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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

- - - - - x
IN THE MATTER OF: : Docket No. ER04-699-000
ENTERGY SERVICES, INC.:
- - - - - x
ENTERGY SERVICES, INC.: Docket Nos. ER03-1272-002
- - - - - x ER03-1272-003

Mississippi Department of Education
359 North West Street
Jackson, Mississippi

Friday, October 8, 2004

The above-entitled matter came on for technical
conference, pursuant to notice.

TAKEN BY: Allison D. Peppers,
Court Reporter & Notary Public

1 APPEARANCES:

2

3 PAT WOOD, III,

4 FEDERAL ENERGY REGULATORY COMMISSION

5 NEILSON COCHRAN,

6 MISSISSIPPI PUBLIC SERVICE COMMISSION

7 MICHAEL CALLAHAN,

8 MISSISSIPPI PUBLIC SERVICE COMMISSION

9 MICHAEL SCHNITZER,

10 THE NORTHBRIDGE GROUP, INC.

11 KEN TURNER,

12 ENTERGY SERVICES, INC.

13 KIMBERLY DESPEAUX,

14 ENTERGY SERVICES, INC

15 JIMMY SMITH

16 ENTERGY SERVICES, INC.

17 LYNNE MACKEY

18 INTERGEN NORTH AMERICA

19 JOE MARRONE,

20 OCCIDENTAL ENERGY VENTURES

21 MARVIN CARRAWAY,

22 MISSISSIPPI DELTA ENERGY AGENCY

23 BRIAN ADAMS,

24 NRG ENERGY, INC.

25

-- CONTINUED --

1 APPEARANCES (CONTINUED) :

2

3 JOLLY HAYDEN,

4 CALPINE ENERGY SERVICES

5 JOHN CONWAY,

6 EAST TEXAS ELECTRIC COOPERATIVE

7 GARY NEWELL,

8 LAFAYETTE UTILITIES

9 BOB WEISHAAR,

10 SOUTHEAST ELECTRIC CONSUMERS ASSOCIATION

11 NICK BROWN,

12 SOUTHWEST POWER TOOL

13 JESS TOTTEN,

14 PUBLIC UTILITY COMMISSION OF TEXAS

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P R O C E E D I N G S

1
2 MR. WOOD:

3 Good morning. On behalf of the Federal Energy
4 Regulatory Commission, and on behalf of my colleague Joe
5 Keller and our staff, I'd like to express our appreciation
6 to our colleagues from the Mississippi Commission, Vice
7 Chairman Cochran and Commissioner Callahan, for your
8 hospitality in getting us this nice meeting space to
9 continue our regional discussions on a number of pending
10 dockets from Entergy to add wholesale procurement programs
11 and independent systems, independent coordinator of
12 transmission proposal before our commission before the
13 different states for their review --

14 Before we go any further, I'd like to just turn
15 it over to Commissioner Callahan and Vice Chairman Cochran
16 for any thoughts they may have.

17 MR. COCHRAN:

18 Welcome to Jackson. I'm glad you're here to
19 participate. We apologize for the inclement weather. We
20 need the rain, so we appreciate whatever we can get at this
21 precise moment.

22 But again, thanks to Chairman Wood and those
23 members of staff here to discuss something that is very
24 important and, to some degree, some think is a very urgent
25 issue. We look forward to in-depth discussion to see where

1 we are and where we go from here.

2 But, again, welcome to Jackson. Some have asked
3 about lunch. Obviously, you're on your own; it's going to
4 be hectic. There's a couple of nice restaurants down on
5 Capitol Street. We do have a cafeteria in our building
6 over at the Woolthall Building. It's not what you would
7 call a Five-Star cafeteria, but it certainly can be of some
8 assistance to you.

9 Again, welcome to Jackson. We've been looking
10 forward to the day's activities.

11 MR. CALLAHAN:

12 Again, I'd just kind of reiterate what
13 Commissioner Cochran said. We're glad to have you all in
14 Jackson.

15 As most of you know, I'm from Hattiesburg, which
16 is about 100 miles south of here, which happens to be home
17 to the University of Southern Mississippi, which happened
18 to beat Houston last night and happens to be 4 and 0. It's
19 the only undefeated team in the state of Mississippi.
20 Football's big in the South.

21 But anyway, we're glad to have you here, and
22 like Mr. Cochran said, we're sorry about the weather. But
23 we've been about 33 days without rain, and my yard needs
24 it. My golf course needs it, so we're glad to see it
25 coming.

1 We're looking forward to this today. I hope
2 that this will be maybe a little bit more informative than
3 what we had in New Orleans, and we can proceed on some of
4 the issues that deal a little more directly with Entergy's
5 filing. We're excited. We have actually had our hearing
6 in Jackson on the Entergy proposal. We had it at the end
7 of August. It was a very good hearing. A lot of issues
8 were brought forth. A lot of progress was made, and we're
9 right now awaiting -- the filing Entergy actually made in
10 Mississippi was more of an informational filing that does
11 not require an order by the Commission. But we're hoping
12 that maybe after this hearing, and whatever else happens,
13 that we will be able to send a letter to you, Chairman
14 Wood, and kind of tell you what our thoughts are on the
15 filing and what we think about everything and how we'd like
16 to see it proceed. And certainly, at that point, feel free
17 to do whatever you want with the letter. It's up to you.

18 We're glad for you all to be in Jackson. One
19 more thing on lunch I might suggest. Right over here north
20 of us is the Department of Transportation building. They
21 also have a cafeteria, and it's a very -- probably better
22 than the one we have in the Woolthall Building. That might
23 be an option, too. It's right across the block, go down, I
24 think it's in the basement of their building, and they have
25 pretty good food as well.

1 But in the meantime, welcome to Jackson. We
2 look forward to having a very productive day today.

3 Mr. Chairman?

4 MR. WOOD:

5 Thank you, Commissioner.

6 I want to recognize our colleagues also from the
7 other states. We've got right down here on the end, Jess
8 Totten from the Public Utility Commission of Texas.
9 Welcome, Jess. Paul Nordstrom representing the New Orleans
10 City Council, one of the five jurisdictional regulators
11 here. And Chairman Sandra Hochstetter from Arkansas.

12 I want to also recognize our staff because
13 they'll be participating today, probably a little more than
14 did the New Orleans staff. We've got Christy Walsh and
15 John Rogers. John is our FERC -- one of our two FERC staff
16 at the office in Little Rock. Christy is out of the
17 headquarters. We also had several that helped coordinate
18 this conference, and I know that you had a lot of help from
19 your office, Mike. And I want to recognize Donna. Donna?
20 Is Donna here? Donna, thank you for your help. Steve
21 Rodgers, who is at the table with us. Anna Cochrane, I
22 think she's got a -- commissioner and you don't but maybe
23 they are fiscally related. Anna Cochrane, Mike Bardee and
24 Steve Rodgers who have been working with us on matters
25 related to the Entergy filing. So that's just to make the

1 introductions today.

2 We did meet, after this filing was made, earlier
3 this year. We did have a meeting in New Orleans on
4 December 7th. Debra and Paul are here today although doing
5 it in one day and it's my hope today that a more informal
6 format, and more workshop format, perhaps, that we practice
7 more ways to bridge the differences between what the
8 company has proposed and what the market participants, who
9 would benefit if this program were set up, say is important
10 to them. We need to work with them and try and see if we
11 could find some common ground and build upon where we left
12 it.

13 Since that time, we've had a number of events,
14 and I want to turn it over now to Steve Rodgers to kind of
15 walk through the calendar since we last met.

16 MR. RODGERS:

17 Thank you, Mr. Chairman.

18 I thought what Mr. Callahan had to say was a
19 good segue into one of the things that we wanted to do to
20 kick off this conference, which is to hear a report from
21 each of the state jurisdictions in terms of what's
22 happening, in the various proceedings that are pending
23 before them. So with that, I'd like to call on Chairman
24 Hochstetter to get this report on the status of the
25 findings for the Arkansas commission.

1 MS. HOCHSTETTER:

2 Thank you, Chairman Wood, Commissioner Callahan,
3 Steve.

4 We initiated a docket, just to back up a moment,
5 back in April this year to look at the pros and cons of
6 Entergy pursuing its ITT proposal with FERC versus joining
7 the FPP RTO which will be covering a substantial portion of
8 the State of Arkansas. And within that docket, we had
9 comments, reply comments, and also most recently,
10 subsequent to the July technical conference in New Orleans,
11 a series of data requests that we asked Entergy to respond
12 to. They have responded to this data request. Responses
13 were filed only a couple of weeks ago, and we're in the
14 process of evaluating those responses and doing that in the
15 context of these proceedings that FERC is conducting.

16 And I recognize that there have been some
17 meetings between Entergy and some of the stakeholders over
18 the last couple of weeks, so with our docket pending and
19 the parallel proceeding at FERC, we'll hopefully be able to
20 work synergistically again towards a resolution of, as
21 Chairman Wood phrased it, what the most appropriate common
22 ground is between the different options out there.

23 MR. RODGERS:

24 Thank you, Chairman.

25 If we could have Paul Nordstrom from the New

1 Orleans City Council give us a report on the state of play
2 at your regulatory agency.

3 MR. NORDSTROM:

4 Thank you, Steve. My name is Paul Nordstrom.
5 I'm outside counsel to the New Orleans City Council.

6 The council sends it's regrets for not being
7 able to attend today, but they've asked me, as outside
8 counsel, and Kelly Meehan, who is the director of the
9 council utility's office, to fill in for them.

10 I think the City Council is in a procedural
11 status pretty similar, actually, to the Mississippi
12 commission. The council held a public hearing on the ICT
13 proposal in the spring of this year. It was an
14 informational hearing. The council has not required a
15 formal filing or set up a formal docket on the ICT
16 proposal. It has, though, conducted informal discovery,
17 and we're very actively monitoring the informational flow
18 in the other jurisdictions and of course are participating
19 in settings like this.

20 Obviously, I can't speak with 100 percent
21 certainty for our client, but I think that we probably are
22 in a similar situation to Mississippi that at some point
23 this fall, the council could send the requested letter to
24 FERC in connection with its position on the proposal.

25 MR. RODGERS:

1 Thank you, Paul. Let me next call on Jess
2 Totten who is here today on behalf of the public utility
3 commission of Texas.

4 MR. TOTTEN:

5 Thank you, Steve. I'm Jess Totten, director of
6 the electrical division of the Texas Public Utilities
7 Commission.

8 We have had related proceedings pending in
9 Texas, both at the time of the first technical conference
10 and today. So the commissioners have felt unable to attend
11 the technical conference because of ex parte concerns.

12 The earlier case was a retail case, but it
13 involved what kind of independent organization Entergy
14 might create in a wholesale market. That case is no longer
15 pending, but we do have an Entergy rate case that the
16 Commission deliberated on last week and decided to dismiss
17 for reasons that are related to the development of the
18 wholesale market. So because that case is still pending,
19 the commissioners were not able to come to this meeting.
20 We have not really focused on presenting our views to the
21 FERC on this argument largely because of the ex parte
22 issues. If we get these other cases cleared up, it's
23 possible that we could do that.

24 MR. RODGERS:

25 Thank you very much, Jess. Just to give the

1 audience an update on what the state of play has been at
2 the final opinion before the FERC since the New Orleans
3 meeting. At the New Orleans meeting there were issues
4 raised by several market participants in terms of desire
5 and a better understanding of what products Entergy is
6 interested in soliciting through its current procurement
7 process and there was a desire for more transparency behind
8 that process. So in response to that, two, what I would
9 call mini technical conferences have been held up at FERC
10 headquarters; one in late August and one in late September,
11 that addressed that issue. And FERC Staff was there; it
12 was open to the public. And I feel that there was some
13 progress that was made, certainly a good hearing on the
14 issues that took place at these technical conferences.

15 FERC also issued a data request on August the
16 17th to Entergy and has gotten a response back on that
17 which we are still assimilating. But I think as part of
18 how we're going to proceed this morning is, this morning's
19 focus will be on Entergy's proposal for a wholesale
20 procurement process, a weekly process, that is different
21 from the current process. We're going to hear a report
22 from Entergy about, not only the developments related to
23 that, but also, a status report on what progressor
24 developments have taken place as a result of the two mini
25 technical conferences that were held with FERC.

1 After Entergy is done with that presentation, we
2 intend to have several market participants come join us at
3 the table up here with Entergy, and we'd like to hear your
4 response -- your reaction in terms of where progress has
5 been made and where there are issues that still remain, if
6 any. We're also hoping that throughout the day today there
7 will be a more interactive dialogue exchange, not only
8 between commissioners and the panelists, but also among the
9 panelists themselves. This afternoon's session will be
10 focused on the independent coordinator of the transmission
11 proposal. But more on that later.

12 Let me turn it over to Entergy for their
13 presenting.

14 MR. HURSTELL:

15 Thank you, Steve. I am John Hurstell, vice
16 president of fuel and generation operations at Entergy
17 Services. And joining me at the table are Ken Turner,
18 Michael Schnitzer and Mac Norton.

19 I am going to begin the discussion by talking
20 about our current process and give an update on our take on
21 the two mini technical conferences.

22 MR. CALLAHAN:

23 Mr. Chairman, some people in the back are
24 shaking their heads.

25 MR. HURSTELL:

1 Give it a second. After I talk about our
2 current process, then Ken Turner is going to address the
3 new WPP.

4 UNIDENTIFIED SPEAKER:

5 A cute replay from last night. Last -- in
6 overtime.

7 MR. HURSTELL:

8 I don't see anything up there. What this is,
9 this is a combination of two presentations that we gave at
10 the mini technical conferences, with a few updates that we
11 got at the conference. A firm proposal of it. I think
12 everyone has a copy of it, so we will just walk through.

13 I'm going to try to skim through it as -- off
14 the record -- I'm just going to try to get the hit points
15 of this. And just as an overview, what we're going to do
16 is talk about the weekly process as it exists right now.

17 Just for the sake of some clarity, we refer to
18 the current process as the weekly RFP. The future process
19 is the WPP, just to make that distinction. But we think it
20 is helpful to look at what we do now because I think it is
21 an indicator of what kind of success we can have on the
22 June proposal.

23 We're going to talk a little bit about the
24 current process. We're going to give you some statistics
25 related to the current weekly process. There was definite

1 decline in the purchase in the weekly market, but we want
2 to go through some of the reasons for that. As
3 specifically requested at the meeting in New Orleans
4 because we provided descriptions of the products that we
5 would like to receive offers for in the weekly RFP.

6 Here we have some answers to some common
7 questions that we've gotten at the New Orleans meeting and
8 the technical conferences. This just provides a little
9 insight into the history of the WPP and the weekly RFP that
10 started in late 2001. And we asked for input from our
11 participants, and we got that input.

12 Here's a listing of all the participants in one
13 of the first two meetings to develop the weekly RFP, and we
14 were very pleased that we got such a large number of
15 participants. I should also point out that there were
16 others invited that didn't participate. But as you can
17 see, this is a pretty broad mix of the participants in the
18 market.

19 Moving on to Slide 5. In the past few years,
20 there have been over 1000 offers made to us in the weekly
21 RFP market. With a kilo capacity of almost 300,000
22 megawatts, we have selected from those offers about 84,000
23 megawatts, or about 23 percent of the offers made have been
24 accepted. Now, this was something that came out of the
25 technical conference; we got plenty of questions about how

1 successful different market participants have been -- I'm
2 moving to Slide 6 -- in the weekly market.

3 And as you can see, here is a listing for every
4 offer that we received, and the success rates range from as
5 high as 100 percent to as low as 9 percent for those that
6 were participating regularly. We have 11 participants that
7 may have submitted one or two offers over the course of the
8 last few years, and we just consolidated those. But you
9 can see that, for example, from the M -- M participated in
10 many weeks. And when they participate, they know how to
11 sell us power. They give us what we need, and they've been
12 successful 100 percent of the time.

13 The next slide really just talks about the key
14 components of the weekly audit. And that is the heat rate,
15 the fuel adder and the flexibility of everybody. And what
16 very seldom gets talked about is the fuel adder. And that
17 -- let me just give you an example of how that works. When
18 someone offers us a heat rate from a plant, they have to
19 specify how that works. Well, instead of everyone
20 specifying different NCs, we tell them we're going to use
21 the Henry Power or the user channel index, and you tell us
22 what adjustment we need to make to those indices to account
23 for the gas that you're pumping.

24 Here's an example. An 8000 heat rate is usually
25 a good offer to us, and without considering the gas fuel

1 adder, at \$6 gas an 8000 heat rate is \$48. But if you turn
2 the page, you'll see that we get fuel adder ranging from
3 zero to \$1. So if you add a 50-cent fuel adder, then that
4 turns your -- that \$48 power into \$52 power and effectively
5 raises your heat rate from 8000 to 8667. So that's why
6 we're trying to have a discussion where we're strictly
7 talking about heat rates, and that's only one component of
8 an offer that we have to consider. I think people -- some
9 of the market participants don't consider fully the impact
10 of fuel adder on the economics of their need.

11 Flexibility has been a big topic, and at the New
12 Orleans conference, there were some issues of whether the
13 people realized we were asking for flexibility. And that
14 was one of things we were trying to correct with the
15 technical conference. But of over the 1000 offers that we
16 have received in the weekly market, only about 4 percent of
17 them have provided current-day flexibility of any kind.

18 And of those that were offered, we accept about
19 16 percent of those. Now, the reason why we accepted such
20 a small percentage is because the offers have generally
21 included very high minimum run rates as compared to our own
22 generation. And we're going to get through -- going to
23 talk about an example of that later.

24 But the impact of that is that they offered us
25 flexibility, but at a very high price, and even the

1 flexibility that was offered was generally in the range of
2 50 to 100 megawatts. Which when you consider that in
3 single unit that we may offer that may be a 500-megawatt
4 unit, it may be able to get down to as low as 50 megawatts.
5 So a single unit on our system provides us 450 megawatts of
6 flexibility, whereas the best offers we could get in the
7 marketplace were generally in the 50-megawatt range.

8 Now, this graph shows a comparison of the offers
9 we've received in the weekly market versus what's been
10 accepted. You can see that we started out sort of slow,
11 but then we accelerated during the summer of 2003, and
12 we're very pleased with that. And then you can see there's
13 been a little dip since March in terms of our purchases.
14 And I'd like to talk on the next slide about why that is
15 the case.

16 Since that time period, there's been an increase
17 in coal and nuclear generation on our system compared to
18 previous periods. There's no new sources on our system, it
19 could be just the re-fueling schedule, it could just be the
20 -- coal units, but there's more on our system. And, of
21 course, we're going to make use of as much nuclear and coal
22 as we can. Second, and this is another thing I think is
23 frequently ignored in these kind of technical conferences,
24 is the price of Number 6 oil has made it much more
25 economical than natural gas.

1 MR. WOOD:

2 How many of the units here have participated in
3 your weekly RFP relief --

4 MR. SCHNITZER:

5 In our units?

6 MR. WOOD:

7 No. Well, do your units participate as well?

8 MR. SCHNITZER:

9 Well, our units, well, essentially, they do
10 because we are comparing offers to what we can do with our
11 own units, and we have -- I think we have 2000 megawatts of
12 oil burning capability primarily here in the state of
13 Mississippi. But as far as I know, there aren't any IPPs
14 that -- in our region that can burn Number 6 oil. I think
15 there's 1 that can burn Number 2 oil, but Number 2 oil is
16 considerably more expensive than Number 6.

17 The third issue is the differential QF that have
18 increased over the last two years, and, again, with all of
19 the QF's, we have to take the power from them. So that is
20 displaced purchases from other IPPs.

21 MR. WOOD:

22 Now, are they participating in all of the RFPs
23 or are they on empty?

24 MR. SCHNITZER:

25 Well, it's -- yes. They can participate by

1 putting in some bids. I don't know how successful they've
2 been because they do have that right. Otherwise, I don't
3 know that they really have a strong incentive to be very
4 competitive in the weekly market because they do have the
5 hourly input. I think there have been some that have
6 submitted bids.

7 MR. WOOD:

8 And how often -- what's the rate schedule that
9 you've given in the territory that calculate what they get
10 paid?

11 MR. SCHNITZER:

12 Well, right now, that is -- we have three active
13 cases going on as to what our reporting cost is. And right
14 now, it's based on the combination of our generation and
15 this purchases that we could have made in the market after
16 the RFO. We're real close to reaching a settlement on
17 those issues in both Louisiana and Texas, and we just had a
18 case -- a docket open in Arkansas.

19 Okay. And then the fourth point is that there's
20 been a greater -- of long-term purchases. We've locked
21 into some long-term deals with some of the IPPs. Now,
22 those basically come into our mix at a cost -- on a cost
23 basis. They're much more competitive than those parties
24 that have to bid their cost plus an option.

25 The next few slides talk about some of the

1 specifics on each of the things I just talked about so I
2 want to kind of glide through those rather quickly except
3 to show you one -- show you one slide, and that is on Page
4 19. Even with the decrease in purchases in the weekly
5 market -- weekly RFP. What this graph shows is the energy
6 from Entergy's own gas-powered generation, and you can see
7 the significant drop from 2002 to the present. So when we
8 displace in the weekly market, when we're not buying as
9 much from the weekly market from IPPs, it doesn't mean
10 we're running our gas-powered generation. It's the other
11 sources I'm talking about.

12 MR. WOOD:

13 What would the -- I'm just trying to get
14 comparable units her. What would the -- Slide 18 -- John,
15 what would -- in the -- term --

16 MR. HURSTELL:

17 I don't have that number with me, but we can get
18 you that.

19 MR. WOOD:

20 In the ball park. Would that be greater or less
21 than the slide that --

22 MR. SCHNITZER:

23 It would be less. It'd be less. It would be
24 QFs at 24 hours a day, and the average is about 1300
25 megawatts. And every -- IPPs would be -- long-term IPPs

1 can be done. We'd take those around -- we just keep
2 scheduling flexibility, so the energy is going to be much
3 less than that.

4 MR. WOOD:

5 Are the IPP contracts from the more of a shaped
6 over the peaks?

7 MR. SCHNITZER:

8 Either they're shaped over the peaks, or we may
9 even have dispatch rights so they know we don't -- they
10 know they're very much shaped to match our instantaneous.

11 I'm up to Slide 20, and I apologize for flying
12 through this. We're trying to meet the requirements of the
13 schedule. We did provide a review for the merchants on
14 what capacity -- what products we'd like to see offered in
15 the weekly RFP. And I guess the most important thing I'd
16 like to cover is the -- Slide 22. This came out of the
17 technical conference.

18 In our first technical conference, some of the
19 market participants expressed a concern that by submitting
20 bids on the weekly market, they were committing their
21 capacity for a week, and then they may be missing out on
22 opportunities to capture upticks in the market later in a
23 week. So what we said is that we work with them to come up
24 with what they're calling a "recallable" product that they
25 can put a bid in and reserve the right to pull it back on a

1 24-hour notice. We're just doing everything -- trying to
2 do everything we can to accommodate their -- what
3 flexibility they need. And we have a workshop scheduled
4 for mid-November with those generators who are interested
5 in working with us on the development of that product.

6 The last thing I'd like to cover is common --
7 what I like to refer to as the common question. The first
8 is, what can merchants do to increase the weekly RFP sales.
9 The second is, why do we operate generators with a 10,000
10 Btu and kilowatt-hour heat rate and reject offers from IPP
11 with lower heat rates. And third, why don't we provide
12 feedback on why offers are rejected. And I think as we
13 talk about it today, we believe that the reason --
14 merchants can increase their sales in a weekly market by
15 lowering their heat rate, lowering the fuel adder, lowering
16 the minimum taper positions and providing more flexibility.
17 I don't think we can say it any more clearly than that.

18 The next thing -- I'll just take a little time
19 on this.

20 MR. WOOD:

21 What are the parameters or minimum -- how would
22 that be described in the bid?

23 MR. SCHNITZER:

24 We have a bid sheet. It's included in the
25 presentation as part of the appendix where they can

1 specify, each hour, what's the minimum megawatt hour we
2 have to take and what's the maximum megawatt hours we can
3 take. So if they wanted to bid flexibility, they could say
4 the minimum you have to take is 50 and the maximum you can
5 take is 400. That's the kind of bids we'd like to see. In
6 general, the flexibility doesn't -- see, limits offered is
7 -- you can take 200 -- you have to take 200. You can take
8 250, and occasionally -- I think there was even one time
9 where we were offered 200 megawatts. But generally, the
10 flexibility that we're offered is the 50-to-100 range. But
11 the way they do it is on that bid sheet.

12 UNIDENTIFIED SPEAKER:

13 Page 35 --

14 MR. WOOD:

15 So the heat rate is generally different for the
16 higher quantities?

17 MR. SCHNITZER:

18 They could do that. They could say you -- it
19 could be both, really. It's quite more common. At the
20 minimum, you might have a 9000 heat rate, for the flexible
21 component, maybe 5.

22 MR. RODGERS:

23 What flexibility are you talking about, other
24 than minimum takings?

25 MR. SCHNITZER:

1 Ideally, what we would like to have is the
2 ability to call the generator and say, increase the output
3 by 50 megawatts. Remember, that's the flexibility that we
4 have in our own generation. And we don't have to schedule
5 output from our own generators a day in advance. So we
6 don't know exactly what our load is going to be. We don't
7 know which generators may trip. We don't know whether a
8 weather front is going to move through, so we need to have
9 flexible generation that can match the load.

10 Like, if I have to schedule generation a day in
11 advance, or even 8 hours in advance, it diminishes the
12 value to me of the generation. Remember, all of my
13 generation -- because I can change the output, and we do
14 change the output approximately every 4 seconds. We send
15 them signals every 4 seconds -- pulse out, pulse in.

16 MR. WOOD:

17 The company whose 9 bids were all accepted, what
18 kind of flexibility did they offer in their bids?

19 MR. SCHNITZER:

20 Commissioner, I really don't -- I'm not that
21 familiar with each one of them, but I believe that theirs
22 didn't harbor a lot of flexibility. They just offered a
23 very low price.

24 MR. WOOD:

25 Has there been an interest in NGI procurement

1 for short-term product and --

2 MR. SCHNITZER:

3 Oh, we did. Aside from the weekly market, we
4 have the long-range RFP. We have monthly purchases. We go
5 weekly. We go daily. We go part of the day, and then we
6 go hourly. We buy probably as much energy daily as we do
7 weekly.

8 MR. WOOD:

9 I -- we put RFPs in --

10 MR. SCHNITZER:

11 Yes, sir.

12 MR. WOOD:

13 And the QFs were put in, the RFPs checked them
14 right?

15 MR. SCHNITZER:

16 That's correct. We don't know exactly where the
17 QFs are going to put this. We have a pretty good idea, but
18 that amount could vary, which is another reason we need
19 flexible generation.

20 On page 25, I'd like to address this idea.
21 Generally, I would discuss our generation. They assign it
22 a heat rate of 10,000. The reason why we do that -- why we
23 run our own generation instead of buying from IPPs that
24 offer low heat rates is that heat rate is not the only
25 factor considered and we talked about this. Flexibility is

1 often the key consideration and one that is overlooked in
2 simplistic comparison. Why would you run that generator as
3 opposed to this one? The role a particular source will
4 play in Entergy's findings will determine what are the more
5 important considerations. Whether we're trying to fill a
6 baseload energy requirement or whether we're trying to fill
7 a reserve requirement is going to determine what are the
8 important factors as to whether an offer is attractive.

9 I'd like to spend a few minutes walking through
10 an example. I think this will provide great insight into
11 just a little of what we do. This is a very simplistic
12 example, but assume that Entergy finds itself 400 megawatts
13 shy of operating reserves during on-peak hours. In other
14 words, we must acquire the ability to turn up generation
15 within a 20-minute time period by 400 megawatts. And
16 that's a requirement we have to meet every day. Now, what
17 we're doing here, if you're just looking at that one
18 requirement, we have two choices: One, is we can either
19 operate one of our units, a 450-megawatt unit that we can
20 turn down to 50 megawatts and then operate at 50 megawatts
21 with the ability to turn up to 400 if we need it. Or, we
22 can buy from two IPPs that are each offering us 200
23 megawatts of flexibility. But they give us a requirement
24 that we have to take 200 all the time for the ability to
25 increase by 200. Again, we haven't gotten many of those

1 bids, but, just as a hypothetical, we would use that as an
2 example.

3 Now, we go to the next slide on the cost
4 differential. The option 1 is operating our own generator.
5 The minimum take is 50 megawatts for 24 hours. We cannot
6 turn these units on and off quite as effectively as the
7 IPPs can do. We have to run ours for 24 hours. And the
8 heat rate, when it's operating at such a low level, is
9 fairly inefficient. It's 15,000 BTU's per kilowatt hour.
10 Now, if we have to turn it up, then our increment on heat
11 rate is not so bad. It's only about 1000.

12 Now, option 2. They're offering us purchases of
13 up to 800 megawatts, but remember: Each one is offering us
14 a 200-megawatt minimum with 200 mW flexibility. We have to
15 take the 400 megawatts, but generally, they only make us
16 take it for 16 hours because they can turn their units on
17 and off every hour. Their heat rate, at minimum, is 800,
18 and their incremental heat rate is 8800. For this
19 analysis, the incremental heat rate is not meaningful
20 because all we're looking for is to have the ability to
21 turn it up. We don't have any plans to turn it up.

22 We have to look at what the impact is of taking
23 that must-take energy from both those resources. So our
24 off-peak 8-hour block purchase we could make is at \$20, and
25 our on-peak purchase that we could make is up to \$40.

1 Delivery of natural gas cost is \$6. That's just
2 calculating. Do the math

3 On the next slide, this is just a graphic
4 illustration of the flexibility that we require; 400
5 megawatts during on-peak hours. Now, for option 1, you'll
6 see that we have to insert 50 megawatts around the clock,
7 and we have to forgo, then, purchasing 50 megawatts during
8 off-peak and 50 megawatts during on-peak at attractive
9 prices in order to accept that minimum take. So the cost
10 incurred -- I'm on slide 30 -- to operate the 50-megawatt
11 unit for 24 hours is 1200 megawatts. The energy lost is at
12 15000 heat rate times \$6 gas. That's \$90 a megawatt hour
13 is what we are paying for that energy, which is very
14 expensive energy, and we have to buy 1200 megawatts of it.
15 So our cost is \$108,000 for that minimum run on our unit.

16 Now, we don't have to buy those cheaper blocks
17 of on-peak and off-peak energy, and I'll avoid the math and
18 just say that the total cost avoided there is \$40,000. So
19 in other words, we're replacing \$40,000 worth of energy
20 with \$108,000 worth of energy, so our cost is \$68,000.

21 Now, to take the IPP purchases, we have to run a
22 200-megawatt minimum for the 400 megawatts of generation
23 during the on-peak hours, so our opportunity lost is the
24 ability to purchase 400 megawatts of on-peak energy at that
25 \$40 price. So the cost incurred here -- I'm on slide 32 is

1 a total energy of 6400 megawatt-hours. The energy cost at
2 8800 heat rate times the \$6 is \$52. The \$52 is much
3 cheaper than the \$90 from our own, but we have to buy a lot
4 more of it. So the total cost to operate the unit at
5 minimum is \$337,000. Now, the cost avoided is the 400
6 megawatts for the 16-hour period at the \$40 price at
7 256,000. So the net cost of these minimum is \$81,000. So
8 option 1 is the lower-cost option, and it's because of that
9 swing.

10 Now, turn to the next slide. You'll kind of
11 appreciate why it's difficult for us to provide feedback on
12 -- the prior example illustrated that a very simple
13 economic analysis would take two hours, and the IPPs were
14 not the economical choice. However, the IPPs would have
15 been the lower-cost option if gas was 5.50 instead of 6.
16 It would have been the lower-cost option if the on-peak
17 energy block were 43 instead of 40. It would have been the
18 lower-cost option if it would have offered a minimum take
19 of 170 megawatts instead of 200. It would have been the
20 lower-cost option if they had offered 8400 instead of 8800.
21 And remember, this is a very simplified example where we
22 only looked at the need of flexible energy. A detailed
23 analysis, the type that we do every day and every week,
24 will consider the total load, total energy requirements,
25 plus reserves, transmission constraints, load restraints;

1 all of those things. But this is just a -- one small
2 example of why there are occasions when we run our own
3 generators even though they are less efficient than IPPs.
4 That covers -- I'm sorry I had to go through it so quickly.
5 That kind of covers what we have done so far on the weekly
6 market.

7 Then coming out of the technical conference, the
8 key thing is, I think, now that generators are aware of how
9 important flexibility is. They've made us aware that they
10 would like us to consider this a recallable product, and at
11 the technical conference, to work with them regarding
12 development, specifications for that product for them to
13 review. So we hope to have something, a new product,
14 introduced by the first of the year.

15 I'll now turn it over to Ken Turner to talk
16 about the WPP.

17 MR. TURNER:

18 Good morning. My name is Ken Turner. I'm the
19 director of weekly operations for Entergy, and I have just
20 a few slides to go over related to the proposed weekly
21 procurement process that's being proposed at ICT
22 conference. Let me take just a minute.

23 Okay. First, I want to contrast what John was
24 describing as the current process. Currently, the RFP
25 process -- what's being proposed is part of an ICT

1 proposal, WPP. The current process evaluates offers one at
2 a time. That's all the ability that they have. The
3 important part of that is that even after they have
4 evaluated the offers, and even after they have made their
5 selections, then they still have to request transmission
6 service for those offers they have selected separate from
7 the decision to procure it.

8 Under the proposed process, what we will be
9 doing is a simultaneous authorization. We will be
10 receiving IPP offers to the individual participating
11 network customers. Our models will have the affordable
12 costs of the existing network resources. We will also
13 harbor the authorization of our OPP, the definition and the
14 description of the transmission system so we will know how
15 much transmission has to be available. Coming out of this
16 simultaneous authorization will be a least cost weekly
17 line-up.

18 Now, because we are -- as I described it at the
19 technical conference in New Orleans -- once we decide that
20 a particular offer is to be accepted, that then will
21 displace an existing network reserve. So there is really
22 no need at that point to request additional transmission
23 service. We're just swapping out an existing network
24 resource for a new selected vehicle.

25 This new process offers the potential to have

1 additional substitution by the IPPs and the existing
2 network resources. However, I need to point out that the
3 degree of substitution and the success of this substitution
4 is going to depend in large part on the level and nature of
5 the individual IPP offers that we have.

6 MR. WOOD:

7 Let me go back for a second, Ken.

8 John, I'm trying to think, are there any
9 non-secondary --

10 MR. HURSTELL:

11 Yes, there are.

12 MR. WOOD:

13 Do you know if there are any -- or anything
14 going on --

15 MR. HURSTELL:

16 I don't see that -- every generator is going to
17 be by their own air current, and they can reflect the value
18 of it. And it could strengthen their energy bid. They're
19 going to choose to only bid during the times that they
20 think they can beat the highest price.

21 MR. WOOD:

22 So how does that effect your units over there
23 that are not ready to be used? How do we reflect the --

24 MR. HURSTELL:

25 If a particular generator can only operate a

1 certain number of hours in a year, then we're just not
2 going to make them available and treat it as being
3 unavailable during the winter, fall and spring months and
4 reserve its availability during the peak periods, just like
5 we would hyper-resources that we only get so many hours out
6 of the year. We wouldn't want to make it available during
7 the sub-peak.

8 MR. WOOD:

9 So it would affect really what you need and the
10 amount you need it --

11 MR. HURSTELL:

12 It'll affect what resources we make available to
13 compete in the WPP. If we have a generator that we can
14 only operate for 10 percent of the time -- I can't think of
15 one right now -- but we're just not going to make it
16 available to compete in the WPP during the spring and fall.
17 We're going to save it for the summer months.

18 MR. WOOD:

19 Thinking back to the other markets that I
20 understand -- there's not a single clearing price -- right?
21 It pays the bill?

22 MR. HURSTELL:

23 It pays the bill.

24 MR. WOOD:

25 How much information on the last slide comes out

1 after you go through procurement? How much information is
2 out there to let the person know kind of what the winning
3 bid is? Is that information made available?

4 MR. HURSTELL:

5 No, it's not.

6 First of all, there is no really winning bid.
7 There is no dollar-per-megawatt-hour bid. We talk about
8 all sorts of different parameters, and the winning bidders
9 know what they are going to get paid. The losing bidders
10 are not provided with that information.

11 MR. WOOD:

12 Sorry, Ken.

13 MR. TURNER:

14 No problem.

15 MR. RODGERS:

16 As long as we are on the same subject, I thought
17 you said earlier when you pointed to Company "N" that the
18 reason they won their nine bids was that they offered
19 flexibility in the bids. But then I thought you said later
20 that they won because they had a low-cost bid.

21 MR. HURSTELL:

22 No. If I said that, I misspoke. I'm not
23 absolutely certain. It's just because I don't follow the
24 specific bids individually. I believe that that supplier
25 bid in flexible products, a block product that they offered

1 at a very low heat rate. I guess that's the point is that
2 if someone wants to sell us a block of power, and if they
3 offer us a price low enough, we'll take that. We're going
4 to take flat blocks of power. We'll take 24-hour blocks.
5 We'll take 4-hour blocks. It's just that each block is
6 going to be competing against different resources. And if
7 you offer us a price low enough, we're going to take it.

8 MR. ROGERS:

9 But one thing that strikes me about your slide
10 is how variable the rate of success is. It goes from 4
11 percent to 100 percent, and actually I'd like to question
12 why that level of disparity. And one company, the company
13 that offered the most bids of the 9 -- oh, the second most
14 bids-- they bid 162 times and only 15 were accepted.

15 Do you know why so few were accepted?

16 MR. HURSTELL:

17 The simple answer is because they didn't provide
18 good offers, but I think --

19 MR. ROGERS:

20 Were they good in any different respects?

21 MR. HURSTELL:

22 Well, that's right. We evaluate every one of
23 them. They might offer us -- they hear us say we want
24 flexibility, so they offer us flexibility. But they put
25 huge premiums on that because they believe that that's what

1 it's worth, and they fail to consider the economics of
2 flexibility like we just went through. I'm sure that some
3 of them have never stepped through the economics as we just
4 went through a few minutes ago.

5 MR. WOOD:

6 Well, Company "N" may be flexible, but it is
7 never accepted.

8 MR. HURSTELL:

9 That's right, because they offered us very low
10 prices. Remember, there is a market outside of what we do.
11 You can trade power. You can sell power. You can give it
12 to Entergy. You can deny power to Entergy. It's not like
13 they have no idea as to what the market conditions are.
14 And I think that generally Company "N" has looked at what
15 the market is for a flat block of power and competed
16 against that and sells its power in the weekly market.

17 MR. RODGERS:

18 Well, Company "I," when 90 percent of their
19 offers are rejected, do they -- are they informed why they
20 were rejected? Was it flexibility? Was it too high-cost?

21 MR. HURSTELL:

22 Well, that's why I went through the example.
23 It's hard for us to say why.

24 I mean, those 162 offers may have been in a
25 10-week period. They may have offered 16 different bids in

1 a week, and we may have taken one of them. We may have
2 been only able to take one of them. Or it might have been
3 -- I'm saying 16 in a week, could be four in a week came
4 out, I'm not sure, but -- I'm sure there were multiple
5 bids, so some of these generators may give us five
6 different bids, try different variations to see -- they
7 don't know which one is going to work. We don't know which
8 one is going to work until we put it in the production
9 costing model. So we just take the information they give
10 us and put it in to our models and see how it comes out.

11 When it comes out as rejected, we don't know why
12 it didn't do as well as something else. We just look at
13 the total cost and say, the production costing model says
14 you're not as attractive as this other offer.

15 MR. RODGERS:

16 When they are told their offer is not accepted,
17 do they get any information on the offers that were
18 accepted so they could then figure out why theirs were not?

19 MR. HURSTELL:

20 No, and there's two general thoughts on that.
21 One is that if we release the detailed information, we
22 would then be providing information so that people can
23 lower their bids and be more competitive. What may be
24 equally as valid, and we think is quite more valid, is
25 release of the information is going to provide information

1 to those that bid low to increase their bids.

2 You know, for example, I looked at one week's
3 worth of data, and we accepted -- and I'm going to do it,
4 and I hate people doing this always on heat rates, but just
5 for the sake of discussion -- we took heat rates that
6 ranged from 8.2 to 8.7. If we released that we bought
7 power at an 8.7 heat rate -- you're right that there may be
8 some that bid 9.2 or 9.4 that may come down. They're going
9 to come down to the 8.7, but I think equally as valid is
10 the concern that the parties that were bidding the 8.2 are
11 going to start bidding 8.7.

12 I think there are arguments to be made on both
13 sides. It's just that right now we feel like providing
14 that information is going to provide more help to
15 generators trying to increase their margins than it is to
16 generators that are trying to increase their sales.

17 MR. WOOD:

18 Aren't these figures reviewed, though --

19 MR. HURSTELL:

20 Yes, definitely. Everything we do is reviewed.

21 MR. WOOD:

22 And so, won't that information come out sometime
23 later?

24 MR. HURSTELL:

25 I don't think so, because usually when we file

1 cases, things are aggregated, and then any specific
2 transactions are usually filed in the confidentiality
3 agreements.

4 Mr. Chairman, I'm not sure, exactly when and
5 what may become available publicly. In a year or two
6 years, sometimes -- like in Louisiana right now, we're
7 reviewing purchases made back in 1989. Even if it does
8 come up, then I'm not sure.

9 MR. WOOD:

10 Mike, I know you participated in other markets
11 across the country. You purchased payment bid versus
12 market clearing price bids all over, and for a number of
13 reasons over the years, we've generally come to the
14 conclusion that market clearing prices tend to result in an
15 overall lower cost to the customer. Why is that not
16 applicable here?

17 MR. SCHNITZER:

18 There's a couple of questions there.

19 The issue of payment bid versus market clearing
20 price is one which Entergy has been in conversation with
21 all its regulators about at some time. And you know in
22 earlier wholesale market development efforts, the company
23 supported so-called danger markets which would have the
24 characteristics of a market clearing price, occasional
25 price markets. But there's discomfort here and not yet

1 support for LMP or something close to it.

2 So this proposal, the one that's before you in
3 the proposed WPP, let's not take that one on. Let's do
4 payment bid kind of pricing. But where you go -- where the
5 Commission has gone to market clearing pricing in our
6 markets, it's part of the package of things. It's part of
7 the package of the -- in those markets. Typically, there's
8 a resource advocacy requirement which carries with it an
9 obligation of generators to schedule or bid every day and
10 be in the market every day. It carries with it a set of
11 market monitoring and mitigation activities, and in those
12 cases a market monitor.

13 Where the Commission has embarked on market
14 clearing prices kind of structures, they are part of the
15 whole process which, to our knowledge, are not -- have not
16 been, and are not capable of, being implemented, short of
17 the whole RTO-type generation market. And in that context
18 -- as Entergy has supported them in a number of contexts,
19 most recently SeTrans -- that would be fine and there would
20 be disclosure. There would be market clearing prices and
21 there would be disclosure of those prices on a temporary
22 basis. But that's a whole different package of attributes
23 than what we're able to work with here.

24 MR. WOOD:

25 You know, though, the PJM. But long before they

1 had an RTO, they had economic dispatch that was owned by
2 numerous people. But they'd have -- I don't think they
3 were as complicated a structure as we have here. They were
4 more frequent. They were market clearing. I wonder why
5 something like that that seems to have a clean track record
6 wouldn't be easier to start here than -- certainly those
7 other market attacks have other things in it, but the
8 existing pooling arrangements that would be similar to
9 those limits --

10 MR. SCHNITZER:

11 Does your question about earlier PJMs go back to
12 the split savings arrangements in central -- in a tight
13 pool dispatch, or are you talking about the intermediate
14 step where they had --

15 MR. WOOD:

16 You've been around longer than I have, so --
17 well, take both of them and tell me why that's not an
18 easier way to get there than --

19 MR. SCHNITZER:

20 Well, the other predecessor arrangements that
21 made the markets into tight pools were separate corporate
22 entities, basically. And the question was, how could they
23 centralize dispatch and share the benefits of centralized
24 dispatch? That required them to price, in effect, a number
25 of things, exchange energy into more interchange energy.

1 It also required all of them to establish a set of rules
2 about how do they know that no one is leaning on anybody
3 else. You know, everyone brings enough stuff to the party.
4 So even those structures had those kind of rules. But they
5 were principally arrangements for getting more economies to
6 scale and equal -- back in those days, it was a 10,000- or
7 a 12,000-megawatt market in its entirety, and it's grown to
8 20,000 megawatts at this point. I mean Entergy is
9 twenty-some-odd thousand 9000 megawatts all by itself, so
10 it's a different scale issue in the early days.

11 Aggregated together, they're as big as Entergy
12 is. But the issue of pricing was basically coming out of a
13 set of pooled resources and pricing interchange, and this
14 is a different arrangement. It's one company's procurement
15 on its behalf and another company, if they want, another
16 network customer can procure on their own behalf. It's not
17 quite the same as trying to achieve a centralized dispatch
18 among integrated players, which is what those -- we don't
19 have that issue, or that problem is not the principal one
20 that we're trying to address here. It's trying to
21 integrate new resources that are not owned by an integrated
22 player better into the dispatch.

23 I don't know if that's a helpful response.

24 MS. HOCHSTETTER:

25 Mike, I don't know if this is an appropriate

1 question for you or someone else, but this follows up on
2 Chairman Wood's question.

3 Once, Southwest Power pulled a real-time spot
4 energy balancing market. It established one and then put
5 it in place. Seems to me that that might be an alternative
6 option or, perhaps, a supplemental opportunity to the WPP
7 to look at shorter-term economic purchases. That would
8 establish a larger cut in price as the Chairman indicated,
9 and, obviously, we would have a lot of transparency and
10 would be right in you all's region.

11 So is that a possibility that you guys would
12 consider participating in, either as an alternative or a
13 supplement to the WPP?

14 MR. SCHNITZER:

15 That will open up a big can of worms. Just let
16 me say, putting aside other STP-related issues of
17 transmission pricing and the like. We're just focusing on
18 this piece.

19 MS. HOCHSTETTER:

20 I'm not talking about y'all being a member of --
21 I'm just talking about your participation.

22 MR. SCHNITZER:

23 Fair enough. We're talking just about that. I
24 think the part of your question that said "supplements" may
25 be a possibility. I'm not an expert on that STP balancing,

1 but in terms of replacement, I think my answer would be,
2 no, because we discussed it in New Orleans and at previous
3 times that the big opportunity for displacing better
4 integrated merchants comes at the commitment stage. And
5 that's why we're talking about it in the procurement is
6 that -- and again, to get us oriented here -- remembering
7 about that total energy pie we talked about in New Orleans.

8 We're down now to the 20 percent of the total
9 retail energy requirements for Entergy's customers on a
10 annual basis that are currently mapped with these oil and
11 gas units that I'm talking about. Is there an opportunity
12 to displace that? What are those units and how are they
13 committed right now? How can they be displaced? And the
14 answer is that those units typically have 24- to 48-hour
15 start-up times. They have two- or three-day minimum
16 cool-down periods before they can be re-connected. And
17 Entergy's current practice is to basically commit or not
18 commit those units for a five-day period. And once that
19 decision is made, we're going to take it on line and leave
20 it on line until Friday, at least, and see come the weekend
21 whether we can take it off or not. And all of the
22 balancing markets are only going to be on the margin and
23 Entergy through economy purchases right now, I think John
24 would tell you, it takes pretty full advantage of
25 short-term markets.

1 But if we're going to do more displacement of
2 those commitments, we have to have something that can be
3 compared apples to apples against that unit; in John's
4 example, in the operating reserves. If you want to meet
5 operating reserves, we've got a unit that's already
6 on-line. We can divide that, or we might substitute
7 somebody else. We don't do that an hour in advance. That
8 unit is either going to be committed at 50 megawatts, in
9 his example, for the week or for the period, or it's not.

10 And that decision, once it's made, can't be
11 reversed for about four days; two or three days to cool
12 down and 24 to 48 hours to come back up. And so, that's
13 why the weekly focus is on this particular effort because
14 that's the opportunity we're trying to further realize is
15 the commitment opportunity. It could be that balancing
16 market could supplement in some other ways, but it would be
17 an economy supplement and John could better speak to that,
18 to whether he thinks that's a big opportunity or not. But
19 it would not help the commitment displacement issue, which
20 is where there's some more leverage and more dollars.

21 MR. HURSTELL:

22 It's just to say a little more succinctly that
23 we're not going to put ourselves in that position where we
24 have to buy energy in the short term market to keep the
25 lights on to our customers. We can't count on a balancing

1 pool to be there. We have to be prepared to handle it and
2 have the units committed to supply.

3 I guess, getting back to your question -- the
4 Chairman's question on releasing information. It was
5 pointed out to me that the sellers -- we don't release
6 information, but the sellers have to make their quarterly
7 filings where they have to release information on all their
8 sales. So all the information is going to be available on
9 a quarterly basis.

10 And finally at the technical conference, one of
11 our many technical conferences, this issue came up on
12 releasing information, and we had two parties that were
13 routinely winning -- they did a good job bidders --
14 frequent winning bidders. They expressed the desire for us
15 not to release the information. They felt like they had
16 invested a lot of time and effort to put forth the right
17 information so we could write bids that we can take to
18 Entergy. And they were reluctant for us to just hand it
19 over to everyone else.

20 MR. RODGERS:

21 Can I just mention, though, those quarterly
22 reports that you refer to, John? They don't provide the
23 kinds of details that would help someone who was losing
24 know exactly why they lost the bid.

25 MR. HURSTELL:

1 That's right, Steve. And what I tried to show
2 in my example is that unless you provided the detailed bid,
3 every part of the detailed bid -- what the heat rate was,
4 what the gas basis adder was, what the flexibility was --
5 unless you provide all of that, it's not going to be
6 meaningful information. And the more detail you provide,
7 again, you get to that two-headed coin. One side says that
8 if you release the information, you can help those who
9 didn't win to put in better prices, but the flip side is
10 that you can help those who did win to put in higher
11 prices.

12 MR. RODGERS:

13 I'd like to follow up on that for just a minute.

14 If you go back to your chart on slide 6 from
15 your presentation, if you look at the four largest bidders
16 here in terms of number of offers that were made, it looks
17 like Companies "C," "E," "H" and "I" -- for those four that
18 have far more bids than anybody else did, not one of them
19 had more than 22 percent of their bids selected. So it
20 just seems to me like there would be some benefit to
21 Entergy and its ratepayer if there would be a way for
22 Entergy to provide more transparency, provide more
23 information, to losing bidders in terms of how they need to
24 be more flexible, specifically, and what price has won, on
25 a timely basis. It seems to me like that would be to your

1 benefit.

2 MR. HURSTELL:

3 Well, again, it gets back to -- you say, provide
4 which price would have won. It's not like we know what
5 price would have won. We use this production costing
6 model, and if you remember, we talked about it. It's how
7 much time it would take for us to go back and look at every
8 offer and do the detailed analysis as to what tweaks you
9 had to make to your offer in order to be a successful
10 bidder. And what I would tell you is if you look at
11 Company "I" who had 162 offers, and they only had 15
12 accepted. That's the key thing. It's only 15 weeks that
13 they were accepted.

14 If we tell them every week, lower the heat rate,
15 provide more flexibility, lower the gas prices, and if they
16 haven't gotten it yet, if they haven't been able to lower
17 the heat rate enough after putting in 162 bids, then us
18 telling them, lower your heat rate from 9.2 to 8.9 is not
19 going to help them. They're at 9.2 heat rate, and we say,
20 lower your heat rate, and if they come back with a 9.2 heat
21 rate, what good is it going to do to tell them a specific
22 number?

23 We are still telling them to lower the heat rate
24 and provide more flexibility, and that is giving them the
25 direction they need to go in. Those are the things they

1 need to focus on. And to be very candid with you, I just
2 think some of them are just reluctant to provide us that
3 flexibility because they think they can do better in the
4 daily market. Remember, we're asking them to commit for a
5 week. When they commit for a week, they miss out on the
6 chance of a daily spike in prices, and that's the bet
7 they're making. They may be very happy that they don't get
8 some of our bids. I don't know. It sure looks like
9 they're not being aggressive bidders.

10 MR. KELLIHEE:

11 John, if I could follow up on Steve's question.
12 It strikes me that if transparency is of value
13 to either Entergy or to the bidders, you could take what is
14 a variable and make it fixed. You can take flexibility,
15 and instead of having a kind of a single, amorphous
16 product, you could break it into a couple of products with
17 range and flexibility. And then you could release
18 information after the fact on which of those products you
19 accepted and what the effective heat rate was for those
20 products.

21 Have you considered something like that?

22 MR. SCHNITZER:

23 Yes, Joe, as a matter of fact. You're playing
24 the perfect straight guy. That's exactly what the
25 recallable product that we talked about is. We're going to

1 develop a product that says, you have to offer this amount
2 of flexibility. And I think we said 50 percent, because we
3 try to make it something they will bid on, number 200 to
4 400 or 100 to 200. And there are definite parameters that
5 you have to live by, and the only thing that you can bid is
6 a heat rate and a gas business so that way, we will have a
7 standard -- one standard product that they -- can bid on.

8 But the problem with that is, remember, there's
9 no Holy Grail of what products are going to work at what
10 price. As I said, if you offer us a 16-hour block of power
11 with a 6000 heat rate, we're going to take that product.
12 If you offer us a 16-hour block of power with a 9000 heat
13 rate, we're not going to take it. But if you offer us a
14 four-hour block of power across the peak of the day at a
15 9000 heat rate, we might take that.

16 So the last thing we want is for everybody to be
17 bidding the same thing. We need the diversity in product
18 because we need the diversity in products.

19 MR. KELLIHEE:

20 Well, I understand you need different kinds of
21 products but as part of this recallable product, will there
22 be some price disclosure or quantity disclosure?

23 MR. SCHNITZER:

24 We have talked about quantity disclosure as
25 being something that may provide feedback that says there

1 are transactions being done in the marketplace, and it may
2 give them some comfort that we are doing something. And
3 they can see how quantity is changing. We are open to --
4 in considering that, that's one of the things that we said
5 we would talk about with a recallable product.

6 MR. RODGERS:

7 Mr. Schnitzer, if we could go back to something
8 you were discussing a minute ago on the STP balancing
9 market. If I understood the point you were saying that the
10 market is an hourly market and you need research that
11 generally, for most of your needs, that are longer time
12 frames. So as a direct Entergy participant, it's not an
13 ideal fit for most of your needs. But the question I have
14 is: Does it provide other opportunities that you would not
15 have today, such as traders, who would say, I'll commit to
16 sell to you 16 hours for five days at this price, and I'll
17 buy that in the balancing market and take the upside if the
18 price is lower and take the risk if the price is higher?
19 Do other people fill the gap between Entergy and the
20 balancing market and have the opportunity to give more
21 flexible products that way?

22 MR. SCHNITZER:

23 What you're talking about is getting other
24 people to service and then -- well, we buy energy every
25 hour on an hourly basis. I would say most hours, we buy

1 energy on an hourly basis. There may already be people
2 doing that right now. We buy a 16-hour block of power and
3 hedging their bet that they're going to be able to sell it
4 to us every hour. So we're doing our part in that, and we
5 look to buy every hour.

6 MR. RODGERS:

7 I agree. People can do that now. I'm wondering
8 that in an organized market like the -- STP balancing
9 market gives those intermediaries a more assured
10 opportunity of being able to fulfill their commitments they
11 may have to Entergy.

12 MR. SCHNITZER:

13 With as much generation in our area right now,
14 including all the QF generation, anybody that wants to buy
15 a coverage, you just have to offer the right price and
16 you're assured you can get power. You're not assured of
17 price. I don't think the balancing pool creates -- the
18 balancing pool would create anything new.

19 MR. RODGERS:

20 But I think that -- the questioned issue aside,
21 again the reason we're here with this proposal is basically
22 an assessment of where the money is. Where is the
23 opportunity? And the opportunity appears to be -- there's
24 oil and gas generation, the heat rates that John described,
25 owned by Entergy running on a weekly basis and it

1 collectively produces 20 percent of the annual energy
2 requirements for Entergy's retail customers.

3 And the question is: Is there a way to reduce
4 the cost? Let's say they're pieces of pie. The rest is
5 coal and nuclear and QF and purchases that are already
6 being made with all the different kinds that John is
7 describing. So that's the piece that's left to us. As it
8 happens, the average capacity factor for that remaining
9 piece is low. It's 20 to 30 percent a week. Those units
10 that basically run for the purposes that we're describing,
11 they go up and down every day. That's why we're focusing
12 on this flexibility. Everything else has been bought. The
13 piece -- and we can buy better. We can buy cheaper, maybe,
14 some other ways, but the piece that is yet to be, perhaps,
15 wholly tapped is this remaining piece, and it has the
16 characteristic that it goes up and down everyday. It
17 follows load everyday

18 And so, if we're going to get some of that
19 remaining share of the energy pie that we talked about in
20 New Orleans, it's only going to be if we get something
21 there that would cause us not to commit one of our existing
22 units that we would then run at 20, 25 percent capacity.
23 And anything else may provide some other types of energy,
24 but if you buy the proposition or you agree with the
25 proposition that the biggest remaining opportunity is with

1 respect to that 200 percent. Then you better find a way to
2 find resources that will go up and down every day and will
3 have the lowest possible minimum block for the ability to
4 go up and down every day. And that's what this weekly
5 procurement is currently trying to do, what the weekly RFP
6 process is trying to do and what the weekly FP process is
7 designed to try and do better. That's what it's about.

8 MR. WOOD:

9 So what the recallable product is is the attempt
10 to not have something that is so kind of black or white for
11 the market, for the non-Entergy generation, so that they
12 would be on the hook under some conditions, could back out
13 and play in the hourly market.

14 MR. SCHNITZER:

15 Yes. In financial terms, what Entergy's
16 existing plants are are options. They're callers because
17 you have the right, but not the obligation, to run, but
18 it's at specific prices. And so, you need to buy options
19 from somebody else to replace them. But once they commit
20 that strike price to you, if the market runs way up,
21 they've lost the upside. And so, they're saying I need to
22 get paid more than you're willing to pay me for the option.
23 And we're saying, we can't pay any more than we're willing
24 than that for the option because our units have that
25 option. So if you want to sell me a less valuable option,

1 I'll look at that. And that's the recallable product, a
2 less valuable option --

3 MR. HURSTELL:

4 That's a part of -- the market participants
5 asked us to develop and we're working with it to do that.

6 MR. WOOD:

7 That's in your meeting here, or the meeting
8 here, or your meeting in New Orleans?

9 MR. HURSTELL:

10 I'm not sure exactly where, but there's going to
11 be a meeting in November. That's right.

12 MR. WOOD:

13 Speaking of New Orleans, I'm going to divert my
14 question, then get back to this since Louisiana's not here.

15 What is going on with that commission with
16 regard to commission studies or generator shutdowns?

17 MR. SCHNITZER:

18 The pirate study?

19 MR. WOOD:

20 Correct.

21 MS. DESPEAUX:

22 Yes. My understanding is they are preparing the
23 study -- the staff -- I'm sorry, my understanding is that
24 the Louisiana commission staff is working on the study and
25 that they retained some advisors to help them on the study.

1 And I'm not sure if we know exactly when it is expected to
2 be released.

3 MR. WOOD:

4 What would a possible format for that study's
5 results be?

6 MS. DESPEAUX:

7 I can't --

8 MR. WOOD:

9 These five plants should be replaced by these
10 five plants?

11 MS. DESPEAUX:

12 I'm not sure what the results will be.

13 MR. WOOD:

14 Then, I guess, more of a legal question is I'm
15 not sure if I should ask you this but with regard to how
16 the cost of this 20 percent slice are shared within the
17 five jurisdictions, the retail jurisdictions. How does
18 that work?

19 MR. SCHNITZER:

20 That basically takes place according to the
21 agency system premium.

22 MR. WOOD:

23 Which is the pro rata share?

24 MR. SCHNITZER:

25 No. It's the way the -- accounting's done

1 that's on an hourly basis. Each company's load and
2 generation is toted up and companies that are short are
3 deemed to be purchasers who can exchange energy. And
4 companies that are long are deemed to be putting energy
5 into the exchange inner tube, and it's all transacting
6 costs. And the rules about which resource -- which energy
7 goes into the pool and pricing and all that are pursuant to
8 the system agreement.

9 MR. HURSTELL:

10 The key thing, Michael, is that one step is --
11 the first step that happens is every company is given its
12 pro rata share on every purchase so that then, whether the
13 purchase is economic for a particular company, will
14 determine whether or not that purchase goes to the exchange
15 or something else goes to the exchange. For example, we
16 make a purchase that --

17 MR. WOOD:

18 The purchasing is done in the weekly RFP with
19 current prices?

20 MR. HURSTELL:

21 That's correct. Every purchase is a joint
22 account purchase. So that, for example, Mississippi is
23 going to get its share of every purchase, and then every
24 hour, it's going to be determined whether Mississippi is
25 long or short. If Mississippi is short, then obviously,

1 they need everything they have and will be buying in the
2 exchange. But if they're long, then it's going to look and
3 see what the most expensive source on the Mississippi
4 system, and if that's this purchase, then this purchase
5 goes to the exchange. If it's something else, then
6 something else goes to the exchange.

7 But the first step is that every operating
8 company get its shot at these purchases.

9 MR. SCHNITZER:

10 But for the plants themselves that are currently
11 generating those 18 and that 20 percent, they are owned by
12 whatever operating company owns them, and so they show up
13 in the account of the operating company that owns them.

14 MR. WOOD:

15 Does the long/short company support the
16 operation?

17 MR. RODGERS:

18 If we could, Ken's been very patient over here
19 undergoing an endurance record for how long he can stand
20 still, so you're doing a great job over there, Ken. We'll
21 get back to you in about half an hour.

22 Seriously though, Ken, if you could, go ahead
23 and finish up your presentation on the proposed WPP
24 process, and then we will take a short break for about 10
25 minutes and come back with some responses or perspectives

1 from marketing.

2 MR. TURNER:

3 It won't take me very long. Thank you very
4 much.

5 One of the last things I said about 30 minutes
6 ago -- is that we feel like the proposed WPP gives the
7 potential for more substitution of IPPs than that have
8 existed more recently. What that does is it reduces the
9 cost for the ultimate customers, those customers that are
10 participating in the process. It also allows IPPs to sell
11 more power on our system. Another benefit of the proposed
12 WPP is the potential for the additional sale of more
13 transmission service through re-dispatch. I'm not going to
14 get into the re-dispatch issues again. I covered those in
15 the last technical conference although if there is
16 questions, we will try to address those.

17 But the additional sale of transmission service,
18 again, benefits network customers including -- and it
19 allows IPPs to supplement power off our system. This
20 proposed WPP also maximizes the transmission system on a
21 weekly basis, and one of the issues that keeps coming up is
22 AFCs and what impact AFCs has on WPP or the WPP on AFCs.

23 AFCs are not going to affect weekly transmission
24 service through the WPP, unlike the process that John
25 talked about in the current weekly RFP process. Once the

1 bids are selected in that process, they still have to apply
2 for transmission service because we are doing simultaneous
3 optimization. And we're actually substituting an existing
4 network resource or selected bid, then there's no reason to
5 apply for the AFCs to get additional transmission service
6 granted. The transmission service will be there

7 Once the WPP has selected the bids, the winning
8 bids, and gone through the granting of the additional
9 port-to-port service, that then results in the final rung
10 to form the basis of AFC's base case and the AFC process
11 from that point forward, so all new requests for
12 transmission service will reflect the results of this
13 simultaneous authorization.

14 And the final benefit of the WPP is that, unlike
15 the current process, there will be an independent oversight
16 proposed by the ICT of this WPP process. We feel like that
17 will give greater comfort to our regulators, greater
18 comfort in the market test case. We see that as a benefit
19 of this process.

20 The final slide really has been covered by some
21 of the questions that Michael was asked, but I just want to
22 point out that the WPP is a procurement process. It's not
23 a marketing process. As Michael described, and he can
24 describe it in a lot better detail than I can, markets
25 would require all the selected resources to be paid with

1 market clearing prices. There are other attributes of the
2 market that Michael covered, such as ICAP and that sort of
3 thing that would have to be present to make this a market.
4 That is not what we're proposing. Markets would also
5 require a very complex settlement process.

6 The next bullet, WPP is not a pooling
7 arrangement. What I mean by that is that the Entergy
8 generation is not for sale to other customers through the
9 WPP at cost. That would be what would happen. And an
10 important part of this WPP proposal that I covered in quite
11 a bit of detail at the technical conference in New Orleans
12 is that all participating customers must serve their own
13 load through their own network resources and/or IPP offers
14 that they bring to the process. They have to bring enough
15 of their own resources, plus offers to meet their own load
16 requirements.

17 Mr. Chairman, that's all I have.

18 MS. HOCHSTETTER:

19 Ken, before you leave, I have a quick question.

20 I know you'd really like to sit down, but I seem
21 to recall back at the tech conference in New Orleans that
22 one of the restraints, or caveats, with the WPP was
23 available transmission capacity in the sense that the
24 accepted -- of transmission constraint where you have a
25 must-run unit because of the existence of constraints, or

1 inadequate capacity that was a knock-out factor caveat on
2 participation in WPP. I guess I'm trying to reconcile your
3 optimization comments with what I understood in New
4 Orleans.

5 You've expressed, in addition to all of this,
6 that there could be transmission constraints that preclude
7 some offers from being accepted as opposed to it just being
8 a matter of displacing one of your existing company-owned
9 units with a unit on the market. And so, can you clarify
10 that? And I have a follow-up question after that.

11 MR. TURNER:

12 Let me try it this way. If I misled you, I
13 apologize, but the simultaneous authorization will have the
14 transmission system model as per this. All constraints
15 will be modeled. We'll know what the constraints are. We
16 know what constraints have to be up. Our hope is that we
17 get the right offers in the right locations, we can
18 displace some of our existing -- with some of the offers.
19 But the bottom -- of the system it has the -- up.

20 MS. HOCHSTETTER:

21 This is my last question.

22 What if you have some offers that can't be
23 accepted because of transmission constraints? Is there a
24 way that your computer process can capture all of the
25 economic offers that would have been more optimally

1 economic than your own generation that could not be
2 accepted but for XYZ transmission constraints? It seems
3 like after some period of time that if you tracked all
4 that, you would be able to identify, from a transmission
5 planning standpoint, where you need to put in some fix-its,
6 some incremental transmissions, if you will. Are you
7 tracking that so you can put economic transmission
8 investments to take advantage of these more economical
9 generation offers?

10 MR. TURNER:

11 Michael, you help me out here with this. I
12 believe that we will have that information ready. We will
13 be tracking that.

14 MS. HOCHSTETTER:

15 The system will track that?

16 MR. SCHNITZER:

17 Yes. The proposed WPP, one of the by-products,
18 if you will, of the outputs, will be it will tell you
19 whether there were constraints that were binding that kept
20 you from doing something that you wanted to do and how much
21 that costs you on the margin. And that will be available
22 week in and week out, and those constraints will be of all
23 kinds. It could be a transmission limit and say, oh, that
24 transmission limit was binding, and in technical terms, a
25 shadow price. It tells you how much it would be worth if

1 you had more capacity on that constraint

2 Similarly, if you had to have so much
3 flexibility because you'd have to be able to absorb a 3000
4 kilowatt QF foot. It will tell you how much that costs
5 you. Because you have to be able to absorb input. So all
6 kinds of constraints will be represented. And if they're
7 binding, they may not be, but if they actually prevent you
8 from doing something more economic, the penalties
9 associated with that will be able to be collected to track,
10 as you suggested, on a weekly basis. And over time, you
11 could say, yep, there is a trend there and this is what it
12 would be worth to do something about that. You're exactly
13 right.

14 MR. ROGERS:

15 If there is no other questions, why don't we go
16 ahead and take a 10-minute break? I wanted to mention that
17 there are some refreshments that are available downstairs
18 in the atrium, which is one floor below us. Please join us
19 down there.

20 (Whereupon a break was taken.)

21 MR. WOOD:

22 Let's go ahead and take our seats, please, so we
23 can get started here.

24 I'm going to bogart a little bit of time from
25 the afternoon panel, and say we're going to try to do lunch

1 around 12:20 or so. So why don't we spend the next 50
2 minutes having a round-table?

3 We've got here, I believe, some folks that we
4 had at our last hearing in New Orleans. We have Mr. Adams
5 from NRG; Mr. Marrone from Occidental is back from
6 InterGen -- and who is that coming?

7 UNIDENTIFIED SPEAKER:

8 He's coming around.

9 UNIDENTIFIED SPEAKER:

10 He's coming around.

11 MR. WOOD:

12 Ms. Mackey. Mr. Carraway in en route from the
13 Mississippi Delta. Why don't we --

14 MR. RODGERS:

15 In just a minute, I'm going to introduce someone
16 from Louisiana that has joined us, but we'll get a status
17 report on what's going on there. But in the meantime, why
18 don't we have Lynne Mackey from InterGen go ahead and tell
19 us her thoughts on where we're at.

20 MS. MACKEY:

21 Hi, I'm Lynne Mackey, as Steve said, from
22 InterGen.

23 I would say as a general statement, we still
24 have some concerns regarding how Entergy arrives at its
25 decision to run its own units versus the other units

1 offered by the market or the IPPs. Also, not just how it
2 runs its own units versus, for example, our Cottonwood
3 plant, but how does Cottonwood -- how does Cottonwood get
4 judged against the other IPP's?

5 On different occasions, Entergy has made it
6 clear that the IPPs are really competing against each other
7 as opposed to competing for a big chunk of the Entergy
8 load, we heard today again, that is about 20 percent of
9 what's left. So that data and information would still be
10 very helpful to us, and I think that as an over-reaching
11 statement we heard that Entergy is concerned that there are
12 people who don't want some of this information published,
13 some of the contributors to the WPP process. And what we'd
14 like to propose is that they've heard what our main
15 concerns are. They heard the Commission and the state
16 regulators' interest in the transparency issue, and I think
17 it would be helpful, at this point, if Entergy took that
18 information and came up themselves with some proposal for
19 transparency that could be incorporated into this WPP
20 process that we could all comment on. So if there are
21 people who are against it or there are aspects of it that
22 certain parties aren't enthusiastic about supporting, then
23 we can all entertain it through that type of a process.

24 I think we feel like we've communicated on a
25 one-on-one basis or, I should say on an individual IPP

1 basis our general issues. We think that at this point,
2 Entergy coming up with a proposal would be the productive
3 next step instead of us continuing to throw things out
4 there and having them discarded, or considered and then
5 discarded. It's time to come back from the other angle.

6 One other thing I'd like to say on the -- from
7 the last technical conference that on the -- as far as the
8 IPPs go, we've been, really, very resource-constrained with
9 some of the other dockets that are out there that we're
10 working on, and I have not been able to get the generators
11 together to sit down and hash this out and talk about the
12 exact type of information. And that was one of the
13 comments that came back as I was trying to talk on the
14 phone with the individual generators, which is why don't we
15 put this back on Entergy and say the people who want to
16 sell you power think it's important. The regulators seem
17 to think that it's a relevant issue to be raised. Maybe
18 it's time for Entergy to respond to those concerns and
19 actually propose something. So that's my first
20 over-arching comment I would like to make.

21 MR. RODGERS:

22 Lynne, before we move off the desk, could you
23 explain to us what the nature of your concern was among the
24 generators that did not want more transparency? What was
25 your reason for that?

1 MS. MACKEY:

2 Thank you for bringing that up, actually. One
3 of those -- one of the IPPs that I spoke to -- the IPPs in
4 general, and this is not a consensus statement, as I said,
5 but the essence that I get from the IPPs is that we have so
6 much more to lose by not having price signals and
7 transparency that anything that we would potentially lose
8 by having a bid information review is minuscule. So it
9 pales in comparison to losing on a weekly basis on a bigger
10 scale.

11 The two voices that I heard at the one technical
12 conference in D.C. -- they claimed that that was their --
13 they didn't want bids revealed, or any of that information
14 revealed, because they felt like they had prepared
15 competitive bids. That was kind of the essence that I got.
16 I don't want to speak for them.

17 What I will say is those two at that specific
18 meeting actually was there representing an InterGen project
19 and functions in a trading-type of position for us. I'm
20 sure they do it on behalf of other people as well, so I'm
21 not saying they're not responding to Entergy RFPs on behalf
22 of others -- maybe their own units or something else. But
23 it wasn't -- well, I can say that I can withdraw the 1200
24 megawatts that he was representing from InterGen's
25 perspective and so that person should be carved out of the

1 No category, at least for the 1200 megawatts that they
2 represent us for. If we ask him again, he'd probably say
3 no, at least as far as our megawatts go.

4 Maybe they have less to lose. I don't know.
5 That's speculation on my part. But the other thing that I
6 would like to at least just bring up right away was that
7 Mr. Self said that transparency -- I'm sorry that
8 flexibility is a priority, and he gave an example on his
9 page 26 about possibly -- he was evaluating purchasing
10 flexible energy from an IPP versus its own unit, and then,
11 correct me if I'm wrong, but I also thought I heard that
12 that flexibility on a intraday basis is how the decisions
13 will be made.

14 If Entergy did buy that product, let's say it
15 was clearly cheaper, that they would want the ability to
16 turn that unit up or down within whatever range he had
17 purchased. But this seems to go directly against, and I
18 think that maybe it's just confusion, I'm not sure, against
19 the requirement in the GRS filing that we have to submit
20 start-up and shut-down schedules by 8:00 the day ahead. So
21 come January 1, we have to submit -- if the proposal
22 becomes enacted as filed, we have to provide start-up and
23 shut-down schedules by 8:00 a.m. the day before. So how
24 could this jibe, and how is not in conflict with the
25 procurement goal of flexibility?

1 MR. HURSTELL:

2 Well, let me -- I'll be happy to answer that.
3 Excuse me. When you specify the minimum in this example,
4 the minimum is 200 megawatts, then you will know a week in
5 advance that every day that you're going to start at 6
6 o'clock in the morning and you're going to go until 10
7 o'clock in the evening, so you can submit your start-up
8 schedules the day before and you can -- there's no
9 uncertainty of when you need to start. The uncertainty is
10 how much you're going to take --

11 As we said before, it's consistent with the GRS
12 and the GIA. You can put in 20 minute-range or 10
13 minute-range, so we can tell you 10 minutes from now, move
14 from 200 to 400. And if your ramping ability capability
15 isn't such that you can provide that, you can only provide
16 100 megawatts, then that's the ramping that you can
17 provide. The scenario as I laid out wouldn't require you
18 to incur any GRS charges.

19 MS. MACKEY:

20 I think that maybe we can just take that
21 off-line. I am not confident that the goal of flexibility
22 and the GRS as it's designed aren't -- don't limit our
23 ability to provide you the products that you want. So
24 maybe we can just take that off-line.

25 MR. HURSTELL:

1 Before you say take it off-line, let me at least
2 have a shot at saying that I think it's completely
3 consistent, that there may be some misunderstanding, but
4 the idea behind the generated ring balance is that if you
5 put in a schedule, you will match your schedule, you will
6 match your schedule. And if we're obligated to schedule
7 energy from you, then we'll put in a schedule, and you
8 match it. We will be happy to take that off-line, but I
9 don't think that there is any consequence.

10 MR. WOOD:

11 Is that Cottonwood plant, Ms. Mackey, is that
12 Cottonwood plant one that is susceptible to become
13 available for a real peaky nature, what you have described
14 -- of their needs for that last 20 percent slice of their
15 --

16 MS. MACKEY:

17 You mean, could we provide that?

18 MR. WOOD:

19 Yeah.

20 MS. MACKEY:

21 Yes.

22 MR. WOOD:

23 Is the flexibility, then, more of a financial
24 issue, or is there an operational issue?

25 MS. MACKEY:

1 I guess the whole -- I'm sure that there are
2 pieces of it that they would consider to be operational,
3 but I would say that -- actually, it's a blend between
4 operational -- we have minimum requirements -- we have a
5 minimum level we have to run at. And that puts us into
6 probably certainly not the minimum 50-megawatt category
7 compared to its own unit. So I would say we're on both
8 sides of that; operational and financial.

9 I guess it's kind of a related question that
10 during those flex -- how would the GIA itself be applied to
11 somebody who would provide you that flexibility? I mean,
12 is the GIA with its hourly calculations and
13 quantifications -- you know, it seems to me that we do have
14 an apple-to-oranges, again, with the GIA and GRS versus
15 this need for flexibility. And maybe, again, it's just
16 something that it's as a regulator person instead of a
17 commercial person. I'm not -- I'm just not understanding
18 this.

19 MR. HURSTELL:

20 Let me try to help you.

21 First of all, the GIA, the Generator Imbalance
22 Agreement, applies to schedules from generators. If we
23 enter into an arrangement through the WPP, then you would
24 be designated as a network resource. We're not obligated
25 to schedule from a network resource so, therefore, GIA

1 wouldn't even be applicable because there are no schedules.

2 MS. MACKEY:

3 This is what the WPP has proposed?

4 MR. HURSTELL:

5 Has proposed.

6 MS. MACKEY:

7 Right. Okay.

8 MR. HURSTELL:

9 Yes. Right now is the kind of flexibility that
10 we've gotten so far, and the weekly RFP doesn't even
11 approach the kind of flexibility that would cause any
12 problems with the GIA because so long as we had to give 10
13 minutes' notice that we could tell you, here is what we
14 need from you -- I guess 20-minute notice -- here is what
15 we need from you, schedule the transmission. As long as
16 you match the schedule, there would be no -- no GIA
17 charges.

18 MS. MACKEY:

19 Okay. The only other feedback that I received
20 from the other generators -- and then I'll let somebody
21 else add their comments in -- was regarding the additional
22 types of products that would be -- we think would be
23 helpful for us to be able to sharpen our pencil and get you
24 as competitive offers as possible, and those types of
25 products and receiving feedback -- signals on those types

1 of products. Maybe in the similar was regarding a
2 re-callable product that you're speaking about would be
3 helpful. And that includes then shaped products so that
4 it's a pre-scheduled variable amount of megawatts with a
5 specific number of hours.

6 One was the weekly implied heat rate for the
7 group of people who responded in the weekly RFP process
8 with that type of a product, or price per megawatt hour and
9 how many megawatts were purchased, so a type of product,
10 the number of hours bid, megawatt hours bid, the number of
11 megawatt hours awarded then either the average heat rate
12 for the megawatt hour. And in that case, really the
13 average heat rate, in my mind, should incorporate any gas
14 adder so that that becomes built-in for the purpose of
15 transparency. So it doesn't have to be kind of an unknown
16 variable that hangs out there.

17 MR. HURSTELL:

18 We'll look at that. We're going to have a
19 conference in mid-November, and we will bring this issue up
20 then as well.

21 MS. MACKEY:

22 Okay. That's all I have for now.

23 MR. WOOD:

24 Does that re-callable product -- is that
25 something that he represented -- can you question that a

1 little bit for me?

2 MS. MACKEY:

3 InterGen really, at this point -- and I'm just
4 parroting, really, what our commercial guys are saying --
5 we really don't see the value of that product, per se,
6 partially because -- if the market runs up, Entergy is
7 going to be in -- well, the perspective is Entergy is going
8 to be in that market as well. And our ability to -- so
9 that mainly when you want to recall the sustainability of
10 that market, tries to be out there when we're ready to --
11 we notify Entergy that we want to recall. By the time that
12 we actually get a sale done, the price could or could not
13 be there. So that's one issue.

14 I think the other issue really is that because
15 transmission is such an unknown, it's a re-callable
16 product, but I don't have firm transmission -- if let's say
17 I'm a network resource -- maybe the re-callable product
18 won't be a network resource product, but I have no idea if
19 I'm going to be able to get transmission. So when I submit
20 a bid for this re-callable product, I don't know if I'm
21 actually going to be able to sell even if I recall it,
22 because I may or may not be able to get transmission away
23 from my plant. So there is still a lot of unknowns related
24 to the value of that, and at this point, anyway, I think
25 Entergy was attempting to respond to a concern, but maybe

1 we just need some more iterations to actually make it
2 valuable to us.

3 MR. MARRONE:

4 I think it may have actually been a
5 misunderstanding with the concern that I had raised, and
6 maybe I didn't make my point clearly enough. But to me,
7 there's -- we have two issues here today; we've got
8 flexibility and the WPP. And I really don't see those as
9 being totally related. I don't see how the WPP is going to
10 take a look at a bid stack based on a simultaneous
11 feasibility study of transmission and change my bidding
12 behavior. That's really not going to change anything. I
13 think the flexibility issue is really separate from the
14 WPP.

15 Within the flexibility issue, I think it's
16 really an issue of cost recovery versus revenue guarantee.
17 John needs cost recovery. I want some level of revenue
18 guarantee because flexibility -- I think Mr. Schnitzer hit
19 the nail on the head. It's a call leverage. You don't
20 give those away for free. It's not the smart way to do
21 business, regardless of what your business is, to give away
22 calls. So there's some level of reservation fee, capacity
23 charge, opportunity cost -- call it whatever you want to
24 call it -- that I would want to build a call option on my
25 capacity.

1 If John pays me a capacity fee, he's not going
2 to get the cost of that. If I do it all heat-rate based,
3 he can pass it through the fuel clause. But if he pays me
4 capacity, that's got to go through the base rates, and he's
5 not going to get the money back. So if I do \$1,000 of
6 business with him and 900 is incremental fuel, and a 100 is
7 what I want, he loses a 100 dollars. If I make it all heat
8 rate based and he never calls on me, I'm out \$100. So I
9 want the guarantee of my \$100 somehow, and he wants to get
10 paid back for it, and both of us should get it. And that's
11 kind of the gap that's in this system.

12 So what can I do? Well, I'll take the \$100 and
13 roll it into some portion of my bid as a must-take. So now
14 I'm saying, okay, John, you can have flexibility, but
15 you've got to take 200 megawatts at this heat rate because
16 that's got my capacity payment in it, and then you can have
17 another 100 variable. And he sits there and says, but wait
18 a minute, now, I've got a problem because you're giving me
19 big chunks of must-take energy.

20 So there's kind of a disconnect in this system
21 which I really think is more of a retail rate problem of
22 how this heat could pay me some sort of a capacity payment
23 and get insured from his the recovery of my call option.
24 I'm not giving them a free call option. I'm not giving
25 anybody a free call option in any of my businesses. It's

1 just not a smart way to do business. So I think that's
2 really the kind of key to the problem with flexibility, and
3 WPP is not going to fix that.

4 MR. HOCHSTETTER:

5 I just want to ask a quick follow-up question,
6 if I could while we're on that.

7 What if the state, like Arkansas, had a more
8 flexible fuel adjustment cost? Would that help or do you,
9 in fact, because the way the system is centrally
10 dispatched and operated -- would every single retail
11 jurisdiction have to allow you guys the regulatory
12 flexibility to incorporate that assuming that the --
13 obviously making sure that the most economic thing happens
14 if we allow you to recover the capacity cost and the fuel
15 adjustment loss? This is probably a regulatory/legal
16 question, but if you could answer that, that would be fine.
17 But, I mean, can each jurisdiction be looked at separately
18 or does everybody have to have the same adjustment cost?

19 MR. HURSTELL:

20 I don't think everyone has the same adjustment
21 cost right now, but let me get to -- I'm not saying what
22 Joe said was wrong, but he's not really voicing our
23 perspective and how we look at these things -- what Joe has
24 laid out is in a situation with the QFs because the QFs
25 right now don't need a minimum take because they can sit

1 there and put to us an economy. And what he's looking for
2 is an option to switch from putting to us as a QF and
3 putting to us an IPP.

4 Let's put aside the QFs issue for a second and
5 talk about an IPP. An IPP -- if their going to deliver
6 energy to us, they have to have some minimum amount of
7 energy -- that we have to take some minimum amount. Or
8 they use a bigger one. They are not in a situation where
9 we call them up and then 20 minutes later there is going to
10 be a unit on-line producing what we want. So the fact that
11 they have a minimum amount of right means that they have to
12 compensated for something. So whether or not they offer us
13 a capacity price or they're collecting in a minimum take,
14 it doesn't make any difference. The economics work out
15 exactly the same, and if someone offers us a capacity price
16 and a really cheap energy rate, we evaluate that the same
17 way. We don't make a distinction the way Joe -- I'm not
18 saying he was trying to mislead anybody, but the way he
19 characterized it is that somehow we reject offers that have
20 a capacity price component, and that's just not the case.
21 We don't -- in my job, we don't worry about whether
22 something is going to be recovered, but not literally
23 getting the lowest-cost energy.

24 MR. MARRONE:

25 That's also a mischaracterization of my

1 situation as a QF. I will not give anyone a free call
2 option on my merchant capacity regardless of whether I'm
3 the QF or not. It is bad business. It's stupid. I'm not
4 going to do it, so I've got to get it. How do I get it?
5 There's no place for me to put capacity down on the bid
6 form. How do I get my money for that call option?

7 MR. SCHNITZER:

8 And there, I think, we have a difference of
9 opinion. I did not mean to suggest in my earlier comments
10 that we that -- that merchants or QFs or anybody needed to
11 offer free call options. They can decide what they want to
12 charge. What John just said was right. If a 100 dollars
13 to use John's example is what he needs for his option for
14 that week, whether he puts in a demand charge or whether he
15 puts it in a heat rate on the minimum block, it will be
16 evaluated by Entergy the very same way.

17 So when that offer gets rejected, it's not being
18 rejected because he's trying to recover an option premium
19 that could have been recovered a different way. It's being
20 rejected because \$100 is too much to pay for the option
21 that week relative to what Entergy already has available to
22 it.

23 MR. MARRONE:

24 That is a circular argument we got into at the
25 technical conference, which is if I bid -- if I don't

1 bid -- if I bid my capacity figure in and I don't have the
2 flexibility, so I say, okay, your price is too high. We're
3 not going to talk about numbers, but it seems like a -- if
4 the price is too high --

5 MR. SCHNITZER:

6 It's not circular --

7 MR. WOOD:

8 Is it the same as -- you're trying to cover
9 in --

10 MR. MARRONE:

11 Yes. Yes.

12 MR. WOOD:

13 Then you'd lose under either one if you're too
14 high.

15 MR. SCHNITZER:

16 If you get a hundred dollar option -- forty.

17 MR. MARRONE:

18 It's based on what our marketing people see in
19 the forward market, what they think we could do, what we
20 can get in the forward market for our power. That's
21 what -- that's what sets the value, and then that value is
22 translated into a heat rate and a capacity payment. Or it
23 could be done as a must-take block. I can put it in the
24 heat rate. I can put in the capacity. I can give you a
25 zero heat rate; just give it to me all as capacity. But

1 that's where the value is set.

2 If that's the true value, the value that my
3 people believe that's in the forward market, to be fair to
4 my shareholders, that's the minimum that I want. And
5 that's what sets those numbers.

6 MR. WOOD:

7 Right. But if he's got bids that are below
8 that, then he should take those first, shouldn't he?

9 MR. MARRONE:

10 Correct, and that's fine. But if we -- if we
11 come to a conference and talk about the fact that I can't
12 figure out how to be flexible -- I know how to be flexible.
13 It's just that there's constraint in this system that
14 prevents me from saying, you can have 500 megawatts, zero
15 to 500 megawatts, take it whenever you want.

16 MR. WOOD:

17 I don't think y'all are missing anything, from
18 what I hear. Your value and how you package the value will
19 determine your --

20 MR. MARRONE:

21 Right.

22 MR. SCHNITZER:

23 And we may have differences of opinion about
24 what it's worth that week. If his people tell him to bid
25 this because that's what they think the market is, and on

1 an evaluated basis from Entergy's perspective, that's above
2 market, there's no guarantee that everybody has the same
3 view of what the market is going to be. And then when
4 people don't have the same view, the transactions don't
5 take place.

6 MR. WOOD:

7 You have options?

8 MR. MARRONE:

9 Yes, mine's QF, but it's got a large portion of
10 merchant capacity. So it's not as if I'm arbitraging my
11 ability to service my native load against the market.

12 MS. MACKEY:

13 But if there were some more price signals in the
14 market, then Joe could tell his traders you should be
15 looking at XYZ instead of ABC so we can start winning some
16 bids here.

17 MR. WOOD:

18 In the current process, the consumer -- can
19 y'all make multiple bids for the same week just to kind of
20 test where the change is, or do you normally just make one
21 bid? Because I've noticed that some people have
22 encountered -- can you try some different permutations of
23 what would work?

24 MR. MARRONE:

25 You can do that. I can't speak to whether we do

1 much of that ourselves because I don't get involved in that
2 function.

3 MS. MACKEY:

4 We do it. Cottonwood does respond with multiple
5 bids on multiple occasions.

6 MR. SCHNITZER:

7 If I can make one point. If Joe says that we
8 put our bid in based on our view of what we can get in the
9 marketplace, I'm not going to bid any lower than that.
10 Then if he doesn't get the bid from us, then I'm assuming
11 that he's going to sell it where he thought he was going to
12 sell it at that price.

13 MR. MARRONE:

14 It's my onus I have to make sure that my
15 marketing people are correct. If they're not, then I'll
16 get new marketing people.

17 MR. SCHNITZER:

18 Then you have received the best option
19 available. I think that's the best outcome you're going to
20 get out of any process. We could have other market
21 participants who have a different perspective on what the
22 future market is.

23 MR. MARRONE:

24 That's not related to my inability to provide
25 flexibility, and that's not going to change with the WPP.

1 That's all I'm trying to say is that if flexibility is a
2 problem, it's not going to go away with WPP.

3 MR. WOOD:

4 Mr. Carraway, you've been sitting here nice and
5 quiet. What's on your mind? Tell me a little bit about
6 Mississippi Delta.

7 MR. CARRAWAY:

8 Mississippi Delta Energy Agency is a consortium
9 of two municipal utilities with a total load between 80 and
10 90 megawatts. Basically with most of the customer base in
11 the Mississippi Delta, but Yazoo City splits a little bit
12 between the Delta and getting into the hills, or into a
13 hilly area. Basically we have a high incidence of power
14 level among our constituent base of our consumers. They
15 are municipal utilities owned by the citizens of those two
16 municipalities. And our problems are that MDEA serves as a
17 bulk power supplier for the two municipal utilities and we
18 are a network customer of Entergy transmission.

19 Our problems with both where we see the current
20 weekly process that was mentioned in the New Orleans
21 conference and the responses from the New Orleans technical
22 conference, there seemed to be some concern as to whether
23 or not we had a problem, actual problem with transmission
24 availability or whether it was a problem with the scenario
25 analyzer. And I thought we had made it clear to people at

1 Entergy that our problem was that we were trying to utilize
2 the tool that they supplied in their AFC process, which is
3 a scenario analyzer.

4 I think that the percentages that they came back
5 with in their response was that about 95 percent of those
6 requests had been granted, or based on the fact that we're
7 trying to use that tool. We have used the scenario
8 analyzer. We've been basically told in symposiums that
9 were held in March of '04 that since this tool was
10 available and was out there, if it didn't pass the
11 analyzer, you were wasting your time in submitting an OASIS
12 request.

13 We've tried to utilize that, and we have run
14 into several occasions in July and August and back in June,
15 where we would run a scenario on a transaction, the
16 transaction would show that it was
17 transmission-constrained. We would then run additional
18 analysis from other resources, all around the Entergy
19 boundaries, into Entergy, inside Entergy, and we get the
20 same answer, all paths under our load were constrained. We
21 would turn around, we have generation that is inside of our
22 bus that belongs to us that is not listed as a network
23 resource that we would run, and it would come back that we
24 couldn't deliver capacity that was on our own bus because
25 it was transmission-constrained.

1 We just feel like there is a problem with the
2 tool, and one of the problems, as we understand, came out
3 of the other follow-up conferences that have been held in
4 Washington, and I think this is correct, that in the
5 current process, and I'm assuming from what Mr. Turner's
6 last statement was in his slides about the optimization
7 process, what happens is that they're using the same tool,
8 the scenario analyzer, when they make a transmission
9 request to see if those bids are going to be able to be
10 granted transmission service on the current process. And
11 my understanding is that it blocks the analyzer for about a
12 36-hour period of time.

13 Well, if we're looking for transactions at that
14 time frame, we're blocked out of the marketplace. At the
15 same time, if you go to the optimization process and it
16 does the same thing, and the last line of his slide on
17 procurement versus market, "all participating customers
18 must serve their own load through their own network
19 resources and/or IPP offers," if they bring to the process,
20 we're back to our same constraint problem.

21 We're out there looking for small blocks. The
22 IPPs, the QFs, if it's a question between selling us a
23 20-megawatt block or selling a 200-megawatt block to
24 Entergy and they're not going to pro rata share that with
25 the other network loads that are native loads on their

1 transmission system, we're blocked out of the marketplace.
2 And we just don't see that their current process, nor their
3 proposed process, does anything on doing anything other
4 than giving Entergy preferential treatment in the
5 marketplace, and that there ought to be some pro rata
6 sharing of those resources or an opportunity of pro rata
7 share of those resources as part of the over 20,000
8 megawatts of transmission load that it's paying the pro
9 rata share of network cost for transmission.

10 MR. WOOD:

11 Now, does anything prevent a generator from
12 bidding a 200 to them and a 20 additional to you?

13 MR. CARRAWAY:

14 Well, the question is we didn't get included in
15 that same block of network resource replacement when the
16 AFC is being run to determine transmission availability.

17 MR. WOOD:

18 You're second in line?

19 MR. CARRAWAY:

20 Yes, sir.

21 MR. WOOD:

22 Walk me through why that is.

23 UNIDENTIFIED SPEAKER:

24 Well, two comments, Mr. Chairman. To be clear,
25 the answer to your questions is yes.

1 MR. WOOD:

2 Which question?

3 UNIDENTIFIED SPEAKER:

4 That a generator could bid 200 megawatts to
5 Entergy, and bid 20 megawatts to MDEA, so long as they
6 independently performed either bid, they could both be
7 submitted for transmission service at the same time in a
8 proposed WPP because everything that goes into WPP from all
9 participating network customers from an OASIS perspective
10 is treated as a simultaneous optimization. Under the
11 current process, the OATT, it is on a first come, first
12 served basis.

13 So when Entergy puts in a series of requests as
14 it does every week to see if it can get transmission
15 service for some of the merchant bids, those go in, and
16 until they're disposed of, either granted, denied, or
17 withdrawn, they are treated as higher in the queue than the
18 next request. That's all that was just being described,
19 that when Entergy puts in a series of requests, anything
20 that comes after it is lower in the queue. But that's just
21 the first come, first served part of all this.

22 MR. WOOD:

23 Again, those request are general network service
24 requests for X megawatts or do they vary fractionally as to
25 the amount of people participating?

1 UNIDENTIFIED SPEAKER:

2 The proposed -- they will bid for offers to
3 serve a particular network customer's load. And the
4 optimization routine will look at all the combinations of
5 the bids for each network customer gathered with its
6 existing network resources and find the best mix of bids
7 and current resources that minimizes the total costs. And
8 so that's -- with the only condition in which Mr. Turner's
9 slide -- the last slide, I believe, or one of his slides
10 says each network customer has to end up their load being
11 served with their generation in their bids fir their
12 existing network resources.

13 CHAIRMAN WOOD:

14 The only advantage they get from participating
15 in the WPP they get the transmission that they would need
16 to make that work. At the same time, you're analyzing --
17 what they did the day before, they would put it all in
18 their requests --

19 UNIDENTIFIED SPEAKER:

20 Absolutely, absolutely. Everything is first
21 come, first served. They would then go through the AFC
22 process as opposed to the simultaneous optimization.
23 Everything before for short-term service and everything
24 after for short-term service would be pursuant to the AFC
25 process.

1 MR. CARRAWAY:

2 Mr. Chairman, I think my problem is currently as
3 we understand it, and if our understanding is incorrect
4 then we need to know that, the statement he is made is that
5 it's first come, first served, and under the old it is, in
6 the OASIS process.

7 But in the AFC process, in the scenario
8 analyzer, if you're blocked out of the analyzer for a
9 period of time while they're running their weekly bids,
10 then we're taking a secondary slot because we should be
11 able to get the same rationale at the same time of a -- you
12 know, we're paying for a pro rata block of network
13 transmission service for our network resources. We're
14 looking at the same replacement for network resources that
15 they're looking for. And if we get blocked out in that
16 time frame because there's been no OASIS requests run,
17 you're running the analyzer to see whether or not the ATC
18 is available.

19 And we get blocked out of the analyzer, then the
20 tool that we've been given or that they put in the
21 marketplace for us to utilize is not available, so that
22 ends up with us having to make -- if we're going to protect
23 ourselves and we've got to go in and make all kinds of
24 OASIS requests that we may, in turn, decline to try and
25 protect ourselves to get in while they're trying to run the

1 AFC. And if we get in the OASIS and got a request out
2 there, I guess we'd be blocking them. There's got to be a
3 way to handle this to where there's some pro rata treatment
4 of all of the network loads that are inside the
5 transmission system that are trying to serve native load.

6 MR. WOOD:

7 Y'all, you've got a customer here; there are a
8 number of small retail customers in this footprint here,
9 what do you all need as the sellers to compact powers like
10 that, and make the commercial transaction work? Because
11 Entergy's one buyer, it's a big buyer, but, you know, we
12 are wholesalers related to arguments. We're interested
13 that Gulf Power sellers could ultimately tell customers
14 elsewhere, get their access were to -- how do we draft that
15 this, if anything, or is it just understanding how the
16 current process is working and get better at that.

17 UNIDENTIFIED SPEAKER:

18 I think it's partly understanding how the
19 current process is working and getting that back. From
20 NRG's perspective, I mean, we stood on both sides of the
21 fence where we are a generator, but we also have load that
22 we serve. So as we look at the weekly procurement
23 process -- and our concern is will that shut us out from
24 being able to buy, at times, and market to serve some of
25 the load that we serve and look at the current process, and

1 say that we believe it has potential to do that, to prevent
2 other load-serving entities from serving their load at low
3 cost.

4 Now, I realize Entergy said it, and maybe part
5 of it is understanding the process, that they will give
6 other network customers the ability to participate in this
7 process at the same time Entergy participates in the
8 process. And I think one of the things that filing said is
9 that when you undesignate some of your network resources,
10 it will have to be in the same area as potentially where
11 you're buying from.

12 So the question for us as a smaller entity with
13 our generation more concentrated in one area and not spread
14 across the entire system, because our load is more
15 concentrated, if there is something that we're buying that
16 isn't in the same area as our generation, then we don't
17 have the ability to undesignate. So, while in essence, you
18 say, you know, I'm in the same boat as you, Entergy,
19 because I can undesignate resources, in actuality, can I
20 really do that? And then as I said, maybe some of it is
21 understanding the process in terms of support from the
22 standpoint of the load-serving energies, but right now
23 that's our concern.

24 UNIDENTIFIED SPEAKER:

25 If I can make several comments. First of all, I

1 want to make very clear that Entergy in the current degree
2 process, we don't just go out and start making transmission
3 requests. We only request transmission service from those
4 parties who submit bids, and I would suggest that any party
5 that feels like they've been blocked out, we take bids, I
6 think it's every Wednesday. If you're worried about being
7 blocked out, you've got to just put a bid in before
8 Wednesday, then you will always be ahead of us, and that's
9 a priority.

10 But the bigger issue here, and I think there's
11 tension around it, and right now the problem we have is we
12 have to look at every transmission request on an individual
13 basis -- and that's the real benefit of the WPP -- is we
14 get away from all the issues we've talked about here, is
15 who goes first. We also get away from the issues related
16 to must-run units, as I mentioned earlier. We get away
17 from having to try to guess what units you have to beat the
18 bids in order to get transmission. That's the duty of the
19 WPP, is we feed all the economic information into the
20 model, and it'll come out with the most-cost option for all
21 the customers so that Mr. Carraway and NDA are going to get
22 their program share of transmission. NRG is going to get
23 their share, and we're going to get our share. Right now
24 it's just the way transmission is set up, and I'll call
25 them and just say they don't have all the economic

1 information. We feed them the information, economic
2 information, and then they can make the right economic
3 dispatch decision for the whole control area.

4 UNIDENTIFIED SPEAKER:

5 So my concern is it seems like we have to have a
6 technical conference to understand how this thing works,
7 and I'd kind of like to see it in filing and in writing in
8 how it at least works. I don't know how often I'm going to
9 have access to Mr. Schnitzer to ask him questions. I mean,
10 it seems like every time we have a question we have to go
11 to the consultant to find the answer, and I would like to
12 see more of it documented. More of the procedures
13 documented on what's going to get done, how it's going to
14 get done, and who's going to do it.

15 UNIDENTIFIED SPEAKER 1:

16 Do you all have user forms for your wholesale
17 customers on the future transmission grid?

18 UNIDENTIFIED SPEAKER 2:

19 I'm not on the transmission side so.

20 UNIDENTIFIED SPEAKER1:

21 Well, they're kind of unavailable transmission
22 capacity.

23 UNIDENTIFIED SPEAKER 2:

24 Transmission side we do have two meetings in the
25 spring and the fall where we bring together the market

1 participants that deal in our footprint. And the voters --

2 UNIDENTIFIED SPEAKER 1:

3 -- AFC process and how those sink up with the
4 transmission in the WPP?

5 UNIDENTIFIED SPEAKER2:

6 We didn't discuss this week so much the weekly
7 procurement in the ICT proposals. I mean we covered them
8 on a high-load, but we did have a presentation on AFC, how
9 it's working -- it was about 15 slides -- how we're
10 actually granting more serves, and I think one of the data
11 requests we responded to talked about that. How we were
12 actually bringing more service overall through the AFC
13 process. So we covered that; we covered some issues we've
14 got on questions on that.

15 UNIDENTIFIED SPEAKER:

16 Mr. Carraway, would this be the kind of user
17 meeting you would go to or someone from your own side?

18 MR. CARRAWAY:

19 Our contractual agent had participation in the
20 user group they used from this last week, I believe,
21 Matthew with Cleco was at the meeting, and he's intimately
22 familiar with this. In fact, he's the one that we
23 helped -- you know, it's just frustrating when you're
24 talking to the system dispatch, and you're talking about
25 the scenario analyzer that you're looking at, and you say

1 well, why can't I dispatch a unit that is on the bus at
2 Clarksville? And the dispatcher responds to you, it's not
3 as easy as just being on the bus across the yard. If the
4 computer says it's not there, it's not there, and I will
5 gladly submit you a copy of the control room tapes on that,
6 if you would like, but it's there.

7 That's the kind of response that we're getting,
8 and I'm sitting there looking at the generator across the
9 yard, and I'm telling them I can't dispatch the generation
10 because there's no transmission available for it. Well, my
11 answer there is to open the ties and dispatch it any way,
12 and block about a hundred megawatts of flow that's flowing
13 across my transmission.

14 But there's got to be -- there is some kind of
15 internal problem, whether it's the procurement process or
16 something, there's a problem with the tool that all of us
17 have to use to be able to decide whether or not it's
18 worthwhile making an Oasis request. And, you know, there's
19 no sense making an Oasis request if you know that you can't
20 get the transmission to get there. You might as well look
21 for another resource, or you might as well get ready to
22 roll out generation, and we've got some of the same
23 constraints. We've got some overgeneration that takes 12
24 to 24 hours to get online, and then you've got a cool-down
25 period with some of the older steam units.

1 We've got combine-cycle units that we can bring
2 on in a one, two-hour time frame, and we've got pickers
3 that we can bring on in less than 10 minutes. But we've
4 still got to know where to dispatch them. We've still got
5 to face the same fuel constraints that Entergy does, and
6 some of it is six-fuel oil, some of it's gas, some of it's
7 number 2-D cell.

8 And we're looking for the lowest cost for that
9 consumer.

10 UNIDENTIFIED SPEAKER:

11 Has the auditor, in this region, ever considered
12 doing pulling generation as they have in other parts of the
13 country? What's the history with that?

14 UNIDENTIFIED SPEAKER A:

15 I can't say everyone's had a pulling arrangement
16 with everybody. At one time, MDEA was a member of MEAM,
17 and I think that we've had discussions with them about
18 integrating their generation into our mix, and MDEA split
19 off from MEAM, and right now our rates with MEAM are --

20 UNIDENTIFIED SPEAKER:

21 What's the definition of "MEAM"?

22 UNIDENTIFIED SPEAKER A:

23 MEAM is the Municipal Energy Agency of
24 Mississippi, it's the other municipality system. And right
25 now they've turned their generation over to us that they

1 couldn't already count in dispatch. East Texas Electric
2 Cooperative, we entered a new contract with them starting
3 January 1st where they essentially turn over their
4 generation to us they cannot dispatch. AECC, Arkansas
5 provider, we do the same thing with them. We do it on an
6 ad hoc basis, not on a common --

7 UNIDENTIFIED SPEAKER:

8 So you'll just work in their generation then as
9 you're running in the same whirl with NPP for them as well?

10 UNIDENTIFIED SPEAKER A:

11 Right, the type of contracts we've had in line
12 with MEAM, is they turn over the generation to us, and then
13 they buy average energy price from Entergy Mississippi. So
14 that essentially those become resources of Entergy
15 Mississippi in the system agreement. So we dispatch those
16 resources as if they were our own station.

17 UNIDENTIFIED SPEAKER:

18 So, Mr. Carraway, your resources, are they lower
19 cost with Entergy Mississippi? Is that why it's not
20 advantageous for you to use the same arrangement as MEAM
21 and AECC and DTEC?

22 MR. CARRAWAY:

23 Some of our units are more advantageous than
24 those of Entergy Mississippi, and some of them are not.
25 Some of the older units, the smaller units, are not. The

1 combine-cycle units are more advantageous than the 20
2 percent block that he's talking about of all-in gas-fired.
3 There are contractual issues with some of our federal
4 allocation of hydro out of the Southeastern Power
5 Administration that couldn't be put into pool play like
6 that under the contract.

7 There are -- and we have been very successful in
8 trying to keep our costs down, and we're constantly looking
9 at transmission constraints and transmission problems as
10 part of the upgrades that we've done.

11 We've upgraded the transmission in our area.
12 The transmission in that area when we first interconnected
13 was a single 115 to A/V line, that was an 87 MVA path. I
14 think that the lowest rating on that path now is, correct
15 me, John, I think about 290 megawatts on the 115 side, or
16 Mark maybe can do that. And we added 23 miles of 230 KV at
17 350 MVA that ties back into the Entergy grid.

18 UNIDENTIFIED SPEAKER:

19 Have you all considered doing an arrangement
20 like MEAM has done? I was sitting here thinking that --

21 MR. CARRAWAY:

22 We have looked at some of those arrangements,
23 but basically we went into a contract that we went out on a
24 bid contract where we looked at proposals from Entergy, we
25 looked at proposals from others, and that contract right

1 now is -- all of our resources are being dispatched by
2 Cleco under our contract. And Cleco acts as our agents,
3 and they have the right, they run the economic dispatch of
4 our units within a group, and they dispatch our units
5 against the market and against other resources for the best
6 economic mix.

7 And the problem that we run into is the
8 transmission ATC and the replacement energy is documented,
9 and I don't know where -- not being a lawyer, y'all stop me
10 if I get into something that's one, that's an ex parte
11 communication, because it was items that were in the
12 Ancillary Services Case that some rehearing request that
13 has already been decided by the Commission, but it's only a
14 hearing request, where we were buying out of the QF, and
15 there was a, quote unquote, "local transmission
16 constraint." The QF never decreased generation, but they
17 backed down the load to us, and Entergy bought it at
18 avoided cost, and yet we had to replace it, and we took an
19 imbalance in the account under the ancillary.

20 So those kind of problems with the procurement
21 process, in the QF process, where QFs are selling to other
22 parties, the QFs have the same problem, and I think that's
23 where Joe is when he's looking at marketing as opposed to
24 the avoided cost basis, and they were getting more from us
25 than they got for avoided cost, and that's why they were

1 making the sale. So those are some of the problems that we
2 see with the process, and those are all items that are
3 documented in the records at the Commission on that if you
4 care to go back and look at any of the --

5 UNIDENTIFIED SPEAKER:

6 Thoughts on the WPP from Entergy's perspective
7 as generator rights to increase serving?

8 UNIDENTIFIED SPEAKER:

9 Well, one of the things that we had commented in
10 our earlier comments is, is there a way or a process that
11 could be put in place that would allow the other market
12 participants to participate in that process. And maybe, I
13 said, part of the problem or the concern is that with
14 market participants, in terms of the process that Entergy
15 has identified to allow us to participate as network
16 customers, since we had not, we've not participated in the
17 development of that process, there maybe could be a lack of
18 understanding on our part as to how that process will work,
19 and how that process will be beneficial not only to the
20 customers of Entergy, but also to the customers of other
21 load-serving entities.

22 UNIDENTIFIED SPEAKER:

23 I think if this program goes forward that's
24 going to have to be real important of the issues. I think
25 Entergy has phrased that that's a no-brainer. I think if

1 you get a new program going, I think the issue --

2 UNIDENTIFIED SPEAKER B:

3 I have just a follow-up question for
4 Mr. Carraway, if I could. When did the problems start that
5 you're referring to? You know, you talked about how you
6 have added transmission upgrades to your part of the
7 system, and nonetheless, recently, you've not been able to
8 dispatch your unit as much as you used to be able to. When
9 did all this start?

10 MR. CARRAWAY:

11 Well, the earliest problem that we got where we
12 were having problems with the scheduling aspect of
13 transmission resources and trying to find counterflow
14 started in June shortly after the April 17th start date of
15 the AFC process. And we've got -- I don't know that I've
16 brought all the dates with me, but there were some starting
17 June the 6th, June the 8th, June the 9th, some in July.

18 UNIDENTIFIED SPEAKER B:

19 Okay. Ballpark month. Can you tell me, is this
20 costing your native rate payers money because you're having
21 these problems dispatching a unit?

22 MR. CARRAWAY:

23 Yes.

24 UNIDENTIFIED SPEAKER B:

25 Okay. Do you have any idea how much?

1 MR. CARRAWAY:

2 I'd have to go back and pull it out and look at
3 what the original quotes were on what we had quoted, and
4 look at what we ended up paying for the replacement. And
5 in one case, we ended up bringing a gas turbine on for four
6 hours and having to start a peak run on our system that's
7 listed as a network resource, and roll it out and roll it
8 up for about three hours, and all the sudden the
9 transmission constraint disappeared, and we were able to
10 roll it down and go back to the original purchase.

11 UNIDENTIFIED SPEAKER B:

12 Okay. And one last thing. The Entergy folks
13 mentioned a moment ago that the WPP process would solve the
14 problems of the type you're describing. Is that your
15 understanding?

16 MR. CARRAWAY:

17 We're not convinced of that, no, sir.

18 UNIDENTIFIED SPEAKER B:

19 And why is that?

20 MR. CARRAWAY:

21 We just, we -- the answer that we keep seeing,
22 unless there's been a change is, and I thought it was --
23 that we must bring our own offers to the table. Well,
24 there's nothing that says that Joe, or Lynn, anybody else
25 can't make a 200-megawatt offer to them, and a 20-megawatt

1 offer to us, but they may have only 200 megawatts available
2 and may not. There's maybe only going to be 200 megawatts
3 that they think they can get transmission service for.
4 Well, are they going to sell them 200 or are they going to
5 sell us 20 or are they going to sell them 180 and us 20.
6 If there's a 220 megawatt, and there's only 220 megawatts
7 of transmission, are we going to get blocked or are they
8 going to get the whole 200? That's our concern.

9 UNIDENTIFIED SPEAKER:

10 Mr. Chairman, if I could, the last thing I was
11 going to do before we broke for lunch is introduce Matthew
12 Loftus who joined us right before we reconvened, or right
13 after we reconvened. He's with the Louisiana Public
14 Service Commission, and I'd ask Matthew if he could give us
15 a status report on the state of play or the final opinion
16 for the LPSC.

17 MR. LOFTUS:

18 Sure, I would happy to do that. In August,
19 Entergy submitted their application to the Louisiana Public
20 Service Commission, and there was a status conference to
21 determine -- scheduled to go the 17th of November. We'll
22 just be having a one-day hearing on this. They'll be
23 providing and submitting a report in a statement letter to
24 the commission by the end of the year or early in 2005.

25 UNIDENTIFIED SPEAKER:

1 AFTERNOON SESSION

2 MR. WOOD:

3 If everyone would take their seats, we'll get
4 started back up.5 We had the independent coordinator of
6 transmission announce -- we had a number of issues that
7 came up at the New Orleans hearing about this, and I think
8 I would characterize those as a bit more, as I recall, more
9 -- contentious than the WPP before. I hope like the WPP
10 time before this morning that we can use this afternoon's
11 session on ICT to talk about how to improve and enhance the
12 process to get to something that will work for both the
13 applicant and the market participants.

14 So with that preface --

15 MR. RODGERS:

16 I'd like to call on Rick Smith to go first for
17 Entergy. I think he has about a 10-minute presentation,
18 and then we'll get some response or comments from other
19 folks at the table here.

20 MR. SMITH:

21 Good afternoon. Again, I'd like to express
22 Entergy's appreciation for our federal regulators, our
23 retail regulators joining us today for an opportunity to
24 really continue our discussions we had in New Orleans.

25 This afternoon, I'd like to briefly discuss two

1 things. One is to respond to some of the suggested
2 enhancement of the ICT proposal; and two, provide some
3 thoughts on the independence of our ICT proposal.

4 On the first one, I'd like to respond to the
5 suggested enhancements of the ICT proposal, I want to
6 remind everyone that the genesis of the ICT proposal was
7 the desire to obtain benefits for Entergy's retail
8 customers and other wholesale market participants, short of
9 the full RTO proposal, which we judged was not feasible at
10 the time. We believe the ICT proposal as structured will
11 provide benefits to both our retail customers and other
12 wholesale market participants and can be implemented in the
13 year 2005.

14 We discussed some of these benefits at the last
15 technical conference, and I won't repeat them now in detail
16 except to remind all of us that the principal retail
17 customer benefits stem from the transition expansion
18 pricing proposal and the weekly procurement process. So
19 when changes to the ICT are proposed, as they have been, we
20 ask ourselves two questions. With the proposed changes,
21 will there be benefits to our retail customers? With the
22 proposed changes, will the proposal be acceptable to our
23 retail regulators?

24 To our knowledge, none of the parties suggesting
25 changes have endorsed our transmission pricing proposal,

1 and none have stated with their proposed changes our
2 pricing proposal would be acceptable to them as part of the
3 compromise. And without approval of our transmission
4 pricing policy in its proposed form, it would be difficult
5 to answer the first question: Are there benefits for our
6 retail customers in the beginning?

7 As to the second question, whether the proposed
8 changes would be acceptable to our retail regulators, we
9 expect that our retail regulators would also want to ensure
10 that the ICT proposal, in its totality, will provide
11 benefits to our retail customers.

12 In addition, there are also jurisdictional
13 concerns. Recall that the ICT proposal was deliberately
14 structured to provide extensive real-time oversight of
15 Entergy's transmission operations, not control over those
16 operations. This approach -- oversight rather than control
17 -- was designed to alleviate retail regulatory
18 jurisdictional concerns and thereby facilitate
19 implementation of the ICT proposal.

20 The approach was also designed to ensure
21 independence. The ICT would be wholly independent for a
22 number of reasons, including: It will meet all the
23 independence criteria established for the RTO market
24 monitors. There are provisions that would preclude the ICT
25 being terminated absent the approval of the FERC.

1 Moreover, since the last technical conference, we have had
2 a series of meetings with STP to discuss the cabinet that
3 would serve as the ICT. We would expect that having STP
4 servers in their role the ITC would increase the market
5 participants' confidence that the ICT would act
6 independently.

7 Certain market participants have requested both
8 to FERC and our retail regulators that the ICT assume
9 greater responsibility over functions such as the granting
10 of requests for transmission service, calculations of ATC
11 and AOCs.

12 Entergy recently responded to these requests in
13 a filing made yesterday with NTOC. In that filing, Entergy
14 pointed out that enhanced responsibility could raise the
15 issue of who is the transmission provider. Allowing the
16 ICT to perform these functions, such as OASIS
17 administration and calculation of available flow gate
18 capacity and available transfer capabilities could cause
19 FERC to deem the ICT, not Entergy, the transmission
20 provider.

21 In an RTO context, the FERC is held as the RTO,
22 not the transmission owners, as the sole transmission
23 provider. And a result of this shift in roles is that the
24 FERC obtains exclusive jurisdiction over the transmission
25 component of the retail servers.

1 In addition to the jurisdictional concerns, the
2 possibility that the ICT could become a transmission
3 provider raises other questions, such as, would the ICT
4 have Section 205 rights? You'd see unilateral changes to
5 Entergy's oath, transmission business rules, and AFC
6 methodologies. Would the ICT become an entity to Entergy
7 to make decisions regarding purchase participation in an
8 RTO?

9 Entergy is hopeful is that the FERC could
10 resolve these concerns by finding that the ICT would not,
11 by performing the additional limited functions of OASIS
12 administration and AOC and ATC calculations, become the
13 transmission provider under Entergy's oath. If the FERC
14 did, Entergy's retail regulators would be in a better
15 position to evaluate these potential enhancements to the
16 ICT functions.

17 That concludes my remarks, and we welcome
18 questions.

19 MR. RODGERS:

20 Richard, let me ask if it's Entergy's belief
21 that if the jurisdictional issue could be worked out over
22 the functionalities of OASIS administration, ATC
23 calculation, that it's Entergy's view that there could be
24 additional benefits that would accrue to retail ratepayers
25 if the ICT performs its function?

1 MR. SMITH:

2 I think our view is that it takes the clout off
3 the question of independence and the grade of service.

4 CHAIRMAN WOOD:

5 Right, but separate and apart from that issue,
6 are there benefits to retail ratepayers that can be gained
7 from having Entergy perform this -- or, the ITC perform
8 this function?

9 UNIDENTIFIED SPEAKER:

10 I'm sorry. I indicated that we have not at this
11 point identified any benefits in turning over OASIS
12 administration, ETTA scheme, calculations other than as Mr.
13 Smith indicated as enhancement perception.

14 MR. WOOD:

15 What about regional transmission plans and
16 having the ICT perform that function?

17 MR. SMITH:

18 Today, we do a certain amount of regional
19 transmission functions. And on a short-term basis, they're
20 going to be involved in all the detail plans anyway and
21 probably involved in the conversations that we would have
22 with STP. So the STP adds the ICT -- I think you're
23 getting a lot of those benefits because they're going to be
24 looking at our system, the systems that we interconnect
25 with -- Southern's and TVA's -- plus all the entities in

1 there. Our stance is that we need to maintain the
2 long-term planning aspects of this, and I think they're
3 going to be sitting there looking over our shoulders. And
4 if it's STP, I think you'll hear from the majority of the
5 benefits of regional planning.

6 MR. RODGERS:

7 Let me ask if it's Entergy's view that if the
8 ICT is doing OASIS administration and ATC calculations,
9 does Entergy believe that that makes it the transmission
10 operator?

11 MR. NORTON:

12 You know, Steve, I seem to think it's more our
13 question about how FERC would do that, because it would be
14 FERC who would decide whether that turned the ICT into the
15 transmission provider under the old ATT. That's why Rick
16 had said the FERC could remove that. We think that you
17 could hold that consistent with the precedents, but it
18 would be in your ballpark to make that decision.

19 MR. WOOD:

20 Is that operation -- I mean, I was with the CEO
21 of PJM the other day -- and we talked about this term
22 operation of the system, and he says, we don't operate the
23 system here. He said, we direct how everybody below us
24 should operate their system, he said you know, all these
25 people could slice it on the top of a pin as to what that

1 really means, but he said you know, no one's ever really
2 made that a big issue -- so we never really reached that.

3 I just pointed out that there's something out
4 there for people to pick around, and see, what they're
5 doing i using the information pulsed across the system and
6 using that -- central headquarters for free direct dispatch
7 of a day 2 operation. But even that was characterized by
8 their CEO as directing the operation of other systems,
9 which, if that's the case, that makes FERC jurisdictional
10 --

11 MS. HOCHSTETTER:

12 It seems to me that we've got a perfect
13 precedent with us right in the room, and that's Southwest
14 Power Pool. They have not yet been considered a federal
15 public utility. The only step, that they're going to be
16 taking shortly, which will put them in that category is
17 becoming a full-fledged RTO. But it seems to me that you
18 could allow SPP to perform all the functionalities that
19 they're performing right now for their members and that
20 would not render any of those functionalities
21 FERC-jurisdictional. FERC does not assert jurisdiction
22 over SPP today as a federal public utility. At least, you
23 haven't so far

24 It's that step to becoming an RTO that's going
25 to make the difference, so I guess I kind of pose that as

1 an analogy if Entergy would take the step in adding all of
2 the functionalities onto their ICT proposal that SPP is
3 performing for its members today, including transmission
4 planning. Could that not be done in the same manner that
5 you look at SPP today, which is not FERC jurisdictional?

6 Do you have a qualification, Nick?

7 MR. BROWN:

8 I could probably give an even better example.
9 Under the AEP-CSW merger order, the Commission required
10 that AEP East facilities be turned over to be administered
11 by an independent entity. We were not judged to be the
12 quote, transmission provider, in that particular
13 arrangement, which we did for nearly 4 years. We just
14 turned that over as PJM undertook that, but we did receive
15 requests for transmission service utilizing AEP's tools,
16 evaluated available transmission capability and granted or
17 denied requests for service.

18 MR. WOOD:

19 It certainly did reduce the level of we had in
20 that area, where -- people had the perception -- but we all
21 did, I suppose -- that some of the concerns would be broken
22 up -- transmission customers -- for a while.

23 UNIDENTIFIED SPEAKER:

24 Does anybody have anything to add before we hear
25 from --

1 MR. SCHNITZER:

2 First, I have a question for Mr. Brown just to
3 clarify something I don't know. Does SPP do ATT
4 calculations at this time before becoming the RTO?

5 MR. BROWN:

6 Yes. Southwest Power Pool has been
7 administering a regional tariff since '98 in which we
8 calculate the capability of the entire system under SPP's
9 functional control and administer that regional tariff on
10 behalf of the individual transmission providers.

11 MR. SCHNITZER:

12 Okay. What I would say generally on the issue
13 of who is the operator, the words we've used in other
14 contexts to decide who's the operator of the facilities in
15 our jurisdiction and who has the decisionmaking authority.
16 Who has control over those facilities? OASIS
17 administration, for example, is probably way out on the
18 side of the spectrum that's not control of the facility,
19 that's not running the facility. Sitting in the control
20 room in real-time deciding, this just happened; how are we
21 going to re-configure the system and keep it all secure?
22 That's on the opposite end. You are the operator.

23 Now, some of these functions, it's a little
24 grayer and there's two extremes, but despite what PJM may
25 have said that they just direct, to me that direction is

1 decisionmaking authority constitute them being the
2 operator. How far do you go along that spectrum before we
3 cross the line? We don't have very clear precedent on it
4 because we haven't had that issue come up very often.

5 MR. MOOT:

6 I guess all I would add, Mike, is that this, it
7 is a gray area, but several years ago the case involving
8 MAP -- and it was a different circumstance that involved
9 whether MAP would be responsible for refunds -- but the
10 Commission did look at whether MAP and its agent MAPCorp
11 was the transmission provider because of certain functions
12 that were performed under a particular schedule. And it
13 did involve things like ATC calculation processing, request
14 for service. It is an older case, it's in a different
15 context, but I think if the Commission was amenable to
16 moving in this direction, the service precedent -- it's
17 positive on the side of, you don't have to be the
18 transmission provider. It's not necessarily the case that
19 you're the transmission provider.

20 MR. WOOD:

21 So if someone has a complaint as to how that was
22 administered, they'd file it against Entergy, and not
23 against Entergy's agent?

24 MR. BROWN:

25 That was certainly the case in the AEP contract.

1 We would not receive complaints. The complaint would go to
2 AEP, and AEP would talk to us as a contract administrator,
3 saying you're either doing your job wrong or you're doing
4 it right.

5 MR. WOOD:

6 But when people have issues, as over the last
7 couple of years about transmission and things like that.
8 That was the complaint brought against SPP --

9 MR. BROWN:

10 Well, there's two different things. There's SPP
11 administering the SPP regional tariff, and then there's SPP
12 administering the AEP East tariff. And my only point is,
13 both of those are in, I guess, different realms of the gray
14 area, because even under SPP administering the SPP regional
15 tariff, pre-RTO recognition, we were the transmission
16 provider. We were not a transmission owner, but the fact
17 that we were the transmission provider still did not make
18 us, quote, FERC-jurisdictional even though the tariff we
19 administered was FERC jurisdictional.

20 Now that we've become an RTO, yes, that
21 relationship has changed. In the AEP tariff administration
22 perspective, we were not viewed as the transmission
23 provider. AEP was the transmission provider; we were just
24 an independent entity contracting with them to administer
25 the provision of service over those facilities. So again,

1 there's multiple areas where one is a provider, one's not,
2 but still, one wasn't FERC jurisdictional. And so, there
3 wasn't a shift, and the other one -- again, a very gray
4 area.

5 CHAIRMAN WOOD:

6 -- have your own different because it starts to
7 make it look a lot more like something where the
8 state/federal tariff -- somebody else's code --

9 MR. BROWN:

10 To me, that's one of the major distinctions in
11 the ICT proposal, is that it's the Entergy tariff. It's
12 not a regional tariff. It's not an SPP tariff. It's an
13 Entergy tariff. They're the ones responsible for it.
14 We're just a third-party contractor providing a service.

15 MR. RODGERS:

16 I had a question for Nick, if I could. Can you
17 tell me, in your view, would there be much added cost
18 involved if SPP were to serve as the ICT for Entergy doing
19 OASIS administration and AFC calculations? Would that add
20 much more cost?

21 MR. BROWN:

22 No. And we filed comments in the Arkansas
23 proceeding today to that effect. Quite frankly, right now
24 Entergy's system is modeled in all of our systems to a
25 great detail, and in many cases, to a detail greater than

1 that of some of our own transmission owners, just because
2 of the high degree of interdependency between Entergy's
3 transmission system and our transmission owners' systems.

4 Our systems are the same. We share data -- a
5 very significant amount of data -- in real-time already
6 today. There already is a high degree of coordination
7 between Entergy and Southwest Power Pool.

8 MR. RODGERS:

9 And one other area of functionality -- regional
10 transmission planning. If SPP were to perform that
11 function as the ICT for Entergy, would that add much more
12 cost to it?

13 MR. BROWN:

14 No. Again, it would not. In fact, we've been
15 working with Entergy in the Lafayette, Louisiana, area that
16 was raised at the last conference, so we've had several
17 meetings. I would characterize the product of that effort
18 as being very successful. We met last week in Baton Rouge,
19 and it has worked real well.

20 UNIDENTIFIED SPEAKER:

21 And designers in SPP have lots of hands-on
22 experience doing those functions in SPP already in terms of
23 ATC calculation, OASIS administration and regional
24 transmission planning. Is that right?

25 MR. BROWN:

1 Yes. Well, again, we've administered regional
2 tariffs since 1998 and served as regional security
3 coordinator since early '97 and, in fact, administered some
4 OASIS nodes even farther to that time on behalf of our
5 individual transmission owners.

6 MR. RODGERS:

7 Okay, thanks.

8 MS. HOCHSTETTER:

9 Mr. Smith, if the FERC agreed to stick with
10 their existing precedent with SPP and did not assert
11 jurisdiction over those additional functionalities that
12 could be added to your ICT proposal, would you be agreeable
13 to adding those to your ICT proposals?

14 MR. SMITH:

15 What we would do is we'd present that back
16 through all our retail jurisdictions and get their comments
17 and supplement our comments -- have them -- file those with
18 their comments.

19 MS. HOCHSTETTER:

20 Well, since the only reason, as you've stated
21 before, that you don't think the retail regulators would
22 approve anything else is because of jurisdictional shift,
23 and I see that as the main reason that you presented what
24 you did in the ICT proposal. Knowing that the additional
25 functionalities would not present a jurisdictional shift, I

1 can't imagine any retail regulator not wanting additional
2 benefits for the same amount of dollars. So representing
3 that that's the only issue that the retail regulators had,
4 as y'all described it, I would think that that would be a
5 relatively quick and easy process.

6 MR. SMITH:

7 As I said in my comments, as long as the
8 transmission pricing proposals are put over with the
9 adopted -- I think it would go a long way to closing the
10 gap, so to speak.

11 MR. ROGERS:

12 I'm not sure I'm understanding. Regardless of
13 what the transmission pricing arrangement is, there would
14 still presumably be benefits from having OASIS
15 administration done right, or ATC calculated, or regional
16 transmission planning done. You can have benefits
17 associated with each of those things under various
18 transmission pricing arrangements. Correct? For Mike?
19 Not Mike?

20 MR. MOOT:

21 It's a quantitative question depending on how
22 you want to answer it. As we talked in New Orleans, the
23 principal quantifiable benefits associated with the ICT
24 proposal with the roughly \$15 million a year of additional
25 costs. It basically came into two categories that Mr.

1 Smith referred to with transmission pricing policy,
2 connection policy, and the WPP.

3 I'm a stranger of those two areas in particular.
4 Entergy has prepared and filed a cost benefit study with
5 all the jurisdictional analysis, and the ICT proposal is in
6 the best interest of the retail customers, the benefits,
7 including the quantifiable benefits, could exceed the
8 costs. If you're not asking the question, well take away
9 the transmission expansion pricing benefit and don't assume
10 that in the calculation, and then ask the question, is the
11 ICT still in the customers' interest? I think that you
12 would have to attribute qualitative benefits to these
13 functions that we haven't quantified would exceed the \$15
14 million. We haven't asserted that the quantifiable
15 benefits associated with planning our own OASIS
16 administration and sales produce benefits of that
17 magnitude.

18 MR. WOOD:

19 While you do impart actual retail customer
20 benefit, we're very interested in discrimination issues on
21 the wholesale side that have not gone away -- dollars a
22 month for all the legal bills that y'all spend on these
23 things.

24 MR. SCHNITZER:

25 We certainly appreciate that too, but again,

1 we're talking about with our retail regulators. They've
2 asked the question directly in, I believe, all the
3 jurisdictions, is this proposal beneficial to retail
4 customers? And our response is that it, but the key
5 components that underlie that statement are
6 two-dimensional.

7 MR. RODGERS:

8 Let me ask a follow-up question to Michael on
9 this issue. In response to FERC's data request that y'all
10 answered last month, your response to Question 7, you
11 listed as one the quantifiable benefits associated with the
12 ICT proposal the following, the treatment of transmission
13 upgrade associated with gaining MITI or NRIS network
14 resource status. Under the ICT proposal, these costs would
15 be directly assigned to requests from the customer. This
16 is a benefit compared to the SPP RTO alternative, and
17 possibly to the status quo. By that, are you referring to
18 the Entergy proposal for direct assignment and transmission
19 upgrades for certain customers, participant funding?

20 MR. SCHNITZER:

21 It's the specific part of the ICT pricing
22 proposal that says we implement the higher -- principal
23 with respect to network service when there are no
24 increment -- that the cost associated with qualifying a new
25 network resource that are not otherwise needed for

1 reliable -- expansions which are not otherwise needed as
2 far as the reliability baseline, that those costs are borne
3 by the customers, the generator, whichever, in a manner to
4 be determined between the two of them, with the associated
5 property rights that are articulated as part of that
6 proposal.

7 MR. RODGERS:

8 How are you able to know, though, that those
9 benefits associated with the ICT exist relative to the SPP
10 transmission pricing proposal if that hasn't been
11 established yet?

12 MR. SCHNITZER:

13 The thing we were -- and perhaps this language
14 is not as clear as it might have been, but I think in New
15 Orleans, and I believe in the studies themselves, we said
16 as SPP's current expansion pricing policy, in response to
17 questions we had in New Orleans. I think we agreed that if
18 SPP puts out something that looks very different, and in
19 their current policy it looks more like what the ICT
20 proposal is, then that conclusion would be different. And
21 we would rate that separately. We don't know that sitting
22 here today, so the quantification just means we're meeting
23 the status quo.

24 MS. HOCHSTETTER:

25 I have a quick question in the \$15 million cost,

1 about the annual systemwide cost. Would that not be less
2 by having SPP do those functionalities since they're
3 already staffed, up and running, have all their systems, et
4 cetera? I can't imagine -- we're not talking about
5 starting from scratch.

6 MR. SCHNITZER:

7 Let me give a part of the answer, and then Nick
8 can give you the other half. But the cost management
9 studies were from the perspective to benefit the retail
10 customer. I think that was spelled out, I hope clearly, so
11 in that respect, we're comparing the \$15 million of ICT
12 contract policy bill vis a vis what would otherwise be an
13 estimated allocated share of SPP's operations costs. I
14 don't know what schedule those would be allocated through,
15 but as an SPP member, we can get an allocated share in

16 Under the current SPP budget, our responsibility
17 ratio share there in the budget would be approximately the
18 sane \$15 million. So from an Entergy retail customer
19 perspective, it appears to be about the same.

20 MR. BROWN:

21 That's probably -- I haven't looked at the
22 specific numbers, which I could do readily, or our office
23 could do, rather. But that's probably pretty close. About
24 a third of our total costs

25 MR. RODGERS:

1 If there's no other comments from the table
2 here, why don't we hear some views from the others at the
3 table below in terms of market assistance and their
4 reactions to where we're at on the ICT. Anybody want to go
5 first? Gary?

6 MR. NEWELL:

7 I appreciate the opportunity to speak with you
8 once again about these issues.

9 MR. RODGERS:

10 Let's just mention that you're representing
11 Lafayette Utilities, so if you would just mention who you
12 are.

13 MR. NEWELL:

14 I'm Gary Newell. I'm representing Lafayette
15 Utilities and -- as well as MEA, the -- Energy --
16 Mississippi. Let me just speak to a couple of points.

17 I feel the need to preface my comments with a
18 very clear statement of what our position is on the ICT,
19 and be consistent on this throughout, and that is that the
20 ICT is a very much second best alternative to RTO
21 participation. I think we continue to feel that
22 participation in a fully ordered 2000 compliant RTO is the
23 best way to go. It's the best way to restore confidence in
24 the markets in this region which, right now, is at a pretty
25 low point, and it's the best way to bring investment in the

1 region. I think we all agree that it's necessary and much
2 needed. So by responding with what I hope is a
3 constructive manner to some of the questions that are being
4 raised in the context of the ICT proposal, I hope it's not
5 misinterpreted to be any backtrack with what our position
6 is.

7 We would much rather have an RTO. We think that
8 would be much better for the region as a whole. That being
9 said, let me just comment quickly on a couple of the points
10 that have been made about the benefits of the ICT proposal
11 and the two that Mr. Smith identified on the transmission
12 pricing proposal and the WPP.

13 A couple of quick comments. One is that in the
14 transmission pricing proposal, and the Entergy folks are
15 scrupulous in pointing out that those benefits are measured
16 from the perspective of retail customers, those costs are
17 not going away. Those costs are being shifted, and they're
18 being shifted to other market participants and other folks
19 in the marketplace there in retail load. And if you're on
20 the receiving end of that shift, it's not exactly a
21 benefit. It's an additional cost of doing business in the
22 region.

23 And we can talk about the merits of the proposal
24 as much as you find useful, but I think it's important to
25 keep in mind when you call that a benefit, if you're a

1 wholesale customer or somebody else, it's going to be
2 getting the bill for that upgrade, you're not going to look
3 at it as much of a benefit.

4 That is why independence is so key. If there is
5 not an assurance that the ICT is irreproachably
6 independent, then allowing the ICT to administer a program
7 that would permit that kind of shifting of costs among
8 market participants and among competitors is very
9 interesting.

10 The second point on the WPP which is identified
11 as a benefit in the ICT proposal. Well, why is that not
12 achievable as part of the ICT? I think it is. So I don't
13 see those two going hand-in-hand. Moreover, I think there
14 are probably greater benefits through Entergy's
15 participation to make it an even bigger marketplace or more
16 market -- a more regional market that goes beyond their
17 program. And participation in the SPP would certainly
18 accomplish that. I question whether that is a benefit that
19 couldn't be obtained already, and possibly larger benefits
20 could be obtained through different courses of action.

21 Now, the other question that came up was, gee,
22 are there any benefits associated with adding functionality
23 to the ICT? And the answer from Entergy's counsel was, no,
24 they didn't see any. Well, some of them may not be
25 quantifiable in dollars and cents, but I think the one

1 alluded to a moment ago, restoration of confidence in the
2 operation of the marketplace, is a very important benefit
3 that would translate into hard dollars-and-cents savings
4 through -- one would hope -- additional entry by new
5 competitors and additional investment.

6 And I think adding functionality to the ICT's
7 list of duties, whether it be -- administration or ATC
8 determinations, or what have you. The more you add, the
9 more confidence I think there will be in the market and its
10 operations and fairness of its operations, and that will
11 bring dollar-and-cents-type savings down the road. So it's
12 hard to quantify now, but it's real and it's important.

13 One other quick point. Mr. Brown mentioned in
14 his discussion about Lafayette as a certain kind of poster
15 child for the Halliburton the lack of regional planning can
16 result in some pretty horrible situations. You know we
17 were just in discussions, and some of them were very
18 successful. I would just be a little more guarded. It's
19 my nature to be guarded or, as I guess, I describe it as
20 very cautiously optimistic that there can be a combination
21 of facilities and operating protocols that could start up
22 next year that would alleviate or mitigate the number of
23 TLRs in the region and the number of -- associated dispatch
24 advance, but there are two caveats on that. One is the
25 operating protocols. Everybody was busy yesterday. They

1 were -- too, that discusses what some of those operating
2 protocols would have to be, and I cannot sit here today and
3 tell you with any level of assurance that that would not be
4 a difficult discussion. But if those discussions then turn
5 to the ratings, then that could serve as, at least, an
6 interim solution. I'm not sure it's a permanent solution,
7 but at least an interim resolution in creating TLR problems

8 The other point I need to make is the
9 compensation issue. Somebody needs to step up to the plate
10 and pay to re-dispatch. So far it's cost Lafayette about
11 \$200. There is a possibility that before this meeting set
12 the facilities and the protocols took place, it may cost a
13 whole bunch more, and we remain very concerned about that,
14 and I can imagine that it's another reason why we're
15 prepared to organize the way we are, because it
16 internalizes those area flows that are accident problem and
17 gives you mechanisms for dealing with constraints before we
18 get to the level of having to call TLRs 4, 5 and 6, but it
19 also gives you a framework for making sure that the people
20 who should get paid for re-dispatching to keep the lights
21 on, get paid.

22 So, that was actually my introduction to this.
23 I sort of feel like a little bit like the kid who's going
24 to Macy's to talk to Santa when the questions that were
25 presented in a supplemental notice were what additional

1 things would you like to see? And I've got my list, and
2 everybody here has brought in a list. So I don't know
3 whether you go down the road right now or if you want to
4 hear from the other folks first.

5 MR. WOOD:

6 We'll prepare -- then, that way, if you're all
7 covering similar -- lists go.

8 Bob, do you want to take up your part?

9 MR. WEISHAAR:

10 Thank you, Mr. Chairman. Good afternoon,
11 Commissioners. I'm speaking on behalf of SECA, Southeast
12 Electric Consumers Association, which is a coalition of
13 more than a dozen of the largest industrial customers in
14 the Southeast. We appreciate FERC's recognition and each
15 of the state commissions' recognition that all the debate
16 and the discussion and the analysis here is ultimately
17 being done in the betterment of the guys at the end of the
18 line. We are the guys at the end of the line.

19 I'm happy to see that, I think, the ICT issue
20 has been boiled down to just two issues; independence and
21 functionality. And I say that tongue-in-cheek. We looked
22 at the issue, and the ICT, as proposed, is an unacceptable
23 outcome from our perspective. We would prefer the status
24 quo to the ICT as proposed in our comments, including our
25 post-technical conference comments. We've outlined two

1 options to resolve the issues that we see in the system,
2 and the issues include transmission access for the most
3 efficient generation in the region. The issues include
4 minimization of transmission congestion costs.

5 Our preferred option, of course, is like the
6 common and municipals. Entergy's participation in a
7 Commission-approved RTO. That does not necessarily mean an
8 LMP-based, full-blown market RTO. There was a proposal in
9 comments of a non-market RTO, and I think that is an
10 acceptable starting point. But the key factors that we're
11 looking for are the scope beyond the Entergy system,
12 independent operation, independent determinations about
13 transmission capacity needs and the means to achieve those
14 needs. That's our preferred option. Option 2 is --

15 UNIDENTIFIED SPEAKER:

16 Can you give us the steps in the market plan?

17 MR. WEISHAAR:

18 Sure. Scope beyond the Entergy system,
19 independent operation, independent determinations about
20 transmission capacity needs and the means to achieve those
21 needs. And, that gets to the regional expansion planning
22 issue.

23 Option 2 as stated in the alternative I think
24 there are characteristics that are necessary to improve the
25 ICT and still call it the ICT. But really, there are a lot

1 of steps that need to be taken to enhance the independence
2 of that proposal and enhance the functionality of that
3 proposal. We outlined the independence elements and the
4 functional elements that we would like to see in our
5 post-technical conference comments.

6 I will not burden the panel with repeating those
7 here, but the bottom line is the ICT, as proposed, either
8 needs to be beefed up or Entergy needs to participate in
9 some form of regional transmission organization in order to
10 take care of the problems that we perceive in the system.
11 Thank you.

12 MR. HAYDEN:

13 Thank you, Chairman Wood. I'm glad you all
14 could be here on a rainy day in Mississippi. I'm John
15 Hayden of Calpine, and actually, there was a lot of the
16 things that I was going to say that have been said. So I'm
17 just going to go home now.

18 I think the key thing that we're seeing here is
19 again from the previous panel with the munis and Lafayette
20 and the end user is one common theme -- two common themes.
21 One is lack of independence. What we are talking about
22 here is a big hurdle. Independence, we have to have
23 independence, not only in transmission, but in procurement.
24 And what we've seen is that Entergy is a direct leader of
25 the utility. And that's just it. It is what it is and you

1 have Mr. Schnitzer sitting for both the WPP discussion and
2 with the ICT. And, that kind of reflects that we're
3 talking about a -- utility. And -- and, that just creates
4 a conflict. You have the same people who are making
5 decisions on how to serve load off its own generation.
6 Well, without going through a lot of details, one of the
7 things that did come up today that we have seen at Calpine,
8 and some of the munis have seen and some of the competitors
9 have seen, the AFC, we're seeing a drastic swing in AFC.
10 And, we're making this one why are we seeing these huge
11 swings on a intraday basis? Why are we seeing huge swings
12 from day to day?

13 Number one, it evokes lack of market confidence
14 that Mr. Newell brought up. Rather than go through a whole
15 list of these things, I think it comes down to -- I'll make
16 it very quick and to the point -- we believe -- Calpine
17 believes that the best solution is SPP. And Nick didn't
18 pay me to say that. It is the best solution. Basically,
19 we've got an RTO coming up and running, and we believe that
20 they provide the best bang for the buck to all consumers of
21 Entergy. It brings the most confidence to the merchant
22 community. It will bring confidence to the investment
23 community.

24 If we're not going to go there, then we get
25 into, what's option 2? Well, again, Bob brought it up. We

1 need more functionality over the ICT. And, I'm not going
2 to get into that list. He touched on most of it.
3 Everything from OASIS to ACFT determination, and I would
4 add to regional planning some of the problems that Gary and
5 Lafayette -- you know, the municipals are suffering from a
6 combination of planning -- lack of regional planning and
7 operational issues. And we believe that this ICT needs to
8 have that functionality or bring that to the table.

9 There was something brought up related to ADP
10 and their treatment of SPP's role as administrator of ADP
11 tariff. While that definitely was a great step in the
12 right direction with ADP, I will caveat one thing with
13 that. ADP handed over the tariff and the operating guides
14 to SPP to manage, and SPP did a very nice job of it, but
15 there were flaws in the operating procedures and the tariff
16 that were handed to SPP. So we, as merchants, got
17 frustrated early on in that process. We'd call up Nick and
18 his staff and say, Nick, what's going on here. And his
19 comment would be, hey, we're just administering the tariff,
20 which they were. You'd call up ADP and say, I want to
21 complain about this operating practice in your guide, and
22 et cetera, et cetera, and he'd say, hey man, call SPP. So,
23 it's not a wonder drug. So there's some things to be
24 concerned about.

25 MR. WOOD:

1 Couldn't you or somebody just file a request?

2 MR. HAYDEN:

3 This was early on. There was some pride
4 involved and, again, that was four years ago in the early
5 days. I can't remember specifics that popped up, but it
6 seems that some of them related to timing and when you put
7 in requests and when they had to address them. And that
8 slowly got addressed, but there was a period of runaround
9 where they said, call them, call them. I just make that
10 little caveat about that.

11 I guess the only other comment I really want to
12 make, there was some statements made, and I support power
13 by both the panel here or, I should say, appear on the
14 podium here, that if we go down this process, more
15 involvement with the WPP or we would like to be able to
16 participate in more forums and participate in this, and
17 there's been a little bit of an informal process in our
18 lines that relates to Entergy working with some of the
19 merchants and the like. And we would like to have more
20 involvement in that process.

21 MR. WOOD:

22 John Conway?

23 MR. CONWAY:

24 John Conway with the East Texas Co-op. Thank
25 you very much. It's good to be with you all again.

1 I had presented the East Texas Co-op position in
2 New Orleans, and I won't spend the time repeating it. But
3 what I would like to take a look at and have discussion on
4 is, why should the ICT be more independent? What are the
5 benefits from that, and how can we make that happen short
6 of an RTO.

7 We, too, would like to see Entergy in an RTO in
8 the SPP, but with the view of reality and what would likely
9 come about, short-term and long-term, What, short of that,
10 can work to help all retail customers?

11 Entergy has customers, as I mentioned, both
12 retail and wholesale. That's their native level. And
13 there are retail customers in every one of the states and
14 the city that's regulated by Entergy. RMEs or co-ops
15 particularly the East Texas electric co-ops, we have retail
16 customers. We're part of a native level. That's our
17 concern. How can the entire retail customer base be
18 benefited?

19 By the way, I'd like to ask a question of the
20 Entergy folks. There was a reference made at the beginning
21 of a filing being made yesterday. I believe, but I want
22 clarification on this, please, that this filing was made in
23 response to Commissioner Callahan's questions that Entergy
24 look at various points that were made by the NRG companies
25 as to ways to improve the independence. Is that the

1 filing?

2 We have not yet seen that and would like to see
3 it because many of the things that the NRG folks were
4 talking about were very much what East Texas and some of
5 the others wanted to talk about. We'd like to see that,
6 and I know that the Federal Commission has provided for a
7 post-hearing conference, and we'll be using that at the
8 forum. But the questions that NRG raised going to how can
9 the ICT be more independent, why should the ICT be more
10 independent? Our particular concern is the participant
11 funding issues and the necessity of having a truly
12 independent outfit run for participatory programs.

13 Before the Mississippi commission at the end of
14 August, one of the questions that was asked of Entergy was,
15 if you could -- I'm paraphrasing -- and Commissioner
16 Callahan, you may have asked it, if you were king, how
17 would you design SPP? And the answer came back as one of
18 the things you could look to would be the SeTrans model.
19 That SeTrans model had a very in-depth stakeholder process,
20 and that is not present here and that is something that
21 we've advocated. That will help and be necessary for
22 independence.

23 The SeTrans model had independent -- in that
24 case, it was an independent system operator, but a very
25 much independent idea for regional implementing for a

1 participant funding regime. Just taking part of the
2 SeTrans model of participating funding without taking
3 things like the stakeholder process and without taking the
4 independence that the SeTrans had developed is a little
5 like going out and buying a car and getting the chassis
6 without the wheels. You're not getting a really good deal.

7 The other points that have been raised, and I
8 was glad to hear the conversation earlier, it was a very
9 good conversation and one that had to be injected sooner or
10 later was the jurisdictional question. What, short of an
11 RTO, can be designed that will not trigger jurisdictional
12 concerns -- the jurisdictional rather than cost shifting --
13 shifting what can be designed to do that. We've heard the
14 outlines of how that can happen through contracts that
15 would agree with, I think, everything that we've discussed
16 here in terms of the legal parameters of how to set up and
17 using the SPP as an example. This is worth pursuing.
18 There is a lot more that can be done by the ICT, I believe,
19 without triggering the Commission's jurisdiction, and it
20 would benefit every one of the states' retail customers and
21 benefit the region, the over-used term, a win-win.

22 One thing that I would put out is, and I learned
23 this in reading the transcript of the Mississippi
24 commission's hearing on it, in terms of the siting and PCN
25 authorities for states. That has absolutely got to stay

1 with the state. I would not want East Texas cooperatives
2 to be seen as advocating anything different, but I don't
3 think FERC has, or even could, trespass on that authority,
4 but I know that is a concern and a proper concern.

5 The concern about the bundled sales, the concern
6 about the Commission's forwarding of the transmission
7 component and bundled sales, I would point out that right
8 now, assuming the Commission has that authority, but I'm
9 not going to debate that one way or the other right now
10 because Entergy itself has jurisdiction. If the FERC had
11 that jurisdiction, it could exercise it.

12 The creation of the ICT, a more developed ICT
13 and an ICT along the lines that ETEC, the East Texas
14 cooperative and others are advocating -- I don't see
15 changing that balance in that concern or, indeed, tripping
16 it and making it any worse.

17 Finally, the concept of large transmission
18 investments to benefit the merchant generators -- merchant
19 generators in the mid-weather. This is a participant
20 funding issue. This one, we can discuss. We discussed it
21 in New Orleans. We discussed it in comments. We don't
22 believe it's designed for everything Entergy does, but
23 having a truly independent ICT or implement -- one who
24 designs the base plan and has not given that base plan --
25 taken that base plan as a given, one who goes out and looks

1 to the regional best bang for the buck at the native level
2 is the way to go. That concludes my remarks and I look
3 forward to some more Q&A. Thank you.

4 MR. WOOD:

5 Mr. Brown, do you have anything to add?

6 MR. BROWN:

7 No.

8 MR. WOOD:

9 Ms. Hochstetter?

10 MS. HOCHSTETTER:

11 I was just sitting here wondering if there would
12 be merit to having this group, maybe not at this
13 instantaneous moment, but to have a group of stakeholders
14 and retail commissioners that were interested come up with
15 a list that they think is something short of triggering a
16 jurisdictional shift to FERC, then starting with the
17 functionalities that SPP is performing today for its
18 members and basically had decided what that list ought to
19 look like that everybody can agree on. And then -- maybe
20 kind of -- maybe put it -- I'll stop right in here, but I
21 mean, could we collaboratively come up with a list that we
22 think would enhance the ICT, but make it short of an RTO,
23 short of a jurisdictional shift? And then maybe tee it up
24 as an amendment in a FERC filing. Is that something that
25 makes sense to everybody, including Entergy?

1 MR. SMITH:

2 Yes, I think that would. I think if we could
3 formalize what we are talking about here and present it to
4 the FERC for them to rule on, that would be great.

5 UNIDENTIFIED SPEAKER:

6 Yeah, I think you could -- I'm think ing right
7 here it would be pretty --

8 MR. CONWAY:

9 I think certainly we would be willing to
10 participate in that process. I didn't mention this in my
11 opening comments, but the idea of just putting the SPP in
12 the shoes of the ICTs doesn't really resolve our concerns.
13 SPP has experience doing this because we're incapable of
14 performing the necessary functions, and on its own, has a
15 variable degree of independence that the Commission has
16 found acceptable. But ultimately, if you plug SPP in as
17 the ICT, there will be a contractual relationship between
18 Entergy and SPP, and that contractual relationship will
19 define independence and functionality. I certainly agree
20 with your suggestion, that if we're going to explore those
21 lengths, it has to be, what is the scope of that
22 contractual relationship in terms of both independence and
23 functionality.

24 MR. WOOD:

25 The Commission does have some recent track

1 record with SeTrans and that system -- would trigger -- in
2 the context of the -- jurisdictional entity. I think that
3 aspect of it could be --

4 MR. SCHNITZER:

5 In response to Chairman Hochstetter's
6 suggestion -- this is -- scout's honor, I had a similar
7 idea. I thought that it might be of use for stakeholders
8 to try to get together a consolidated list that is more
9 efficient for us to sort of sit down and okay, what's our
10 consolidated list, either change it to enhance independence
11 or additional functions that we think would bring greater
12 benefits. And submit that with the filing and have Entergy
13 respond. I think, first, they will try and exhibit --
14 piece of paper may be, sort of efficiency as a -- and,
15 Chairman, what did you say, 13 items --

16 UNIDENTIFIED SPEAKER:

17 And in bringing all this up -- to FERC, ICT has
18 federal access -- the facilities -- transition data --
19 request -- areas --

20 MS. HOCHSTETTER:

21 I guess my thought and my vision on those are
22 some of the similarities between -- was to engage in
23 something more of a collaborative process including Entergy
24 and the retail regulators so that from the standpoint of
25 traditional economies saving FERC's time and resources.

1 Instead of continuing the back and forth, back and forth,
2 back and forth, I mean just personally from my standpoint,
3 I think it would have made a lot more efficiency sense if
4 all of us -- but it might make sense for everybody but the
5 adjudicators in this case to get together, everybody but
6 the FERC Commissioners, to come up with something.

7 Because quite honestly, Entergy's right. The
8 retail regulators need to be involved in this too. We need
9 to file something that everybody is comfortable with. So
10 that -- I had in mind a collaborative process as opposed to
11 you alone filing something that everybody responds to.

12 MR. CONWAY:

13 Chairman Hochstetter, what you've just proposed
14 is a stakeholder process that some of us have been asking
15 for on the ICT from the beginning. Now there have been
16 stakeholder processes and meetings for the WPP, but I have
17 no knowledge of any stakeholder process and meetings for
18 the ICT. That would be an excellent first step, one is
19 long overdue, and should be pursued, absolutely.

20 MR. CALLAHAN:

21 I'd even bring the beer.

22 MR. HAYDEN:

23 Calpine would very much like to participate in
24 such a process --

25 MR. RODGERS:

1 If I could sort of recap what I've heard from
2 the panelists on that side of the table, it sounds like
3 it's opposed to what I thought I heard in New Orleans,
4 where some of the folks on that part of the table basically
5 were drawing a line in the sand and saying RTO or nothing.
6 What I'm hearing now is that while that is still the first
7 preference of you all, that nonetheless, that there's a
8 feeling that if the independence issues could be worked out
9 and there could be some added functionality to the ICT,
10 then there may be a way to make this Entergy proposal,
11 beefed up, acceptable.

12 MR. CONWAY:

13 I think you're right, that strictly speaking I
14 think modifications could be made that would bring the
15 proposal some of the increased independence and some of the
16 functions including trying to regionalize the decision in
17 some fashion or bringing into -- getting involved in some
18 kind of regional planning framework and so forth. We might
19 be able to get toward something that would gain broader
20 stakeholder acceptance. I think however that we need to
21 realize that some of those enhancements that the
22 stakeholders are looking for are going to be probably
23 fairly tough sells to Entergy.

24 What I need -- is, what would the enhancements
25 be? I started to get very close to the idea that was in

1 our post-technical conference comments and -- which was the
2 idea of a nonmarket RTO which would carry all the
3 functionality of an RTO, but wouldn't have -- LMP-based --
4 management problems, features, opportunities associated
5 with it. And so, I think certainly if you're going to go
6 down that road, I think it would require the clarification
7 of these jurisdictional issues, these jurisdictional
8 concerns -- somehow we know -- issues of where the states
9 feel comfortable.

10 I guess the point I'm getting to is the list is
11 going to be a list that from our perspective is going to
12 have on it a number of items because as things are
13 structured right now, the ICT is a pretty costly
14 proposition for transmission customers and the Commission
15 is properly sensitive to the cost of these transmission
16 organizations, and we're not seeing a lot of the
17 benefits -- there are serious issues as -- the ability of
18 wholesale customers to take part in that, so right now,
19 we're looking at the prospect of cost and not much benefit.
20 So the added functions that we want to put on there to get
21 those benefits, as I say, may be a bit of a tough sell.

22 UNIDENTIFIED SPEAKER:

23 I'm responding and following up on what I heard
24 John Conway say a while ago -- that in his view, there were
25 lots of benefits for native -- customers that could be

1 gained through additional functionality of the ICT that
2 would not necessarily trigger jurisdictional shifts. And
3 if any of you disagree with that, this would be a good time
4 to say it.

5 UNIDENTIFIED SPEAKER:

6 No, I think that the jurisdictional issue is one
7 that I think is probably a little bit -- I think there may
8 be less there than meets the eye. I think those issues can
9 be resolved. And I guess an interesting question for the
10 Commission's legal staff would be whether even if we were
11 to confer on the ICT functions that might otherwise be
12 thought to bring it, transmission within the purview of the
13 jurisdictional -- could the Commission, nevertheless, say
14 that we would not consider it to be -- it's sort of a way
15 of explaining the jurisdiction over something of that
16 nature.

17 So that the questions about the shift authority
18 over the bundled portion and the transmission portion of
19 the bundled retail services -- having said that, I think
20 it's important that the ICT be answerable to the -- as well
21 as the state commissions, this idea that it's not a public
22 utility and therefore a contractor -- and even
23 modifications would have to meet Commission approval.
24 Entergy said well, but keep in mind it's not a public
25 utility.

1 And so any attempt by the Commission to exercise
2 authority with respect to the ICT would have to be through
3 Entergy. That is an imperfect solution at best. And I'd
4 like -- put this in supplemental columns or whatever, but I
5 guess I'd like to try out the view, is there a way in which
6 we can have the ICT be directly accountable to the FERC.

7 And even subject to the -- but not implicate
8 this issue about rates -- so don't think a determination of
9 FERC can direct actions by the ICT or call it to task if
10 it's not doing its job. I don't see that that necessarily
11 results in this jurisdictional shift over the bundled --
12 piece of bundled retail everyone's concerned about.

13 MS. HOCHSTETTER:

14 I think my admonition, my suggestion would be
15 that we try to make this as simple as we can. This does
16 not have to be complicated. And I keep going back to SPP.
17 They've been doing this since the 1940s and they are doing
18 everything that an RTO does today without the
19 jurisdictional shift, with the exception of two things.
20 One is actually having jurisdictional control over the
21 facilities in the tariff language, and second is, operating
22 a real-time spot energy balancing market. That's it.

23 You can correct me if I'm wrong, but those are
24 the only two things that they currently do not do. That's
25 the difference between a nonjurisdictional independent

1 systems administrator and an Order 2000-compliant RTO. So
2 this doesn't have to be tough. We've got an example in the
3 room, and in this region, already. I mean, Entergy used to
4 be part of SPP. It seems like we can fix this pretty easy
5 without making a mountain out of a molehill --

6 MR. CALLAHAN:

7 I just have a question for the whole panel. And
8 I'm sorry, Bob, I haven't read your post-technical
9 conference comments. But why is the ICT as filed, not
10 independent and how do we get it independent?

11 MR. HAYDEN:

12 I'll take a stab at answering that question. A
13 couple elements that we had included in our comments that
14 was really just a -- list of independence elements and
15 functionality elements that we would like to see in terms
16 of an ICT. Let me state a couple of them. Full access to
17 Entergy's facilities at any time, and the extent that
18 Entergy can answer and admit that its filing does
19 accomplish it, we can --

20 MR. CALLAHAN:

21 Full access to Entergy's facilities at any time.
22 Is there something -- that would lead you to believe that
23 the ICT would not have full access to Entergy's facilities
24 at any time -- I would think they would have to have
25 access --

1 UNIDENTIFIED SPEAKER: That's correct. And full access to
2 data. Yes, we have very specific provisions on access to
3 data.

4 MR. CALLAHAN:

5 In fact -- if I remember correctly, they would
6 be seeing the same thing that your guys in the Woodlands
7 see wherever they put their office. It would be the same
8 real-time. What your guys in Woodlands receive, they would
9 be seeing. SO they would have the same -- Pine Bluff,
10 excuse me. Pine Bluff, I'm sorry. And would have just
11 access to everything -- if I'm wrong, somebody correct me.

12 MR. HAYDEN:

13 Number two, Entergy should have no role in the
14 ICT audit process. Just like, take an example, you go to
15 New England. You wouldn't want Northeast Utilities taking
16 a look at ISO New England and having them be responsible
17 for the auditing process -- Entergy should have the same
18 rights as others regarding ICT compensation, same rights as
19 other market participants regarding ICT compensation.

20 UNIDENTIFIED SPEAKER:

21 I don't understand.

22 MR. CALLAHAN: I don't understand that.

23 MR. HAYDEN:

24 In terms of negotiating the payments for the ICT
25 performance contract with the ICT, setting that pay level

1 should not be an Entergy determination. Now you have
2 Entergy sitting across the table from the ICT negotiating
3 the payment that the ICT is going to receive and keep an
4 eye on Entergy.

5 UNIDENTIFIED 1 SPEAKER:

6 I think everyone in this room is going to
7 negotiate the contract.

8 MS. DESPEAUX:

9 Well, if they're an ICT I think there's a pretty
10 set formula for that, isn't there, Nick?

11 MR. BROWN:

12 Under our current cost structure, yes, there is,
13 and it still remains to be answered under what cost
14 structure would SPP, or any other potential vendor, charge
15 to perform this service. What we billed AEP to perform the
16 functions for them was not pursuant to our current B
17 schedule for SPP membership, because all of the services
18 that we provide were not being provided to the AEP. In
19 this particular case, there are many of the functions that
20 we provide our membership that are called for in the ICT
21 proposal, many. There are some that are not, for example,
22 full-blown tariff administration, although that hasn't been
23 talked about today, and then there's an additional function
24 of being an overseer of the weekly procurement process.
25 So, you know, that's something that when we get into the

1 details to the extent that we get there, we'll have to work
2 out a B schedule for that.

3 MR. CALLAHAN:

4 I don't see how we make the model. I just -- I
5 don't see how we could negotiate the contract. The fact
6 that Entergy's negotiating the contract, now, that makes
7 the issue less independent. I mean I don't -- I don't --
8 if I'm the ICT, then I'm going to negotiate, Nick, and
9 you're going to make money. You're negotiating to make
10 money. If you sign a contract and you think you're going
11 to make money on Entergy or whatever you're doing; right?

12 MR. BROWN:

13 Well, not make money. We're a nonprofit
14 corporation.

15 MR. CALLAHAN:

16 Excuse me.

17 MR. BROWN:

18 The way I would want to structure it is that,
19 you know, it's a win-win, situation for everyone involved.
20 I think we can very efficiently provide these services to
21 Entergy.

22 MR. CALLAHAN:

23 "Provide," so you're going to make it a loss.

24 MR. BROWN:

25 While -- no, not at a loss.

1 MR. CALLAHAN:

2 -- corporation they're negotiating. They want
3 to make money on our services. I just don't see the --

4 MR. BROWN:

5 Yes, what we would hope to do is that it would
6 help offset some of the cost to our existing membership
7 base. So make money, save money, whatever.

8 MR. CALLAHAN:

9 But the fact that you negotiated that contract
10 with Entergy, would that make you any less independent?

11 MR. BROWN:

12 My personal opinion is, no. I mean, AEP
13 negotiated its contract with us, that was filed with the
14 FERC. I think there were some protective provisions in
15 that from a competitive viewpoint, but, I mean, what has
16 been proposed, again, Entergy cannot terminate the contract
17 without FERC approval, and I think that provides certain
18 independence.

19 UNIDENTIFIED SPEAKER 2:

20 Could I speak to that point?

21 MR. CALLAHAN:

22 Please do.

23 UNIDENTIFIED SPEAKER 2:

24 There was considerable discussion at the New
25 Orleans conference about that question, and Nick is right

1 about termination for cause provisions while the ICT
2 contract. The issue that we had raised, and we remain
3 concerned about, was the provision that provided for, I
4 guess, you could call it a form of regulatory out. And
5 what it provides for is if there is a change in the
6 arrangement directed by a regulatory agency, the parties
7 have to sit down and negotiate to resolve any concerns that
8 fall out of that. And if the negotiation does not lead to
9 a successful conclusion, either party can back out of the
10 arrangement, and terminate.

11 And our concern was, and is, that that
12 represents a threat to the independence of the ICT. In
13 that the ICT will be filing reports with the regulators and
14 if they raise an issue that causes the regulators to direct
15 a change in the arrangement to address whatever the problem
16 is identified in the report, that that could trigger, or
17 would trigger, the provisions of that forcing a contract in
18 Section 4.4, and that that would open the door for Entergy
19 to walk away from the whole arrangement if an agreement
20 isn't reached.

21 So on my list, my little shopping list of ways
22 to advance independence, Item 2, right behind one admission
23 of making the ICT directly answer to the FERC as well as
24 the states, is to get rid of that. I think that's just a
25 provision that creates a lot of ways to the independence of

1 the ICT. If, however, if however -- I realize that's
2 asking a lot because it's asking the company to sort of buy
3 into an arrangement without knowing what changes might be
4 made in the future.

5 MR. CALLAHAN:

6 Let me ask you a question. If I -- not only is
7 it Entergy, but I would think that if I'm the ICT that that
8 helps me a little because there may be a change in the
9 regulatory environment that comes down on the FERC or from
10 the states that may impact whether or not I can, not in
11 your case, but in my case, if I'm a for-profit corporation
12 that is administering this deal, it may change my balance,
13 it may change my ability to earn income.

14 So I see what you're saying, but, I mean, I
15 think if I'm negotiating that contract, that if I'm the
16 ICT, I'm going to put that clause in to protect me in the
17 event that something changes because in this business, we
18 know, with a federal regulatory agency and three or four
19 state regulatory agencies, there's a lot that can change as
20 people come and go and things shift. So, I mean, I think
21 that kind of cuts both ways. I don't want to negotiate
22 that contract without that clause.

23 UNIDENTIFIED SPEAKER 2:

24 Well, where you'll typically see a regulatory
25 item is as to changes made when the filing is made and the

1 contract is submitted to the issue. Parties cut a deal,
2 they balance the benefits, they file, and the agency says,
3 well, we're going to change this. And, you know, it's not
4 uncommon for contracts to have walk-away rights under those
5 circumstances, but this is what continues and is an item
6 for as long as the arrangements. And I think we realize
7 we're sort of reploting the ground here, and the likelihood
8 is that there may be need for fine-tuning over time, and
9 that fine-tuning could come about through some sort of
10 regulatory order, and so that was our concern in response
11 to your comment, that's why I can't quickly fall back.

12 I think, you know, if the provision is to stay
13 in there, in the model ICT contract, I think we need to put
14 some balance around what that non-liability claim consists
15 of. I think just saying that it's no longer considered
16 viable by the transmission provider and sole expression
17 doesn't cut it for me.

18 Let's figure out what that means. Does it mean
19 material financial impact? Whatever, put some balance on
20 it, and also I would require that the non-liability claim
21 be confirmed by the FERC. That since this contract is
22 being filed with FERC, that if one of the parties is going
23 to back away from it during its term on the basis of
24 non-liability, let's have that finding be confirmed in some
25 fashion, and that if the parties enter into these

1 negotiations could modify a contract, they can't reach
2 agreement. Why not submit it to FERC's ADR process, and
3 see if we can reach an agreement through that vehicle? And
4 then one last feature that's going to stay in the contract
5 that I would suggest, would be an understanding that if
6 Entergy exercises the right, and backs out -- I shouldn't
7 say "backs out" -- terminates the arrangement during its
8 term under the non-liability provisions, that it hold the
9 ICT partners preventing financial loss.

10 Imagine a situation where the ICT invests 5 or
11 \$10 million to get up and running, and then halfway through
12 the term of the contract, Entergy, because of some
13 regulatory change, exercises its right to terminate the
14 contract early. I think what many really regret to the
15 ICT's independence, is the possibility of suffering a
16 significant financial loss, is that the model ICT contract
17 is filed, with a placeholder in there for termination fees.
18 And I would suggest that if we're going to go down this
19 road, we should be clear, that Entergy would have to hold
20 the ICT requirements assuming they haven't breached those
21 duties in some fashion. So they're not threatened with
22 financial loss or ruin.

23 UNIDENTIFIED SPEAKER 3:

24 Commissioner Callahan, you're talking about
25 independence and all that. There's a couple things that

1 collectively some folks had mentioned on an earlier panel,
2 as well as on this panel, and I'll wrap them up and try to
3 get them together, and that gets into managing the oasis,
4 calculating TTC/ATC performing planning.

5 MR. CALLAHAN:

6 That's more -- I consider that more of a
7 functionality.

8 UNIDENTIFIED SPEAKER 3:

9 Well, but some of it is functionality, but it's
10 independence as well. You know, the concern that what we
11 have, and anybody's that's done any transmission planning,
12 you know, it's very easy to get different results with some
13 change in the inputs, and the ability to allocate more
14 upgrade costs to a generator is simple as delisting or
15 enlisting the units. So there's a lot of uncertainty
16 there. The issue about operational procedures, I mean,
17 Mr. Newell talked about he's getting hammered for, you
18 know, a couple million dollars, he thinks, in a redispatch
19 cost. Should they be the one that incurs that cost or
20 should someone else? The whole -- you know, this whole
21 period that you brought up related to participative
22 funding.

23 Again, it's having someone that is truly
24 independent, doesn't have vested interest in generation,
25 doesn't have vested interest in load and all that. You

1 know, I think it brings a lot of confidence to the
2 marketplace, that I don't see what we've got proposed will
3 do that, but I think it'll make them feel much better, and
4 make us feel much better. I may not like the answer, you
5 know, I may not like the number they send down to me, but
6 at least I have more confidence that it's a fair number,
7 and that's something that I think is extremely important
8 both in the planning or rising as it relates to participant
9 funding as well as in the operation for rising.

10 UNIDENTIFIED SPEAKER 4:

11 Commissioner, particularly that we have already
12 proposed that the ICT have decisional authority over those
13 very kinds of decisions so they already have -- it will
14 only be the ICT that allocates on the upgrade cost.

15 MS. DESPEAUX:

16 And Jolly and the rest of you all, can we kind
17 of get a consensus just right here and now, kind of cut to
18 the chase, that if there was SPP that goes to the ICT,
19 concerning the fact that especially because we granted RTO
20 status to -- and obviously the FERC refers to them as
21 independent, would you guys consider them independent for
22 purposes of being Entergy's ICT?

23 MR. HOCHSTETTER:

24 Let me start with that, no. I would think that
25 the nature of the hurdle's been in terms of the choice of

1 the appropriate -- that they've chosen somebody who will
2 certainly, given the opportunity, will act independently.
3 I think in terms of the limited functions that Entergy has
4 carved out for the ICT to perform, SPP will do it as well
5 as it possibly can, as independently as it possibly can,
6 but also you've got other things in there, some of the
7 issues we're dealing with in terms of the contract.

8 I would have added just a few more in terms of
9 going now to my memory of the details of if there's a fight
10 between Entergy and the ICT over the ICT budget, who wins
11 that fight? I believe it's now structured that Entergy
12 does. In terms of the data acquisition, yes, Entergy has
13 then reported -- lets the ICT have all the data, that
14 Entergy has determined is needed for the ICT to perform its
15 functions. Entergy has already dictated in these
16 proceedings what it is it believes are necessary and within
17 that parameters, then the ICT has full play.

18 I would want to see an SPP have more. That is,
19 the SPP in doing the functions that not only would be
20 prescribed to the ICT, but that we believe would be
21 necessary to make this a more robust and fair and less
22 discriminatory regime, that the ICT be able to have a much
23 bigger role in determining the data it needs from the
24 get-go, not what's handed here, in determining its
25 functionality, how does that base plan get set? So that's

1 why I can't say make it the SPP and we're happy and go
2 home.

3 UNIDENTIFIED SPEAKER:

4 Mr. Chairman, may I ask a question to follow up
5 Chairman Hochstetter's? Do any of you see any conflict of
6 interest at all for the SPP to serve as the Entergy ICT?
7 The SPP has responsibility for management of a very large
8 portion of the grid in an area adjacent to Entergy under
9 what will seem to be a different set of rules and criteria,
10 and across that seam there may be cost shifts. The SPP has
11 this existing responsibility to the energy within the SPP
12 area, will that create a conflict of interest for the
13 constituents within the Entergy grid?

14 UNIDENTIFIED CHAIRMAN:

15 I think that's a great question, and I want to
16 hear from other people first before I jump in. Well, let
17 me start that then. My immediate reaction is to say yes,
18 there would be a conflict of interest, but not to be
19 concerned about it because of the regulatory regime in
20 place under which an RTO operates and the transparency in
21 which it operates. And third, the fact that these seams
22 have got to be eliminated sooner or later. So that's sort
23 of my immediate knee-jerk reaction. Yes, maybe the word
24 isn't conflict of interest. Maybe there is a yes, it has
25 two jobs to do that might be in tension, but I believe that

1 the regulatory regime under which the RTO operates would be
2 transparent enough to handle that and to give the
3 regulators, federal and state, as well as the customers,
4 some confidence, but I'd like to pursue that one more,
5 that's a great one.

6 UNIDENTIFIED SPEAKER:

7 I tend to agree. I mean, I think it will help.
8 I mean, seams issues exist everywhere, and I think this
9 would help facilitate resolution on seams issues faster
10 sooner rather than later.

11 UNIDENTIFIED SPEAKER A:

12 I had worried about the idea of SPP serving as
13 the ICT for a different reason which was more
14 resource-based. You know, it's not as big as PJM, it's not
15 as big as -- they have a smaller staff, they have a
16 smaller set of resources, and they're in the process of
17 getting on their feet as an RTO. So I had worried, and I
18 still worry a little bit about whether that's an issue.
19 Nick has assured us it's not.

20 MR. BROWN:

21 It's not?

22 UNIDENTIFIED SPEAKER:

23 Ghostbusters, they said no job was too big, no
24 fee is too big.

25 UNIDENTIFIED SPEAKER A:

1 Well, I will share with you my comment, that it
2 would be a little bit like me entering the Olympic
3 weightlifting competition because I have arms. Well,
4 that's probably overstating it quite a bit, but I sit and
5 worry about the resource issue. But the conflicts issue, I
6 hadn't thought about it, and that's an interesting one,
7 because, you know, apart from the possibility of cost
8 shifts across the seams, there is the issue of, even though
9 SPP is non-profit, just like PJM, there are benefits to
10 increasing throughput through the system. It reduces cost,
11 it reduces cost to your members.

12 And so if there was a decision that had to be
13 made as the ICT that might have an effect on throughput
14 through the SPP system or it might result in facilities
15 being added there, I can see where there could be the
16 possibility of trying to serve two masters at once, and it,
17 although Jolly is right, it's a transparent process that we
18 always think will be open. Those are the kinds of things
19 you usually try to avoid.

20 UNIDENTIFIED SPEAKER:

21 I agree that's an excellent question, and I
22 think we can manage, except there is a conflict, I think we
23 can manage at the front end through the terms and
24 conditions of the contracts on both ends, and that would
25 require taking a hard look at SPP's contractual

1 relationship with its transmission owners, and what would
2 be proposed in terms of contractual obligations here. So,
3 yes, it is a risk, and I think it's a risk that could be
4 matched up.

5 MR. BROWN:

6 As far as the conflict of interest issue, I
7 would almost argue, today, we're conflicted between 48
8 members. We have investor of utilities, cooperatives,
9 IPPs, marketers, state, agencies, federal agencies, and on,
10 and on, and on, and all of them have different
11 perspectives, and the decisions we make balance to the best
12 that we can within our government structure, all of those
13 diverse interests.

14 So yeah, I mean I can see there are always going
15 to be conflicts of interest, and if you look at our court
16 -- they're conflicted every time they make decisions
17 between throughput and reliability. Those two are very
18 contradictory, and that's the balancing act that those
19 folks make every single day that they sit on the desk and
20 make decisions to whether or not to call TOR and curtail
21 transmission service that limits revenue that goes to our
22 members, or to sell transmission service that could push
23 the limit, so to speak. So to me, that's what we're all
24 about, is managing conflicts of interest and balancing a
25 very diverse group of stakeholder interests, and balancing

1 reliability and economic equity issues.

2 UNIDENTIFIED SPEAKER:

3 One difference, though, is that under your
4 current limited structure, you've got a single set of rules
5 you have to apply, whereas there may be two sets of rules
6 on the other side of the line.

7 MR. BROWN:

8 Sure, there are two tariffs, no questions about
9 that. I would envision us handling this particular
10 situation no different than we did the AEP project, which
11 was very significant in its magnitude. So, I mean, from a
12 resource perspective, if people want to see the track
13 record, we did it. I mean, we administered transmission
14 service over a very, very large AEP East transmission
15 system. That contract was negotiated over a weekend
16 because of the regulatory push to get that merger through,
17 and it's a very good contract. It's worked very well for
18 four years, and, you know, I think that the record speaks
19 for itself on our ability to implement what's needed to
20 make that happen, and to balance the interests. I think
21 the structure -- I remind our staff every day, we operate
22 in a fish bowl, and, of course, they know it as much as I
23 do, but I think if to the extent there is, it's going to
24 get managed, it's going to get managed.

25 UNIDENTIFIED SPEAKER B:

1 So, Nick, then, it's your testimony you can have
2 this ICT contract signed by Monday?

3 MR. BROWN:

4 Well, I've done it before.

5 UNIDENTIFIED SPEAKER B:

6 On a three-day weekend.

7 MR. BROWN:

8 There is a model out there for the contract,
9 and, in fact, we had shared that agreement with, I believe,
10 Steamboat, years back. So, I mean, it's -- we're not
11 reinventing the wheel here. And, as Sam, yourself, said.
12 I mean, we can keep it simple, and, you know, it can be
13 modified over time to the extent that it needs to be
14 modified.

15 UNIDENTIFIED SPEAKER C:

16 Let me ask one or two follow-up questions on
17 that. Would any additional functionalities like Oasis
18 administration, APC cancellation on even transmission
19 planning, would that make the proposition of being the ICT
20 more attractive to SPP, and would it, in your view, enable
21 SPP to do a more effective job in any single issue?

22 MR. BROWN:

23 It would make it more in line with what we're
24 used to doing, administering the tariff versus playing the
25 auditing role and looking over a shoulder or just analyzing

1 the actions that someone else took. I mean, that's -- that
2 would be something new to us, administering an Oasis and
3 administering a tariff. Like I said, we have done that for
4 AEP for four years, and we just turned it over last week.

5 UNIDENTIFIED SPEAKER C:

6 Just to be sure on here. In terms of doing a
7 more effective job as an independent overseer, do you think
8 adding the added functionality would help?

9 MR. BROWN:

10 Yes.

11 UNIDENTIFIED SPEAKER C:

12 We at FERC just issued an RTO cost report
13 earlier this week, and that's obviously of a lot of
14 interest to everybody in the room, probably. And one of
15 the big issues in RTO cost and software, would there be a
16 lot of added software that SPP would have to develop or
17 take on to be able to do this function?

18 MR. BROWN:

19 Let's set aside the weekly procurement process
20 because that's something very new to us, and I'm not real
21 sure, you know, what impact that's going to have, and
22 exactly what would be expected of us if we were to serve in
23 that capacity. All of the other ICT functions are right up
24 our alley, and as I stated before, their system is modeled
25 to great detail already in our facility, so serving as the

1 security coordinator is not a problem. In terms of serving
2 as the tariff administrator, again, I don't see that as a
3 problem. You all are well aware of what we charge to AEP
4 to perform those services, and we implemented it within 45
5 days, and that included putting an office in place, leasing
6 space, contracting for telecommunication service, on and on
7 and on, and that was done in 45 days.

8 UNIDENTIFIED SPEAKER:

9 Mr. Chairman, let me chime in on Chairman
10 Hochstetter's suggestion for a conference to talk about
11 added functionality. I think it's a tremendous idea. I
12 think the timing for it is right. I think I can safely say
13 that the council would welcome that type of conference, and
14 would participate in it if asked to do so.

15 It strikes me, though, that it would be a more
16 useful exercise if the parties understood going into it
17 that what we're talking about are incremental improvements
18 for the Entergy ICT proposal, as opposed to going in,
19 talking about that, really having an agenda of coming up
20 with an RTO, and I guess there are a number of reasons for
21 that. Really -- I'm just going to tick them off. One
22 obviously is the jurisdictional issue. I don't think New
23 Orleans is, among state regulators, the most aggressive on
24 that issue, but it is a concern to us, and it is a concern
25 if we push the envelope to -- well, if you do push the

1 envelope too far, then the issue becomes a bigger issue, of
2 course.

3 Second in consideration from New Orleans's point
4 of view, is up to this point we have not required Entergy
5 to make a formal filing, and have not had a formal
6 document. We expect a formal decision at the end, but if
7 the mechanism that comes out of this process looks much
8 more like an RTO, then that issue would have to be
9 considered, and suddenly from our local jurisdictional
10 point of view, we're almost starting at not quite point
11 zero, but close to point zero with a process, and, again,
12 that's when you have conflict, so, factor that in.

13 And the third thing to consider, is I have to
14 assume the added function to added cost, at least on an
15 incremental basis to the ICT, and so we need to be
16 considering, you know, are the additional functions worth
17 the additional costs.

18 One of the suggestions that I would have for
19 those in the room that are looking at, or seriously
20 thinking about the additional functionality, would be to
21 get together in advance of such a meeting, and come up with
22 a list of the top 10, top 12, whatever, whatever, get that
23 circulated in advance so that we can all start thinking
24 about it before we come to the table, and the Entergy's
25 consent about the costs in that application, so the rest of

1 us think about the jurisdictional ramifications and so
2 forth, so there's a more specific proposal.

3 Now, I've read many of the comments, but not all
4 of them. There are numerous suggestions for functionality,
5 additional functionality, but if those who are advocating
6 in that general direction can come together and produce a
7 proposal, I think that would facilitate such a movement.

8 UNIDENTIFIED SPEAKER:

9 If I could just say another thing. Going back
10 to Rick's comments, which started, I think it's the market
11 participants in looking at that could think about with this
12 list could we support the pricing proposal, that's
13 important to us. We realize that you may not like our
14 pricing proposal, and you may not agree that it should be
15 linked, but it is linked in our mind.

16 UNIDENTIFIED SPEAKER:

17 If I could just make one quick, sort of closing
18 comment on the subject on the conflicts. I'm reassured by
19 what Nick said. I think he makes a good point in the way
20 they handled the AEP thing, and I never heard any problems
21 voiced, and he's right that their security coordinators
22 deal with these issues all the time -- operating under
23 that, I think I come out with about the same now, which is
24 manageable. And I know the SPP staff, they're good folks,
25 and I think they're going to deal with any of those things

1 in the right way, and so I think it's a problem that can be
2 handled by them, I think there is no question.

3 The other point I was going to make was that on
4 the issue of added functions, you know, I think you're
5 right, that, you know, there's a spectrum here, and we need
6 to think just how far down that spectrum we want to push
7 things, but, you know, John's comment about how much
8 additional functionality do we need before we can be
9 comfortable with a pricing proposal, I think, you know,
10 kind of raises the bar, in my mind anyhow.

11 And then finally I'm just going to ask a
12 question, which is kind of the elephant in the room that
13 nobody's mentioned. What are we going to do about
14 transmission -- that's -- you know, why we thought about
15 RTOs in the first place going back to order 2000, and, you
16 know, on my list of added functions, or what have you, is a
17 requirement that there be some kind of reciprocity
18 agreement, which folks have talked about from time to time.
19 I don't know if there are any. Dominion filed under the
20 current laws. It was rejected for different reasons, it
21 wasn't on merits, it was premature, but I think if we're
22 going to go down this road, and work in the direction of
23 any kind of regional markets, or regional opportunities to
24 engage in transactions even if we're not talking about --
25 we need to deal with the rate pancaking issue, and that

1 hasn't been mentioned.

2 UNIDENTIFIED SPEAKER:

3 Well, it just so happens to be something worth
4 thinking about. As you know, we're doing a proposal to
5 alone make the rate pancaking to PJM and ISO right now.
6 This has been going on for over the better part of this
7 year, but we're going to have it done by December 1. I
8 would certainly think that, you know, it's really a rate
9 design case.

10 It's not a real thing that triggers jurisdiction
11 or the heated battles of megabytes based on whether you did
12 fulfill -- that changes the rate design as to how rates are
13 collected. And between Entergy and the SPP, certainly that
14 would make the rates seem like they did in Arkansas, and,
15 you know, has a more economic rate, and in particularly
16 those common cells across the region.

17 But it also could be certain ownership of those
18 cells that shouldn't have a significant rate hike if you
19 keep it in those. It could change presence going forward,
20 but you may want to keep it -- just change RS coag from, I
21 guess, from a nonelectric charge to the main charge.
22 That's how -- so certainly that is one of the benefits that
23 we've seen in the markets, and it happens and wasn't
24 abundant in the RTO image, but it could be done in
25 inventory for pretty good reasons.

1 UNIDENTIFIED SPEAKER:

2 Mr. Chairman, if it's okay with you, would this
3 be a good time to have the open microphone session? So if
4 there was any folks in the audience that would like to come
5 forward, please come up to either the podium here or the
6 free-standing microphone over there. Please state who you
7 are and working --

8 MR. BROWN:

9 Yes, my name is Nathan Brown -- Power
10 Association. We've got some comments on the ICT with FERC
11 during the period. And since those comments, we have met
12 with them, and we have changed our position in some cases.
13 We still believe that if forced to join an RTO, we don't
14 believe that the interest should be forced on SPP. We
15 enter to that with -- so something with Entergy. I mean
16 I'm not going to be in a position to abstain against RTOs,
17 and also with feeling like there's an electrical benefit of
18 Entergy being forced to join into the RTO, the benefits
19 would not be the same for Southern if forced to join the
20 same RTO.

21 We have similar concerns with Entergy joining
22 the -- having Entergy perform the ICT functions. If SSP
23 can perform those functions like the Southern Company or
24 others who would not participate in Southeast. That's the
25 concern. Overall, we have changed our position and we

1 support the ICT concept. We believe that it allows the
2 decision to impact market participants made by the
3 individual organizations while planning and operations,
4 important functions of system of continuing -- we also
5 support the participant funding protocol, especially in the
6 way SeTrans, SeTrans protocol, and in this case we're
7 comfortable with the ITC making final determination --
8 participant funding.

9 We also like the fact that the grandfather
10 contracts are specified -- to preserve, and the ICT
11 reviewing the energy transmission funding criteria to
12 determine if it makes -- we have some concern with fund
13 shortening transmission systems in the area.

14 MR. CALLAHAN:

15 For the record, would you please say what state
16 it is and who you represent.

17 MR. BROWN:

18 Oh, yes.

19 UNIDENTIFIED SPEAKER:

20 You're using your generation.

21 MR. BROWN:

22 Yes, generation and transmission, and we have
23 generation responsibilities for our --

24 UNIDENTIFIED SPEAKER:

25 Just to understand your first order. When you

1 had that shot at -- Entergy and Southern and then taken it
2 back of -- this is on a tape now, so are we going to sit
3 there and wait for another dance partner to show up?

4 MR. BROWN:

5 We just don't be part, or seem -- we've got a
6 load that is served by Entergy Mississippi, transmission
7 also would be part of the transmission and transmission
8 system, and that would be difficult for us to be able to
9 do.

10 MR. MONROE:

11 Mr. Chairman. Craig Monroe. My concern is
12 eventually I think they would like to see Southern Company
13 and Entergy, whatever they do, do it together; is that
14 correct?

15 UNIDENTIFIED SPEAKER:

16 That's correct.

17 MR. MONROE:

18 Because they're -- half of their company they
19 serve are down in Southern, and another half at this time
20 at Entergy, and they speak for themselves on the 10 percent
21 agreement goal, and they're just real tight in their
22 system, and I think their concern would be that if Entergy
23 was forced to go to an RTO, and Southern Company runs
24 somewhere else, then that's going to leave them -- oh, just
25 one last verification. SWEPA is not proposing anybody join

1 an RTO; correct?

2 UNIDENTIFIED SPEAKER:

3 Correct.

4 MR. MONROE:

5 Okay. Just wanted to be clear about that.

6 MR. BROOKHARTS:

7 Good afternoon, is this on?

8 UNIDENTIFIED SPEAKER:

9 Yes, sir.

10 MR. BROOKHARTS:

11 My name's Dave Brookharts. I'm here today
12 representing Fine Line Resources. Fine Line is very
13 interested in the environmental impact of these proposals,
14 WPP, as well as the energy efficiency aspects. We have two
15 points to make. One is we would like to see the
16 demand-side resources built to bid in the WPP just as any
17 other supply side. Now, that's a very integral part of any
18 form of market. You need some sort of demand-side
19 response, and you need the demand to be able to bid in just
20 as a supply side.

21 We'd also like to say, we don't have all the
22 details worked out, but to see the QFs be able to schedule
23 their books in a week-ahead basis, where they're not
24 scheduling week-ahead as a merchant, but they're scheduling
25 their QF put in a week-ahead, so they can schedule it.

1 Apparently there's a lot of problems being caused from the
2 transmission side.

3 I was at the Entergy Power Marketers meeting
4 yesterday, where a lot of blame was laid on the QFs because
5 they can't schedule, and as soon as they put their power
6 on, it takes a lot of the available transmission passed
7 down the system. And if QFs would schedule their puts on a
8 week-ahead, then that might take care of that, and we've
9 had a conversation with some of the QFs, and we understand
10 that they're not opposed and/or support that. Thank you,
11 unless there's questions.

12 MR. CLAUSEN:

13 Thank you, my name is Ben Clausen from Summit
14 Consulting Group, and I've worked for a number of clients
15 who are in the room today. And I have a question from the
16 morning session in John, John Verstell's presentation, John
17 is still here. And I notice there's been significant
18 improvement in lowering the amount of gas generation, and
19 you had a slide that I think it was as low as a million
20 megawatt hours a month, which if I take about 720 hours,
21 that's about 1200 megawatts average gas generation. And
22 I'm wondering in that context that number of megawatts,
23 which is still a lot of megawatts, what is the mix of units
24 running at minimum, and where is that generation coming
25 from, what you call must-run units of local area units? Is

1 it primarily local-area unit, and would there be some
2 opportunity for merchant generation to displace some of
3 what you call must-run local area generation?

4 UNIDENTIFIED SPEAKER D:

5 Ben, I think the majority of the gas that's
6 necessary for must-run units are recommended to operate to
7 a point. That the gas units that do operate on our system
8 operate on very low load factors. So they tell me that
9 they are usually in operation. And whether we -- we look
10 for opportunities for merchants to displace our must-run
11 units. Whether or not more can do that, that's one of the
12 questions that'll be answered with the WPP because they'll
13 be able to look at all the economics and evaluate all the
14 different transmission options that we really don't have
15 the ability to look at right now.

16 THE AUDIENCE 4:

17 And so in that -- in must-run connotation in
18 what you're saying, if we could look at some load
19 locations, some off-season load locations, and demonstrate
20 that a source near to one of your sources that were -- we'd
21 have an equal opportunity to displace that generation. I
22 think you quoted it as that's about a 15,000 heat rate
23 generation usually.

24 UNIDENTIFIED SPEAKER D:

25 And running down the whole unit, for example,

1 but I think that's what the WPP will answer. -- bids
2 within the cost of our generation. They would consider all
3 the different transmission issues, and they will come up
4 with the least-cost solution.

5 THE AUDIENCE 4:

6 It would be a 24-hour competition. The unit
7 that brings the six hours might quote a, you know, 15,000
8 heat rate, but it would be versus 24 hours on your unit?

9 UNIDENTIFIED SPEAKER D:

10 We'd really need a second day of competition
11 over the course of the whole week.

12 THE AUDIENCE 4:

13 Okay. Thank you.

14 UNIDENTIFIED SPEAKER E:

15 John, before you sit back down, if I could ask
16 the following question from this morning related to the
17 ICT. I was wondering if you could explain the role of the
18 ICT in the WPP process, and in particular, does the ICT get
19 to see the bids that Entergy gets under the WPP or does it
20 see the transmission evaluation process? I know it's a
21 different process in the future proposal, but what does the
22 ICT get to see?

23 UNIDENTIFIED SPEAKER:

24 Steve, I hope you don't mind, but I think I'm
25 going to put that one to Mr. Schnitzer, I think he's more

1 better able to answer that question.

2 UNIDENTIFIED SPEAKER D:

3 Okay.

4 MR. SCHNITZER:

5 Can I have that again?

6 UNIDENTIFIED SPEAKER D:

7 Yes, I'm generally interested in what the role
8 of the ICT is in the proposed WPP process, and in
9 particular, does the ICT get to see the bids Entergy gets
10 under the WPP, and does it get to see the evaluation
11 process for assigning transmission?

12 MR. SCHNITZER:

13 Yes and yes. I think the ICT -- and Nick
14 alluded to this -- this is sort of monitoring that we
15 procure the process the ICT gets to see all the inputs of
16 the opposition models, which includes the qualified bids,
17 the cost data from the state -- they get to review how the
18 model is run. They get to review the results. I think
19 Entergy has also proposed that Entergy be involved in the
20 software development specifications.

21 So where the transmission system is represented,
22 where the constraints are specified on the line. So the
23 proposal is that they would be familiar with all that at
24 the outset, and would have access to all that information
25 on a legal basis. Does that answer your question?

1 UNIDENTIFIED SPEAKER D:

2 Yes.

3 UNIDENTIFIED SPEAKER:

4 I just want to add one clarification Steve, that
5 under -- everything in what you just said is correct, but
6 just to make sure there's no misimpression later. The ICT
7 will not get bids, for example, that are rejected. ICT
8 will get the package -- notice he said qualifying bids --
9 including Entergy resources that are in the transmission.
10 Under our original proposal, all the bids came into the
11 transmission side of the house, and all the bid evaluation
12 was done there, and the ICT would look at that, and we
13 propose that to specifically increase market confidence,
14 and the IPPs and the customers said, we don't like that.
15 We want this a pure transmission function. We think this
16 is a standards of conduct problem, and you guys pretty much
17 agreed with that. So we moved the bid evaluation on a
18 commercial basis back to EMO, the generation site, and so
19 that will happen on the EMO site. It will hand the set of
20 winning bids or qualified bids that would be optimized to
21 the transmission site.

22 UNIDENTIFIED SPEAKER:

23 Maybe ask the folks from the other side of the
24 table or maybe some of the folks that were here this
25 morning to state if they have any concerns about the fact

1 that if you're losing bids, but the independent entity has
2 never seen those bids, is that a source of concern?

3 MR. CARRAWAY:

4 The whole question that places is does he refer
5 to the winning bid or the qualified bid that comes out of
6 the process, and the process is that where the transmission
7 optimization is done. So I'm assuming the transmission
8 optimization has got to be done through using something
9 similar to than if we analyze them, scenario analyzers, if
10 that's the case, then we raise ourself a question with the
11 distribution of the treatment of the transmission and the
12 process that's going on, because it's a process that's
13 going on frequently internally with the Entergy, and that's
14 leaving the rest of the marketplace outside of the
15 independence issue.

16 The other question that comes to mind with that,
17 if I'm not misinterpreting something Mr. Schnitzer said
18 earlier today, there was a question about \$50 million here,
19 and the weight of \$50 million was looked at by energy use
20 in the ICT process as opposed to being a member of SPP and
21 being in the RTO that was about a watch. Well, are we
22 talking about something that's less than an RTO that's
23 going to cost the same thing if they were in the RTO? And
24 I don't think it's that fair to position of Gary Newell
25 espousing earlier.

1 We think that the RTO is preferable, and you
2 know, even if we look at this whole thing that Chairman
3 Hochstetter knows we're talking about in the process. I
4 think that somewhere down the line it's got to be
5 considered to be an interim-type process before you get to
6 a full-blown market out there that's out there for all the
7 retail consumers in the state, and I understand what SLIPA
8 is concerned about from their comments, and where Chairman
9 Callahan is, but that's where Chairman Hochstetter and the
10 rest of us that are SPP members -- Lafayette, Louisiana's
11 an SPP member. We're buried in the Entergy transmission
12 system, so we don't get the full benefits, but at the same
13 time, by contract, Entergy is getting the full benefit of a
14 service that SPP has that is not labeled an insert where
15 they met for regional reliability purposes when they met
16 the SPP, and that's the reserve sharing booth.

17 We -- which is also part of this must-run
18 regime, and the flexibility that John was talking about
19 this morning, so all of that's got to be looked at, and
20 those of us who are generating entities and load-circuit
21 entities have to worry about our own reserve sharing, and
22 at the same time we're looking at a pancake tariff.

23 UNIDENTIFIED SPEAKER:

24 Getting back to the first part of your answer,
25 Mr. Carraway. If I understood you correctly, you think it

1 would be better for your Mississippi Municipal customers if
2 this independent entity could see all the bids that come
3 in, and not just the ones that have a successfully run
4 response load.

5 MR. CARRAWAY:

6 On the standpoint of being a provider to making
7 load and being a load-serving entity, yes. And I think
8 that the comments that came up that they're referring to
9 maintains the market segment is worrying about the --

10 UNIDENTIFIED SPEAKER:

11 Okay. Thank you.

12 MS. MACKEY:

13 This is Lynne Mackey from InterGen North
14 America, and I would just like say that yes, it's true that
15 we as stakeholders do not agree with the idea of having a
16 transmission organization evaluate these bids, but the
17 alternative of having our direct customer, or the
18 competitor, evaluate the bid alongside its own bid doesn't
19 work for us either, and that the independence of that to us
20 is important.

21 UNIDENTIFIED SPEAKER:

22 Time-out here, I think we're further astray from
23 what the proposal is than we have been at some other times,
24 so maybe it's just time to make sure we clarify.

25 For participating network customers in a weekly

1 procurement, it's an option for any of Entergy's network
2 customers, it's mandatory for EMO. Each of those
3 participating network customers can structure their own
4 procurement to solicit bids. Each of them can establish
5 part of that process what their threshold requirements are
6 for qualification or viability. Those can include things
7 like financial liability of the counterpart, security of
8 the fuel supply, operational track record of that
9 particular facility as one reports, you know, in a manner
10 when it promises to, and contract details, net bilateral
11 contracts, dates are appropriate. And Entergy has that
12 right, and any other participating network customer will be
13 able to specify their parameters as to what's a qualifying
14 bid -- qualified.

15 Every network customer except for EMO can screen
16 and evaluate the qualifying bids and pass on only the ones
17 they want. EMO, and EMO alone, is obliged to pass on every
18 qualifying bid to the weekly procurement process. So this
19 spectrum that's been talked about on both sides is just
20 factually incorrect.

21 UNIDENTIFIED SPEAKER:

22 Good afternoon, not related to that. I just
23 wanted to thank Lois Kimmel, here on behalf of FERC --
24 Commission, Ricky Bill, who was on the panel the last
25 program, who was unable to attend today, but he's very much

1 still following and interested in this proceeding and any
2 collaborative effort that goes on. We agree with a lot
3 that's been said up here this afternoon, and just want
4 today talk on a couple of things that hadn't been
5 mentioned.

6 One is if the SPP were to serve in the ICT role
7 with the independent market monitor that the SPP would have
8 in place overseeing the Entergy system -- you know, it's
9 just something to think about. And, also,
10 interconnections, overseeing the interconnections. ACC is
11 on the -- in Arkansas, ACC is a member of SPP, that is its
12 first choice for -- to become a member of the RTO, but if
13 that's not possible, we're obviously discussing other
14 possibilities.

15 UNIDENTIFIED SPEAKER:

16 Mr. Chairman, I guess it's the end of the day, I
17 don't know if folks have any closing comments, but --

18 UNIDENTIFIED SPEAKER:

19 Just based on what we heard today suggests maybe
20 a next step that might be fruitful. Rather than having
21 everybody here who can agree on common supplemental counts,
22 which is always entertaining to do, but the focus is really
23 on time, to get a little further down the road here.
24 Perhaps considering using the mid-November Entergy meeting
25 and its elective time on it, to set up a meeting as we

1 discussed earlier to talk about the -- WPP. We have to
2 include the market participants and the under -- the
3 leadership of the retail regulators at Entergy and market
4 participants and the regulators get together to enhance
5 both the independence and the functionality of the ICT
6 along the lines that have been discussed here. Get kind of
7 a shoot-the-moon approach and then filing the FERC docket
8 with the issue we're probably saying that it doesn't
9 trigger FERC jurisdiction, or if it does, what specific
10 items actually push it over the line, and how to change it
11 back down.

12 And I think at the same time also we've got a
13 lot of comments on the pricing proposal, which I know is an
14 important part of this piece to accompany, and I think it
15 would be useful for our commission and also to provide --
16 guidance order just answering questions for the market
17 participants and the retail regulators on the
18 jurisdictional issue, but also weighing any thoughts we
19 have.

20 The ultimate question is, is this enough to
21 qualify independence networks under Form 2003, and if yes,
22 then what are we making out of it, and --

23 MR. CALLAHAN:

24 Mr. Chairman, I think that'd be a great idea
25 because whether or not, and this is the second time we've

1 went over independence in August in the Mississippi hearing
2 and now here today, and keep hearing everyone say it's got
3 to be independent, it's got to be independent, but I don't
4 know -- somebody's got to negotiate the contract,
5 somebody's got to pay the ICT. I mean, I don't know what
6 else we can do to further this independence, and I think
7 guided from the FERC, if you all could do that, it would go
8 a long way. Because, obviously, if it comes back from the
9 Commission that this is not independent enough to get a
10 pricing proposal that's contained in this filing that we
11 believe is in line with the 2003 and 2003-A, the word of
12 the Commission, then we've got to back up and start over,
13 because I don't think Mississippi or Louisiana or the City
14 of New Orleans, or maybe even Arkansas for that matter --
15 if we can't get this pricing proposal, we've got to back up
16 and start all over.

17 So guidance from the Commission would be very,
18 very, helpful with that, and then we could get together
19 with the functionality and submit some maybe expanded
20 readings of the ICT-2 commission, and maybe y'all can say,
21 well, you know, we triggered your addition against --
22 again, as a guiding tool for us to move the process along.
23 I think that would be a great asset.

24 UNIDENTIFIED SPEAKER:

25 Mr. Chairman, has that November regulatory

1 meeting already been noticed to a quick supplemental notice
2 giving us the details of when, where, and why?

3 UNIDENTIFIED SPEAKER:

4 Then we'll coordinate that with the panel, and
5 we'll poll the conference here on what role you all want
6 the FERC staff to -- if we could make some decision that
7 would be useful there --

8 MS. DESPEAUX:

9 Has there already been a date and a place
10 established for that meeting, because since we're
11 expanding, the folks involved in the collaborative process,
12 in particular, those involved in retail regulators. Do we
13 need to check calendars, and I was going to volunteer to
14 help coordinate it if it was going to be in Little Rock,
15 but this is going to be someplace else, obviously, and
16 especially since SPP is in little Rock, you know, it might
17 make more sense to do it there, but if you prefer to have
18 it somewhere else.

19 UNIDENTIFIED SPEAKER:

20 That meeting was scheduled for November 9th in
21 the Woodlands, Texas, but that's just because it was going
22 to be more of the commercial people working on -- you know
23 the main purpose -- the original purpose of the meeting now
24 becomes a very minor point. So we'll turn it over to Kim
25 and ask her to set up a day.

1 CHAIRMAN WOOD:

2 All right, so this does close the -- I want to
3 just say that on behalf of us from FERC, thank you all for
4 coming to the States. It's always a pleasure to work with
5 you all in working on the goals. And I know you spent some
6 money to come here, so I want to thank you coming to the
7 market participants meeting to take time with us today. I
8 want to thank Mike Jackson, my predecessor Kurt who is with
9 Allen Baum, and on his behalf -- and we, I guess, we've got
10 seven minutes, huh? All right, thank you, I appreciate the
11 organization.

12 (Whereupon, the proceedings were concluded.)

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