thing going in the electricity industry, not to say it can't be better.

I will concede it can be better. But before we jump down on this market structure, let's look at other people and make sure we do it right before we take that investment. And that's the only thing that I just -- you know, I would have thought in the last couple days it would have been some good or somebody saying, and I think Mr. Conway did say that he was not totally opposed to the ICT or the WPP.

MR. CONWAY:

ICT or the -- but we had -- and I tried to lay it out as clear as I could why this particular type of participant funding would hurt customers. And, by the way, I would debate or at least would like the opportunity to talk about that the same problems we had with it in our neck of the woods your own customers might have as well. But the concepts and the concept there was short of an RTO. Obviously Entergy has come into the filing saying it needs a sort of guidance. Can it do something more short of the full RTO that does protect the wholesale, us guys, and the retail guys, and how do we get a process to start that going? That process has started here.

I think on the other thing there is a sense of that frustration you're hearing from this side of the table. I know it's -- I can only speak for myself and for ETEX. This plan was developed, and my understand was there was consultation with the states on this, but there was not the sort of stakeholder consultations that we had seen through the TRANSCO process and the --

COMMISSIONER CALLAHAN:

And certainly through the SETRANS process.

MR. CONWAY:

The SETRANS process. Now, but can that process begin, and that's one of the reasons we had -- I was suggesting utilizing a mechanism called the so-called settlement mechanism. There might be others. Because you all obviously have to talk. Because in the end result, with all due respect, sir, you make those political decisions on your career, but those decisions can mean the difference of whether a business continues, if people are employed, or in our case, the cooperatives, how much, you know, does it cost us to keep our lights on.

COMMISSIONER CALLAHAN:

Absolutely. And that's why I do not understand the pushback on the weekly procurement process, because we are trying, we are trying to implement the merchant generation into the system, to get them all, to see if they can give our consumers cheaper electricity, to see if we can retire some of the older plants, and what we heard back in November -- we talked to the merchants that came, and quite frankly not all of them came in because some of them were selling electricity, and they didn't want to come. But we talked to the merchants that came in, we talked with Entergy. We then went back and talked with the merchants.

And I thought that that the weekly procurement process would make them extremely happy. Now, for those of you -- you know, everybody says, well, that's not a market. No, that's not a market. I mean, that is a process that Entergy is going to use in order to get cheaper power for their retail customers. That's all the weekly procurement process is. It is also an opportunity for the merchant plants to bid into that system and sell their power. And, you know, looking at the bids -- and after that, we looked at the bids, and I hope the merchants understand that when you bid in the Southeast, you know, you're -- everybody is talking about, well, they're favoring their generation. Well, you see a third of their power is bought on that wholesale market.

And two of the merchant generators that have plants in Mississippi did not come to that meeting because they're selling. Also you've got to remember you've got TVA you have to bid against which a taxpayer funded power, and they give pretty cheap bids, and you have the Southern Company that also plays in that pool. So there's a wide pool that you have to beat in order to get on Entergy's system. Not to mention you have SeECA which owns part of Grand Gulf and other places and if they're not selling they will try to bid in as well. So it's very competitive. It's very competitive. I hear you about the transparency. After touring Entergy's system, after touring Southern Company's system and then going and touring

Reliant's system, I will say that there are -- they may needed some transparency issues here in the Southeast. I could see where that could get kind of frustrating. I'm not totally, you know, deaf on that.

But I just have really been shocked by the pushback we've gotten here today, especially yesterday on the WPP, which I thought would be very noncontroversial. I was really surprised at that.

MR. ADAMS:

Well, Commissioner, I think one of the things you have to look at with the WPP is we are a load-serving entity, and you talk about the WPP giving Entergy the ability to go out and buy more. They have that option right now. What the WPP will do is give them the transmission to be able to deliver that power. I have 2,000 megawatts worth of load, they have 20,000 megawatts worth of load. Two things will occur. Those IPPs that are out there will not sell to me because I only have 2000 megawatts worth of load, so they're going to exclude me from that market. Once they exclude me from that market, they're going to take the available transmission, grant it and deliver to that load. So they keep me out on transmission, and they keep me out from the low-cost power that I would like to use to deliver to my 2,000 megawatts of load. The 2,000 won't compete with the 20,000.

Well, what you want to do is give Entergy some benefits to provide to Entergy's ratepayers at the benefit of my customers, then that's fine, then it is a very good process, and it is a very good proposal.

COMMISSIONER CALLAHAN:

Well, why are you assuming that I'm going to bid for Entergy and not bid for you? Because again, like I just said, if I'm bidding to get Entergy's business, I'm having to bid against TVA, the Southern Company and other companies that I may not be able to bid. And maybe TVA and Southern Company don't want to bid because you're so small. But I don't understand why you're assuming that these guys aren't going to bid for your load just because they can go bid for Entergy's. So, you know, I just don't see that assumption. The second thing is, with regard to transmission, they're going to turn their -- once they get their bids, it's my understanding -- somebody correct me if I'm wrong -- they're going to take that to this independent coordinator and say, all right, here's the power we want, you coordinate it and you schedule it. How is that going to hurt you? Because now you have this independent entity that actually will be coordinating and scheduling everything on the system. How is that hurting you?

MR. MARONE:

Because the redistribution of negative resources could consume transmission that you had previously been using. So with a limited number of buyers to be able to access from my plant, I could end up with a situation where if I'm not successful in the WPP, I end up going into the week with no transmission at all because it's been redistributed and redirected to somebody who won the bid and is now a resource. So then I end up with one person to sell to, and that is not a good situation.

CHAIRMAN WOOD:

But what have you been doing before now? I'm up here. What have you been -- who have you been selling to prior to this program going in? How did --

MR. MARONE:

We've sold to multiple entities. We've sold to Entergy.

CHAIRMAN WOOD:

Under firm point-to-point, non-firm?

MR. MARONE:

No, it was nonfirm to Entergy and some of it short-term firm to Entergy, TVA, Southern.

CHAIRMAN WOOD:

First of all, where are the work papers? I remember this part of our order. Mr. Schnitzer, I don't know if you would know this, but someone from the company may. I think there was a -- in this particular program, which is a precursor to kind of what we're talking about here, and the track record is important for us as we look at these issues from a wholesale market perspective, and I was concerned by the issues raised here. It might be better for you all to file a complaint, and then we can deal with this in that format if it doesn't get resolved. But just since it was raised on the --

MR. MOOT:

They did their own procurement and we did our own procurement. What we did when we filed the proposal is we offered an enhanced procurement for Entergy. The customers came in and said that's discriminatory, you're not offering it for us. The Commission ruled against them, and said, no, Entergy can propose this for itself. We went back and redoubled our efforts after that even though you had ruled for us to see if we could come up with a way to put them on the same footing, and we have. Today we do our own procurement, they do separate procurement, and we both request transmission. Tomorrow if the proposal is approved, we will both do separate procurement under the same rules, under the same tariff.

CHAIRMAN WOOD:

How does that result, though, just big picture? How does this program which was intended to more efficiently optimize the transmission to make it available, how does it result in less being available for a historic customer?

MR. MOOT:

It doesn't, Chairman Wood. There is always the possibility that one customer getting one source of supply will deny that supply to the other. It could go either way. We also have a hold harmless provision to make sure that any customer that participates in the WPP will not come out of it worse than if it went into it with its own set of resources.

MR. SCHNITZER:

If I could just amplify, the basic OATT is first come first serve, and nothing that we're doing here disturbs that, so previously granted firm service as we said yesterday is preserved in the weekly procurement, and all the requests out of the weekly procurement are treated as being made at the same time in the weekly procurement. There's no priority given to Entergy's bids over anybody else's. Anybody who comes in through the weekly procurement, network customer or point to point, is treated by the optimization as having made that request at the same time, but it's still after the weekly procurement is ended we're still back to the OATT which is first come first serve, and all previously granted service out of the WPP will be honored and service will be sold incrementally based on that. But that is no different than today. That is no different than today.

MR. MARONE:

I'm the only person who's built new generation in this load pocket in quite a while, and if it's first come first serve and the utility is trying to push as much power into the load pocket as possible, I'd like to understand who got in front of me, and there's nobody that I even understand is there. So I'm not sure how this works. I do know that there is a distinct inability to get information even with a FERC order in your hand.

CHAIRMAN WOOD:

That was the source of my question. The substance I think we'll have to get to later. But where is this man's information?

MR. COMAT:

Right. My name is Greg Comat. I'm an attorney with Entergy, and I can respond to your questions regarding the AFC process. And the way I'd like to do it if that's okay with you, Chairman Wood, is I'd like to talk about the overall AFC process and then talk about Occidental's concerns in particular.

CHAIRMAN WOOD:

You know, we've actually got 11 more minutes before this panel wraps. If you could just answer my question, he asked for work papers, which our order said should be available so that some self-enforcement can go on and the FERC doesn't have to get in and do these things on behalf of wholesale customers. Can you get this man his information?

MR. COMAT:

He already has some parts of his information that we can give them, and let me explain. The work papers that go into a decision to deny or grant transmission service is basically the model, okay? So we model the current system conditions to test whether additional transactions can be granted, and that model is the work papers.

CHAIRMAN WOOD:

Does the model have output that can be provided?

MR. COMAT:

Yes, and in fact we post all daily peak hour models and monthly models right now. Oxy has access to those models right now, okay? Oxy has also requested hourly models. When we went to the AFC process, we shifted from using one hour as representative for may different hours and instead now calculate specific models and specific transfer capability assessments for each hour on a day ahead basis. What this effectively means is that the hourly models are constantly recalculated, and they're based on our EMS system. In other words, they're not based on the PSCC MUST software. That's kind of an offline planning model that's available to everybody throughout the industry. They're based on the EMS real-time data, and they're frequently updated. So for example, for 6:00 a.m. tomorrow, there's going to be approximately 43 different versions of that one particular hour created throughout the AFC process. So where you actually end up is through the entire year there is going to be approximately 365,000, 360,000 hourly models created, and these are EMS-based models.

Now, when we went to the FERC to get approval for the AFC process, we made the Commission aware that we can post daily peak hour models, and we can post our monthly models, and we can even probably find a way to convert some of the EMS-based models to a format that customers can actually use to evaluate, but we noted that we didn't have that ability right now, and the Commission approved our posting and asked us to come back to them and ultimately figure out a way how we can post these hourly models in a way that helps customers understand what's going on right now in our system.

CHAIRMAN WOOD:

And what you all have requested, Mr. Marone, is what?

MR. MARONE:

We requested the work papers in conjunction with the model runs that denied us the transmission access.

CHAIRMAN WOOD:

Which were denied on a daily or an hourly basis?

MR. MARONE:

I believe it was both, and I would say that you have a much greater ability to get a detailed answer than I do. The best I've been able to get in two months is a phone call that says I've received your request and the software is not available. So I think I'd like to have an opportunity to investigate his answer a little bit.

CHAIRMAN WOOD::

I think that would be nice if you could talk to this gentleman. Actually, you know, you all need to just deal with this between the two of you all and get your customer happy, and you find out what you've got that's information, and why don't you all handle that. I have a couple of more questions because we're now running out of time. Nick, on just process-wise, the letter of intent, it was just a decision not to execute one at this time, or a decision that you would not do one?

MR. BROWN:

Oh, just at this time.

CHAIRMAN WOOD::

Okay.

MR. BROWN:

Again, we've got a lot of things in the air, and as I stated earlier we just need closure on our RTO pursuit.

CHAIRMAN WOOD::

Okay. Great.

COMMISSIONER DIXON:

Mr. Chair, just so you won't leave unended, I've already requested a meeting with Mr. Marone and his situation with Entergy. I've pulled that out aside. We will settle this one. Thank you so much.

CHAIRMAN WOOD::

Commissioner Field?

COMMISSIONER FIELD:

No, I didn't have a question at this time. Thank you.

CHAIRMAN WOOD::

Kind of a bigger picture question for the Entergy folks. I guess I heard a little bit different nuances than Michael did, but I read and heard both I think more nuanced support for the WPP and less so for the ICT, and I wonder kind of the linkage between the two is based on a convenience or is there -- can the WPP-type program be done on its own independent of these other responsibilities?

MR. SCHNITZER:

Mr. Chairman, the weekly procurement was initially proposed on its own. At that time, it was contemplated to be abridged to SETRANS, and so that was why it was originally proposed on its own because -- well, SETRANS was hoping to become effective shortly. The day two portion of SETRANS was going to take a little while longer, and so for integrating the merchant generation we were then looking at even in the best case a three- or four-year kind of a period where we wouldn't have day two markets, and so that was the genesis of the weekly procurement was as a bridge. And so it was proposed on its own and it could have been implemented and could be implemented on its own.

Subsequent to that, with SETRANS going on hold, you know, Entergy then looked at what incremental progress might be made short of an RTO and developed the ICT proposal. We thought at the time that if we're going to have two proposals, each of which had some independent oversight, that it made sense to think about them as one, if you will, and that's why they were proposed that way. But if you decide that -- if everyone collectively decides that they want the weekly procurement and they don't want the ICT and we don't go into an RTO, because as I said earlier today or yesterday I don't know how to do the weekly procurement inside of SPP unless SPP does the whole thing. So if you're asking is there an option for Entergy to stand alone, do the WPP without the ICT, I think that technically that option exists. It's not the company's proposal, but I think that option exists.

MR. MOOT:

And I would just add, Mr. Chairman, just to be clear, the very first WPP proposal had independent oversight so what you would be saying in picking WPP but not the ICT, if you say, okay, go hire somebody independent but don't have them do anything other than the WPP, and that's one of the reasons why we felt it made sense to put them together because we were expanding the independent oversight much beyond the WPP.

CHAIRMAN WOOD:

That's fair. I just wanted to understand if there was something else involved in the proposal that wasn't evident to me yet. Commissioners, any thoughts?

COMMISSIONER DIXON:

I guess the question is where do we go from here?

CHAIRMAN WOOD:

What do you think?

COMMISSIONER DIXON:

I don't know. I go back to the thoughts we had last night. We had initially started trying to meet at NERUC, SERUC, wherever we could, just the state commissioners to just get a feel for what we felt and how we thought we could start forming if we needed to form or do something about transmission or what have you. And in the discussions last night, it seems like the colleagues and I think that that might be a place to start where we have Texas, Mississippi, Arkansas and Louisiana and New Orleans come together with these entities or the best stakeholders and try to just bash out a little of some of what Mike talked about and maybe try to look at a little of what Sandy talked about, a little of what Jimmy was speaking of, and of course Texas and just try to get it all together appreciating thoroughly, you know, coming down and having us take a good look at it. I think this has been a bit of an eye opener. I didn't know we had from here to here. My job in most cases is kind of finding that middle ground or seeking that middle ground, seeing if we can bring people closer to the middle. And I think if we at least started our efforts we could at least start moving closer. I mean, we've got a lot to look at. We've got proposals. We've got three studies that are out there that everybody hasn't even looked at yet, and I'm just thinking that we need to kind of come together in our own right and start getting a feel for what direction we want to go in or how we want to come from here to fruition or even to propose to you all what it is we're really interested in.

CHAIRMAN WOOD:

I mean, I know we're hearing and I think I was pleased at the setting here because we're really all in this on the same level. I mean, it's not -- FERC is concerned here because of the transmission access issues and the wholesale sales issues that we've heard about from different perspectives over the past couple days, and you all have a lot of issues that are related, and so as we've seen through the whole RTO debate, you can't really say state issues here, wholesale issues there. They're packaged together. And, Michael, I appreciate the concerns about it. I wish you wouldn't kind of prejudge the whole RTO thing before as I know

Sandy's worked on with Nick's group here. These issues get off the ground. I mean, I think there is probably a virtue to being in on the front ground and defining it so that it benefits customers as opposed to wait until it's fully formed and you're either in or you're out. But, I mean, that's a call I think that we don't have to make here.

It's going to be difficult, and I sympathize with where the company is because, I mean, Arkansas and Mississippi at least kind of directionally I know neither one of you have voted on dockets, but I think it's going to be a challenge for you, Dear Irma, to work this out, and I think what's unfortunate is while we're doing this a lot of money is sitting on the table that customers aren't getting in their pockets that are just being lost to inefficiency. And I think that is -- that ought to be our core goal here, and I see probably a couple of different ways to get there;. Certainly the one we've seen elsewhere in the country that's worked.

I am a little reluctant based on kind of California precedent to try kind of new things that haven't been road tested, but I think I'm not as worried about that in any of these proposals because they're modest. I do worry that they're too modest, that we don't get the benefits for everybody that way, and I wish I had a solution to pull out of the hat, but I think we could certainly move forward under 2006 and deal with some things, and I would -- I think we've always got that, but I think it's been an approach that having been state commissioners we don't want to do. And Joan and Sue Dean are new, so they haven't been kind of through the RTO battles that we have, but, you know, I think we've all come to a calm place in the middle that says kind of like what Sandy -- you're doing it in the SPP is there is a coming together here in pursuit of common interest that can be accommodated, and the people will decide they want to make it work.

And so I just hope that over the past two days we've found enough justification for why we want to make it work, that there are benefits to be had, that there are customer savings to be achieved that are not here, but there are also issues of the long-term health of the market and how it's structured with competitors being here to give those savings in the first place. Let that be a big part of the mix. And so it isn't just retail, retail, retail. It's are you going to have a competitive market here long term for those benefits to flow to the retail people or to the other wholesale customers.

We see a lot of small ones on both panels, small wholesale customers that we are the regulator for you just like you folks are for the retail customers, some of whom are in the audience. I always look for your wisdom, Irma. I've kind of got my mind full of a lot of things, but I hate to kind of suggest that we let the clock go forward, but I think it appears it's before Mike and Sandy's forum already, and then it's coming to the two Louisiana forums as soon as next week. And if you all kind of once you go through the details, having heard some of the big picture issues and some of the detail issues here over the past two days, it might be fruitful for us after you all go through your proceedings in the states to sit down and see where we go from here. Sandy?

COMMISSIONER HOCHSTETTER:

You know, it might even be helpful, Chairman, if we proceeded on parallel paths because I think that these sorts of technical conferences greatly inform the analysis and the debate and the evaluation that the state commissions are engaged in. I think substantive discussion like we've had the last couple of days that highlights reliability concerns, which quite frankly I'm very distressed to hear about, you know, need for transmission investment, you know, where are the constraints, what are the economic upgrades that need to be made as well as the reliability upgrades. What are the, you know, wholesale market problems? What are the things that we can be doing that are better than we're doing today to improve this situation across this whole region? And there might be some merit in exploring what enhancements can be made to the ICT filing to address all the multiple stakeholders issues that were raised, and there were, you know, many, many issues that merit consideration.

So I think, you know, it sounds like we may not just have two different things to look at in terms of the original filing versus an RTO. Maybe there is a much more enhanced solutions oriented ICT filing that we need to explore as well, and some further substantive technical conferences along the lines of this one could help, you know, shape what that looks like when you have all the stakeholders and all the regulators put together. So I think that there is a lot of merit to continuing this discussion to pinpoint, you know, what are the resolutions to all these different issues that have been listed that go beyond the ICT and then how does that compare with what, you know, an RTO could do.

COMMISSIONER FIELD:

Chairman Wood, I would like to ask the parties to especially Entergy and Mr. Brown to pursue further their stepping in the role as the ICT administrator. Then I would ask next that the stakeholders that have specific problems with the document itself, so even if we had the independents and the transparity that SPP might give, you might still have some concerns to maybe make those known to Entergy and see if there's any basis for ironing out some of those differences so that we could move forward, and then when we have another technical conference or you all could communicate with the state commissions and FERC, if any progress has been made along those lines, and move forward.

CHAIRMAN WOOD:

Are you all amenable to that?

MR. SCHNITZER:

Yes, sir.

COMMISSIONER DIXON:

Rick looks like he's ready to go right now and meet with you, Nick. My question is to the state commissioners, though. Do you think we should continue discussions and continue just trying to get a good feel for what our states are feeling? Because it doesn't matter what they're interested in doing if we can't.

COMMISSIONER HOCHSTETTER:

I think this type of format, Irma, is extremely helpful, because I don't think we can decide anything on our own, you know, without having the factual input from all the stakeholders and the people in the market as well as the company.

COMMISSIONER DIXON:

That's what I'm talking about. That's what I'm asking you for.

COMMISSIONER HOCHSTETTER:

This kind of format is extremely helpful and to have the FERC Commissioners here as well, you know, we need the folks that have the information and the knowledge.

COMMISSIONER DIXON:

They may not be able to make all of the settings that we need to. That's why I'm wondering can we start something on our own and then let them come in periodically and kind of hash out and work with us?

COMMISSIONER HOCHSTETTER:

Well, I think since this is a FERC filing primarily or it started that way, and we're looking at this from a number of different, you know, federal as well as state perspectives, we're going to need to continue to have the federal involvement along the line.

COMMISSIONER DIXON:

I agree, but it also is a state filing. You all have gotten it. We're going to be getting it this week. I mean, you know, I just think it's something we could think about hashing together, so let's continue to talk about it.

CHAIRMAN WOOD:

We're here either place, and we'll take I think that recommendation to do it in parallel because we've got to review it as you all do, and meet again. Entergy had promised to file a cost benefit study that it was going to give to the Louisiana Commission, I suppose, so if you could make that available in the FERC docket, too. And in the FERC docket and for the purpose of today with a transcript, as we always do, we would invite and welcome any further supplemental comments from any participant who didn't get a chance to visit or anybody who's had further thoughts about this, let's say, in 30 days and file it in again the FERC docket with us and with the relative state dockets as well, which I do not have the docket numbers for, but I assume everybody can find.

COMMISSIONER DIXON:

Finally, I'd like to ask Mr. Marone for the filing, for a copy of that. I wanted to be able to see that piece as well. Thank you so much.

CHAIRMAN WOOD:

I want to thank this last panel. It was -- Frank -- and Frank actually helps us. So we appreciate that. We appreciate the companies' efforts to do what is a bit hard to do which is balance a lot of competing interests and multiple concerns. Ours do remain as they always have been transmission access issues and health in the wholesale power markets, and those are very ripe issues in this particular region due to the tremendous investment that's been made over recent years from the nonutility sector down here as a result of both state initiatives and I think the favorable economic and other climates down here. So we will be back, and again we invite any comments to be mad with the FERC in the next 30 days.

COMMISSIONER FIELD:

Chairman Wood, if I could, I just wanted for the record to show I have spoken with the executives with Entergy and CLECO and I haven't had a chance to talk to LUS, but I would like to have a conference call next week to deal with the Lafayette problem and so that we can at least know that the entities involved, CLECO, Entergy and LUS, are committed to have meaningful improvements in place by next year, and everyone but LUS, and I feel sure they're cooperate. Mr. Ledeaux and Terry Huvall have always been cooperative so that we can at least be able to tell the public that if we can get through this summer we will have improvements next summer.

MR. NEWELL:

Commissioner, I think that's a very positive idea, and LUS is absolutely more than willing to participate in that discussion. Thank you.

COMMISSIONER FIELD:

Thank you.

CHAIRMAN WOOD:

I'd like to invite any of the other Commissioners or Mr. Totten if they want to add any final comments here. Again, we thank you all for your participation, and I want to thank again the City Council for loaning us this lovely chamber for us to use.

COMMISSIONER DIXON:

On behalf of the Louisiana Public Service Commission and my colleagues, we thank you for coming and you're always welcome to this city. And I want to thank my Arkansas colleagues, Mississippi and Texas, and thank all of you for coming, too.

The meeting was concluded at 12:55 p.m