

The seal of the Public Utility Commission of Texas is a circular emblem. It features a central five-pointed star surrounded by a wreath of olive and oak branches. The words "PUBLIC UTILITY COMMISSION" are inscribed in a circular border around the top, and "STATE OF TEXAS" is at the bottom. There are also small stars on the sides.

**Challenges Faced by Entergy Texas and
the Entergy System
Commissioner Kenneth W. Anderson, Jr.**

February 2, 2011



Overview

- Entergy System & its Regulators
- Formation of the Entergy Regional State Committee (E-RSC)
- Status of Current Entergy System Agreement
- Options for Entergy Texas
- Legislative Issues



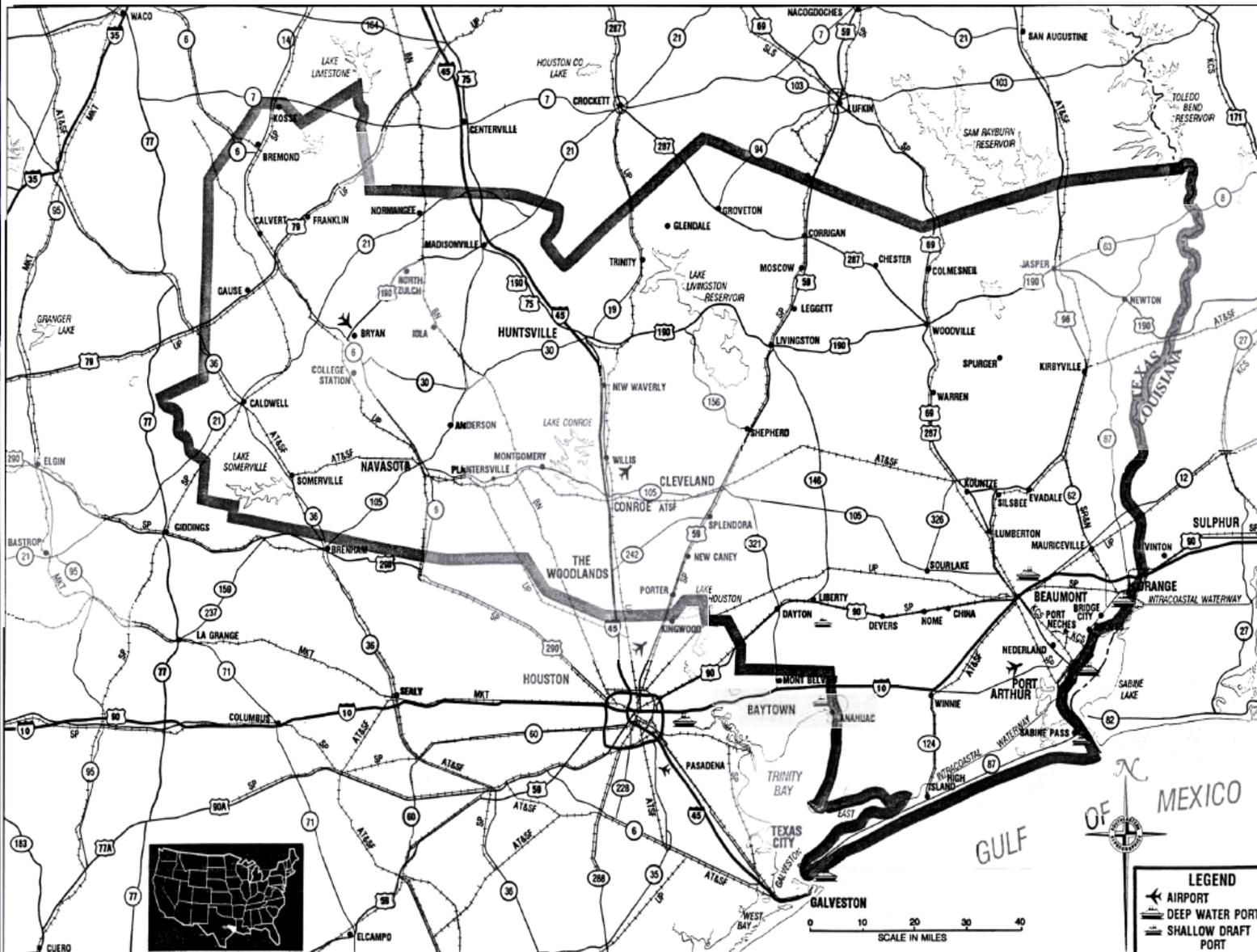




Operating Companies

- There is an operating committee that carries out generation planning decisions for all of Entergy
- There are also six regulated operating companies - Entergy Arkansas, Inc., Entergy Louisiana LLC, Entergy Gulf States Louisiana, L.L.C., Entergy Mississippi, Inc., Entergy New Orleans, Inc., and Entergy Texas, Inc.







Entergy's Regulators

- FERC – regulates Entergy's wholesale power arrangements and access to Entergy's transmission system
- Texas, Louisiana, New Orleans, Arkansas, and Mississippi – sets standards of service and retail rates





Entergy Regional State Committee

- The E-RSC was formed following an unprecedented joint meeting of the Federal Energy Regulatory Commission (FERC) and Entergy's retail regulators held in Charleston, SC in June of 2009
- The E-RSC is comprised of the Arkansas Public Service Commission (APSC), the Louisiana Public Service Commission (LPSC), the Mississippi Public Service Commission (MPSC), the Public Utility Commission of Texas (PUCT), and the New Orleans City Council (NOCC)





Current Situation

- Each of the six Entergy operating companies (OpCos) operates pursuant to the Entergy System Agreement (ESA)
- The Southwest Power Pool (SPP) by contract serves as the Independent Coordinator of Transmission (ICT) for Entergy pursuant to FERC order, but this arrangement, set to expire at the end of last year, was extended for two years to give the ERSC and Entergy time to make decisions concerning Entergy's transmission system
- FERC commissioned a cost-benefit analysis (CBA) of Entergy's transmission system joining the SPP Regional Transmission Organization (RTO)
- Results of the FERC CBA showed a net present value of \$739 million savings over ten years





Current Situation

- Entergy Arkansas, Inc. (EAI) and Entergy Mississippi, Inc. (EMI) have each given the required 96-month notice of their respective intent to withdraw from the ESA (EAI exits in Dec. 2013 and EMI exits in Nov. 2015)
- Entergy is being investigated by the antitrust division of the U.S. Department of Justice (DOJ) regarding its operation of its transmission system
- In December, a FERC ALJ found that Entergy had violated its system agreement by selling low cost power off-system before offering it to the operating companies, which Entergy is appealing
- The Nuclear Regulatory Commission (NRC) found deficiencies in how Entergy manages its nuclear decommissioning trust and is asking for additional funding, which will be borne by Entergy's retail customers





Confluence of Events

- The ICT is expiring and many stakeholders oppose continuation without major enhancements to the ICT
- There will be a change in Entergy's system agreement due to the departure of Arkansas and Mississippi
- Investigation by the DOJ antitrust division of Entergy's operation of its transmission system
- FERC ALJ finding regarding system agreement violations
- NRC finds deficiency in nuclear decommissioning trust funding





Impacts to Texas – Changes to System Agreement

- Any successor arrangement to the system agreement is very likely to have a material effect on Entergy Texas, Inc. (ETI) ratepayers
- A new system agreement or successor agreement/arrangement with only three or four of the Entergy operating companies is likely not good for Texas
- Early analysis indicates that ETI would experience an increase in production costs under the CODA of \$53 million in 2013 and \$39 million in 2014



Issues Facing Texas Regarding Entergy Texas & Its Transmission System

- ISO/RTO membership is likely to provide more comprehensive transmission planning and construction and better access to competitive generation, but would require transmission upgrades and other system improvements, and also involves additional administrative costs, all the costs of which would be borne by ETI's customers



Options for Texas

Among the options (which are not intended to be exclusive) are:

- (1) All of the Entergy system joins an RTO
- (2) All or part of Entergy's system remains in a significantly enhanced ICT
- (3) The Entergy system continues with 3 or 4 operating companies either under the existing system agreement or a successor arrangement
- (4) The Entergy system splits up and the operating companies go in different directions, such as EAI joining SPP



Studies Needed

- The Commission needs to conduct a number of studies between now and 2012 to get a better understanding of which option is best for ETI wholesale and retail customers

A vertical strip of the American flag is visible on the left side of the slide, showing the blue field with white stars and the red and white stripes.

Legislative Issue No. 1 – Enhance the Commission’s Ability to Participate in FERC Proceedings

- Consistent with the practice of some other states, notably, Arkansas and Louisiana, the Legislature may want to consider authorizing the Commission to hire outside counsel, consultants, and experts with FERC expertise to represent it in FERC proceedings and to require ETI, which means its ratepayers, to reimburse the Commission for its costs of participation, including any related court litigation





Legislative Issue No. 2 – Commission’s Authority Over ETI’s Membership

- The issues relating to the system agreement , ETI’s transmission system, and the ICT or RTO will likely need to be addressed well before 2013, when Entergy Arkansas is scheduled to leave the current system agreement
- To protect the interests of customers in the Entergy Texas region, the Legislature may want to consider clarifying the Commission’s authority to direct ETI to file with FERC to join an RTO





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Appendix - Extracts from 2011 Scope of Competition Report

- **Utility Funding of PUC Intervention at FERC**
- Utilities outside ERCOT are subject to the Commission's jurisdiction for retail issues and the FERC's jurisdiction for wholesale issues. These utilities are Entergy Texas, Southwestern Public Service, Southwestern Electric Power Company, and El Paso Electric Company. The types of issues that FERC addresses for these utilities include wholesale transmission rates and regional transmission organization issues, which in ERCOT are addressed by the Commission. FERC also addresses other issues such as the Entergy System Agreement, which is discussed in Legislative Recommendation 7.
- Issues addressed by FERC can have significant cost impacts on utilities' retail customers, and other state commissions routinely intervene in FERC proceedings that affect utilities operating in their states. FERC's standards and procedures are significantly different than the Commission's, and the time, resources, and expertise necessary to effectively participate in them can be substantial. The Commission has participated in some FERC litigation proceedings and has been represented by the Attorney General in those proceedings.





Appendix - Extracts from 2011 Scope of Competition Report

- Consistent with the practice of some other states, notably, Arkansas and Louisiana, the Legislature may want to consider authorizing the Commission to hire outside counsel with FERC expertise, as well as consultants, to represent it in FERC proceedings and to require the utilities affected by the proceeding to reimburse the Commission for its costs of participation, including any related court litigation. Under current Texas law, state agencies may contract for outside legal services, but they must obtain the approval of the Texas Attorney General before doing so. The Legislature may also want to consider allowing the Commission to hire outside counsel without obtaining the prior approval of the Texas Attorney General.
- ARK. CODE ANN. 23-4-101, 23-4-102(c)(2) and (3); LA. CIV. CODE art. 1180 and 1181 and TEX. GOV'T. CODE § 2254.153 (Vernon 2008) and § 402.0212 (Vernon 2005).





Appendix – Extracts from 2011 Scope of Competition Report

- **Clarification of Authority to Order a Utility to Join a Specific RTO**
- While the move to retail open access in the areas outside ERCOT has slowed, the importance of ensuring adequate competition in the wholesale markets that underlie the electricity supply in those areas has not diminished. FERC continues to promote wholesale markets and non-discriminatory access to transmission systems through regional transmission organizations (RTOs). While some Texas utilities outside ERCOT have joined an RTO, others have not.
- One of the utilities that has not joined an RTO, Entergy, is facing significant changes in the next few years to the FERC-approved Entergy System Agreement (ESA) that governs system planning, operations and cost allocation among the various Entergy state operating companies, including Entergy Texas.



Appendix – Extracts from 2011 Scope of Competition Report

- In addition, an extension of an arrangement by which a third party oversees the Entergy transmission system was recently approved by FERC, but only on an interim two-year basis. FERC also recently completed a cost-benefit analysis of Entergy, including all of its state operating companies, joining the Southwest Power Pool (SPP) RTO. The analysis showed there would be substantial cost savings to Entergy's retail customers of joining the RTO. Entergy and its various state regulators have been discussing alternatives to the ESA, enhancements to the transmission oversight arrangement, and options for Entergy to join an RTO, and the ultimate path that Entergy takes will have significant impacts on Entergy Texas' customers.
- To protect the interests of the Entergy Texas customers and the customers of other utilities that do not join RTOs, the Legislature may want to consider clarifying the Commission's authority to order utilities to join RTOs. The issue of Entergy Texas joining an RTO will likely need to be addressed before 2013, when Entergy Arkansas is scheduled to leave the current ESA.

