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ARKANSAS PUBLIC SERVICE COMMISSION

FILED

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
ORDER NO. 60

ORDER

On November 17, 2006, Entergy Arkansas, Inc. ("EAI" or the "Company") filed a *Request for a Declaration of Need to Acquire New Capacity to Serve Its Retail Customers* ("Request") requesting "that the Commission find that the acquisition by EAI of an additional load-following resource is in the public interest and approve the acquisition of the generation resource on behalf of EAI's retail customers and to maintain its capacity reserve margin." In its *Request* "EAI proposes that the proceeding be bifurcated into two phases. The first phase (Phase I) would focus on the issue of EAI's need for capacity and that this need will best be met through the acquisition of a combined cycle gas turbine ("CCGT") or entry into a long-term purchase agreement for the capacity and associated output from a CCGT. The second phase (Phase II) would focus upon a specific transaction for which EAI will request approval." In support of its *Request* EAI filed the Direct Testimonies and Exhibits of its witnesses, Robert R. Cooper and Kurtis W. Castleberry on November 17, 2006.

Mr. Castleberry, Director, Operating Committee Support, for EAI, states that "[t]he Company is seeking the Commission's approval in a proposed two-phase process. In this first phase, the Company is seeking a finding from the Commission that there is a need for new capacity, and that this need will best be met through the acquisition of

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load-following capacity using a combined cycle gas turbine ("CCGT") technology. The Company will follow this phase with a phase in which the Commission's approval for a specific transaction will be sought. At this time, we expect that the resource procurement process, which I will discuss later in my testimony, will result by early 2007 in an agreement to acquire a specific resource either through a long-term power purchase agreement ("PPA") or as the purchase of a power plant. At that time, the Company will request approval of that transaction." Castleberry at 5-6.

Mr. Cooper, Manager, Generation Planning and Models for Entergy Services, Inc., testified that "[t]he Company currently does not own or control enough generation to meet a planning criterion that requires it to control an amount of generating resources (either through owned capacity or through power purchase agreements) that is at least equal to its projected peak load plus reserves. EAI's deficiency with respect to this criterion is expected to increase throughout the planning horizon. EAI specifically needs load-following generation in order to be able to match its generation to customers needs as those needs vary throughout the day. EAI's long-term retail resource deficit is expected to be approximately 1,462 MW in 2007 and is projected to increase to 1,818 MW by 2012. Of the total resource deficit, the level of load-following deficit is about 670 MW in 2007. Thus, EAI will need to acquire additional generating resources, either through limited-term power purchase agreements or, if there is adequate certainty regarding future demand, long-term power purchase agreements or the construction or acquisition of new capacity." Cooper Direct at 15-16.

On December 8, 2006, the Commission issued Order No. 2, establishing a procedural schedule for the purpose of filing direct, rebuttal and surrebuttal testimony by the parties on the first phase of the Company's *Request*, the determination of need.

Order No. 2 also set a public hearing on EAI's *Request* to begin on March 6, 2007. On January 24, 2007, the General Staff of the Commission ("Staff") filed the Direct Testimony and Exhibits of its witness, J. Richard Hornby, Senior Consultant at Synapse Energy Economics, Inc.¹

Staff witness Hornby testified that (1) EAI has demonstrated a need for acquiring load-following capacity resources; (2) EAI "bears the burden of demonstrating that the specific quantity and type of capacity that it acquires for load-following will enable it to provide reliable service at reasonable rates"; (3) the Company must request Commission approval before entering into new long-term Purchased Power Agreements ("PPAs") for wholesale base load ("WBL") capacity; and (4) EAI must evaluate the cost effectiveness of the WBL capacity as part of its next acquisition. Hornby at 5.

Mr. Hornby further testified that EAI has a shortage of capacity under its control for the long term. He states that EAI's forecast of peak demand and a planning reserve of 15.25% are reasonable. Mr. Hornby states that this shortage cannot be met in the short term by utilizing energy efficiency and demand response measures. Hornby at 5-6.

Mr. Hornby also states that, although EAI is currently meeting a substantive portion of its load following requirements through PPAs and purchases under the Entergy System agreement, he agrees with EAI's approach to rely more on capacity that is under the Company's control and reduce the amount that would be acquired through PPAs and testifies that "EAI wishes to reduce its dependence on the other Operating Companies, which makes sense given its (EAI's) plan to exit the System Agreement as of

¹ The Commission granted intervenor status to the Arkansas Electric Energy Consumers, Inc. on December 21, 2006. On January 3, 2007 the Commission was notified that the Attorney General's Office intended to be a party to this docket.

2013.” Hornby at 11. Mr. Hornby concludes that:

The Company’s proposal to increase the quantity of load-following capacity under its long-term control by acquiring a CCGT resource is consistent with good resource planning principles. However, EAI will need to demonstrate that the specific quantity and type of capacity it actually acquires will enable it to provide reliable service at reasonable rates.

Hornby at 12.

While Mr. Hornby performed an initial analysis of replacing load following from PPAs with load following from long term capacity under EAI’s control, he recommends that the Company submit an analysis of the rate impact of this type of displacement when EAI files for approval of an actual acquisition. Hornby at 12.

Mr. Hornby also reviewed and evaluated the alternatives EAI presented for meeting the Company’s capacity needs. He notes that EAI witness Cooper evaluated three alternatives for load following capacity – a new coal unit, a new gas-fired CCGT unit, and major investments in the existing Lake Catherine Unit 4. Mr. Hornby concludes that his analysis is consistent with EAI’s and that the proposed CCGT capacity is preferable to the other options evaluated. Hornby at 15. In addition, Mr. Hornby states:

I have two main conclusions. First, CCGT capacity is preferable to the other candidate resources, i.e., a new coal plant, future investment in the Lake Catherine unit, and use of WBL (wholesale baseload) capacity. However, EAI will need to demonstrate that the specific quantity and type of capacity it actually acquires will enable it to provide reliable service at reasonable rates over the long-term, considering the operational characteristics and economics of its entire portfolio of existing resources. Second, it is possible that a portion of that WBL capacity may be the most economic resource for the Company’s next long-term acquisition of capacity to meet firm retail requirements.

Hornby at 17.

On February 7, 2007, EAI filed the Rebuttal Testimony of Kurtis W. Castleberry. Mr. Castleberry states that he agrees with Mr. Hornby that using WBL capacity to serve retail load does not provide the net savings a CCGT would provide. However, Mr. Castleberry states that the WBL capacity has been allocated to serving wholesale load and would not be available in the future to serve EAI's retail load. Castleberry Rebuttal at 5. Mr. Castleberry testifies that "[t]he Company's current plan is to sell, until December 18, 2013 (when EAI's participation in the current Entergy System Agreement terminates), the remaining WBL capacity to other [Entergy] Operating Companies as contracts with existing wholesale customers expire." Castleberry Rebuttal at 5. Mr. Castleberry agrees with the recommendations of Mr. Hornby. Castleberry Rebuttal at 6-8.

On February 21, 2007, Staff filed its *Motion to Cancel Hearing and Request for Expedited Responses* filed on February 21, 2007. On February 22, 2007, EAI filed its response and supported Staff's request that the Commission cancel the public hearing scheduled for March 6, 2007 and enter an order based on the evidence in the record. On February 27, 2007, in Order No. 5, the Commission granted the Staff's unopposed motion and cancelled the remainder of the procedural schedule and the hearing scheduled for March 6, 2007.

Findings

Based on the testimonies of EAI witnesses Cooper and Castleberry and Staff witness Hornby, the Commission finds and declares that EAI (1) has demonstrated a shortage of capacity under its long term control; (2) has demonstrated that this shortage of capacity occurs as load following and peaking capacity; and (3) has demonstrated that CCGT capacity appears to have the most appropriate operational characteristics for

load-following resources. Accordingly, based on the evidence of record, EAI's *Request* is granted.

Furthermore, as noted by both Staff and EAI, at the time the *Request* was filed the Commission was in the process of developing rules and guidelines for both resource planning and energy efficiency and conservation (Docket Nos. 06-028-R and 06-004-R, respectively). EAI witness Cooper states that the demand-side programs currently under discussion "cannot displace EAI's current need for a load-following resource because operation of the electric system requires that actual generation match load at all times to ensure stability of the electric system." Cooper at 10. Staff witness Hornby goes further and testifies that

EAI should certainly be working with retail customers to identify programs that would lead to cost-effective reductions in peak load, and hence reductions in the shortfall. The Commission recognized the need to implement conservation, energy efficiency and demand response programs in its recent ruling adopting *Rules for Conservation and Energy Efficiency Programs*. However, it takes time for such programs to be designed and implemented. Thus it is not realistic to expect them to produce a material reduction in EAI's load in the short-term.

Hornby at 5.

The Commission has now finalized its rulemaking on energy efficiency and conservation², and EAI has filed proposed "quick start" programs for Commission consideration.³ The Commission has also issued Guidelines on Resource Planning for Electric Utilities in Docket No. 06-028-R, wherein the utilities were directed to give "comparable consideration" to demand and supply resources and to assess "all reasonably useful and economic supply and demand resources that may be available to a

² The final Rules were adopted on May 25, 2007, in Order No. 18 of Docket No. 06-004-R

³ EAI's company-specific "quick start" energy efficiency and conservation programs were filed on July 2, 2007, in Docket No. 07-085-TF.

utility or its customers”, and to identify and investigate resources including “energy efficiency, conservation, demand-side management, interruptible load, and price responsive demand.”

While the Commission recognizes that it will take “time for programs to be designed and implemented”, the Commission also recognizes that until recently, there has been little emphasis placed on greater utilization of either energy efficiency programs or demand response programs due to the adequate supply of generating capacity to meet ratepayer needs. This situation has changed and the investor-owned electric utilities in Arkansas are now beginning to build or acquire additional supply resources to meet existing and anticipated demand. In the instant Docket, EAI has clearly indicated that its generation needs in 2007 are largely for load following and peaking capacity.

It is well established that well designed and well functioning company-specific demand response programs can assist in meeting system peak demand. The Commission noted this in Order No. 10 of Entergy’s recent retail rate case (Docket No. 06-101-U), wherein we observed that the electric cooperatives in Arkansas have long operated highly successful demand response programs to the benefit of customers. We also note that EAI (then Arkansas Power & Light Company) was once a national leader in the development and implementation of residential and agricultural (irrigation pump) load-management programs during the last period of capacity shortages on the Entergy System during the late 1970s and early 80s. In the rate case order the Commission directed EAI to investigate reinstatement of its now defunct irrigation control program in the context of its ongoing Broadband Over Powerlines program. Docket No. 06-101-U, Order No. 10 at 124. The Commission is aware of no legal or

regulatory constraints that would stand in the way of an electric utility's aggressive pursuit of demand response resources, either through direct contract negotiation or competitive bidding procedures analogous to those it might use to purchase power or acquire an existing power plant. In light of this situation, the Commission directs the Company to take steps necessary to aggressively pursue cost-effective demand response and energy efficiency resources to meet anticipated loads.

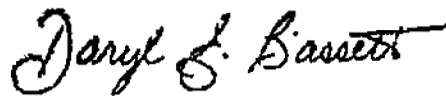
Further, nothing in this order represents a Commission finding (1) regarding any specific proposal(s) EAI may proffer to address its need for additional power supply resources; or (2) any value for ratemaking purposes or cost recovery purposes.

BY ORDER OF THE COMMISSION.

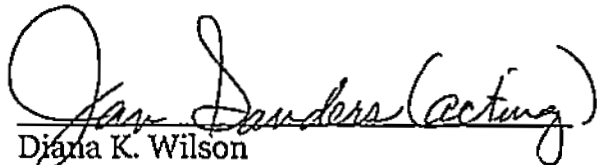
This 24th day of August, 2007.



Paul Suskie, Chairman

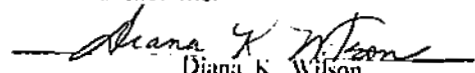


Daryl E. Bassett, Commissioner



Diana K. Wilson
Secretary of the Commission

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record this date by U.S. mail with postage prepaid, using the address of each party as indicated in the official docket file.


Diana K. Wilson
Secretary of the Commission
Date 8-24-07 JS