



Appendix F

Credit/Collateral Requirements

For

Summer 2009

Request For Proposals (RFP)

For

Long-Term

Supply-Side Resources

Entergy Services, Inc.
September 24, 2009

APPENDIX F

Credit/Collateral Requirements

SUMMARY

The RFP Evaluation Team will evaluate all conforming proposals and will not exclude a potential Bidder or prohibit a potential Bidder from participating in the RFP on the basis of credit. A Bidder whose proposal(s) is (are) selected to the Primary or Secondary Award List for further negotiation will be asked to discuss at the time of notification of their selection the type(s) of collateral the Bidder intends to provide in order to meet this RFP's collateral requirements. ESI's credit evaluation procedures provide a tiered approach for establishing potential collateral requirements.

1. The information provided in the Bidder's response to the Project Structure and Finance section of Appendix H or I (as applicable) will be utilized during the credit evaluation.
2. The Bidder Credit Rating (or Bidder's Credit Support Provider's Credit Rating) will determine the amount of Maximum Uncollateralized Supplier Exposure ESI will allocate to each Bidder. The Bidder Credit Rating has no impact on the selection of proposals to the primary award list and/or the secondary award list.
3. Credit exposures will be evaluated and discussed with Bidders who are selected for the primary award list and/or the secondary award list. At the time that a Bidder is notified of their selection to the primary and/or the secondary award list, Bidders will be asked to discuss the appropriate forms of collateralization for their particular proposal(s).
4. Seller and Buyer will enter into a Letter of Intent (the "LOI") that will set forth in more detail the terms and conditions of the proposed Transaction pending the negotiation and execution of the Definitive Agreement. Upon execution of an LOI, Seller will be required to provide a letter of credit in the amount of \$2,000,000.
5. During the negotiation of the Definitive Agreement, ESI will determine the required form of the collateral requirements, if any, for the selected proposal that a Bidder must satisfy and said requirement will be due at execution of a Definitive Agreement.
 - In an effort to mitigate performance risk, ESI is requiring all Bidders provide a minimum level of acceptable collateral upon execution of a Definitive Agreement.
 - i. For a Bidder submitting a proposal for a CCGT or CT generating resource that has been placed in commercial operation:
 1. In the event the Credit Evaluation Team's ("CET") assessment of supplier exposure results in no additional collateral posting requirements, a Bidder will be required to post a minimum amount of collateral equal to \$2,000,000 per 100 MW of Contract Capacity until the Delivery Term Start Date. Once Delivery commences, the CET's assessment of supplier exposure will apply (note that

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APPENDIX F

Credit/Collateral Requirements

posting of the collateral requirements in no way limits ESI's rights to legal remedies in the event the counterparty fails to perform under any Definitive Agreement).

- ii. For a Bidder submitting a proposal for a CCGT resource that is currently under development and capable of meeting the target delivery date and requirements:
 1. In the event the Credit Evaluation Team's ("CET") assessment of supplier exposure results in no additional collateral posting requirements, a Bidder will be required to post a specified amount of collateral, as determined during the Definitive Agreement negotiation process, until the Delivery Term Start Date. Once Delivery commences, the CET's assessment of supplier exposure will apply (note that posting of the collateral requirements in no way limits ESI's rights to legal remedies in the event the counterparty fails to perform under any Definitive Agreement).

PROCESS DESCRIPTION

In addition to the Economic Evaluation of the proposals, each proposal will be analyzed to assess potential credit risks by the RFP's Credit Evaluation Team. The credit evaluation seeks to assure that the Bidder's or its credit support provider's credit quality, combined with its proposal to ESI, complies with ESI's corporate risk management standards, and that any requirements for additional collateral or security associated with the proposal are identified.

The primary objective of the CET's credit evaluation is to ensure that Buyer receives sufficient credit risk protection from a Bidder whose proposal is selected for negotiation of a Definitive Agreement. For most Transactions, Buyer's primary risk is that the Bidder/Seller fails, for whatever reason, to deliver the power or resource expected under the Definitive Agreement, which would cause Buyer to have to replace the Capacity, energy, and Other Associated Electric Products, possibly at higher costs. The risk of higher costs for the replacement energy is driven by uncertainties such as construction risk, performance risk, future fuel price changes, capacity availability, market Heat Rate changes and the costs of self-build options.

1. Review of Bidder Credit Rating

To identify the supplier risk, the CET will apply uniform and consistent procedures to evaluate the credit quality of all Bidders, utilizing the methodology of ESI's corporate risk management group. The upper limit of a "Maximum Uncollateralized Supplier Exposure" by Bidder Credit Rating applicable to the Entergy Operating Companies is presented in Figure F-1 for each potential Bidder offering proposals in response to this Summer 2009 Long-Term RFP. This Maximum Uncollateralized Supplier Exposure represents the total aggregate exposure to the Entergy Operating Companies from an individual Bidder that will be accepted without

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APPENDIX F
Credit/Collateral Requirements

additional collateral. This Maximum Uncollateralized Supplier Exposure may include exposures from the Bidder’s existing transactions with the Entergy Operating Companies at the time a Bidder is notified that its proposal(s) has been selected for further negotiations.

After all Bidders have registered, the CET will determine a Maximum Uncollateralized Supplier Exposure for each Bidder up to the amount shown in Figure F-1. This determination will be based upon the CET’s determination of the Bidder Credit Rating of each Bidder, which determination will be based on pre-established criteria that are uniformly applied to all Bidders. For companies that have a credit rating established by one or more nationally recognized credit rating agencies, the CET will consider these ratings in conjunction with publicly available financial information to determine the Bidder Credit Rating. For companies that do not have a credit rating established by one or more nationally recognized credit rating agencies, the CET will consider other financial indicators including but not limited to publicly available financial information and stock and/or market cap information.

Maximum Uncollateralized Supplier Exposure will be a function of the Bidder Credit Rating. For example, a Bidder with a Bidder Credit Rating of AAA may be assigned a Maximum Uncollateralized Supplier Exposure of \$100 million, whereas a Bidder with a Bidder Credit Rating below BBB- may be assigned a Maximum Uncollateralized Supplier Exposure of \$3 million. In addition, with respect to the PPA product solicited in this RFP, if a Bidder Credit Rating is sufficiently reduced at any time during the Delivery Term, Buyer will have the right to require that additional collateral be provided at that time by the Bidder/Seller. Conversely, less collateral may be required in the future if the Bidder Credit Rating improves during the Delivery Term. Figure F-1 presents an illustrative table that would be used by the CET in selecting Maximum Uncollateralized Supplier Exposure for a Bidder.

Figure F-1

**Credit Evaluation – Maximum Uncollateralized Supplier Exposure
for Entergy Operating Companies
Based Upon Evaluated Bidder Credit Rating
(\$millions)**

	Bidder Credit Rating				
	AAA thru AA-	A+ thru A-	BBB+ thru BBB	BBB-	Non- Investment Grade (below BBB-)
Upper limit of Maximum Uncollateralized Supplier Exposure	100	100	75	50	3

Bidders not having an investment level credit rating might be required to post an Independent Amount.

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APPENDIX F

Credit/Collateral Requirements

2. Collateralization of Credit Exposures

Figure F-2 illustrates how collateral requirements will be applied for alternative long-term products solicited under this RFP. This figure also outlines potential forms of remediation for excess supplier exposure, including other acceptable solutions suggested by Bidders.

A Bidder whose proposal(s) is (are) selected to the Primary or Secondary Award List for further negotiation will be asked to discuss at the time of notification of their selection the type(s) of collateral the Bidder intends to provide in order to meet this RFP's collateral requirements. While such collateral will not need to be posted until the execution of a Definitive Agreement, the proposal may be eliminated from further consideration if a Bidder, at the time of such discussions, either fails to adequately describe its strategy for providing the required collateral or communicates an unwillingness to provide such required collateral. ESI reserves the right to consummate Transactions with Bidders unwilling to offer collateral, but will select the proposal only in circumstances when it is clearly superior to similar product offerings even taking that fact into account.

It is possible that a Bidder could offer multiple proposals that in the aggregate exceed the Maximum Uncollateralized Supplier Exposure established by the CET. Consequently, in evaluating any proposal(s), the Maximum Uncollateralized Supplier Exposure will apply to the combined aggregate exposures of all proposals submitted by a Bidder and will be provided to the negotiation team.

Although for products offered in this RFP collateral is required from Bidders with exposure exceeding the CET's Maximum Uncollateralized Supplier Exposure for such Bidder, the collateral requirement is not a perfect substitute for non-performance. ESI prefers that all Bidders/Sellers fully perform under their respective contracts, rather than default and require Buyer to exercise its right to the collateral. At the time of default, the collateral may not cover the entire difference between contract price and replacement cost. Additionally, collection of collateral may be costly and time consuming, which in the end results in higher costs for the Entergy Operating Companies. A Bidder default will also impede ESI's ability to carry out its planning process and provide system reliability to its customers. Although ESI may procure replacement energy, it may not be possible to achieve the same price stability, fuel diversity, geographical diversity or other supply objectives that were achieved with the original contract. Notwithstanding the concerns listed above, ESI will determine the potential collateral requirements as explained in Figure F-2.

It is ESI's view that the default rate among non-investment grade companies is significantly higher across all time horizons than for investment grade companies. In the selection of the overall supply portfolio, ESI may establish limits for the aggregate amount of exposure that the Entergy Operating Companies have to suppliers with weak Bidder Credit Ratings (*e.g.*, total exposure from all suppliers with non-investment grade Bidder Credit Ratings may be limited to an overall dollar amount).

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APPENDIX F

Credit/Collateral Requirements

In an effort to mitigate risk such as construction, performance, and mark to market exposure, ESI is requiring the Bidder to provide acceptable collateral upon execution of a Definitive Agreement, depending on long-term product type respectively, as detailed in Figure F-2. In the event CET's assessment of supplier exposure results in no additional collateral posting requirements, a Bidder will still be required to post a minimum amount of collateral until the start of the Delivery Term, after which the CET's assessment of supplier exposure will apply (note that posting of the collateral requirements in no way limits ESI's rights to legal remedies in the event the counterparty fails to perform under any Definitive Agreement).

For long-term PPAs (10 years or greater), as energy deliveries are realized over the life of the agreement, collateral requirements will be reviewed at a frequency of no less than an annual basis to recognize the shortened remaining term of the supplier's obligations. This may allow for a declining collateral requirement over the life of the agreement.

For acquisition products, it is expected that the Definitive Agreement will cover, among other things, indemnities, warranties and representations, as well as provisions that may require credit support to secure such indemnities, warranties and representations.

Bidders who have been notified that their long-term proposal has been chosen for final selection will be required to provide an irrevocable, standby letter of credit in the amount of \$2,000,000 at execution of a LOI. The letter of credit must be issued by a U.S. commercial bank or the U. S. branch office of a foreign bank with a long term unsecured unsubordinated deposits credit rating of at least "A-" by S&P and "A3" by Moody's, provided that such bank shall be reasonably acceptable to the CET. The letter of credit must be in a form substantially the same as that provided in Figure F-3 and otherwise be acceptable to CET. The LOI will contain provisions that set forth the circumstances under which ESI would be entitled to draw under the letter of credit as well as the circumstances under which ESI would return the letter of credit to the Bidder.

The credit and collateral requirements in this Appendix F apply only to Bidders and are designed to protect the Buyer from the risk of a Bidder's non-performance. In consideration of the fact that this RFP seeks long-term resources, however, ESI recognizes the potential need for credit support from the appropriate Entergy Operating Company(ies) in certain situations, and will discuss any required parameters in connection with Bidder notification that a proposal(s) has been selected to the Primary or Secondary Award List for further negotiations.

Any proposal selected for award from an Entergy competitive affiliate will not be allowed to meet the credit requirements through a parental guarantee from Entergy Corporation.

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APPENDIX F
Credit/Collateral Requirements

Figure F-2
Methodology for Determination of Incremental Supplier Exposure Associated with Long-Term Proposals and Potential Required Mitigation

Long-Term Product Types	Project Development Security/Milestones (CCGT developmental resources only)	\$2,000,000 LOC Due Upon Execution of LOI	Performance Collateral Requirements*	Additional Collateral Obligations For All Acquisitions	Potential Forms of Collateralization **
<p>Baseload Product (CCGT and Solid Fuel);</p> <p>Long-Term Tolling PPA – Load-Following CCGT;</p> <p>Low Heat Rate MUCCO (CCGT);</p> <p>Peaking MUCPA (CT)</p>	<p>Pre-Commercial Period Security/Milestones will be negotiated during the Definitive Agreement. Milestones may include, without limitation:</p> <ul style="list-style-type: none"> • Execution of Project EPC Contract(s) • Receipt of critical permits (e.g., air) • Receipt of binding financing commitments for the project 	<p>Upon execution of an LOI, each Bidder must provide a \$2,000,000 standby letter of credit.</p>	<p>Solid Fuel:</p> <p>Twenty million dollars (\$20,000,000) per 100 MW contracted for.</p> <p>CCGT:</p> <p>Ten million dollars (\$10,000,000) per 100 MW contracted for.</p> <p>CT:</p> <p>Five million dollars (\$5,000,000) per 100 MW contracted for.</p>	<p>For all acquisitions (Existing or proposed CCGT, or existing CT and solid fuel), Bidder will also have post closing indemnity obligations. Additional credit support may be required to secure such indemnity obligations.</p>	<ul style="list-style-type: none"> • Parental Guaranty • Letter of Credit • Cash • Lien on asset • Other acceptable solutions suggested by Bidder
<p>Ownership Acquisition Baseload – Solid Fuel (existing assets only);</p> <p>and</p> <p>Ownership Acquisition – Load Following CCGT;</p> <p>and</p> <p>Ownership Acquisition Simply-Cycle CT (existing assets only)</p>	<ul style="list-style-type: none"> • Delivery of major components to the Facility site (e.g. combustion turbines) • Completion of gas and power interconnection facilities and other major components/systems/facilities • Target Commercial Operation Date 		<p>No performance collateral required for existing projects.</p> <p>For development-based projects, Bidder should describe with specificity its proposed collateral or security postings throughout the development phase (including amounts or means of determining the amounts, type(s), and other relevant information), interim development milestones, consequences for failing to meet an interim milestone, delay damages, final deadline for achieving commercial operation, and Buyer lien and step-in rights.</p>		

* ESI may take into consideration a portion of the Bidder’s exposure to Buyer as incurred in the proposal; ESI reserves the right to adjust Performance Collateral Requirements in the event that a proposal contains a distinct timing mismatch in regards to Bidder contractual performance requirements and payments to be made by Buyer.

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APPENDIX F
Credit/Collateral Requirements

** Form of collateralization for Performance Collateral Requirements will be subject to, among other things, the valuation of such collateral requirements and the Bidder Credit Rating, in each case as determined by CET.

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SUMMER 2009 LONG-TERM RFP – SEPTEMBER 24, 2009

APPENDIX F
Credit/Collateral Requirements

Figure F-3 Form of a Letter of Credit

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER XXXXXXXXXXXX

APPLICANT:

BENEFICIARY:

ENTERGY SERVICES, INC. AS AGENT FOR _____

WE HEREBY ISSUE OUR IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER _____, IN FAVOR OF **ENTERGY SERVICES, INC. AS AGENT FOR** _____, BY ORDER AND FOR THE ACCOUNT OF _____ AVAILABLE FOR PAYMENT AT SIGHT AT THE COUNTERS OF: _____ FOR US\$ _____ AGAINST THE FOLLOWING DOCUMENTATION REQUIREMENTS:

- 1.) THE BENEFICIARY'S DRAFT DRAWN ON US AT SIGHT BEARING THE CLAUSE: "DRAWN UNDER (NAME OF BANK) STANDBY LETTER OF CREDIT NUMBERXXXXXXXXXX."

AND

- 2.) A STATEMENT SIGNED BY A PURPORTED REPRESENTATIVE OF BENEFICIARY STATING:

"THE CONDITIONS FOR DRAWING UNDER THIS LETTER OF CREDIT PURSUANT TO THAT CERTAIN LETTER OF INTENT BETWEEN ENTERGY SERVICES, INC. AS AGENT FOR _____ AND (THE APPLICANT) DATED _____ HAVE BEEN SATISFIED. WE THEREFORE DEMAND PAYMENT IN THE AMOUNT OF (INSERT AMOUNT) AS SAME IS DUE AND OWING."

PARTIAL AND MULTIPLE DRAWINGS PERMITTED.

DOCUMENTS MUST BE PRESENTED AT OUR COUNTERS LOCATED AT:

NO LATER THAN: _____

ALL COSTS RELATED TO DRAWINGS UNDER THIS LETTER OF CREDIT NUMBERXXXXXXXXXX SHALL BE CHARGED TO THE ACCOUNT OF THE APPLICANT.

WE HEREBY ENGAGE WITH YOU THAT ALL DOCUMENTS PRESENTED IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED IF DRAWN AND PRESENTED FOR PAYMENT ON OR BEFORE THE EXPIRY DATE OF THIS LETTER OF CREDIT.

IT IS A CONDITION OF THIS CREDIT THAT IT SHALL BE DEEMED TO BE AUTOMATICALLY EXTENDED, WITHOUT AMENDMENT, FOR SUCCESSIVE ONE YEAR PERIODS FROM THE STATED EXPIRATION DATE, OR ANY FUTURE EXPIRATION DATE, UNLESS WE HAVE NOTIFIED YOU IN WRITING BY REGISTERED MAIL OR OVERNIGHT COURIER, NOT LESS

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SUMMER 2009 LONG-TERM RFP – SEPTEMBER 24, 2009

APPENDIX F
Credit/Collateral Requirements

THAN SIXTY (60) DAYS PRIOR TO THE THEN RELEVANT EXPIRATION DATE, THAT WE ELECT NOT TO EXTEND THIS CREDIT. IN THAT EVENT, NOTWITHSTANDING ANYTHING IN THIS LETTER OF CREDIT TO THE CONTRARY, THE BENEFICIARY MAY DRAW ANY OR THE ENTIRE AMOUNT AVAILABLE HEREUNDER BY PRESENTING A DRAWING CERTIFICATE IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES 1998, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590 ("ISP98") AND AS TO MATTERS NOT ADDRESSED BY ISP98 SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE TO THE LAWS OF STATE OF NEW YORK AND APPLICABLE U.S. FEDERAL LAW.

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SUMMER 2009 LONG-TERM RFP – SEPTEMBER 24, 2009