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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

Phase II (B) Direct Testimony of

J. Richard Hornby

Synapse Energy Economics, Inc.

On behalf of the

General Staff of the

Arkansas Public Service Commission

February 5, 2008

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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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 (B) Direct Exhibits of

J. Richard Hornby

Synapse Energy Economics, Inc.

On behalf of the

General Staff of the

Arkansas Public Service Commission

February 5, 2008

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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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	)	

STAFF EXHIBIT JRH-1

PROPOSED UNIT POWER PURCHASE AGREEMENT BETWEEN EAI AND

EGSI

ENTERGY ARKANSAS, INC.
ARKANSAS PUBLIC SERVICE COMMISSION
Docket No. 06-152-U EAI Capacity Acquisition

Response of: Entergy Arkansas, Inc.
to the Eleventh Set of Data Requests
of Requesting Party: APSC

Filed: 1/28/08

Question No.: APSC 11-2 Part No.: Addendum: 1

Question:

Re Direct Testimony of Mr. McDonald, page 8 lines 3 to 5. Regarding the mechanism under which EAI proposes to sell power from the plant to EGSI after EAI terminates its participation in the System Agreement. Does EAI have a contractual commitment from EGSI to continue purchasing power under a new mechanism similar to MSS-4 after EAI exits the System Agreement. If yes, please provide a copy of that commitment. If no, on what does Mr. McDonald base his statement?

Response:

Mr. McDonald's statement is based upon the presumption that if EGSI accepts EAI's offer to sell power to EGSI on a long-term basis pursuant to the terms of the attached MSS-4 Agreement, then EAI and EGSI will reach agreement on the terms of a follow-on agreement utilizing the pricing formula of the then current Service Schedule MSS-4, as set forth the attached MSS-4 Agreement, that would facilitate the continuation of the power purchase after EAI terminates its participation in the System Agreement. See the attached MSS-4 Agreement.

Addendum 1:

Attached is an executed copy of the MSS-4 Agreement.

AGREEMENT

This Agreement is dated as of ______________________ between Entergy Arkansas, Inc. ("EAI" or "Seller") and Entergy Gulf States Louisiana, L.L.C. ("EGS-LA" or "Buyer," and together with Seller, the "Parties").

WHEREAS, Quachita Power, LLC ("Quachita Power") owns a 789 megawatt (nominal rating) power generation facility configured with three gas-fired, combined cycle units (Unit 1,[1] Unit 2,[2] and Unit 3,[3] collectively, the "Designated Units") located in Sterlington, Louisiana (the "Ouachita Facility"); and

WHEREAS, EAI and Quachita Power have entered into that certain Asset Purchase Agreement, dated July 31, 2007 (the "APA"), wherein Quachita Power agreed to sell the Ouachita Plant and related assets to EAI on the terms set forth therein; and

WHEREAS, Entergy Services, Inc., as agent for EAI, and Quachita Power have entered into that certain Capacity Sale and Tolling Agreement (the "ITA"), wherein Quachita Power agreed to provide to EAI capacity and associated energy from the Ouachita Facility for the period and on the terms specified therein; and

WHEREAS, if the requisite regulatory approvals of the ITA are not obtained by March 31, 2008, then either EAI or Quachita Power may terminate the ITA and the APA; and

---

[1] Unit 1 consists of a GE MS 7241 FA Gas Turbine (Serial No. 297686), a GE A-10 Steam Turbine (Serial No 270T504), and an Aalborg Heat Recovery Steam Generator (Serial Nos. HP-102090; IP-102091; LP-102092; RH-102093).

[2] Unit 2 consists of a GE MS 7241 FA Gas Turbine (Serial No. 297687), a GE A-10 Steam Turbine (Serial No. 270T505), and an Aalborg Heat Recovery Steam Generator (Serial Nos. HP-102094; IP-102095; LP-102096; RH-102097).

[3] Unit 3 consists of a GE MS 7241 FA Gas Turbine (Serial No. 297688), a GE A-10 Steam Turbine (Serial No. 270T506), and an Aalborg Heat Recovery Steam Generator (Serial Nos. HP-102098; IP-102099; LP-102100; RH-102101).

WHEREAS, EAI desires to sell to EGS-LA and EGS-LA desires to purchase from EAI a portion of the capacity and associated energy purchased by EAI under the ITA on the terms set forth herein ("Designated ITA Power Purchase"); and

WHEREAS, upon and after the closing, if any, of the transactions under the APA (the "Ouachita Closing"), EAI desires to sell to EGS-LA and EGS-LA desires to purchase from EAI a portion of capacity and energy of the Designated Units on the terms set forth herein (a "Unit Power Purchase"); and

WHEREAS, EAI's offer to EGS-LA with respect to the Unit Power Purchase will expire if EGS-LA has not obtained regulatory approvals as set forth in Paragraph 2(F) below by December 31, 2008; and

WHEREAS, the Agreement among EAI, Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc. and Entergy Services, Inc. (hereinafter referred to as the "System Agreement") was filed with the FERC on April 30, 1982, and became effective on January 1, 1983, and amended to incorporate Entergy Gulf States, Inc. in 1993; and

WHEREAS, by Order dated July 20, 2007, the FERC approved the addition of EGS-LA and Entergy Texas, Inc. as parties to the System Agreement; and

WHEREAS, EAI has provided notice to terminate its participation in the System Agreement effective December 18, 2013; and

WHEREAS, the System Agreement contains a Service Schedule MSS-4 (as modified from time to time, "Service Schedule MSS-4") that provides the basis for making a unit power purchase and sale between Companies that are participants in the System Agreement; and

WHEREAS, the Parties wish to execute this Agreement to provide for both the Designated ITA Power Purchase and, thereafter, a Unit Power Purchase pursuant to the terms and conditions of Service Schedule MSS-4; and

WHEREAS the Entergy Operating Committee has considered and approved the terms of this Agreement.

THEREFORE, the Parties agree as follows:

1. Designated ITA Power Purchase. Subject to the other terms of this Agreement and the System Agreement, EAI and EGS-LA hereby agree to the sale by EAI and purchase by EGS-LA of capacity and energy from the Ouachita Facility as the Designated ITA Power Purchase on the terms set forth in subparagraphs A through F below.

   A. Term. The Designated ITA Power Purchase hereunder shall become effective on the later of (i) the commencement of the "Delivery Term" (as defined in the ITA) or (ii) the first day of the first month following the day on which the ITA Conditions Precedent (as hereinafter defined) are satisfied, and shall continue thereafter for the remainder of the term of the ITA.

   B. Designated ITA Power Purchase. EAI agrees to sell and EGS-LA agrees to purchase a one-third (1/3) share of all capacity and associated energy provided by the Designated Units.

   C. ITA Pricing. The pricing of power sold and purchased as part of the Designated ITA Power Purchase shall be as specified in Service Schedule MSS-4 of the System Agreement.

   D. ITA Energy Entitlement. EGS-LA is entitled to receive on an hourly basis one-third (1/3) of the energy delivered to EAI pursuant to the ITA.

   E. ITA Termination. Neither Party shall have the right to terminate the Designated ITA Power Purchase without the express written consent of the other Party.

F. ITA Conditions Precedent. The effectiveness of the Designated ITA Power Purchase hereunder shall be conditioned upon (i) Seller receiving all regulatory approvals associated with the Designated ITA Power Purchase on terms satisfactory to Seller, that Seller, in its sole judgment, deems necessary, and (ii) Buyer receiving, by no later than March 31, 2008, all regulatory approvals associated with the Designated ITA Power Purchase on terms satisfactory to Buyer, that Buyer, in its sole judgment, deems necessary (collectively, the "ITA Conditions Precedent"). This Agreement will terminate on April 1, 2008 without further action of the Parties if the ITA Conditions Precedent set forth in paragraph 1(F)(ii) are not satisfied by March 31, 2008.

2. Unit Power Purchase. Subject to the other terms of this Agreement and the System Agreement, EAI and EGS-LA hereby agree to the sale by EAI and purchase by EGS-LA of capacity and energy from the Ouachita Facility as the Unit Power Purchase on the terms set forth in subparagraphs A through F below.

A. Designated Units. The designated generating units for purposes of the Unit Power Purchase under Service Schedule MSS-4 of the System Agreement shall be the Designated Units.

B. Unit Power Purchase. EAI agrees to sell and EGS-LA agrees to purchase a one-third (1/3) share (the "Allocated Percentage") of all capacity and associated energy provided by the Designated Units.

C. Pricing. The pricing of the capacity and energy to be sold and purchased as Unit Purchase Power pursuant to paragraph 2(B) above shall be as specified in Service Schedule MSS-4 of the System Agreement.

D. Energy Entitlement. During the term of the Unit Power Purchase, EGS-LA is entitled to receive on an hourly basis the Allocated Percentage of the energy generated by each of the Designated Units.

E. Term and Termination.

(i) Commencement of Long-term Unit Power Purchase. The Unit Power Purchase shall become effective upon the satisfaction of the Unit Power Purchase Conditions Precedent set forth in paragraphs 2(F)(i), (ii), (iii), and (iv) and, subject in all respects to paragraph 2(E)(iii), shall continue in effect thereafter until the retirement date of the Designated Units. Except as otherwise provided herein, neither Party shall have the right to terminate the Unit Power Purchase without the express written consent of the other Party.

(ii) Commencement of "Bridge" Unit Power Purchase. If the Unit Power Purchase Conditions Precedent set forth in paragraphs 2(F)(i), (ii), (iii) and (v) have been satisfied, but the Unit Power Purchase Condition Precedent set forth in paragraph 2(F)(iv) has not been satisfied, the Unit Power Purchase shall become effective, on a rolling, month-to-month basis, upon the satisfaction of all of the Unit Power Purchase Conditions Precedent set forth in paragraphs 2(F)(i), (ii), (iii), and (v) and, subject in all respects to paragraph 2(E)(iii), shall continue in effect until the earlier of (a) December 31, 2008 or (b) the date upon which the Unit Power Condition Precedent specified in paragraph 2(F)(iv) is satisfied. If the Unit Power Purchase has commenced pursuant to this paragraph 2(E)(ii) and EGS-LA has determined at any time prior to December 31, 2008 that the Unit Power Condition Precedent specified in both paragraph 2(F)(iv) has not been or will not be satisfied, then the Unit Power Purchase will terminate at the end of the month in which such determination is made and communicated to Seller.

(iii) Options 1 and 2. During the term of the Unit Power Purchase, EGS-LA shall have the right (a) upon EAI's termination of its participation in the System Agreement on December 18, 2013 ("EAI Termination Date"), or such earlier termination of the System Agreement as may occur, to purchase, on a unit contingent basis, all of the capacity and energy of Unit 3 at rates determined pursuant to the formula rate of Service Schedule MSS-4 in effect at the time of such termination, provided that providing for the continued pricing pursuant to the then-effective MSS-4 formula rate does not in any way affect EAI's termination of its participation in the System Agreement effective December 18, 2013 or such earlier date as permitted by the FERC, and subject to the execution of an agreement containing commercially reasonable non-rate terms and conditions consistent with the Edison Electric Institute (EEI) Master Contract, which contains the essential terms governing forward purchases and sales of wholesale electricity ("Option 1"); or (b) at any time during the term of the Unit Power Purchase, to acquire ownership of Unit 3 of the Ouachita Power Facility and associated facilities on an "as-is/where-is" basis at a price equal to the then current net book value, defined as gross plant less accumulated depreciation less accumulated deferred income taxes as recorded on EAI's books, of Unit 3 and associated facilities, and subject to the execution of all necessary agreements to implement Option 2 ("Option 2"). Both Parties agree to negotiate in good faith and with reasonable dispatch to reach mutual agreement on the terms of all agreements necessary to implement Option 1 or Option 2, as the case may be. In order for EGS-LA to exercise its rights pursuant to Option 1 or Option 2, EGS-LA shall specify in a notice provided to EAI no later than six months before the EAI Termination Date whether EGS-LA has elected Option 1 or Option 2. The consummation of the transactions contemplated by either Option 1 or Option 2 shall occur no later than the first anniversary of the date upon which EGS-LA notified EAI of the Option it had elected . The consummation of either of the transactions contemplated by Option 1 or Option 2 shall be subject to the prior receipt by the Parties of all regulatory approvals, if any, necessary for such transactions.

F. <u>Unit Power Purchase Conditions Precedent</u>. The Unit Power Purchase shall be conditioned upon (i) the satisfaction of the ITA Condition Precedent set forth in paragraph 1(E)(ii); (ii) the occurrence of the Ouachita Closing; (iii) Seller receiving all regulatory approvals associated with the Unit Power Purchase on terms satisfactory to Seller, that Seller, in its sole judgment, deems necessary; (iv) with respect to the Unit Power Purchase for the life of the Units, Buyer receiving all regulatory approvals associated with such Unit Power Purchase on terms satisfactory to Buyer, that Buyer, in its sole judgment, deems necessary; and (v) only with respect to any Unit Power Purchase on a month-to-month basis pursuant to paragraph 2(E)(ii) above, Buyer receiving all regulatory approvals associated with such Unit Power Purchase on terms satisfactory to Buyer, that Buyer, in its sole judgment, deems necessary.

3. Notices. Unless specifically stated otherwise herein, any notice to be given hereunder by a Party shall be sent by registered mail, postage prepaid, to the Party to be notified at the address set forth below, and shall be deemed given when so mailed.

To EAI: Entergy Arkansas, Inc.
425 West Capitol Avenue
Little Rock, AR 72201
ATTN: Chief Executive Officer

To EGS-LA: Entergy Gulf States Louisiana, L.L.C.
446 North Boulevard
Baton Rouge, Louisiana 70802
ATTN: Chief Executive Officer

4. Nonwaiver. The failure of either Party to insist upon or enforce, in any instance, strict performance by the other of any of the terms of this Agreement or to exercise any rights herein conferred shall not be considered as a waiver or relinquishment to any extent of its rights to assert or rely upon any such terms or rights on any future occasion.

5. Amendments. No waiver, alteration, amendment or modification of any of the provisions of this Agreement shall be binding unless in writing and signed by a duly authorized representative of both Parties.

6. Entire Agreement. This Agreement, which is entered into in accordance with the authority of Service Schedule MSS-4 of the System Agreement, constitutes the entire agreement, and supersedes all previous and collateral agreements or understandings, with respect to the subject matter hereof.

7. Severability. It is agreed that if any clause or provision of this Agreement is held by the courts or other legal authority with jurisdiction to be illegal or void, the validity of the

remaining portions and provisions of the Agreement shall not be affected, and the rights and obligations of the Parties shall be enforced as if the Agreement did not contain such illegal or void clauses or provisions.

WITNESS OUR SIGNATURES as of the date first listed above.

WITNESS:	______________________	ENTERGY ARKANSAS, INC. BY: ______________________ TITLE: President & CEO
WITNESS:	______________________	ENTERGY GULF STATES LOUISIANA, L.L.C. BY: ______________________ TITLE: President & CEO

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

STAFF EXHIBIT JRH-2

EAI RESPONSE TO DATA REQUEST REGARDING IMPLICATION OF

COMMISSION DECISION TO REJECT UNIT POWER PURCHASE

AGREEMENT BETWEEN EAI AND EGSI

ENTERGY ARKANSAS, INC.
ARKANSAS PUBLIC SERVICE COMMISSION
Docket No. 06-152-U EAI Capacity Acquisition

Response of: Entergy Arkansas, Inc.
to the Fifth Set of Data Requests
of Requesting Party: Attorney General   Filed: 1/24/08

Question No.: AG 5-32   Part No.:   Addendum:

Data Requests 5-32 regards issues raised by the Phase II(A) Sur-Surrebuttal Testimony of Hugh T. McDonald filed on November 21, 2007 in this Docket:

Question:

Please state whether EAI would terminate the Purchase and Sale Agreement (PSA) if the Arkansas Public Service Commission (APSC) does not approve the sale of one-third of the Ouachita plant to EGSI, as seemingly implied at page 9, lines 8-13. If EAI would terminate the PSA solely due to APSC adoption of such a condition, please explain why EAI would do so given EAI's other statements suggesting that this third of Ouachita's capacity is beneficial for EAI ratepayers (see, for example, the Phase II Direct Testimony of Hugh T. McDonald, page 13, lines 16-18).

Response:

The allocation of ownership of the Ouachita Plant between EAI and EGSL was approved by the Entergy Operating Committee pursuant to its authority under the Entergy System Agreement, which is a tariff subject to the jurisdiction of the FERC. The capacity acquisition that EAI has available to it involves EAI's owning the Ouachita Plant but selling one-third of the output on a long-term basis with the option that EGSL's power purchase could be converted to a one-third ownership interest by EGSL at a future time. APSC approval of a transaction on different terms than these would cause the transaction to fail because it would require EAI to perform under different conditions than are actually available. This is analogous to an approval for a purchase price of $100 million rather than the contractual price of $210 million. EAI would not be able to perform under the revised terms and therefore the transaction would fail.

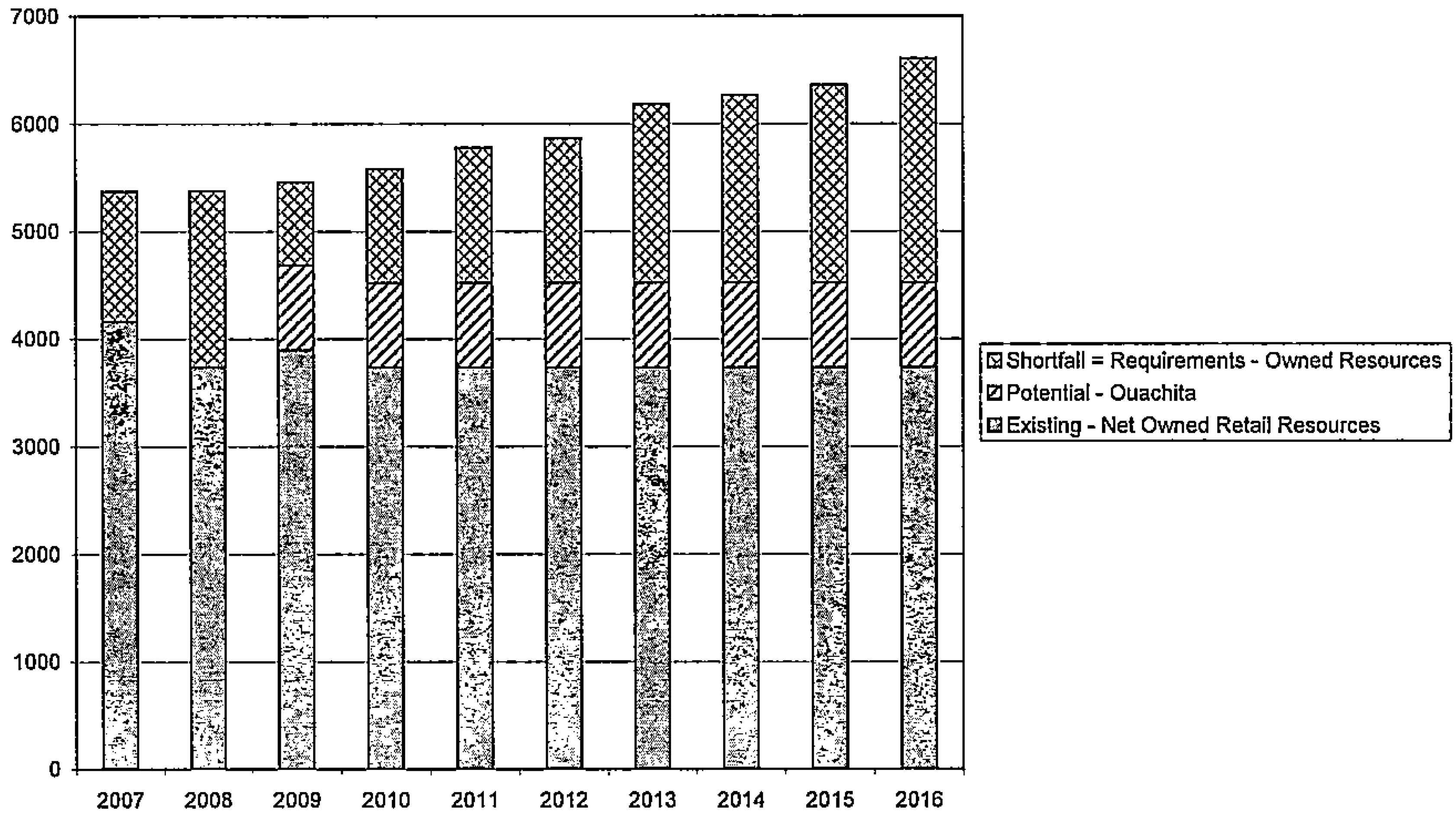
BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

STAFF EXHIBIT JRH-3

ILLUSTRATION OF EAI'S SHORTFALL IN LONG-TERM CAPACITY UNDER CONTROL TO SERVE ITS RETAIL CUSTOMERS IF WERE TO RETAIN ALL OF THE OUACHITA CAPACITY TO SERVE RETAIL LOAD

Entergy Arkansas
Retail Capacity Requirements vs Owned Resources
Planning Margin - 10% pre 2013, 15.25% margin post 2013



EAI Retail - Summary of Requirements versus Owned Resources with Designation of all Ouchaita capacity as retail (MW)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
DEMAND & OWNED RESOURCES										
Total Reliability Need										
Firm Retail Peak MW (1)	4,885	4,890	4,962	5,076	5,256	5,334	5,365	5,437	5,523	5,734
Planning Reserve Margin	489	489	496	508	526	533	818	829	842	874
Peak + Planning Reserve Margin	5,374	5,379	5,458	5,584	5,781	5,867	6,183	6,266	6,365	6,609
Resources under long-term control (1)										
Existing - Net Owned Retail Resources	4167	3735	3897	3735	3735	3735	3735	3735	3735	3735
Potential - Ouachita			789	789	789	789	789	789	789	789
Sub-total	4167	3735	4686	4524	4524	4524	4524	4524	4524	4524
Shortfall = Requirements - Owned Resources	1,207	1,644	772	1,059	1,257	1,343	1,659	1,742	1,841	2,085

Planning Reserve Margin

Prior to 2013 (1)	10%
Post 2013 (2)	15.25%

Source
(1) EAI Reponse to APSC 11-13, Addendum 1
(2) Direct Testimony of Robert Cooper, Phase I, page 9

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 5th day of February, 2008.

Valerie F. Boyce

Valerie F. Boyce

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

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

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

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

Q. Are you the same J. Richard Hornby who filed Testimony in Phases I and II (A) of this proceeding?

A. Yes.

Q. What is the purpose of your Direct Testimony in Phase II (B)?

A. My Direct Testimony in this phase will address issues concerning the reasonableness of EAI's proposed acquisition of the 789 MW Ouachita Power Facility (Ouachita) and its potential sale of one-third of the Ouachita output to Entergy Gulf States Inc. (EGSI) on a life of unit basis. It addresses issues designated for Phase II (B) that were raised in the Direct Testimony filed September 4, 2007 by Entergy Arkansas, Inc.'s (EAI or Company) witnesses Hugh T. McDonald, William M. Mohl and Curtis W. Castleberry and in the Supplemental Testimony filed on November 21, 2007 by EAI witnesses Castleberry and Mohl. I also address Phase II (B) issues raised by EAI witness McDonald in his Phase II (A) Rebuttal Testimony filed November 7, 2007 and his Phase II (A) Surrebuttal Testimony filed November 21, 2007.

Q. Have you prepared any exhibits to support your Phase II (B) Direct Testimony?

A. Yes. Exhibit JRH-1 provides the proposed Unit Power Purchase Agreement between EAI and EGSI. Exhibit JRH-2 presents EAI's response to a data request regarding the implications of decision by the Commission to reject its potential life of unit sale to EGSI. Exhibit JRH – 3 illustrates EAI's shortfall in long-term capacity under control to serve its retail customers if were to retain all of the Ouachita capacity to serve retail load.

Q. Please summarize the major conclusions from your review of the Company's proposal.

A. The first major conclusion from my review of the Company's proposal is that EAI's proposed acquisition of Ouachita is reasonable. My second conclusion is that EAI's potential sale of one-third of Ouachita output to EGSI on a life of unit basis, an apparent condition imposed by the Entergy Operating Committee to EAI's acquisition of Ouachita, will result in higher costs to EAI retail customers than either no sale of that capacity, or a sale that was limited to the remaining period of EAI participation in the System Agreement.

Q. Please summarize your recommendations based upon those conclusions.

A. I recommend that the Commission issue an order approving EAI's proposed acquisition of Ouachita. Second, I recommend that the Commission explore all options for limiting the quantity and duration of any sale of Ouachita output by EAI to EGSI.

Acquisition of Ouachita and Potential Sale of a Portion to EGSI

Q. Please begin by summarizing the long-term transactions for which EAI is seeking approval in this sub-phase of the proceeding.

A. According to its application, EAI is requesting that the Commission find

1. That acquisition of the Ouachita Plant on the terms and conditions described in the Purchase and Sale Agreement (PSA), also referred to as the Asset Transfer Agreement, is consistent with the public interest and therefore prudent. (The PSA is presented in Exhibit WMM-2 to the Direct Testimony of Mr. Mohl.);
2. That the potential life of unit sale of one-third of the capacity from that plant to EGSI under Service Schedule MSS-4 of the Entergy System Agreement is consistent with the public interest and therefore prudent. (The proposed Unit Power Purchase Agreement, which also gives EGSI the option to convert such share to ownership, is presented in Exhibit JRH-1); and
3. That retention by EAI of that one-third as retail will also be prudent, in the event the Louisiana Public Service Commission rejects EGSI's request to purchase one-third of the capacity from Ouachita.

Q. Is EAI requesting any flexibility from the Commission under this proposal?

A. Yes. EAI is requesting the flexibility to designate either 526 MW (two-thirds) of Ouachita capacity as retail or 789 MW (one hundred percent) as retail, depending upon whether the LPSC accepts or rejects its proposed life of unit sale of 263 MW (one-third) to EGSI.

Q. **Has EAI offered the Commission any discretion with respect to the major components of this proposal?**

A. No. EAI maintains that its proposed acquisition of the Ouachita Plant is linked to its proposed life of unit sale of one-third of the capacity from that plant to EGSI, as indicated by the data response in Exhibit JRH-2. According to that response, if the Commission were to reject the life of unit sale to EGSI then EAI would not execute the PSA to acquire Ouachita, implying that the entire transaction would fail.

Proposed Acquisition of Ouachita

Q. **Has EAI provided evidence demonstrating that acquisition of Ouachita is reasonable?**

A. Yes. EAI has provided evidence regarding the cost-effectiveness of using Ouachita capacity to serve its retail customers. My review of that evidence is presented in my Phase II (A) Direct Testimony.

Q. **What is your conclusion regarding EAI's proposed acquisition of Ouachita?**

A. EAI's proposed acquisition of Ouachita is reasonable.

Q. **What do you recommend based upon this conclusion?**

A. I recommend that the Commission approve the proposed acquisition.

Proposed Sale of one-third of Ouachita capacity to EGSI

Q. Has EAI indicated that, from the perspective of EAI retail customers, designating all of the Ouachita capacity as retail would result in lower costs than designating two-thirds as retail and selling the one-third non-retail portion on a life of unit basis.

A. Yes. Mr. McDonald indicates that designating one hundred percent of the Ouachita capacity and associated energy as retail would represent the lowest cost option to meet EAI's additional load-following generation requirement. (Phase II McDonald Direct Testimony, p.13, lines 10 to 16).

Q. Would EAI continue to have a shortfall of capacity under its long-term control to serve retail customers if it retained all of the Ouachita capacity?

A. Yes. For example, if EAI acquired Ouachita in 2009 and retained all of its capacity to serve retail load, it would still have a shortfall of capacity under its long-term control for service to those customers. An illustration of that shortfall is presented in Exhibit JRH-3.

The quantity of capacity that EAI must have available to ensure firm service is equal to the projected peak requirements of its retail customers each year plus a planning reserve margin. In preparing this illustration, I used a planning reserve margin of 10 percent prior to 2013 and 15.25 percent after 2013. The change in planning margins reflects an assumption that, upon exiting the System Agreement in 2013, EAI would begin operating as an independent company operating within the Southwest Power Pool (SPP). The 15.25 percent planning was discussed by EAI witness Robert Cooper on page 9 of his Direct Testimony in Phase I of this proceeding.

Q. **Given those facts, what is EAI's rationale for conditioning its acquisition of Ouachita on Commission approval of the sale of one-third of Ouachita to EGSI on a life of unit basis?**

A. EAI's rationale for this condition appears to be that it had little or no choice in the matter. EAI has indicated that the opportunity to acquire Ouachita is the result of EAI's participation in the System Agreement, and that the Entergy Operating Committee made this a condition of EAI's acquisition of Ouachita, Exhibit JRH-2. Mr. McDonald describes the Operating Committee decision in his Direct Testimony in Phase II(A). He states in his Surrebuttal testimony in Phase II(A) that EAI is bound, as a participant in the System Agreement, to sell one-third to EGSI. As noted earlier, in the data response in Exhibit JRH-2, EAI states that it would not execute the PSA to acquire Ouachita if the Commission were to reject the life of unit sale to EGSI, implying that the entire transaction would fail.

Q. **Please summarize the decision of the Operating Committee.**

A. The Entergy Operating Committee administers the Entergy System Agreement. Their decision to approve EAI's acquisition of Ouachita subject to EAI's resale of one-third of that plant to EGSI on a life of unit basis was guided by Entergy's system-wide planning principles. The first principle is that the generating capacity of each Operating Company should exceed their peak load plus a planning reserve margin. The second principle is that each Operating Company should have enough load-following capacity to meet its share of system load-following requirements. The third principle is that the Operating Companies should achieve "…rough total production cost equalization over time."

It is important to note that, based upon those same three planning principles, the Entergy Operating Committee decided that EAI's retention of all of the Ouachita capacity to serve its retail load is also consistent with those same three Entergy's system-wide planning principles. That decision is implicit in EAI's proposal to designate one hundred percent (789 MW of nominal capacity) as retail in the event the LPSC does not approve EGSI's purchase of this capacity from EAI.

Q. **Will the life of Ouachita extend beyond EAI's participation in the System Agreement?**

A. Yes. EAI is scheduled to exit the System Agreement in December 2013. The economic life of Ouachita will extend many years beyond 2013.

Q. **Should the Commission explore limiting the duration of any sale of Ouachita output by EAI to EGSI in light of EAI's stated intent to exit the System Agreement?**

A. Yes. Limiting the duration of any sale of Ouachita output by EAI to EGSI would be consistent with EAI's current plan for the sale of available wholesale baseload (WBL) capacity to the other Operating Companies. As its existing contracts with wholesale customers expire, making WBL capacity available, EAI's plan is to sell that capacity to other Operating Companies only until December 18, 2013, when its participation in the current Entergy System Agreement terminates. Mr. Castleberry outlined this position on page 8 of his Rebuttal Testimony in Docket No. 06-101-U.

Q. What is your conclusion regarding EAI's proposed sale of one-third of Ouachita to EGSI on a life of unit basis?

A. My conclusion is that the potential sale of one-third of Ouachita output to EGSI on a life of unit basis is a condition of the acquisition imposed upon by EAI by the Entergy Operating Committee which will result in higher costs to EAI retail customers than either no sale, or a sale limited to the remainder of EAI's participation in the System Agreement.

Q. Please summarize your recommendation based upon that conclusion.

A. I recommend that the Commission explore all options for limiting the quantity and duration of any sale of Ouachita output by EAI to EGSI.

Q. Does this complete your Direct Testimony in this phase of the Docket?

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 5th day of February, 2008.

Valerie F. Boyce

Valerie F. Boyce