

AR KANSAS PUBLIC SERVICE COMMISSION AUG 18 11 34 AM '06

IN THE MATTER OF THE APPLICATION OF)
SOUTHWESTERN ELECTRIC POWER COMPANY)
FOR A CERTIFICATE OF ENVIRONMENTAL)
COMPATIBILITY AND PUBLIC NEED FOR THE)
CONSTRUCTION, OWNERSHIP, OPERATION AND)
MAINTENANCE OF A COMBUSTION TURBINE)
PEAKING FACILITY NEAR TONTITOWN IN)
WASHINGTON COUNTY, ARKANSAS)

FILED

DOCKET NO. 06-100-U

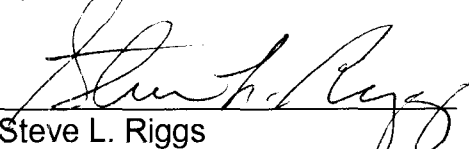
LIMITED APPEARANCE OF ENTEGRA POWER GROUP LLC

Comes Entegra Power Group LLC, by and through its attorneys, Dover Dixon Horne PLLC, and, pursuant to Rule 3.04(c) of the Arkansas Public Service Commission Rules of Practice and Procedure, files its Limited Appearance in the above captioned proceeding.

Attached and made a part of this Limited Appearance is the Verified Statement, of Position, timely filed, on behalf of Entegra Power Group LLC.

Respectfully submitted,

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By: 
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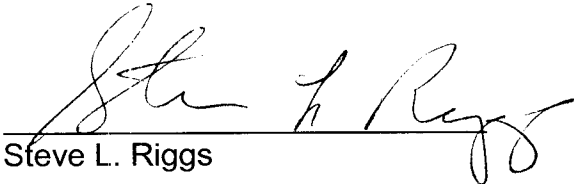
CERTIFICATE OF SERVICE

I, Steve L. Riggs, do hereby certify that a true and correct copy of the foregoing documents was sent via U.S. Mail, on this 18 day of August, 2006, to the following:

Susan D'Auteuil
APSC General Staff
P.O. Box 400
Little Rock, Arkansas 72203-0400

David Matthews
Southwestern Electric Power Company
119 South Second Street
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Stephen K. Cuffman
Southwestern Electric Power Company
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Steve L. Riggs

1 additional power supply resources; or (2) any value for ratemaking purposes or cost
2 recovery purposes.” The Commission, in Docket 06-024-U, did not approve building
3 new SWEPCO power plants, and with Arkansas in a generation overbuild situation, the
4 Commission should be concerned about the utilization of existing resources, especially
5 if to do so would benefit Arkansas ratepayers.

6 In their Application for Certification of Environmental Compatibility and Public
7 Need (“CECPN”), Docket 06-100-U, for a combustion turbine peaking facility near
8 Tontitown, Arkansas, SWEPCO describes the RFP process that was the basis for its
9 self-build peaking plant alternative. This RFP process is a requirement of the Louisiana
10 Public Service Commission’s (“LPSC”) Market Based Mechanism (“MBM”) General
11 Order that stipulates that electric utilities that are subject to the LPSC’s jurisdiction must
12 employ a market based mechanism, specifically the RFP solicitation process, to support
13 the acquisition of generation capacity or purchase power contracts intended to serve
14 LPSC-jurisdictional retail customers. In his testimony in Docket 06-100-U, Nicholas K.
15 Akin, President and Chief Operating Office for SWEPCO, specifically addresses the
16 reason why he believes that no third party proposals were submitted in the SWEPCO
17 RFP for long-term peaking resources:

18 Q. *WHY DO YOU BELIEVE THAT NO THIRD PARTY PROPOSALS WERE*
19 *SUBMITTED FOR THE LONG-TERM PEAKING RESOURCES?*

20 A. *I believe this is simply the result of the bidders’ preferences. As Mr.*
21 *Marano explains, the RFP considered as a whole (that is, for both short-term and long-*
22 *term resources) gave potential bidders a menu of options from which to select. In*
23 *addition, the design of the RFP was the result of a collaboration process that reflected*
24 *the input not only of potential bidders but also of Mr. Oliver and the LPSC Staff. The*

1 RFP was thoroughly vetted, in part through bidder technical conferences soliciting
2 comments regarding the draft RFP before the final RFP was issued, as Mr. Marano
3 explains.

4 For the short-term resources, a total of 15 bids were received from seven third
5 parties, as Mr. Marano explains. Yet no third party bids were received for the long-term
6 peaking resources. It is apparent from these bid results that bidders interested in the
7 peaking resources requirements preferred to bid short-term peaking versus long-term
8 peaking resources.

9 Due to SWEPCO's rigid RFP eligibility requirements to submit long-term
10 proposals, and the current market dynamics in the SPP and Entergy markets, Mr. Akin's
11 conclusion warrants further scrutiny. Utilities' self-build alternatives should serve as a
12 "backstop" to the market, providing utilities with a means to keep purchased power
13 prices in check. This leverage provides the utility with an unparalleled negotiation
14 position in the market and if used effectively, can provide significant market benefits to
15 ratepayers. Also, it should not be assumed that rigidly defined RFP processes result in
16 meaningful negotiations between utilities and market participants, nor should it be
17 assumed that they are sufficient to identify least cost supply alternatives. In SWEPCO's
18 case, it cannot be ignored that the LPSC's mandated RFP resulted in *three self-build*
19 *long-term awards*: 1) the self-build peaking option that is the subject of this docket; 2)
20 the expansion of an existing combined cycle facility in Shreveport, Louisiana; and, 3) a
21 greenfield coal project to be located near Hope, Arkansas. There were no awards of
22 long-term products to any non-affiliated third parties.

23 Because SWEPCO is relying on the LPSC's mandated RFP process as the basis
24 for its self-build decision, the Commission should consider: 1) if a better explanation for

1 the lack of responses to SWEPCO's long-term RFP exists; and, 2) whether or not the
2 LPSC's mandated RFP process provided a sufficient review of least cost market
3 alternatives to meet SWEPCO's long-term needs. Given the significant amount of
4 excess merchant generation that exists in Arkansas and surrounding states, a "check
5 the box" RFP process that is mandated by the LPSC and that received a poor level of
6 responses, may not be sufficient to justify a self-build proposal for a peaking plant to be
7 built in Arkansas, with long term impacts on Arkansas residents and SWEPCO's
8 ratepayers.

9 1. RFP Requirements. Some market participants, including Entegra, were
10 excluded from SWEPCO's long-term RFP due to the financial threshold required to
11 participate in this process. Specifically, as stipulated in Section 5.5.1, Financial
12 Threshold of the SWEPCO 2005 RFP for Capacity and Energy Resources, each bidder
13 or the bidder's credit support provider were required to provide proof of a minimum
14 tangible net worth of \$500 million US dollars. SWEPCO did not provide bidders with an
15 opportunity to offer alternative forms of collateral, such as property liens or guaranteed
16 letters of credit that could substitute for this requirement. It should be noted that this
17 financial threshold was not required to participate in SWEPCO's short term RFP.
18 Entegra, on behalf of Union Power, participated in SWEPCO's short-term RFP and
19 provided them with a number of proposals for consideration.

20 Although Union Power is a combined cycle facility, there are a number of ways
21 for it to satisfy the need for SWEPCO's peaking capacity through transaction structures
22 that simulate the economics and desired characteristics of a peaking facility. Such
23 structures can offer more flexibility to a utility than a commitment to building new
24 capacity. For instance, the need for peaking capacity may be optimal in the short term,

1 but as load growth occurs over time, demand may be better served by intermediate or
2 combined cycle type capacity. This type of change can be incorporated in the design of
3 a purchase power contract, with terms and conditions negotiated to best benefit
4 ratepayers. This type of ratepayer focused economic optimization is not possible with a
5 commitment to a new build by the utility.

6 2. Market Dynamics. In the North American Electric Reliability Council's
7 ("NERC") 2006 Summer Assessment, SPP is shown to have a 33 percent capacity
8 margin with the inclusion of 7,652 MW of uncommitted resources in the region, and
9 neighboring Entergy, is shown to have a 53 percent capacity margin with the inclusion
10 of 16,602 MW of uncommitted resources in the region. Of the generation in these
11 regions, Entegra is aware of approximately 4,000 MW of highly efficient, combined
12 cycle, natural gas fired generation located in the state of Arkansas alone that is
13 currently uncommitted.

14 This market condition, coupled with a self-build alternative that provides
15 SWEPCO with tremendous negotiating leverage, creates an opportunity for SWEPCO
16 to structure purchase power contracts that uniquely meet their short and long-term
17 capacity and energy requirements. SWEPCO has an obligation to fully explore this
18 market in order to identify the best possible supply solution for the benefit of its
19 ratepayers.

20 In summary, before the Commission considers approving SWEPCO's CECPN
21 Application, it should assess the extent to which SWEPCO proactively solicited third
22 party alternatives for most economically meeting the short and long-term needs of its
23 ratepayers. The Commission should ensure that SWEPCO aggressively sought
24 structured purchase power opportunities, taking advantage of the overbuild that exists in

1 Arkansas and surrounding states, and that it fully considered transmission and/or long-
2 term transmission service options to facilitate purchase power arrangements. The
3 Commission should not allow SWEPCO to rely solely on proposals received through a
4 LPSC mandated RFP process to justify a self-build of new generation capacity in the
5 state of Arkansas.

6 If the Commission's assessment of SWEPCO's actions or "inactions" leaves
7 doubt as to SWEPCO's diligence in pursuing economical purchase power opportunities
8 as a viable alternative to its self build option, the Commission should not approve
9 SWEPCO's CECPN Application. But, instead, should take appropriate action to ensure
10 SWEPCO does fully explore, to the greatest extent possible, least cost generation
11 alternatives to meet its ratepayers' short and long-term needs.

Respectfully submitted,

Entegra Power Group LLC

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August SUBSCRIBED AND SWORN TO before me this 18 day of
2006.

William D. Campbell
Notary Public

My Commission Expires:

