

ARK. PUBLIC SERVICE COM. NOV 16 11 44 AM '07

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF ENTERGY)
ARKANSAS, INC.'S REQUEST FOR)
APPROVAL OF THE ACQUISITION OF) DOCKET NO. 06-152-U
NEW CAPACITY TO SERVE ITS RETAIL)
CUSTOMERS)

Phase II (A) Surrebuttal Testimony of
J. Richard Hornby
Synapse Energy Economics, Inc.

On behalf of the
General Staff of the
Arkansas Public Service Commission

November 16, 2007

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1 Q. Please state your name, position and business address.

2 A. My name is J. Richard Hornby. I am a Senior Consultant at Synapse Energy
3 Economics, Inc, 22 Pearl Street, Cambridge, MA 02139.

4 Q. On whose behalf are you testifying in this case?

5 A. I am testifying on behalf of the General Staff of the Arkansas Public Service
6 Commission (Staff).

7 Q. Are you the same J. Richard Hornby who filed Direct Testimony in Phase II
8 (A) of this proceeding?

9 A. Yes.

10 Q. What is the purpose of your Surrebuttal Testimony in this sub-phase of the
11 proceeding?

12 A. My Surrebuttal Testimony responds to the Rebuttal Testimony filed by Mr. Hugh
13 McDonald of Entergy Arkansas Inc. (EAI or the Company).

14 Q. Please begin by summarizing the major conclusions and recommendations
15 from your Direct Testimony in this sub-phase of the proceeding.

16 A. The major conclusions from my Direct Testimony are that the Company's
17 proposal to increase the quantity of load-following capacity under its long-term
18 control by acquiring a Combined Cycle Gas Turbine (CCGT) resource is
19 consistent with good resource planning principles, that the terms of the proposed
20 Interim Tolling Agreement (ITA) with Quachita Power LLC (Quachita) are

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1 reasonable, and that the Company's proposal to designate one-third of the
2 capacity it acquires from the Ouachita facility under the ITA as non-retail is not
3 reasonable. Based upon those conclusions I recommended that the Commission
4 issue an order approving the proposed ITA and rejecting the Company's proposal
5 to designate one-third of the capacity it acquires from the Ouachita facility under
6 the ITA as non-retail.

7 **Q. Did Mr. McDonald disagree with your conclusion that the Company's**
8 **proposal to increase the quantity of load-following capacity under its long-**
9 **term control by acquiring a CCGT resource is consistent with good resource**
10 **planning principles?**

11 **A. No.**

12 **Q. Did Mr. McDonald disagree with your conclusion that that the terms of the**
13 **proposed ITA between Ouachita and EAI, through Entergy Services, Inc.**
14 **(ESI) as its agent, are reasonable?**

15 **A. No.**

16 **Q. Did Mr. McDonald provide any evidence indicating that EAI could not use**
17 **one hundred percent of the Ouachita capacity to meet the requirements of**
18 **retail customers cost-effectively?**

19 **A. No.**

20 **Q. Did Mr. McDonald disagree with your conclusion that the Company's**
21 **proposal to designate one-third of the capacity it acquires from Ouachita**

1 under the ITA as non-retail is not reasonable and your recommendation that
2 the Commission should reject that allocation?

3 A. Yes. Mr. McDonald provided two reasons for disagreeing with that conclusion
4 and recommendation. First, he states that the allocation of only two-thirds to
5 retail is based upon the system-wide planning principles adopted by the Entergy
6 Operating Committee. He notes that the APSC supported those principles in
7 FERC Docket No. ER03-583-000 (consolidated). Second, Mr. McDonald states
8 that the proposed allocation of two-thirds to retail and one-third to wholesale for
9 resale to EGSI is "...the deal that is available to EAI" and that EAI cannot change
10 it.

11 Q. Please comment on Mr. McDonald's position that the proposed allocation is
12 based upon system-wide planning principles adopted by the Entergy
13 Operating Committee.

14 A. I have two comments regarding the relevance of those system-wide planning
15 principles to my conclusion that one-hundred percent of the output of the
16 Ouachita facility should be allocated to retail.

17 First, Mr. McDonald is correct that EAI's primary proposal, i.e., to
18 allocate two-thirds to retail and one-third to Entergy Gulf States, Inc. (EGSI), is
19 based upon system-wide planning principles adopted by the Entergy Operating
20 Committee. However, what is equally true but what Mr. McDonald did not state,
21 is that EAI's secondary proposal, i.e., to allocate one hundred percent of Ouachita
22 to retail in the event the Louisiana Commission does not approve EGSI's

1 acquisition of one-third, is also based upon those same system-wide planning
2 principles.

3 Second, Entergy's system-wide planning principles appear to provide
4 greater support for an allocation of one hundred percent of the Ouachita capacity
5 to retail than they do for an allocation of two-thirds. This conclusion is based
6 upon a review of the three system-wide planning principles that guided the
7 proposed allocation as presented in Mr. McDonald's Direct Testimony.

- 8 • The first principle is that the generating capacity of each Operating
9 Company should exceed its peak load plus a planning reserve margin.
10 EAI has the largest shortfall of generating capacity relative to
11 requirements of all the Operating Companies, and a much larger
12 shortfall than EGSI.
- 13 • The second principle is that each Operating Company should have
14 enough load-following capacity to meet its share of system load-
15 following requirements. EAI does not own any modern gas-fired,
16 load-following generation. In contrast EGSI is purchasing 75 percent
17 of the output of the Perryville Plant.
- 18 • The third principle is that the Operating Companies should achieve
19 "...rough total production cost equalization over time." EAI has the
20 lowest relative production cost of any Operating Company. In
21 contrast, EGSI has the highest.

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1 **Q. Please address Mr. McDonald's reference to the APSC's support of the**
2 **Entergy system-wide planning principles in FERC Docket No. ER03-583-**
3 **000.**

4 **A. Mr. McDonald does not identify which APSC filing in that proceeding he**
5 **considers "support" by the APSC; regardless, his reference does not appear to be**
6 **relevant to this proceeding. First, as explained above, Entergy's system-wide**
7 **planning principles support the allocation of one hundred percent of the Ouachita**
8 **capacity and associated energy to retail. Therefore, a decision by the APSC in**
9 **this proceeding to require that allocation would not be inconsistent with its**
10 **support of those principles in that FERC Docket. Second, the last APSC filing in**
11 **FERC Docket No. ER03-583-000 of which I am aware was a joint brief dated**
12 **November 10, 2005. Subsequently, on December 19, 2005 EAI gave notice that**
13 **it would exit the Entergy System Agreement effective December 18, 2013. After**
14 **that notice, it is my understanding that the APSC began reviewing EAI's**
15 **proposals regarding long-term acquisitions of generation with a view to its ability**
16 **to operate on a stand-alone basis after 2013.**

17 **Q. Has Mr. McDonald provided any evidence to indicate that EAI will not have**
18 **one hundred percent of the output from Ouachita available to serve its retail**
19 **load if the APSC does not approve its proposal to allocate one-third to**
20 **wholesale for resale to EGS?**

21 **A. No. Mr. McDonald has not provided evidence to demonstrate that EAI will not**
22 **have one hundred percent of the output from Ouachita available to serve its retail**

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1 load if the APSC does not approve its proposal to allocate one-third to wholesale
2 for resale to EGSI. On the contrary, the ITA is a contract between Ouachita and
3 ESI, as agent for EAI. My reading of that contract, from a policy perspective,
4 indicates that:

- 5 • ESI, as agent for EAI, is entitled to the entire capacity and associated
6 energy available from the Ouachita facility; and
- 7 • There is no explicit provision that renders the contract void if EAI does
8 not resell one-third of the output to EGSI or any other third-party. In fact,
9 the contract has no explicit reference to EGSI at all.¹

10 **Q. Will EAI's proposed resale of one-third of the output from Ouachita be a**
11 **separate transaction from EAI's purchase of the entire output from Ouachita**
12 **under the ITA?**

13 **A. Yes. These are two separate transactions. EAI would buy one-hundred percent of**
14 **the capacity and associated energy from Ouachita under the ITA. EGSI is not a**
15 **party to that transaction. EAI would sell one-third of that capacity and associated**
16 **energy to EGSI under Service Schedule MSS-4 Unit Power Purchase of the**
17 **Entergy System Agreement. Ouachita is not a party to that transaction.**

¹ EAI's own testimony shows that the contract with Ouachita will be valid even without the sale of part of the capacity to EGSI. EAI's alternative proposal is for Arkansas to take one hundred percent of the output if the Louisiana Commission does not approve EGSI's acquisition of one-third. This would be the same result as Staff's proposal to retain one hundred percent of the output for Arkansas.

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1 **Q. Has Mr. McDonald provided any evidence to indicate that ESI, as agent for**
2 **EAI, will be unable to execute the proposed ITA with Quachita if the**
3 **Commission rejects the proposed allocation of one-third of the output to**
4 **EGSI?**

5 **A. No.**

6 **Q. Has Mr. McDonald provided any evidence to indicate that EAI will be**
7 **unable to execute the proposed Asset Transfer Agreement with Quachita if**
8 **the Commission rejects the proposed allocation of one-third of the output to**
9 **EGSI?**

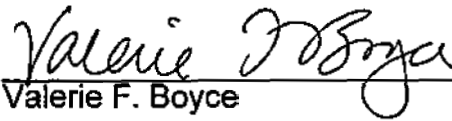
10 **A. No.**

11 **Q. Does this complete your Surrebuttal Testimony in this sub-phase of the**
12 **Docket?**

13 **A. Yes.**

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by first class mail, postage prepaid, this 16th day of November, 2007.


Valerie F. Boyce