

REPORT ON ENTERGY RSC ACTIVITIES

Presented to the RSC
January 24, 2011

Why All the Activity in the Entergy Region?

- Entergy Regulators began talking informally two years ago
- Focus was on unhappiness with development of needed transmission in the Entergy region
 - In June 2009, a historic meeting of all regulators of Entergy gathered to discuss transmission issues in the Entergy region
- The Entergy region has historically been impacted by various FERC and Court decisions interpreting the Entergy system agreement
 - Arkansas will leave the current system agreement in 2013
 - Mississippi will leave two years later
- Both issues lead to the formation of the E-RSC in late 2009

Entergy RSC Activities

- E-RSC began meeting in August 2009, and was formed when Bylaws were adopted in December 2009.
- Members include Mississippi PSC, PUC of Texas, Arkansas PSC, Louisiana PSC, City of New Orleans
- The stated purpose of the E-RSC is to provide state regulatory input on:
 - ✓ the operation and upgrades to the Entergy Transmission System (ETS) including without limitation, issues relating to the operations and functions of the Entergy ICT and ICT committees, working groups and task forces.
 - ✓ differences between the ICT Base Plan and the Entergy Construction Plan, the need for executed seams agreements between Entergy and the surrounding transmission systems and RTOs, appropriate mechanisms to increase the amount of transmission built, cost allocation methodologies; and any regional Cost Benefit Analysis relating to the ETS, whether future changes to the ICT arrangement are necessary and whether Entergy should join an RTO.

Entergy RSC Activities (Cont.)

- The E-RSC has engaged a consultant for assistance and also has a staff working group
- The E-RSC is recognized by the FERC as part of Entergy's OATT
 - In 2009 and 2010, the E-RSC met with the FERC to discuss Entergy transmission related issues
- The E-RSC during 2010 met nearly monthly as did its working group
 - There has been a strong level of participation by stakeholders since the inception of the E-RSC
- During 2010, the E-RSC focused its attention on:
 - Organization (incorporation, obtaining tax-exempt status, etc.)
 - Possible Enhancements to the ICT
 - Agreement with Entergy & FERC approval of E-RSC § 205 authority over cost allocation and adding projects to Entergy's construction plan

Entergy RSC Activities (cont.)

- Specific Issues Considered in 2010 include:
 - Various cost/benefit studies regarding Entergy joining SPP or MISO
 - Initiated a “Minimization of Bulk Power Supply Costs” study
 - Worked with the ICT to develop various metrics similar to those used by SPP
 - Worked together with Entergy to agree on both a Memorandum of Understanding as well as appropriate § 205 filing rights for the E-RSC, which were approved by FERC
 - The appropriate planning horizon
 - Numerous enhancements to the ICT
 - Evaluation of the independence of the ICT
 - Improvements to the WPP

Entergy RSC Activities (Cont.)

- FERC approved tariff amendments on December 16, 2010, giving the E-RSC directive authority over cost allocation and inclusion of additional projects in the construction plan
- Initiated restructuring of stakeholder committees of the ICT
- Involved in the extension of the ICT for two years
- Issues to address during 2011:
 - Should Entergy be a member of an RTO/ISO?
 - If so, MISO or SPP?
 - If not, what enhancements to the existing ICT arrangement would be appropriate?
- Agree on planning horizon
- Develop portfolio of economic projects and appropriate cost allocation mechanism for transmission construction
- Many other possible activities depending on the answer to the questions above

Arkansas PSC Activities

- Current Entergy system agreement participation terminates December 18, 2013.
- On February 11, 2010, the APSC initiated show cause proceeding to evaluate options of Entergy post December 2013.
- APSC has established procedural schedule with technical conference on results of all cost benefit studies performed by CRA for FERC and Entergy
 - Technical Conference March 22, 2011, in Little Rock, which will address the results of all the cost/benefit studies completed by CRA
- Entergy's evaluation of all strategic options and its recommendation will be filed with the APSC May 12, 2011.
- Hearing on all issues is scheduled for September 7, 2010, in Little Rock.
- APSC decision by end of 2011, currently scheduled for October.

Other Activities in the Entergy Region

- FERC audit results
- DOJ interest
- Initiation of proceedings in most retail jurisdictions related to post-ESA options for the Entergy system and each individual Entergy OpCo.

Next Steps

- The SPP Task Force for Interest of Entergy in Membership (TFIEM) has formed to work on issues of interest to SPP stakeholders related to potential Entergy membership in SPP
- The SPP Staff has requested the SPC to direct the TFIEM to develop a proposal for negotiations with Entergy, EAI, and/or CLECO for joining SPP
 - Such proposal will be presented to the SPC in March 2011, for recommendation to the MOPC, RSC and Board during the April 2011 meeting cycle

Next Steps (continued)

- Such a proposal would include:
 - Regional Cost Allocation
 - Governance, including the RSC (how to treat New Orleans)
- Next TFIEM meeting is January 18, 2011.

QUESTIONS?

Proposed SPP Regional Review Process

Process Goals

Establishing a clear, well defined process for reviewing the costs of needed transmission upgrades through a transparent and predictable process is important to regulators, consumers and Transmission Owners (TO) alike. Through collaboration between the SPP, the RSC and TOs, a workable construct can be secured and implemented to ensure projects are developed at cost, while minimizing the likelihood of surprises in the cost estimates of projects before and after Notifications to Construct (NTC) have been issued. The process should recognize that:

- Accurate and consistent information on project costs, project scope and in-service dates promotes greater transparency and understanding.
- States have the responsibility to make determinations on siting¹ and balancing potentially competing interests within the state with the cost of the project.
- SPP provides expertise in the determination of needed transmission facilities.
- TOs provide expertise on cost estimation and the ability to site, construct, own and maintain transmission assets within the region.
- SPP as the regional transmission organization is well positioned² to make determinations in support of:
 - What is “good utility practice”³ within the SPP region.
 - Evaluating the feasibility of project alternatives.
 - Securing consistency and transparency in the reporting of cost estimates for Transmission projects.
 - Making factual determinations as to the appropriateness of including certain costs in the SPP regional rate.

Process Transparency

The process adopted by SPP should apply to projects that provide benefits to the SPP region, the costs of which are supported regionally. The new process would establish SPP as an independent entity responsible for reviewing the costs which are sought by a TO to be included in the regional rate for new projects.⁴ The process as outlined preserves the comity that exists between the SPP states and between the states and FERC regarding transmission regulation. Under this process, SPP would conduct an independent cost review, with stakeholders input to determine:

- Are costs reasonable, in accordance with Good Utility Practice, and justified for regional cost support?

¹ In states that have siting authority requirements.

² Through the development of a “Best Practices Guideline” and consultation with regional TOs (SPP TOs can provide an excellent resource in evaluating specific projects and can make recommendations to the SPP as to whether a given design is consistent with good utility practice) and potentially consultants.

³ Ibid.

⁴ **Note:** The regional process referenced is not intended to serve as a prudency review which is a proceeding that is subject to FERC’s jurisdiction.

- Is the proposed design consistent with Performance Criteria Guidelines,⁵ engineering design and construction practices in the area?
- Is the proposed project a reasonably feasible and practical transmission solution? *With consideration given to: relative costs, operation, timing of implementation, feasibility (including siting), efficiency and reliability of the proposed transmission upgrade.*
- Projects (or elements of projects) not providing a regional benefit are deemed “non-regionalized costs” and are not eligible for regional cost support.

Background on SPP Planning Process and Cost Allocation

Today, the SPP Transmission Expansion Plan (STEP) and Integrated Transmission Planning (ITP) process identify needed transmission upgrades. Projects at 300 kV and above are subject to regional rate recovery, as such, understanding the cost of projects is important for stakeholders within the region. Once a determination of need has been made, projects are issued a NTC. Through the adoption of a Planning and Project Review Process, SPP can build upon the solid platform that is currently in place, while providing greater transparency on a going forward basis.

Overview of Proposal: Planning and Project Review Process

Understanding the scope, challenges and costs of a given transmission project is important when the project costs are supported regionally. Facilitation of this goal can be secured by SPP establishing a more formal process whereby SPP first defines a “preliminary scope”⁶ for a project, TO who are familiar with the site specific challenges associated with construction of a project can then provide guidance and information on local matters such as:

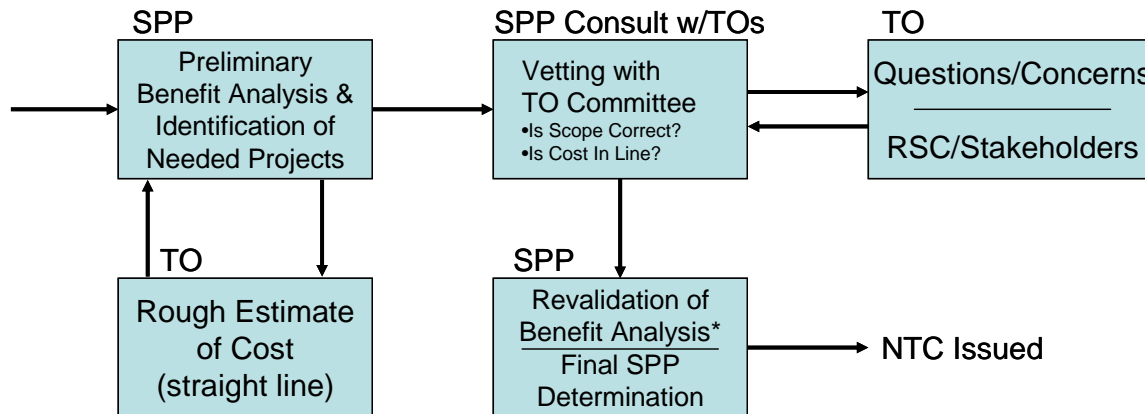
- Environmental issues (habitat, Tribal lands)
- Geographic challenges (terrain)
- Estimated project costs inclusive of conceptual estimates of proposed project and likely alternatives (if appropriate)

With input from this consultation, SPP can make the determination as to whether the “preliminary scope” of the project is accurate or in need of modification in light of the information provided by the TO. Subsequent to this review SPP would determine the “recommended” scope and size of the project and would issue an NTC pursuant to the SPP Tariff.

⁵ As adopted by SPP.

⁶ An example of a preliminary scope: *Identifying the need for a XXX mile 345 kV (double circuit line) from point A to point B, with an in-service date of 2015.*

Overview of Proposed Process Prior to Issuance of NTC:



*As Needed

Upon receipt of the NTC, the TO would provide information (pursuant to SPP’s new cost estimation guidelines) on project costs. The TO would submit an application to SPP specifying the cost of the given project⁷ to secure recovery of the project costs through the regional rate. The SPP would determine, with input from appropriate SPP committees/working groups and the RSC, the amount of “Regionalized” Costs vs. “Non-regionalized” Costs. In reviewing the application, SPP may:

- Request additional information
- Engage a consultant to assist in application review, if needed
- Secure input from TO within the region
- Conduct open stakeholder meeting(s) to present project costs for costly or complex projects only

SPP would then complete the review and make final determination in writing on whether there are any non-regionalized costs. The TO sponsoring the project would provide that information in its update for SPP to file with FERC (as appropriate) or in the TO’s filing with FERC for the cost of the regionally supported project in regional rates. TOs that are not FERC jurisdictional would also be under the same SPP process for the determination for the cost of the regionally supported project in regional rates.

Best Practices Guidelines

To assist the SPP in its review of projects, regional TOs in concert with the SPP shall develop a Best Practices Guideline (BPG) which will be updated on a periodic basis to reflect regional best practices in the area of transmission design and engineering. To the extent that a TO constructs a project that is within the BPG, the design is presumptively in accordance with good utility practice within the region. If the design is outside of the BPG, the TO would submit an application detailing deviations from the BPG outlining why the deviation is appropriate. SPP would then determine the reasonableness of the proposal.⁸

⁷ Based on currently available information.

⁸ In consult with other TO’s within the region.

Non-regionalized Costs

Costs of upgrades not providing regional benefits are non-regionalized. They are not eligible for regional cost support. In making the determination of regional vs. non-regionalized cost, SPP would consider:

- Good Utility Practice
- Adherence to established SPP Performance Criteria Guidelines⁹
- Engineering design and construction practices (in the area)
- Alternate “reasonably feasible and practical” transmission upgrades
- Relative costs, operation, timing of implementation, efficiency and reliability of the proposed transmission upgrades

Submittal / Review of Revised Application

SPP would adopt a requirement for the TO to notify SPP in the event that costs exceed or are anticipated to exceed an established bandwidth (+/-25%)¹⁰ of the amount determined by SPP to be included in regional rates from the NTC estimate or if there is a material change in design/scope of the Project. The process should establish procedures and common templates to be used for the TO, to provide updates in a consistent manner/format to SPP of changes from the NTC estimate outside of the +/-25% bandwidth.

To encourage timely reporting of changes in project costs, SPP could adopt a mechanism which prohibits “additional” costs incurred by a TO, to be included in the TO’s regional rate until a modified application has been sought by the TO. For example: In the event that the TO fails to notify SPP and it is discovered during the course of an audit of the costs of projects to be included in regional rates, then the additional costs associated with such development could be excluded from the TO’s regional rate until a revised application for that project is submitted to SPP. The obligation would be on the TO, to detail the nature of the changes to SPP and on SPP to determine the appropriateness of additional costs.

Application-Next Steps

Advancement of this process should be moved through the SPP stakeholder process. Its full application should be applied to projects that have not yet received a NTC.

⁹ References adoption by SPP of performance criteria for EHV lines within the SPP footprint.

¹⁰ Bandwidth applies to individual projects.