

**REPORT OF**  
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**Process Independent Monitor of the**  
**Entergy Services, Inc.**  
**2006 Request For Proposals (RFP)**  
**For**  
**Long-Term Supply-Side Resources**

**Provided to the Staff of the**  
**Louisiana Public Service Commission**  
**April 4, 2008**

**PUBLIC VERSION**

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**Introduction**

This report was prepared by Elizabeth Benson, the Process Independent Monitor (Process IM or IM) for Entergy Services, Inc.'s (ESI)<sup>1</sup> 2006 Long-Term RFP (Long-Term RFP or RFP). The Process IM's overall responsibilities during the Long-Term RFP included: 1) assisting in the design, implementation and regulatory review of the RFP solicitation, evaluation, selection, and contract negotiation processes to ensure that they were impartial and objective; and 2) providing an objective, third-party perspective concerning ESI's efforts to ensure that all proposals received in this RFP were treated consistently and that no undue preference was given to proposals from any potential bidder, including Entergy competitive affiliates and any self-build or self supply projects.

This report addresses one of the IM's key responsibilities under the terms of the General Order issued by Louisiana Public Service Commission (LPSC or Commission) in Docket No. R-26172 Sub Docket A (Market-based Mechanisms Order or MBM Order), (as amended), that being to submit an RFP evaluation report to LPSC Staff (Staff) and the

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<sup>1</sup> Entergy Services, Inc. (ESI) acts as agent for the Entergy Operating Companies (Entergy Arkansas, Inc., Energy Gulf States, Inc., Entergy Louisiana LLC, Entergy Mississippi, Inc., and Entergy New Orleans, Inc.) as noted in the 2006 Long-Term RFP, and is the entity with which the IMs work most closely.

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Commission describing RFP activities and providing any recommendations for improving the RFP process.

The Process IM worked closely with ESI from the beginning of the Long-Term RFP throughout its implementation, including: 1) preparation of all RFP documents and procedures in both draft and final forms; 2) implementation of a formal consultation process with key stakeholders including potential bidders, Staff, and other interested parties; 3) receipt and evaluation of bids; 4) selection of bids as Candidate Proposals, a designation indicating that bids would be subject to further analysis, including detailed consideration of transmission costs and production cost modeling; 5) selection of resources to a preliminary shortlist or elimination from further consideration; 6) written, face-to-face, and on plant site due diligence for shortlisted resources; 7) bidders' best and final offers; 8) decisions by the Entergy Operating Committee<sup>2</sup> on which proposals to accept and which to reject; 9) negotiations with accepted bidders of power purchase and/or asset purchase agreements; and 10) certification requests filed in appropriate regulatory jurisdictions. In addition to her involvement with these activities, the Process IM regularly communicated throughout the course of the RFP with Staff – during meetings, telephone discussions, and through email.

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<sup>2</sup> The Entergy Operating Committee is composed of the chief executive officers of the Entergy Operating Companies and an officer of Entergy Corporation. Among other responsibilities, the Operating Committee makes RFP selection and allocation decisions.

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This report covers 2006 Long-Term RFP activities beginning in mid-December, 2005 when the Process IM was retained by ESI, through the end of July, 2007, when Entergy Corporation announced that Entergy Arkansas, Inc. (EAI): 1) had signed an asset purchase agreement to acquire the Ouachita Power Facility<sup>3</sup> from Quachita Power, LLC, an indirect subsidiary of Cogentrix Energy, Inc.; and 2) expected to sell approximately one-third of the Ouachita Power Facility's output to Entergy Gulf States, Inc. on a long-term basis under a separate agreement.

ESI retained individuals from two different firms to conduct independent monitoring services during its 2006 Long-Term RFP. Ms. Elizabeth Benson from Energy Associates served as Process IM, and Dr. David Patton from Potomac Economics, Ltd. served as Evaluation Independent Monitor (Evaluation IM). Working with David Patton were his Potomac Economics colleagues, Dr. Robert Sinclair and Mr. Mike Chiasson. Because ESI retained different IM firms to focus on RFP process issues and RFP evaluation issues, the Process IM and the Evaluation IM have prepared separate reports addressing their respective responsibilities.

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<sup>3</sup> The Ouachita Power Facility is a nominally rated 789 MW power plant located in Sterlington, Louisiana.

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However, despite their distinct areas of focus, the IMs were jointly responsible throughout the Long-Term RFP to ensure that it met all best practice requirements, including that it was fair to all participating parties, that it rigorously protected confidential proposal information and the identity of bidders, and that it supported a thorough, unbiased and arms-length evaluation of all proposals. For example, although monitoring the RFP Team's evaluations of proposals was the principal responsibility of the Evaluation IM, the Process IM participated in many detailed evaluation discussions both on site at ESI and telephonically, regularly discussed evaluation issues separately with the Evaluation IM, and worked directly with certain bidders to help them respond to questions from RFP evaluators. Similarly, the Evaluation IM participated in key meetings addressing RFP process issues, and the Process IM regularly discussed issues affecting the timing and activities of the RFP with the Evaluation IM.

**2006 Long-Term RFP Process Summary – December 2005 to July 2007**

Between December 2005 and July 2007, the following principal 2006 Long-Term RFP activities took place:<sup>4</sup>

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<sup>4</sup>Although this RFP sought long term supply from both combined cycle gas turbine (CCGT) and solid fuel resources, this report focuses on issues related to CCGT supply since solid fuel and CCGT resources were evaluated separately from each other and EGS is requesting certification of a PPA originating from a CCGT resource. However, with certain exceptions, all RFP procedures were the same for CCGT resources and solid fuel resources. This included, especially, the opportunity for all stakeholders to be involved in the development of the RFP, bid and information handling procedures designed to protect the confidentiality of proposal information and the identity of bidders, and evaluation procedures designed to ensure rigorous, arms length consideration of all bids.

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1. 2006 Long-Term RFP Draft Documents and Procedures – ESI developed draft RFP documents and procedures and posted them to a dedicated RFP Website. The RFP described in detail the incremental supply needs of the Entergy System and ESI’s proposed acquisition of approximately 1,000 MW of long term load following combined cycle gas turbine (CCGT) resources and approximately 1,000 MW of long term baseload solid fuel resources to address those needs. ESI sought these resources through five different products – long term CCGT tolling and non-tolling Power Purchase Agreements (PPA), and acquisition of CCGT resources; and long term solid fuel PPAs and acquisition of solid fuel resources;
  
2. Stakeholder Consultation – ESI invited potential bidders and other interested parties to participate in a period of formal consultation on the draft RFP;
  
3. Final RFP Documents – Following consultation with potential bidders, Staff and the IMs, ESI modified the draft RFP documents, posted final RFP documents to the RFP Website, and implemented the RFP;
  
4. RFP Implementation – Bidders registered CCGT proposals, paid bid fees, and submitted proposals to ESI;

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5. Screening Evaluation and Candidate Proposal Selection – ESI conducted its screening evaluation on all CCGT proposals under the oversight of the Evaluation IM and, following approval of its recommendations by the Entergy Operating Committee, notified bidders of their selection as CCGT Candidate Proposals;
  
6. System Impact Study Requests – ESI requested and received System Impact Studies (SIS) on CCGT Candidate Proposals from Entergy’s Transmission Business Unit (TBU);
  
7. Production Cost Modeling – ESI conducted production cost modeling review of CCGT proposals;
  
8. Preliminary Shortlist Selection – ESI combined SIS results with all other proposal evaluation outcomes, recommended a CCGT Preliminary Shortlist to the Entergy Operating Committee, and notified bidders of their status in the RFP. Shortlisted CCGT bidders notified ESI whether they wished to participate in the next phase of the RFP;

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9. Preliminary Due Diligence – Shortlisted CCGT bidders responded to preliminary due diligence inquiries. ESI conducted initial face-to-face meetings with shortlisted bidders, and ESI due diligence teams posed additional questions, sought clarifications, and conducted visits to CCGT plant sites;
  
10. Due Diligence Feedback – ESI due diligence teams prepared detailed reports describing their findings and observations on each CCGT resource, and conducted detailed due diligence teleconference feedback sessions with bidders on their resources and proposals. Each bidder was asked to address issues raised during its feedback session and to prepare a “best and final” offer for ESI;
  
11. Best and Final – CCGT bidders submitted “best and final” offers. ESI analyzed the operational and financial impacts of each offer, both individually and as part of different portfolios;
  
12. Proposal Review and Approval – ESI presented the results of its best and final analyses and its recommendations to the IMs and to Staff for their review, discussion, and comment, and then to the Entergy Operating Committee for its discussion and decision;



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13. Bidder Notification – ESI notified shortlisted CCGT bidders whether their proposals would be: a) candidates for further discussion and negotiation; b) eliminated from further consideration; or c) eliminated from consideration to meet the incremental resource needs of this RFP, but eligible at the bidder's choice for consideration as part of a displacement analysis to be conducted during the second quarter of 2007;
14. Contract Negotiations – ESI initiated negotiations with two selected CCGT resources, which together totaled over 1,300 MW;
15. Purchase Agreement – Entergy Corporation announced that its subsidiary, Entergy Arkansas, Inc. (EAI), had signed an Asset Purchase Agreement to acquire the Ouachita Power Facility, and also a bridging Power Purchase Agreement (PPA) to begin January 1, 2008 and to expire at the closing of the asset purchase transaction. The Corporation also announced that EAI expected to sell approximately one-third of the output of the Ouachita Facility to Entergy Gulf States, Inc. under a separate agreement. All of these transactions are subject to regulatory approvals.

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With the exception of the announcement of the Ouachita Asset Purchase Agreement, the bridging PPA, and the proposed sale to EGS, the Process IM monitored or was directly involved in each of these activities. This report provides more detailed information about each of them adding, as warranted, the IM's comments.

**Draft RFP Documents and Procedures**

All RFP documents were published in draft form at the beginning of the RFP process and then subject to review by potential bidders, by Staff, and by other interested parties involved in the RFP. The draft RFP documents addressed: 1) the incremental resource needs of the Entergy System; 2) current and projected System load; 3) existing generation resources; and 4) relevant System and individual Operating Company supply plans and operating conditions. The documents also provided information on all aspects of the RFP including: 1) a description of five different long-term products; 2) how those products would address the System's resource needs; 3) term sheets related to each product; 4) a timeline for RFP activities; 5) detailed descriptions of economic, fuel, transmission, and credit evaluations; 6) a self-build option;<sup>5</sup> 7) registration and proposal submission procedures; 8) due diligence requirements; and 9) data protection protocols.

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<sup>5</sup> The self-build option was a solid fuel repowering proposal identified in the RFP. Because it did not compete against load following CCGT resources bid into this RFP, it is not discussed in this report.

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The Process IM began her work with ESI before any RFP document was published. She reviewed, critiqued, and made suggestions on all RFP documents, on a detailed IM Scope of Work, and on an RFP confidentiality agreement that would be available to ESI and bidders in the event they needed to share commercially or other highly sensitive information that, in the view of the parties, went beyond the confidentiality protections already provided by the RFP's procedures.

Process IM Review – It was the Process IM's responsibility to ensure that the RFP's proposed design and procedures would encourage a robust response from a broad range of potential power suppliers, support a fair, thorough, and arms-length evaluation of all bids, and comply with all regulatory requirements. In addition to providing written comments on eighteen draft documents, the Process IM met with ESI on January 3, January 10-11, and January 25-27, 2006 to review, discuss, and provide suggestions on all RFP documents, timelines and procedures. Representative examples of the issues the Process IM addressed during this internal drafting period included:

- IM Scope of Work – During previous ESI RFPs, bidders could contact the IM only if they made arrangements to do so through Staff. The Process IM wanted bidders to be able to contact her directly on any question or issue of concern. She requested that ESI modify the RFP to reflect her role as the direct contact to both

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IMs and to provide appropriate contact information in the RFP document. ESI readily agreed;

- RFP evaluation teams – the Process IM reviewed the proposed structure, composition and responsibilities of each RFP evaluation team, as well as the specific ways in which different types of bid information would be provided only to the relevant evaluation team, and otherwise managed during the RFP process. A key objective of this review was to ensure that specific RFP evaluation team members were designated and their RFP evaluation responsibilities separated from any potentially conflicting activities. By February, 2006, all evaluation team assignments had been completed and individual evaluators identified to both the Process and Evaluation IMs;
  
- Information protocols and confidentiality agreements – the Process IM reviewed ESI’s existing RFP confidentiality agreements, and also reviewed other Standards of Conduct and Codes of Conduct to which RFP, other ESI, and other Entergy personnel are required to adhere. The Process IM worked with ESI RFP personnel to identify and, as needed, to clarify all procedures that had or needed to be put in place to protect information from RFP bids;

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- Resource needs – since the Company’s Strategic Supply Resource Plan (SSRP) identified long term CCGT and solid fuel capacity requirements that exceeded the 1,000 MW of CCGT and 1,000 MW of solid fuel capacity requested by the 2006 Long-Term RFP, the Process IM suggested that the RFP clarify ESI’s preference to phase in long term capacity acquisitions to mitigate both the risk and the practical considerations related to acquiring too much capacity at any one time;
  
- Bid procedures and bid instructions – the Process IM familiarized herself with ESI’s RFP electronic bid process. Because the 2006 Long-Term RFP required bid fees for the first time, the Process IM and RFP personnel responsible for managing the electronic bid procedures discussed in detail when and how the bid fees would affect the submission of proposals;
  
- Proposal evaluations – although not primarily responsible for overseeing the RFP evaluation, the Process IM was required to verify that the RFP proposal evaluation and selection processes were objective and impartial to all bidders and that no undue preference was given to any potential bidder, including Entergy competitive affiliates and any self-build and/or self-supply project. To carry out that responsibility, the Process IM reviewed and made suggestions on all draft RFP documents addressing economic, fuel, transmission, and credit evaluations.

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As one example, in the RFP's first draft, the Process IM questioned whether ESI's proposal to fix the value of variable O&M costs and start charges might constrain long term bid flexibility. The Evaluation IM raised the same issue and ESI, in response, modified the proposal documents so long term bidders would be able to price those factors individually; and

- Proposal due diligence – the Process IM questioned whether all due diligence information the draft RFP required shortlisted bidders to provide could or needed to be provided within the two weeks required in the RFP. In response, ESI retained its two week time frame but allowed bidders to provide a “best efforts” date for any information they were unable to provide within two weeks.

This internal review phase of the 2006 RFP concluded on January 31, 2006 when ESI posted all 2006 Long-Term RFP documents in draft form on its RFP Website.

RFP Website – ESI used a dedicated RFP Website to provide a transparent forum, which ensured both that the identities of interested parties would remain confidential, and that all questions and answers would be equally available to all participants. The Website provided the principal and, in almost all circumstances, only means of communication between potential bidders and ESI throughout the RFP, including its consultation, bid

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solicitation, and evaluation periods.<sup>6</sup> Beginning January 31, 2006, unsolicited direct communication between potential bidders or other market participants and employees of ESI or any of the Entergy Operating Companies about the RFP was not allowed. Except for the limited exceptions noted, all RFP communications occurred through the RFP Website.

The RFP Website was managed by the RFP Administrator, the only ESI employee authorized to receive and handle RFP communications from bidders and other parties from the date the draft RFP was posted until bids were selected for negotiation. The Process IM worked closely with the RFP Administrator: 1) to ensure that all questions and requests for information on the RFP were appropriately redacted before being directed to designated RFP personnel for response; 2) to review and comment, as needed, on responses before they were posted on the RFP Website; and 3) to ensure that all communications with bidders were handled at arms length, all commercially sensitive information was protected, and that communications contained no preference for any proposal.

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<sup>6</sup> With limited exceptions related only to the RFP Administrator, the only communication between ESI and bidders that took place off the RFP Website during these periods occurred during a Technical and Bidders' Conference cosponsored by Staff and ESI, and in that case all questions answered at the Conference were also submitted in writing and posted, along with their answers, to the RFP Website. Bidders were also able to communicate with Entergy's separate Transmission Business Unit (TBU), now the Independent Coordinator of Transmission (ICT), through its OASIS website. Beyond these ESI protocols, bidders were able to communicate directly with the Process IM and with Staff at any time during the RFP.

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**Stakeholder Consultation**

The 2006 RFP offered potential bidders and other interested parties several opportunities to provide meaningful input into its development – by participating in one or more technical conferences sponsored by Staff, by reviewing draft RFP documents and asking questions and requesting clarifications, and by providing comments on the draft RFP to Staff and to ESI that would be taken into consideration by ESI before it published final RFP documents.

Technical and Bidders' Conference – For this RFP, Staff held a Technical Conference that was combined with an ESI-sponsored Bidders' Conference into a single meeting and held in Houston, Texas on February 23, 2006.

Following introductory remarks by Staff, ESI presented a detailed description of the RFP, which included briefing participants on its overall objectives, describing its five products, and directing potential bidders' attention to term sheets associated with each product.

ESI also described its capacity needs, product design criteria, and intent to secure required incremental capacity at the lowest reasonable cost, and discussed its plans to



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market test all proposals. ESI then discussed in detail how it would evaluate economic, transmission, and credit issues associated with each proposal.

The Process IM presented information to attendees on the RFP's process, communication, and information safeguards and, along with the Evaluation IM, was available to respond to questions from potential bidders and from Staff.

ESI also provided detailed instructions to potential bidders on bidder registration, bid fee payment, and proposal submission procedures.

These presentations were followed by questions from participants and Staff. In addition to responding to questions during the Conference, ESI secured a transcript of the proceedings, which included each question that was asked and answered. ESI posted both transcript and questions and answers on the RFP Website. In doing so, the goal was to ensure that the official and most complete response to each question was posted to the Website for the benefit of all parties, including those unable to attend the Conference but needing access to all of the information that had been provided there.

RFP Consultation – In addition to the Technical and Bidders' Conference, bidders and other stakeholders had a more extended opportunity to help shape this RFP during the

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just over six weeks that it was in draft form. From early February through mid-March, 2006, bidders and interested parties submitted questions and comments on the draft documents to the RFP Website. The objective of stakeholder consultation was to give all parties equal opportunity to request clarifications to the RFP documents and procedures, to ask questions and make suggestions that they believed would improve the RFP, and to take issue with any provision that they saw as problematic or with which they disagreed. During this period, ESI responded to questions and issues raised by potential bidders and posted its responses to the Website according to RFP protocols.

RFP Comments – All participants also had the opportunity to submit final comments on the RFP, and to have those comments taken into consideration by ESI as it prepared final RFP documents. On March 17, 2006, potential bidders and other parties submitted comments to Staff and to ESI. Staff, which provided its own detailed comments to ESI on the draft RFP, took bidder views into consideration and provided its perspective on them in its comments.

Overall, ESI received and posted responses to seventy-seven questions from bidders (twenty-two received during the RFP Technical and Bidders' Conferences and fifty-five received through the RFP Website) and twenty-six questions posed by Staff both during and following the Technical and Bidders' Conferences.

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ESI also responded in detail to formal comments made by four potential bidders and other interested parties, and, separately, to the comments made by Staff. The comments covered a range of issues including proposal evaluation methodologies, generation retirement/displacement issues, credit issues including the possible use of debt imputation, participation of qualifying facilities in the RFP, and the Entergy System's overall need for capacity.

All bidder and Staff comments, as well as ESI's responses to those comments were posted to the RFP Website.

**Regulatory Staff Consultations**

In addition to consultation with LPSC Staff during the Technical and Bidders' Conference and numerous informal discussions, ESI met with regulatory staff in different jurisdictions before the Long-Term RFP documents were published in final form.

- January 26, 2006 – ESI RFP personnel and the Process IM participated in a teleconference discussion with LPSC Staff during which ESI addressed Staff questions and comments concerning the Long-Term RFP documents;

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- February 24, 2006 – RFP and other ESI personnel, LPSC Staff, and the Process and Evaluation IMs met in Houston, Texas during which time ESI provided briefings on and discussed: 1) the Entergy System’s resource needs; 2) the Entergy System’s fuel strategy; and 3) plant retirement issues; and
  
- March 29, 2006 – ESI, Entergy Arkansas, Inc. (EAI) personnel, and the Process IM met in Little Rock, Arkansas with staff from the Arkansas Public Service Commission (APSC) and the Arkansas Attorney General’s Office (AG), and representatives of Arkansas Electric Energy Consumers, Inc. (AEEC). ESI and EAI briefed APSC, AG and AEEC on EAI long term resource needs, Entergy’s supply procurement process, ESI’s draft Long Term RFP, and on ESI’s plans to acquire needed EAI resources through this Long Term RFP. The Process IM briefed the participants regarding the Process and Evaluation IM roles, and the safeguards in effect during the RFP including codes of conduct, designated evaluation personnel, protections for proposal information, and protocols to protect the identity of all bidders. Following these briefings, ESI and EAI personnel responded to questions from APSC and AG staffs and from AEEC.

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**Issuing the Final RFP**

After considering the input from stakeholders, Staff and the IMs, ESI revised all Long Term RFP documents and posted final copies on the RFP Website on April 17, 2006. Some changes to RFP documents were simple (e.g., date changes), while others were more substantive. Substantive changes originating from stakeholder, Staff, and IM inquiries:

- provided greater detail on how RFP evaluators would analyze the potential effects of proposals on Entergy Reliability Must Run (RMR) generating units;
- committed ESI to post notice of a limited term RFP by May 15, 2006, and noted that ESI would consider issuing a draft limited term RFP earlier than September 30, 2006 (the draft limited term RFP was, in fact, issued on August 31, 2006);
- clarified that each bidder submitting a proposal for a project under development was required to demonstrate, at least, that it had initiated the process to secure an Interconnection Agreement with the appropriate transmission provider;
- enabled affected bidders to disclose their participation in the RFP to their thermal hosts;

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- acknowledged the potential for credit support from Entergy Operating Companies in certain circumstances and established a procedure to address this form of credit support, if needed;
  
- modified timing requirements for receiving due diligence information from affected bidders by establishing priority and “best efforts” criteria;
  
- replaced a requirement that corporate governing bodies approve bids at the time of their submission with a requirement that board approval take place prior to executing a letter of intent with ESI; and
  
- clarified that the RFP’s 1,000 MWs of CCGT load following and 1,000 MWs of solid fuel baseload were target amounts and that, depending on the attractiveness of the bids, ESI could acquire either more or less than those amounts.

Comments – ESI administered the stakeholder consultation process responsively and effectively. The RFP Administrator was careful to guard the identity of bidders and to ensure quick responses to their questions. For their part, ESI’s RFP experts responded to

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the RFP Administrator's requests in timely and thorough fashion. The Process IM was well integrated into this process. She saw all questions and comments from bidders shortly after the RFP Administrator received them and had the opportunity to comment on their content and on any redactions proposed by the RFP Administrator to ensure confidentiality before they were sent to designated RFP team members for response. She then reviewed each response from RFP team members and had the opportunity to provide comments before it was posted on the Website. All RFP personnel with whom the Process IM worked understood the IM's role, sought her input, and were responsive to her suggestions.

Overall, the stakeholder consultation process performed a valuable function. Bidders who read the draft RFP documents carefully provided useful questions and comments that helped ESI clarify issues or modify certain RFP terms. The Process IM very much appreciates the efforts of these bidders; they demonstrated the value of the consultation process and helped improve this RFP. Of course, stakeholder consultation is only as useful as bidders' willingness to participate makes it. It was clear that some bidders did not yet recognize that their active participation in stakeholder consultation could help make ESI aware of important issues that it could address before RFP terms and procedures were posted in final form to the Website, but that were difficult, if not impossible, to address later.

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This was the third RFP this IM monitored that offered bidders and other stakeholders the opportunity to comment on draft terms and procedures and, in so doing, participate substantively in the RFP's development. Although an increasing number of participants became more active in this consultation process, there were still those who did not appear to value the opportunity to provide input and seemed surprised later about the effect of certain RFP requirements on them. It was a missed opportunity for them and frustrating both to ESI and to the LPSC's goal of having meaningful bidder and stakeholder consultation in the RFP's development.

**Bidder Registration and Proposal Submission Fees**

Between April 18 and April 21, 2006, bidders registered CCGT proposals by emailing a registration form to a dedicated RFP address. When it was received, the information in the registration form populated an electronic bidder registration database established by ESI. When successfully registered, bidders received randomly generated bidder numbers identifying them (bidder ID), resource numbers identifying the plant or plants they intended to bid into the RFP (resource ID), and separate proposal numbers for each proposed offer (proposal ID). These numeric identifiers replaced bidder names and other identifying information in all RFP documents and communications from the conclusion



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of bidder registration until the CCGT Preliminary Shortlist was selected almost six months later.

ESI's bidder registration procedures, which the Process IM had reviewed thoroughly prior to their implementation, worked smoothly. At the completion of CCGT bidder registration, nine (9) bidders had registered forty-eight (48) proposals that were sourced from twelve (12) CCGT resources.

ESI invoiced registered bidders and collected proposal submission fees from them by April 27, 2006, one week after the end of bidder registration. Fees were based on the number of resources and proposals that bidders registered for the Long Term RFP. ESI set proposal submission fees for this RFP at \$5,000.00 for a bidder's first proposal from any registered resource and \$1,000.00 for each additional proposal from that same resource.

As a safeguard, the RFP Administrator maintained an RFP Hotline to assist all bidders with technical questions related to registering their proposals, paying bid fees, and, later, submitting their bids. The Hotline was available to CCGT bidders from April 18, 2006, the beginning of bidder registration, to May 5, 2006, the date CCGT bids were due.

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Comments – Although ESI had implemented five previous power supply RFPs starting in 2002, the 2006 Long Term RFP was the first for which it had charged a proposal submission fee. RFP and Information Technology personnel, the RFP Administrator, and Entergy accounting personnel all endeavored to make proposal fee payment procedures straightforward and clear to bidders, and tested them carefully prior to their implementation. Their efforts were largely successful. Although some bidders faced minor issues, for the most part they appeared to understand the fee payment procedures, and submitted the proper fees without incident and on time.

**CCGT Proposal Submission**

Bidders submitted CCGT proposals electronically by 5 p.m. CPT on May 5, 2006. The actual number of CCGT bidders, the number and kind of proposals, and the number of resources from which proposals were sourced were:

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<b>Number of Bidders Submitting Proposals</b>	9
<b>Total Number of Proposals Submitted</b>	35
<b>Total Number of Resources from which Proposals were Sourced</b>	12
<b>Proposal and Resource Detail:</b>	
<ul style="list-style-type: none"> <li>➤ Package A – Long-Term Non-Tolling PPA, Load-Following CCGT Proposals</li> </ul>	9
<ul style="list-style-type: none"> <li>➤ Number of resources from which Package A bids were sourced</li> </ul>	3
<ul style="list-style-type: none"> <li>➤ Package B – Long-Term Tolling PPA, Load-Following CCGT</li> </ul>	17
<ul style="list-style-type: none"> <li>➤ Number of resources from which Package B bids were sourced</li> </ul>	9
<ul style="list-style-type: none"> <li>➤ Package C – Ownership Acquisition of Load-Following CCGT</li> </ul>	9
<ul style="list-style-type: none"> <li>➤ Number of resources from which Package C bids were sourced</li> </ul>	7

The information from each proposal submitted by bidders transferred automatically to an Excel-based RFP proposal database. The database created separate reports for economic, fuel, transmission and credit RFP evaluation teams, each of which contained only the proposal information each team needed to perform its respective evaluation. For example, pricing information appeared only on the report that went to economic evaluators, and the specific location of a resource appeared only on the report going to transmission evaluators.

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A separate report containing complete, unredacted, proposal information, including the identity of each bidder, was created for the RFP Administrator, the Process IM, and the Evaluation IM only.

Before she authorized distributing any information to the evaluation teams, the Process IM screened each CCGT proposal for compliance with the RFP's threshold requirements and determined that each proposal met those requirements. Next, the Process IM and the RFP Administrator carefully reviewed four different reports for each of the thirty-five proposals and, as needed, redacted each document to remove any inappropriate identifying information. They then reviewed each proposal again to determine whether "special considerations" provided by bidders needed to be provided to certain RFP evaluators at that time or held for later review.<sup>7</sup> Only after these steps were taken and each report checked again by the Process IM and the RFP Administrator did the Process IM release redacted proposal information to the designated RFP evaluation teams.

Comments – This was the third time ESI used electronic proposal submission procedures for an RFP. Both ESI and bidders have become accustomed to using electronic bidding and the procedures work well. Submitting bids electronically is an efficient way for bidders to provide proposal information, and an effective way for the Process IM and

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<sup>7</sup> Special considerations containing information on pricing, or any other issue relevant to the screening evaluations were provided to designated RFP evaluators. All other information was held for later review.

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RFP Administrator to review, redact, sort, and separate proposal information designated for different RFP evaluation teams while maintaining control over confidential information and keeping the identity of each bidder masked. Bidders submitting proposals entered information for each separate proposal on an electronic form downloaded from the RFP Website and submitted the completed form to a dedicated RFP email address. Each field in the different proposal forms is programmed to populate separate Excel spreadsheet databases containing only information needed by each evaluation team to do its work. Bidders appeared to be comfortable with the different bid forms; there were few questions about how to fill them out and, except for some bidders who identified themselves by name in the “special considerations” section of the forms (information that was redacted by the RFP Administrator and Process IM), there were no substantial problems with the information bidders submitted.

**CCGT Proposal Clarifying Questions**

When they received their respective reports, the RFP’s Economic Evaluation Team (EET), Fuel Evaluation Team (FET), and Transmission Analysis Group (TAG) initiated their CCGT screening evaluations. The Credit Evaluation Team (CET) also received its designated information on the bidders, but held that information for later review in line

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with RFP procedures.<sup>8</sup> Since each offer was identified only by its proposal, resource, and bidder ID numbers,<sup>9</sup> RFP evaluators requested clarifying information from bidders through the RFP Administrator using only those identifiers. The RFP Administrator, who, along with the IMs, had access to all bidder information, handled all communications between bidders and evaluators with the monitoring assistance of the Process IM. The RFP Administrator redacted identifying information in bidders' responses to clarifying questions and shared those responses with the Process IM, who reviewed (suggesting modifications, as needed) and approved them before they went to RFP evaluators.

Comments – The RFP Administrator and the individual RFP evaluation teams managed the bid clarification process smoothly and professionally. In most cases, bidders were able to respond to the requested clarifications in a timely fashion and with apparent ease. Occasionally, bidders did not easily understand how to obtain the requested information and had to ask for a “clarification” of the clarifying question. In almost all of these cases, this resolved the issue. In one situation, however, bidders did not know how to obtain the

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<sup>8</sup> Credit would not become a factor until after the Preliminary Shortlist was selected. No bidder was excluded from participating in the RFP based on credit, and a bidder's credit rating had no impact on the selection of the Preliminary Shortlist.

<sup>9</sup> Limited exceptions, as noted in the RFP, were made for the TAG, which required information on the name and location of each resource to perform transmission analyses and submit System Impact Study requests to Entergy's Transmission Business Unit, and the CET, which required company names to perform credit evaluations. Even with these exceptions, all reports and other documents used by RFP evaluators identified each bid only by proposal, resource, and bidder ID numbers.

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information needed to respond to the request and, due to the confidentiality requirements of the RFP, could not communicate directly with RFP evaluators. In this instance, the IMs were able to talk with each affected bidder to explain how to obtain the needed information, and the bidders were then able to respond satisfactorily to the clarifying question.

**Conforming CCGT Proposals**

Although most proposals required clarification on at least some issues, no CCGT proposal was eliminated due to nonconformance with RFP specifications.

**Selecting CCGT Candidate Proposals**<sup>10</sup>

The FET and the TAG provided their respective analyses of each proposal's fuel and transmission impacts to the EET, which added that information to its economic evaluation and prepared screening results for each CCGT proposal. The EET reviewed and discussed its screening results<sup>11</sup> with RFP management<sup>12</sup> and the IMs, and, as screening results neared completion, with Staff. Following these reviews, EET personnel

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<sup>10</sup> Bids selected as Candidate Proposals were subjected to further analysis, including detailed consideration of transmission costs and production cost modeling.

<sup>11</sup> Screening results were reviewed both before and after adding the impact of transmission costs.

<sup>12</sup> RFP management included ESI's Vice President for Commercial Operations, Director of Planning & Analysis, Manager of Supply Procurement, and ESI counsel. Immediately prior to ESI's meeting with the Energy Operating Committee, ESI's Senior Vice President of System Planning & Operations joined the group's discussions. Other authorized RFP personnel attended meetings and/or provided briefings as required by the topics being discussed.

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and RFP management reviewed CCGT bid summary reports with the Entergy Operating Committee and sought their advice and approval on the proposals to be advanced as Candidate Proposals. The IMs were present in person or telephonically at all meetings with RFP management, the Operating Committee, and Staff. At no time during any of these meetings was the identity of any bidder or any resource divulged; individual proposals were identified only by proposal and resource ID numbers.

On June 1, 2006, following the Operating Committee's decisions on Candidate Proposals, the RFP Administrator sent letters to CCGT bidders whose proposals had been designated Candidate Proposals. Since at least one proposal from each resource bid into the RFP was designated as a Candidate Proposal and since Candidate Proposal deliverability evaluations would be conducted on generating resources, no CCGT bidder was eliminated from consideration at this stage of the proposal evaluation. While the RFP Team unquestionably favored proposals with the greatest economic value, it saw no reason to eliminate proposals at this stage of the RFP because it believed that this approach could enable it to optimize proposals later in the RFP when it had more information about them. Both IMs agreed with this approach.

Further information on Candidate Proposal selections, including bid evaluation methodologies, the monitoring activities of the Evaluation IM, and the content of



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proposal summary reports is contained in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

**OASIS Requests for CCGT System Impact Studies**

Because the TAG intended to request that the Entergy Transmission Business Unit (TBU) study the submitted resources on a batched basis, and because bidders were ineligible to qualify as Network Resources under Entergy's OATT, the RFP strongly encouraged bidders not to submit their own System Impact Study (SIS) requests to TBU. Instead the RFP assumed that responsibility itself, through the TAG. On June 2, 2006, the TAG submitted SIS requests for CCGT Candidate Proposals to the TBU through the TBU's OASIS website. The submissions included requests that the TBU review preferences for delisting/displacement of Entergy-owned generation designated by the TAG. Bidders did not incur any SIS expense; instead, ESI billed individual Entergy Operating Companies for the cost of SISs for resources located in their respective service areas.

Because deliverability analyses depend on the location of generation resources, the TAG submitted SIS requests using the name of each Candidate Proposal resource. Following RFP confidentiality protocols, however, the TAG reported SIS activity by proposal ID number to the rest of the RFP evaluation team.

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Due to past experience with SIS requests submitted to the TBU, the RFP team built in a period of just over 90 days from the date SIS requests were submitted to the date it hoped to receive completed SISs. If the TBU was unable to return completed SISs by mid-September, 2006, however, the RFP team was prepared to proceed with evaluations using transmission cost estimates developed by the TAG during its initial screening evaluation of each proposal.

**Accelerating Long Term CCGT RFP Activities**

To respond to the desire of the LPSC to expedite the RFP and in view of its own growing interest in doing so, ESI posted a notice to its RFP Website on August 14, 2006 that described amendments to the RFP, and sent letters to all CCGT Candidate Proposal bidders notifying them that ESI would begin a more detailed evaluation of each Candidate Proposal before selecting the CCGT Preliminary Shortlist. This did not change any evaluation methodology, but, rather, accelerated the timing of production cost modeling so that its results could be combined with SIS and/or other transmission evaluation results to select the CCGT Preliminary Shortlist.

CCGT Proposal ProSym Modeling – ESI began production cost simulations to assess the net system effect of each CCGT proposal when it was added to the Entergy System. The Evaluation IM monitored all CCGT production cost modeling. Further information on

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production cost modeling outcomes, and on the activities of the Evaluation IM can be found in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

Comments – Accelerating the RFP was helpful to the overall process since it provided a more complete picture of each CCGT proposal's impact on the Entergy System, information that influenced the selection of the Preliminary Shortlist. At the same time, because CCGT bidders were not required to provide additional information to ESI at that time, ESI did not put an extra burden on bidders and was able to conduct these analyses relatively quickly.

**System Impact Study Results from TBU**

The TAG received SIS results for CCGT proposals on September 9, 2006, which enabled the RFP team to use TBU estimates in its analysis of transmission costs for the CCGT Preliminary Shortlist.

Some of the SIS results contained a footnote that created uncertainty regarding delisting Entergy-owned resources and whether the RFP could secure long term resources past 2009 without also securing additional network resources, or without incurring substantial transmission upgrade costs. To address this uncertainty, both IMs met with TBU

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representatives telephonically to discuss the implications of the footnote and determine whether there were options that would provide ESI with greater clarity on delisting. Following the meeting, TBU issued a more detailed footnote, which clarified its policy and enabled ESI to pursue RFP proposals with greater certainty that they would remain in place beyond 2009 under clearly identified criteria. A detailed discussion of this issue and its resolution can be found in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

**Selecting The CCGT Preliminary Shortlist**

The RFP's EET consolidated proposal screening evaluation results, SIS results, and CCGT production cost simulations into an updated report of all CCGT Candidate Proposals. Detailed information on the consolidated results of these proposal evaluations can be found in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

The EET reviewed the consolidated report with RFP management. Following their input, the EET and RFP management reviewed and discussed their recommendations for the Preliminary Shortlist with Staff. On October 4, 2006, RFP evaluators and RFP management reviewed the consolidated report and recommendations with the Entergy Operating Committee, and sought its input and approval on the proposals to be advanced

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to the Preliminary Shortlist. The Operating Committee approved ESI's CCGT shortlist recommendations. Both IMs participated in each of these meetings and discussions telephonically.

Further information on CCGT Preliminary Shortlist selections, including bid evaluation methodologies, the monitoring activities of the Evaluation IM, and the content of consolidated summary reports is contained in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

**CCGT Preliminary Shortlist Notification**

On October 6, 2006, ESI notified all CCGT bidders whether their proposals had advanced to the Preliminary Shortlist, or had been eliminated from further consideration. With these notifications, the identity of RFP bidders and resources selected for the Preliminary Shortlist was revealed to RFP evaluation team and RFP management personnel for the first time.<sup>13</sup>

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<sup>13</sup> Although RFP participants learned the identity of shortlisted bidders, ESI made no internal or external announcement identifying the shortlist and continued in most instances to handle proposals on a confidential basis. The EET continued using proposal IDs in its analyses, and shortlisted resources received identifying nicknames by which they were known as shall be described later.

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Bidders whose CCGT proposals were rejected received a letter from the RFP

Administrator that their proposals would no longer be considered in this RFP. The identity of these bidders was not provided to RFP personnel.

Bidders whose CCGT proposals had been selected for the Preliminary Shortlist received a letter from ESI's Vice President of Commercial Operations. In it, they were: 1) asked to provide the preliminary due diligence information described in Appendix I-1 of the RFP by October 20, 2006; 2) notified that they would begin face-to-face discussions with ESI at the end of October on their facilities and on the results of the preliminary due diligence; and 3) told they would have the opportunity to provide a best and final offer at a yet-to-be determined date. In total, the Entergy Operating Committee selected six resources from six CCGT bidders for the Preliminary Shortlist.<sup>14</sup> Of these, five of the six CCGT bidders notified ESI that they wished to have their resources and proposals remain under consideration. One CCGT bidder selected for the Preliminary Shortlist elected to withdraw its resource and proposals from further consideration in this RFP. Following this withdrawal, seventeen proposals (five acquisitions and twelve PPAs) from five

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<sup>14</sup> Some of the shortlisted CCGT bidders had proposed different proposals associated with the same resource – for example, PPA options that had different terms, pricing, available MWs, etc., or both PPA and asset acquisition options. Because it wanted to maintain maximum deal flexibility for both itself and for bidders, ESI chose to shortlist all proposals associated with each selected generation resource. Both IMs endorsed this approach.

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bidders and five CCGT resources remained under consideration and would be subject to ESI's preliminary due diligence review.

**Preliminary Due Diligence and Initial Face-to-Face Meetings**

To perform due diligence, ESI assembled teams of Subject Matter Expert (SME) employees to work on each resource selected for the Preliminary Shortlist. ESI selected SMEs to ensure that each due diligence topic would be thoroughly addressed, but at the same time to guard against assigning an individual to review a resource if that person might possess material non-public information about that or a competing resource under consideration – potentially, for example, a proposal from an Entergy competitive affiliate. The Process IM reviewed the individuals ESI recommended to work on each resource prior to their assignment as SMEs to ensure that they would neither in fact nor appearance be able to use and/or be a conduit for material non-public information while carrying out their due diligence responsibilities. SMEs who had not previously been involved in the RFP were trained on and signed the required RFP acknowledgement of guidelines and confidentiality restrictions.

Preliminary due diligence focused on key operational and resource issues that required further review and was intended also to identify whether there were any “fatal flaws” that could affect ESI's decision to pursue the resource further. Specific preliminary due

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diligence inquiries addressed: 1) fuel; 2) environmental; 3) plant and equipment; 4) operations and maintenance; 5) transmission; 6) commercial; and 7) credit issues.<sup>15</sup> In addition to the experts covering these issues, each preliminary due diligence team was headed by a project lead and advised by ESI commercial counsel.

Although the identity of bidders and resources had been revealed to RFP participants when the Preliminary Shortlist was selected, ESI adopted project nicknames for each resource undergoing due diligence. It has been ESI's practice to adopt nicknames for shortlisted long term RFP resources because they provide a useful short hand reference to due diligence teams, and because they enable SMEs and others working on the RFP to discuss issues without inadvertently revealing the identity of bidders or resources to individuals who are not participating in the RFP.

To prepare for preliminary due diligence, the SMEs received all proposal information that was pertinent to the resources they were reviewing including: 1) a summary of each shortlisted resource and its associated proposals; 2) information provided by each bidder in each original proposal; and 3) all bidder responses to follow-up questions issued by the RFP team, which had clarified and/or updated certain proposal information. Prior to their

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<sup>15</sup> Comprehensive due diligence, involving more detailed work on these issues and the majority of legal and financial, and additional commercial issues, came later and was reserved for resources that were selected for negotiations.



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release to the SMEs, all documents were reviewed and redacted with the Process IM's oversight and approval to remove inappropriate information, including, especially, pricing and any other commercially sensitive information that was not relevant to due diligence review of the resources.

CCGT Bidders – ESI required shortlisted CCGT bidders to provide detailed responses by October 20, 2006 to the written preliminary due diligence inquiries described in Appendix I-1 of the 2006 Long-Term RFP. This included information on: 1) plant and equipment; 2) facility operations, and maintenance history and specifications; 3) capital work requests, and planned major maintenance expenditures; 4) operation and maintenance contracts, including Long Term Service Agreements; 5) environmental considerations including permits, performance, compliance history, and site assessments; 6) transmission interconnection, facilities, agreements, and service; 7) owner and plant financial information; 8) fuel pipelines, fuel contracts, and fuel costs; 9) insurance coverage and history; and 10) any existing power supply obligations.

After SME teams reviewed the initial due diligence information provided by bidders, ESI set up face-to-face meetings with each CCGT bidder to discuss its resource and proposals, pose clarifying questions based on due diligence information, and establish a timeline and task list for additional due diligence. The meetings were held on October 31

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and November 1, 2006 at ESI's offices in The Woodlands, Texas and were each scheduled to last approximately two hours. Representing ESI in each meeting, were ESI's Vice President of Commercial Operations, the SMEs and the project lead assigned to the resource under discussion, and ESI commercial counsel. The Process IM attended each of these meetings in person.

During the meetings, bidders had the opportunity to present information about their facilities and proposals. They also responded to additional due diligence questions posed by ESI, which probed a wide range of issues including fuel, transmission, operations, environmental controls, corporate structure, and existing commercial relationships.

ESI briefed each CCGT bidder on regulatory certification requirements and whether there would, or could, be multiple regulatory jurisdictional filings. ESI also described a timeline for next steps, which would include requests for bidders' responses to additional due diligence questions, on site resource visits, bidders' "best and final" proposal submissions, and ESI's projected timing for RFP decisions.

Entergy Competitive Affiliate – Because one of the shortlisted CCGT resources was owned by an Entergy competitive affiliate, all parties from both the affiliate and the regulated utilities' RFP were briefed, in writing before the start of due diligence and

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orally at the beginning of the face-to-face meeting, on their required compliance with mandatory Federal Energy Regulatory Commission (FERC) Code of Conduct rules. Both written and oral briefings addressed Code of Conduct prohibitions against information sharing, and requirements that the utility and its competitive affiliates operate separately. The briefings were conducted by ESI counsel, serving as Entergy's Affiliate Rules Compliance Monitor.

Participants were informed that any communication between ESI and its competitive affiliate, whether written or oral, would be monitored by the Process IM and the Affiliate Rules Compliance Monitor to ensure that any transaction that might originate from this shortlisted resource would be reached only through a verifiable, non-preferential, arms length process.

The Process IM received the written briefing regarding these protocols at the same time as both competitive affiliate and RFP employees, and was present during the oral briefing that preceded the face-to-face due diligence meeting. Immediately after the initial face-to-face meeting, the Process IM met with the competitive affiliate representatives to ensure that they understood the procedures they needed to follow and to invite them to communicate directly with the Process IM or the Affiliate Rules Compliance Monitor if they had any open questions.

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As required, all written due diligence activities between the competitive affiliate and ESI were monitored by both the Process IM and the Affiliate Rules Compliance Monitor. In addition, ESI scheduled standing times for telephone conference calls between all RFP and competitive affiliate participants, which, if needed, would be the sole forum through which any follow-up direct discussions would take place. The conference calls were also scheduled to include the Process IM and the Affiliate Rules Compliance Monitor.

Neither the SMEs nor the due diligence project lead assigned to this resource had access to or received material non-public information about it, or, more generally, about Entergy's competitive affiliate business.

Other than these additional procedural requirements, the approach and issues covered with this competitive affiliate bidder during due diligence inquiries were identical to those put in place for and discussed with non-affiliated bidders.

Comments – All parties contributed to a well managed due diligence process. ESI planned and carried out its inquiries and face-to-face meetings thoroughly and carefully. Before meeting with any bidder, SMEs reviewed all available resource and proposal information, and all the responses bidders' had provided to the RFP's extensive due

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diligence questions. From these, SMEs identified issues that needed clarifying and those that had not yet been addressed, and prepared questions to discuss with each bidder during its initial face-to-face meeting.

CCGT bidders, who had each responded to most of the over 140 detailed due diligence questions within ESI's two week time requirement, also responded to follow-up and new questions during the face-to-face meetings. Overall, these first meetings established a substantive, and professional tone for future due diligence discussions between ESI and each potential counter-party.

**Due Diligence Follow-up and Site Visits**

After the first due diligence meetings, ESI issued additional questions to each bidder seeking more detail on pertinent issues including the status of all required permits, the terms of existing service agreements, and information on plant operating ranges, fuel arrangements, and off-take commitments. As needed, ESI and bidders pursued additional or expanded topics related to each resource. The Process IM monitored written questions and answers between ESI and non-affiliated bidders, and was copied on all communications between ESI and its competitive affiliate. Although scheduled conference call times had been established to accommodate any oral communication

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between ESI and its competitive affiliate, beyond the first face-to-face meeting, which the Process IM attended, there was no oral communication between ESI and its affiliate.

Between mid-November and early December, 2006, SMEs visited each market resource site to conduct in-depth assessments of each resource which included: 1) confirming and/or expanding on previous due diligence responses; and 2) interviewing operating and other key employees at each facility. Together with all other discussions and written documentation, information from these site visits formed the basis of each team's due diligence recommendations.

The Process IM did not participate in any site visit,<sup>16</sup> but did receive information on each from regular discussions with ESI, from SME site reports, and from both interim and final RFP due diligence reports.

**Preliminary Due Diligence Summaries**

Following each site visit, SMEs submitted written findings to their respective due diligence team leader. SME reports addressed topics ranging from fuel, transmission, and operations, to environmental permits, controls, and restrictions or concerns. When all due diligence reports were completed, team leaders compared qualitative issues

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<sup>16</sup> ESI did not visit the plant owned by its competitive affiliate.

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among different resources and proposals. As needed, due diligence teams continued their inquiries with bidders and incorporated additional findings into an emerging picture of each resource. To document and highlight areas of relative strength and weakness, ESI developed a CCGT preliminary due diligence scorecard. The scorecard considered key qualitative attributes of the five shortlisted resources and resulted in scores for each that were taken into consideration when making final resource selection decisions.

The categories considered by the due diligence scorecards generally mirrored issues from the CCGT due diligence list published in the RFP's Appendix I-1. They included operations, fuel, commercial, transmission, counterparty and environmental issues. The scorecard provided a means for due diligence teams to summarize and document their findings consistently and compare them across resources. The background and reasoning for each score was documented – for example, how well a particular offer conformed to the RFP's objectives, or whether a resource had any operating restrictions. All scorecard results and the reasoning behind them were discussed in detail with both IMs and with Staff.

At the conclusion of its preliminary due diligence review, ESI set up feedback discussions with each bidder sponsoring a CCGT resource.

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**Due Diligence Feedback Discussions**

On December 8, 2006, ESI held teleconference discussions with representatives from each of the five shortlisted CCGT bidders. Representing ESI were the Vice President of Commercial Operations, and the Manager of Supply Procurement. The Process IM participated in each of these discussions. ESI briefly outlined the culminating steps of the RFP, including: 1) the opportunity each bidder would have to provide a “best and final” offer; 2) the expected steps and timeline for ESI’s final review of proposals; and 3) the process of regulatory certification that would follow the selection of any CCGT resource. ESI then provided specific feedback on its due diligence review of each bidder’s resource.

Final Process Considerations – Best and final offers for all bidders were due by December 19, 2006, after which date ESI would conduct a final evaluation of all competing resources. ESI expected the Entergy Operating Committee to consider final RFP recommendations by late January, 2007 and planned to notify bidders of final decisions by early February, 2007.

Incremental and Displacement Capacity – ESI reaffirmed that this RFP would fill incremental capacity needs of the Entergy Operating Companies, but reminded bidders that it would also conduct a separate analysis, expected to take place during the second



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quarter of 2007, to consider whether any remaining proposals would be candidates to displace existing Entergy-owned generation.

Regulatory Certification – Any purchased power or asset acquisition selection would be subject to the approval of the appropriate state jurisdictional regulatory bodies and, in the case of an asset acquisition proposal or an affiliate transaction, the Federal Energy Regulatory Commission (FERC).

Proposal Feedback – ESI used the majority of each meeting to provide detailed and specific feedback to bidders on their resources and proposals. It noted its positive findings, but focused in particular on any areas where it had concerns, with the specific expectation that bidders would use their best and final offers to address those concerns. ESI and the bidders then had substantive discussions about any noted areas of concern, including requests from bidders for clarification or for greater detail, and questions and answers concerning the potential value to ESI of possible cures.

Recognizing that bidders might need to discuss these and other issues in greater depth before submitting their best and final offers on December 19, 2006, ESI requested that they contact directly the Manager of Supply Procurement with any questions.

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Following these meetings, ESI sent a letter to each shortlisted bidder reaffirming the procedures and timelines for: 1) best and final offers; 2) final RFP recommendations to the Entergy Operating Committee; 3) notifying bidders about long term incremental capacity awards; and 4) the possible consideration of some bidders in a later displacement analysis.

**Best and Final Offers**

All bidders submitted their best and final offers to ESI on December 19, 2006. Each bidder also provided a copy of its best and final offer to the Process IM. Each offer was evaluated by EET individually and as part of different product portfolios. Detailed information on the results of the best and final analyses of CCGT resources and on the activities of the Evaluation IM can be found in the Evaluation IM's monitoring report for the 2006 Long-Term RFP related to CCGT resources.

**Final Proposal Review and Entergy Operating Committee Decisions**

ESI reviewed the results of its best and final CCGT analyses with the IMs and with Staff during three separate meetings in January, 2007. As part of these discussions, ESI responded to questions raised by the IMs and Staff, and discussed the CCGT selections it would recommend to the Entergy Operating Committee. Following these discussions,

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both IMs agreed with the recommendations ESI proposed to make to the Operating Committee.

On January 26, 2007, ESI reviewed its final analyses with the Entergy Operating Committee and recommended CCGT selections. The Operating Committee made the following decisions on CCGT resources:

Accepted CCGTs – Two CCGT resources were accepted by the Operating Committee as best meeting the incremental load following needs of the Entergy Operating Companies. The bidders who owned these resources would be asked to negotiate detailed commercial terms for both power purchase and asset purchase agreements with ESI. Together, these resources represented over 1,300 MW of capacity.

One resource was the Ouachita Power Facility, a nominal 789 MW CCGT facility owned by Ouachita Power, LLC, an indirect subsidiary of Cogentrix Energy, Inc., and located in Sterlington, Louisiana. ESI would negotiate both power purchase and asset purchase agreements for the Ouachita Facility.

The second resource, known by its ESI nickname as [REDACTED] would also be subject to power purchase and asset purchase negotiations with ESI.

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Potential Candidate for Displacement Analysis – One CCGT resource was rejected to fill the incremental capacity needs of the Entergy Operating Companies, but was offered the opportunity to hold its bid open to be considered as part of the displacement analysis expected to be conducted during the second quarter of 2007.

Rejected CCGTs – Two CCGTs were rejected by the Entergy Operating Committee due to comparatively less favorable economic and operating characteristics.

**Notifying Bidders**

On January 31, 2007, ESI notified each shortlisted bidder of the Operating Committee's decisions. ESI also posted a general description of accepted CCGTs to the RFP Website at the close of business on the same day.

**Bidder Acceptances and Withdrawal**

Both accepted CCGT bidders notified ESI that they would enter into negotiations. The bidder whose resource was a candidate to be considered during the displacement evaluation also agreed to hold its bid open for later consideration.<sup>17</sup>

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<sup>17</sup> Before ESI conducted the displacement evaluation, this bidder chose to withdraw its resource from consideration.

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On February 21, 2007, approximately three weeks after indicating that it would enter into negotiations related to this RFP, the bidder nicknamed [REDACTED] notified ESI during a meeting that it would not continue negotiations based on the terms in its December 19, 2006 best and final offer. This notification effectively removed [REDACTED] from consideration in this RFP.

**Commercial Negotiations**

Because no award was made to an Entergy competitive affiliate, the Process IM did not participate directly in the CCGT negotiations, but instead was kept informed of progress and of any significant issues through regularly scheduled CCGT negotiation briefings with ESI that took place starting with the beginning of negotiations in March, 2007 and concluding in early August, 2007 following the announcement of EAI's agreement to purchase the Ouachita Power Facility.

Negotiations between ESI and Cogentrix included both an asset purchase agreement and a bridging power purchase agreement that would be in effect until the asset transaction closed after approval by jurisdictional regulatory bodies. In a separate long-term transaction, EAI indicated that it expected to sell approximately one-third of the output of the Ouachita Facility to Entergy Gulf States, Inc.

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During the Ouachita negotiations Cogentrix's owner, Goldman Sachs, announced plans to auction a significant portion of its power generation assets. Although this auction included the Ouachita Facility, disclosures regarding Cogentrix's negotiations with ESI, including its intention to sell the facility, were made to parties participating in the auction such that the sale of the Ouachita Facility to EAI was not affected by the auction.

**Conclusion**

During the lengthy and detailed process associated with selecting CCGT resources through the 2006 Long-Term RFP, all ESI personnel working on the RFP cooperated fully with the Process IM. They provided her detailed information on their plans and actions, responded in a timely fashion to her requests, sought her input on open or unclear issues, involved her in their thinking and decisions during each step of proposal evaluation and due diligence, and kept her apprised on developing issues.

Overall, it is the Process IM's view that the 2006 Long-Term RFP provided interested CCGT bidders with a fair and unbiased opportunity to compete to supply Entergy Operating Companies' native load customers. This view is based on the following observations, each of which have been described in detail in this report:

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- That the RFP provided suppliers with access to adequate information about the resource needs of the Entergy System, its current and projected load, existing and projected generation resources, relevant operating conditions and supply plans;
- That the products sought in the RFP were aligned with the needs of the Entergy System and its individual Operating Companies;
- That all potential suppliers and other interested parties had adequate and meaningful opportunities to provide input to and comment on the RFP before it was published in final form, and that their questions and comments produced changes in some parts of the RFP and improved it;
- That ESI administered the RFP fairly – that bid requirements were clear, that bid procedures ensured maximum confidentiality, that commercially sensitive information was protected, and that the identity of bidders was masked; and
- That the RFP's evaluation methods were transparent to potential suppliers and that ESI's analysis, evaluation, due diligence review, and final decisions were not biased in favor of any party, including, especially, Entergy competitive affiliates.

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In view of these observations, it is the Process IM's conclusion that the Ouachita Power Facility was selected in this RFP after a robust, objective, and arms length competitive process.

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