Report of the Independent Monitor of the Entergy Arkansas, Inc. 2014 Request For Proposals for Long-Term Supply-Side and Renewable Resources

Before the
Arkansas Public Service Commission
Docket No. 15-014-U

Prepared by:
Elizabeth R. Benson

Energy Associates
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I. Overview

A. Background

On April 14, 2015, Entergy Arkansas, Inc. ("EAI") filed a request with the Arkansas Public Service Commission ("APSC") for approval of a 20 year power purchase agreement ("PPA") with Stuttgart Solar, LLC ("Stuttgart Solar"). Stuttgart Solar is a planned 81 MW solar photovoltaic project located near Stuttgart, Arkansas. Stuttgart Solar is an indirect wholly owned subsidiary of NextEra Energy Capital Holdings, Inc., ("NextEra") a subsidiary of NextEra Energy, Inc. EAI's request was assigned APSC Docket No. 15-1014-U.

The proposed Stuttgart Solar PPA was the result of EAI's 2014 Request for Proposals for Long-Term Supply-Side and Renewable Resources ("2014 RFP" or "RFP"), a market-based competitive procurement of power supply for both long-term traditional and renewable resources.[1]

This report describes and discusses the 2014 RFP from the perspective of the Independent Monitor ("IM")[2] who was retained by EAI to oversee the 2014 RFP. This includes how EAI developed the RFP, administered it, and evaluated the renewable resource proposals it received, including the proposal submitted by NextEra that is the subject of EAI's request for approval of the Stuttgart Solar PPA. It also discusses PPA negotiations between EAI and NextEra.

Generally, the role of the IM in the 2014 RFP was to: 1) oversee the design and implementation of the RFP solicitation, evaluation, selection, and contract negotiation processes to ensure that

[1]The 2014 RFP requested proposals for both traditional and renewable resources, but this report focuses on the renewable resources submitted into the RFP because EAI did not select a traditional resource from this RFP. The IM discusses the RFP's traditional resource proposals only where the discussion is needed to provide clarity and continuity to this report.

[2]EAI retained Elizabeth Benson of Energy Associates to serve as the IM for the 2014 RFP. Ms. Benson has served as IM for fifteen previous power supply RFPs, all of which have been subject to state and, in certain cases, federal regulatory jurisdiction. Ms. Benson has no interest in the outcome of this or any other RFP and has worked in no capacity other than as IM for EAI or any other company for which she has performed IM duties.

they were impartial and objective; and 2) provide an objective, third-party perspective regarding whether the RFP treated all proposals fairly and consistently and avoided undue preference toward any bidder. The IM's responsibilities in this RFP are described more fully in the next section of this report.

B. Independent Monitor Responsibilities

From February, 2014 through December, 2014, the IM worked closely with EAI and RFP team members and monitored all aspects of 2014 RFP development, administration and evaluation. From January through April 2015, the IM monitored negotiations between EAI, NextEra and one other potential counter-party offering a renewable resource into the RFP.

The IM's responsibilities included:[3] 1) reviewing and suggesting changes to 2014 RFP procedures, documents, and timelines; 2) reviewing and commenting on the structure and composition of RFP evaluation teams; 3) reviewing and, as needed, revising 2014 RFP confidentiality acknowledgements ("CAs"), ensuring all individuals participating in the 2014 RFP signed CAs, and ensuring that those individuals adhered to all CA requirements; 4) reviewing all proposal evaluation assumptions, models and procedures to ensure they addressed the RFP's objectives and guaranteed fair treatment of all proposals; 5) reviewing and, as needed, commenting on all communications between the RFP and potential and actual bidders; 6) participating in the 2014 RFP bidders' conference; 7) monitoring 2014 RFP bidder registration and proposal submission systems including their procedures to mask, as required, the identities of bidders, generation resources, and proposals from RFP evaluators; 8) reviewing all proposals received, and overseeing and approving redaction of certain identifying information before releasing proposals to RFP evaluators; 9) overseeing economic, deliverability, viability, and credit evaluations; 10) monitoring 2014 RFP evaluators' clarifying questions to bidders and any communication between the RFP and bidders; 11) monitoring all communications among RFP evaluators, and participating in RFP bid evaluation and selection discussions; 12) participating in pertinent meetings between RFP personnel and APSC Staff; 13) as required, monitoring negotiations between EAI and selected counter-parties for PPA, tolling agreement ("toll") and

[3] The IM's detailed Scope of Work for the 2014 RFP is posted on EAI's RFP Website.

acquisition products; and 14) as required, participating in regulatory proceedings pertaining to selected proposals.

In furtherance of the IM's responsibilities, this report addresses the development and implementation of the RFP, the evaluation of renewable resource proposals submitted by bidders, and the negotiations between EAI and NextEra that resulted in the PPA that is the subject of EAI's request. The report also provides the IM's assessment of those activities, including whether they met EAI's obligations for fairness and impartiality, and avoided any undue preference toward any proposal.

C. APSC Staff Consultation

Although the APSC does not have a formal rule pertaining to competitive power solicitations, the APSC Staff ("Staff") has a keen interest in EAI's RFPs. In line with that interest, Staff recommended in Docket No. 12-038-U that EAI retain an IM to oversee future RFPs. After EAI retained the IM for the 2014 RFP, EAI personnel, with the strong support of the IM, invited members of both the APSC's General Staff and Commissioners' Staff, and members of the Arkansas Attorney General's Consumer Utility Rate Advocacy Division ("CURAD") to meet with EAI and the IM on April 1, 2014. The purposes of this meeting were to afford Staff and the IM the opportunity to meet and discuss the role and responsibilities of the IM, and to review the goals and basic structure of the 2014 RFP. Following these meetings, certain members of Staff and of CURAD attended and participated in the RFP Bidders' Conference on April 2, 2014.

Thereafter, EAI provided periodic RFP update reports to Staff including: 1) a summary of the proposals bid into the RFP; 2) a review of the evaluation process, shortlist outcomes, and due diligence process experienced by bidders whose proposals were shortlisted; and 3) a discussion of RFP evaluation outcomes and proposal recommendations before EAI informed bidders about the outcome of the RFP.

D. Organization of the Report

This report has five sections. Section I is this Overview. Section II discusses the need for the RFP, RFP safeguards, developing RFP procedures and documents, communicating with potential bidders, implementing the RFP, registering, receiving, reviewing, and redacting proposals, and

releasing proposal information to RFP evaluation teams. Section III discusses the RFP evaluation of renewable resource proposals, including evaluation components, procedures, models, and outcomes. Section IV discusses EAI's PPA negotiation with NextEra. Section V provides the IM's comments and conclusion regarding the overall fairness and objectivity of the RFP with respect to the renewable resource proposals submitted by bidders.

The IM also comments on the RFP throughout this report.

II. Developing and Implementing the RFP

A. Resource Need and Eligible Technologies

The 2014 RFP was based on EAI's forecasted generation requirements as discussed in its then current Integrated Resource Plan ("IRP") dated October 31, 2012. This IRP covered the ten year planning period from 2014 through 2023.

As described in the 2014 RFP documents, EAI projected a long-term need for generation resources beginning in 2017 and sought to acquire from 200 to 600 MW[4] of baseload, load following and / or peaking capacity as well as capacity-related benefits, energy and other electric products from traditional resources. The RFP sought traditional proposals from combustion turbines ("CTs"), combined-cycle gas turbines ("CCGTs"), and solid fossil fuel technologies incorporating specified environmental controls.[5]

The State of Arkansas does not have a Renewable Portfolio Standard ("RPS") that requires EAI to include any level of renewable generation in its resource plan. Nonetheless, to address certain long-term resource planning objectives of EAI, the RFP also sought up to 200 MW[6] of baseload, intermittent, and / or dispatchable intermittent renewable capacity, capacity-related benefits, energy, and other electric products from the following eligible renewable resource technologies: 1) biomass; 2) solar photovoltaic; 3) wind; and 4) run-of-river hydroelectric.

[4] The RFP required traditional resource bidders to offer no less than 100 MW per proposal.

[5] Specified environmental controls for solid fuel technologies were: a) selective catalytic reduction ("SCR") technology; b) scrubbing technology capable of removing 90% of SO_2 emissions; and c) mercury and air toxics standards ("MATS") controls capable of achieving all 2015 MATS limits.

[6] The RFP required renewable resource bidders to offer no less than 30 MW per proposal.

B. Eligible Participants, Resources and Products

The 2014 RFP encouraged a wide range of potential suppliers to submit proposals, including electric utilities, wholesale generators, marketers, qualifying facilities, and independent power producers. EAI's regulated and competitive affiliates were ineligible to participate in the RFP, and EAI itself did not have a competitive stake in the RFP since it did not propose to market test a self-build generation project.

The RFP encouraged eligible bidders to submit proposals sourced from developmental as well as existing resources, in part an acknowledgement that the traditional resource market in the region had tightened, and in part an expectation that eligible renewable technologies were likely to be sourced from developmental projects. The RFP stated a preference for resources located in the Midcontinent Independent System Operator's ("MISO") Local Resource Zone ("LRZ") 8,[7] although it made clear that otherwise eligible resources located outside LRZ 8 and also outside MISO were also eligible to participate.

The RFP offered suppliers the opportunity to submit PPAs, tolls, and acquisitions, but there were some limitations for each product based on fuel issues, term requirements and EAI's lack of experience with certain technologies. Specifically, EAI invited bidders to offer PPAs for both traditional and renewable resource proposals, but limited tolls to traditional resource proposals using CT and CCGT technologies. EAI required PPA and toll delivery terms to be at least 10 but not more than 20 years for all technologies.

EAI restricted acquisition offers to traditional resources. In considering this restriction, EAI reasoned that because it lacked experience with most renewable technologies – in particular solar photovoltaic and wind – in this RFP it wished to rely on the experience of renewable resource bidders who possessed the requisite operational skill, experience, and infrastructure. The IM considered this restriction reasonable and agreed with it.

[7] MISO's LRZ 8 covers EAI's service area.

C. RFP Organization

The 2014 RFP was the first RFP conducted by EAI since it exited the Entergy System Agreement on December 19, 2013. This circumstance required EAI to undertake principal responsibility for directing the solicitation. It did so by establishing a structure to address policy, operational and decision-making aspects of the RFP. This included:

- affirming that EAI's President and CEO ("CEO") provided executive oversight to the RFP and made final resource selection decisions;
- assigning senior EAI Resource Planning Team personnel[8] ("Resource Planning Team") to oversee RFP development, participate in all aspects of RFP implementation and proposal evaluation phases, and ensure that the RFP reflected EAI resource needs;
- designating EAI's Resource Planning and Operations Committee ("RPOC") to provide policy direction to the RFP, regularly review its progress and outcomes, and, ultimately, make resource recommendations to EAI's CEO; and
- contracting with Entergy Services, Inc., ("ESI"), EAI's affiliated services company,[9] to provide administrative support for the RFP and conduct economic, deliverability / operations, viability, and credit evaluations under the oversight of EAI.

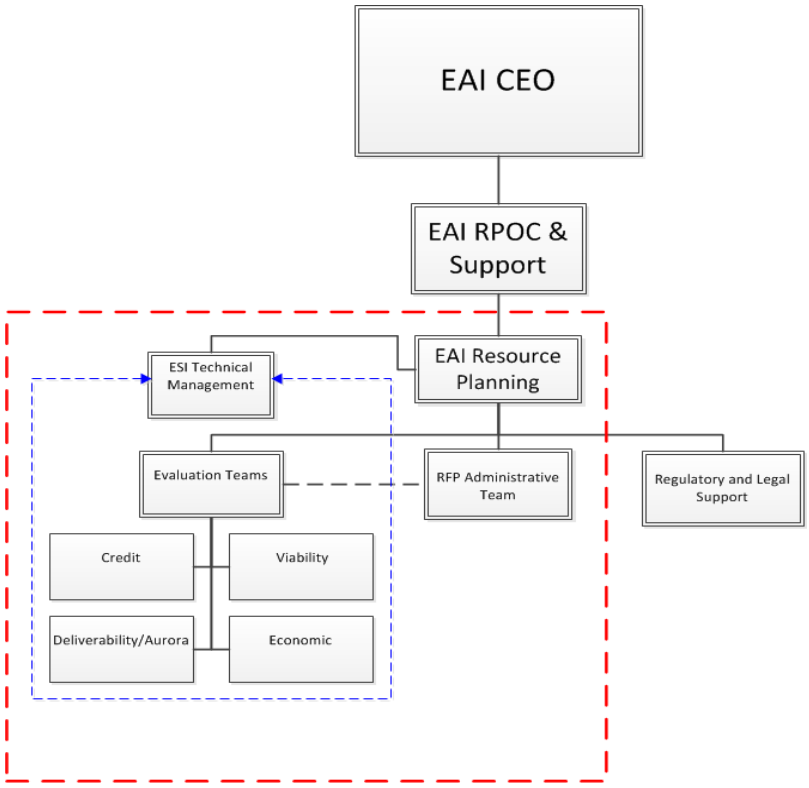
Designated EAI Resource Planning and ESI proposal evaluation teams together constituted the RFP Project Team. EAI's Manager, Resource Planning served as EAI's lead for the RFP and, on EAI's behalf, was responsible to ensure that ESI proposal evaluation teams had the information and direction they required.

A description of the RFP organizational structure appears immediately below.

[8] EAI's Director, Resource Planning and Manager, Resource Planning oversaw and were active in all aspects of the 2014 RFP.

[9] ESI employs analysts, engineers, and other subject matter experts with substantial experience conducting and evaluating power supply RFPs. ESI also provided support to the RFP, as needed, from an RFP Administrative Team. RFP Administrative Team members were not members of any evaluation team.

Table 1: EAI RFP Organizational Structure



D. RFP Notice

On February 7, 2014, the IM met with EAI to discuss plans for the RFP, including plans to provide a notice to interested parties that the RFP would take place. Although no RFP documents were available for the IM to review, the basic outline of the RFP was in place – including the capacity amounts it would seek, its decision to source power from both traditional and renewable resources, and a proposed timeline.

Over the next several days, the IM and the RFP Project Team reviewed, discussed, edited and agreed on an RFP notice announcing the solicitation.

On February 12, 2014 EAI announced its intention to conduct the 2014 RFP in a notice to interested parties that it posted on its RFP Website, published in Platts *Megawatt Daily*, and sent electronically to an extensive list of both traditional and renewable power suppliers. The suppliers' list was composed largely of companies that had expressed interest in or participated

in prior Entergy RFPs for power supply and, EAI concluded, could likely be interested in this upcoming solicitation.

The notice informed all parties that EAI expected to issue RFP documents approximately two months after the notice,[10] that all RFP documents, as well as questions and answers from potential bidders and other interested parties about the RFP, would be posted on EAI's official RFP Website, and that EAI would not permit its competitive affiliates or other Entergy Operating Companies to participate in the RFP.

The notice also provided contact information for an RFP Administrator, EAI's single point of contact for the RFP, and for the IM. It encouraged potential bidders with questions at this early stage to direct them to the RFP Administrator and the IM so that the questions could be answered by RFP personnel and posted to the RFP Website for the benefit of all interested parties.

Because RFP documents would not be immediately available, EAI's notice laid out the basic requirements for both traditional and renewable resources and described the RFP in reasonable detail so that potential bidders would have enough information to be able ask specific and meaningful questions about it.

E. Minimum Requirements for Developmental Resources

Accompanying the notice was a description of minimum requirements bidders offering developmental resources into the RFP would need to meet when they submitted their proposals. Providing a description of minimum requirements before releasing RFP documents followed a sound practice from previous RFPs involving developmental resources. Given the time and complexity associated with developing a resource, the description was intended to give bidders a clear idea of information EAI would require, and provide them reasonable time to address those requirements before submitting any proposal.

The minimum requirements document required bidders to provide:

- a project description;

[10] RFP documents were released on May 5, 2014.

- a summary of key project personnel, their background and experience, and information on relevant projects they had completed;
- evidence that the project being submitted had progressed beyond the conceptual phase, including that its engineering, cost and schedule estimates met industry standards appropriate to the expected timeline;
- evidence that the bidder had control of the site on which the project was to be constructed;
- for solar, wind, and hydroelectric technologies, documented profile information that supported resource production levels, and plans for waste disposal, as and if relevant to the technology. For traditional and biomass technologies, a reasonably detailed plan for fuel supply, transportation and waste disposal;
- evidence of a plan to support all required permitting;
- a completed interconnection request submitted to MISO or, if the resource would be located outside MISO, to the applicable balancing authority along with the delivery point to MISO;
- as applicable to the resource, a plan for access to and use of water; and
- a feasible plan to structure and finance the project.

F. RFP Safeguards

After posting notice of the upcoming solicitation, EAI and the IM discussed and agreed on the procedural and informational safeguards that would guide RFP activities.

The RFP safeguards were designed to protect commercially sensitive information, and to ensure that all proposals would receive fair and impartial treatment. They applied to all RFP participants and were closely monitored throughout the RFP by the IM. The safeguards were specified in published RFP documents and, as pertinent, discussed with bidders and any other interested party during the course of the solicitation. The safeguards included procedures to ensure confidential treatment of RFP information and protocols that defined who would have access to which information, how information would be handled, and how bidders would interface with the RFP. They included:

1. Confidentiality Acknowledgements

All Entergy personnel involved with the 2014 RFP, including the EAI Resource Planning Team, signed confidentiality acknowledgements ("CAs") that governed their access to and uses of RFP proposal information. CAs were tailored to different groups in accordance with their RFP responsibilities and related requirements for information. For example, proposal evaluators signed CAs affirming their obligation to protect the confidentiality of non-public information they would receive in connection with the RFP, while participating executives signed CAs acknowledging their oversight role related to the RFP, but restricting them from directing, organizing or executing the development of the RFP.

The IM reviewed each different CA form to ensure that it addressed all necessary issues and protections. In this RFP, the IM proposed a number of clarifications and updates to each CA form so that it conformed to EAI RFP requirements regarding treatment of confidential information. After discussion, EAI adopted and implemented the IM's proposed clarifications. After the CAs were signed, the IM received and retained information identifying all RFP participants, and oversaw compliance with all CA protocols throughout the RFP.

2. Information Protocols

To manage and control how information was received and used, EAI designated an "RFP Administrator" to manage most RFP communications. With limited exceptions,[11] bidders were required to direct all RFP questions, requests, and other inquiries to the RFP Administrator in writing using a dedicated RFP email address. The RFP Administrator was the only Entergy employee authorized to receive and handle RFP communications from bidders throughout most of the RFP and, exclusively, from the date the RFP Notice was issued in February, 2014 until the preliminary shortlist was selected in September, 2014.

The RFP Administrator also managed a public RFP Website that was used to post all RFP documents and to address most questions and other communications from bidders. The RFP Website provided an easily accessible and transparent forum which ensured that RFP questions

[11] For example, bidders communicated directly with MISO on required transmission issues. Bidders communicated directly with RFP personnel while attending the RFP Bidders' Conference held in Little Rock, AR, and were free to communicate with the IM at all times about any RFP issue.

and answers pertinent to all parties would be simultaneously and equally available to them, while keeping inquirers' identities confidential.

During the proposal evaluation period, the RFP Administrator managed all proposal clarifying communications between RFP evaluators and bidders and ensured that bidder, resource and proposal identifying information was appropriately redacted before releasing information to evaluators. The RFP Administrator also managed communications among RFP evaluation teams to ensure that only approved information was shared.

The IM worked closely with and oversaw the work of the RFP Administrator throughout the RFP. She reviewed all documents and communications before they were posted to the RFP Website. She reviewed all proposal information, questions, data, and clarifying requests, commented on them or recommended changes, as necessary, and approved all redactions proposed by the RFP Administrator before documents were provided to evaluators. This ensured that communications with bidders and among evaluation teams were handled properly and fairly, and that all commercially sensitive information was protected.

Before the RFP was published, the IM reviewed the list of employees designated by EAI and ESI to work on the RFP evaluation teams to ensure that those individuals were separate and different, that they could not provide an undue advantage to any RFP proposal, and that their participation in the RFP complied fully with their CAs, Arkansas affiliate rules, and Federal Energy Regulatory Commission ("FERC") Affiliate Restrictions and Standards of Conduct, as applicable.

RFP evaluation teams focused on different aspects of each individual proposal and each team received only the information it needed to do its job. For example, economic evaluators received a confidential report containing only pricing information for each proposal, but no information that identified the bidder. On the other hand, the identity of individual bidders was not withheld from the deliverability (transmission) team, because it needed bidder and location information to perform its job. However, this team did not receive price information from bidders' proposals.

Finally, even though certain evaluation teams needed to know the identity of bidders and the location of their resources, the information evaluators received routinely masked the identity of

bidders, generation resources, and proposals by replacing names with randomly generated identification numbers that bidders received when they registered their RFP proposals. These bidder, resource and proposal IDs were affixed to all RFP documents, reports and outcomes, and facilitated a consistent method of communication throughout the RFP.

3. Entergy Arkansas Resource Planning Team

EAI participants in the RFP signed CAs appropriate to their role, which included reviewing and approving all RFP assumptions, models, and documents. In recognition of EAI's overall responsibility for the RFP, the IM agreed that designated EAI Resource Planning personnel together with an EAI analyst assigned to the RFP should have access to substantially all RFP proposal information, including pricing information, in order to track and assess the evaluation of the submitted proposals and ensure that each evaluation team had the information it needed to perform effective, timely analysis of the RFP proposals. The proposal information EAI team members received redacted bidder identifying information and used bidder, resource and proposal IDs in its place.

G. RFP Bidders' Conference

On March 13, 2014, EAI posted notice that it would host a Bidders' Conference in Little Rock, Arkansas on April 2, 2014. Potential bidders were encouraged, but not required, to participate in the Bidders' Conference. For those not attending in person, EAI offered a simultaneous webcast so potential bidders could participate in the discussion and ask questions.

The Project Team provided a detailed RFP briefing including: 1) information on EAI's service area, customers, and existing capacity; 2) the RFP capacity request and information bidders were required to submit with their proposals; 3) proposed commercial terms and conditions and instructions for proposing commercial exceptions; 4) interconnection requirements for developmental projects; and 5) registration and bid submission processes. Team members also discussed the RFP evaluation process and the RFP timeline. The IM described her role in the RFP and outlined the RFP safeguards that were in place to ensure fair treatment of all proposals. Following these briefings, potential bidders asked questions about the RFP. The Project Team responded to all questions during the conference, but also posted each question and answer, as well as all conference presentation materials, to the RFP Website to ensure that all interested

parties, whether they had attended the Bidders' Conference or not, would have access to the information.

H. RFP Questions and Answers

Starting shortly after EAI provided notice to potential suppliers on February 7, 2014 and concluding just prior to the beginning of the proposal submission period on June 9, 2014, potential bidders submitted seventy-five (75) questions to EAI about the RFP. The RFP Administrator and IM handled each according to the RFP's confidentiality protocols, and posted all questions and answers to the RFP Website.

The questions covered a wide range of issues and addressed both traditional and renewable resources. Examples of questions related to renewable resources included: 1) transmission interconnection and MISO interface requirements; 2) inquiries about eligible technologies; 3) requests to clarify certain sections of the Minimum Requirements for Developmental Resources document; 4) requests to clarify certain credit requirements; 5) requests to clarify certain parts of the proposal evaluation process; and 6) requests to clarify certain requested due diligence and operational information requirements.

All questions and answers are posted on the EAI RFP Website.

I. RFP Documents and Procedures

RFP procedures require that all RFP documents be made available to the IM for review and comment prior to their publication. On March 21, 2014, the IM received and began reviewing the first set of draft RFP documents. On March 25, 2014, the IM attended a briefing conducted by RFP evaluation team members which provided information on the planned evaluation for proposals received in response to the RFP. The meeting provided the opportunity to review certain elements of the proposal evaluation that would differ from past practice including, for example, that bidders would deal directly with MISO on relevant transmission interconnection and network service issues, but also verify to RFP evaluators that they had done so when they submitted their proposals.

Over the next month, the IM received, reviewed and commented on different drafts of the RFP's Main Body, eight RFP appendices, and proposal registration and submission forms and associated materials.

The overall objective of the IM's review was to ensure that the documents and procedures adequately addressed the objectives of the RFP, that they were clear, thorough, and fair, that they described information bidders would be required to submit, and that they provided no undue preference to any bidder or proposal.

The draft documents provided detailed information on: 1) the resources EAI was seeking and how those resources addressed EAI's needs; 2) a summary of principal commercial terms for PPAs, tolls and acquisitions; 3) the timeline for RFP activities; 4) the different RFP evaluation teams and the economic, viability, deliverability / operations, and credit evaluations each team would perform;[12] 5) appendices providing information bidders were required to provide with their proposals; 6) how bidders could take exception to RFP commercial terms; and 7) RFP bidder registration and proposal submission procedures.

The documents also described the safeguards in place to protect commercially sensitive proposal information and the identity of bidders and resources during the evaluation. They described the role of the IM and how bidders could reach the IM if they wished to do so. They discussed RFP procedures to safeguard against preferential access to information, or unfair or improper advantage in consideration of any bid. They provided a separate and detailed confidentiality agreement that could be used by EAI and bidders in the event they determined they needed to share highly sensitive information that went beyond the confidentiality protections already provided by RFP procedures.

Many of the procedures in the 2014 RFP had been vetted in previous competitive power procurements and were updated or adapted to address the requirements of this RFP. New to this RFP were EAI's role directing the solicitation, EAI's request for utility scale renewable resources, and the fact that EAI had joined MISO on December 19, 2013.

[12] Information on the evaluation of renewable resources is provided later in this report in Section III. Proposal Evaluation.

One example illustrating the development of the RFP was the IM's review of draft documents addressing due diligence requirements. These documents required bidders to provide a substantial amount of developmental, operational, and credit information when they submitted their proposals.

The RFP's due diligence review, known as the "viability assessment," has been used in previous RFPs and has proved to be a useful evaluation tool. A key value in the IM's view is the viability assessment's ability to help evaluators determine whether resources with attractive economics can, in fact, deliver on those economics. For example, the viability assessment of developmental resources reviews a bidder's plans and related documentation to determine whether they support a commercial operations date ("COD") that is in line with RFP requirements.

The IM supports this assessment, particularly in an RFP that is likely to attract a large number of developmental resources or that contemplates acquiring an asset. She made a number of suggestions to eliminate certain areas of repetition and suggested that bidders be given the opportunity to update their viability assessment documents if their proposals were shortlisted, suggestions which EAI implemented.

The IM also highlighted a number of areas where she felt that information being provided by EAI or requested from bidders should be clarified or modified, but identified no major areas of concern. She conducted three separate reviews of all RFP documents, and discussed all aspects of RFP implementation and evaluation with the Project Team. Following these steps, the IM and EAI agreed on the final RFP documents.

EAI posted RFP documents to its RFP Website on May 5, 2014, and notified its list of interested parties electronically that the posting had taken place. An article in Platts *Megawatt Daily* covered and described the RFP, and pointed prospective bidders to the RFP Website for more information.

All 2014 RFP documents are posted on EAI's RFP Website.

J. Bidder Registration and Proposal Fees

Between May 20th and May 23rd, all bidders interested in participating in the 2014 RFP submitted proposal registration forms to the RFP Administrator that provided required contact, company, and product proposal information. Successfully registered bidders received randomly generated bidder, resource and proposal IDs with instructions to use them on bid documents as required by the RFP.

A brief summary of registered renewable proposals appears immediately below.

Table 2: Registered Renewable Proposals

Number of Bidders	**16**
Number of Generation Resources	**30**
• **Developmental**	**29**
• **Existing**	**1**
Number of Proposals	**31**
• **Wind**	
• **Solar**	
• **Solar and Wind**	

Beginning with proposal registration and continuing through proposal submission, the RFP Administrator maintained an RFP Hotline to respond to bidders' questions on registering proposals, paying proposal fees, and submitting proposals. The Hotline was a useful backup safeguard for any bidder uncertain about submittal procedures, or experiencing difficulty submitting registration or proposal information.

There was one glitch in bidder registration. On May 24th, the day following the conclusion of the bidder registration period, a potential renewable bidder contacted the IM with a proposal registration document he wished to submit. The bidder pointed to a section in the RFP's main document that stated May 24, not May 23, as the bidder registration deadline, and relayed that he had operated in good faith to submit his proposal registration by what he understood to be the

deadline. After reviewing the facts, the IM concluded that the bidder should not be penalized by a mistake in the RFP document, and contacted EAI immediately with the request that the bidder's registration be accepted. EAI agreed with the IM and the registration was accepted.

ESI invoiced bidders a $5,000.00 fee for each registered proposal, and required that all fees be paid before bidders would be allowed to submit their proposals. All bidders submitting proposals paid the proper fees without difficulty and on time.

K. Proposal Submission, Review, and Redaction

Market bidders submitted their proposals by email to the RFP Administrator beginning June 9, 2014 and concluding at 5:00 p.m. on June 12, 2014. Bidders completed a specially designed RFP proposal template with required information that would eventually be sent to the economic, deliverability / operations, viability, and credit evaluation teams. Bidders provided additional information in file attachments or flash drives or CDs, largely in response to the RFP's viability assessment requirements. Bidders also noted any special considerations, clarifications, or additional information regarding their proposals, or, in accordance with RFP protocols, exceptions they wished to take to RFP commercial term sheet requirements. All proposal information was held securely by the RFP Administrator until the IM and RFP Administrator accessed it following the June 12 proposal deadline.

Beginning June 16, 2015, the IM and RFP Administrator reviewed the proposal threshold requirements stated in the RFP and determined that all but two renewable proposals were in conformance with RFP requirements. Those two non-conforming proposals appeared to have omitted a small amount of required information. Because RFP practice allows it, the IM contacted the bidders sponsoring the proposals and requested that they provide the missing information as soon as possible. Both bidders quickly provided the required information.

Due to the large number of documents that had to be reviewed before they could be released to evaluators, the IM and the RFP Administrator worked with the RFP Administrative Team during the first days of bid review. They reviewed all proposal information submitted by bidders and, as needed, redacted each report and document to remove unauthorized identifying information and to provide only the proposal information each evaluation team was authorized to receive. The

review included all proposal templates, special considerations, due diligence documents, and any additional information bidders provided about each proposal and resource. The IM and the RFP Administrator kept separate copies of complete and unredacted information from all proposals, information that included the identity of each bidder and resource.

At the end of this review and after approving all proposed redactions, the IM authorized the RFP Administrator to release redacted proposal information from the conforming proposals to each designated RFP evaluation team. Beginning on June 20, 2014, evaluators began receiving proposal information for the first phase of the evaluation. A brief summary of renewable proposals that were submitted into the RFP and released to the evaluation teams appears immediately below.

Table 3: Submitted Renewable Proposals

Number of Bidders	**14**
Number of Generation Resources	**27**
• **Developmental**	**27**
• **Existing**	**0**
Number of Proposals	**28**
• **Wind**	[redacted]
• **Solar**	[redacted]
• **Wind & Solar**	[redacted]
Proposal Products	
• **20 Year PPA**	**28**
• **10 Year PPA**	**0**

The RFP received three fewer proposals than had been registered. Two bidders, each of which had registered one proposal, withdrew from the RFP; one bidder which had registered three proposals chose to submit two. A third bidder made clear in its submission that [redacted] of its proposals was a combination wind-solar resource, a clarification that provided EAI with [redacted] wind-solar proposals. All these changes conformed to RFP requirements.

L. Comments

During RFP development and implementation, the IM was responsible to ensure that its objective was clearly stated, that it encouraged a robust response from the competitive wholesale market, that potential bidders and other interested parties could ask questions about and comment on it, that it had procedures to ensure objective analysis of all proposals, and that it provided adequate information to bidders on how their proposals would be evaluated. Based on her close oversight of all RFP activities, the IM concludes that the RFP adequately addressed these issues. The following observations support the IM's conclusion and provide additional comments on several issues:

- The RFP was the first conducted by EAI since it exited the Entergy System Agreement. EAI put in place a structure to manage and oversee the RFP, and was actively involved in all aspects of its development and implementation. EAI contracted with ESI, its affiliated services company, to conduct the detailed proposal evaluations, but received all proposal information, and actively oversaw the work of the proposal evaluators. The IM worked with EAI personnel in all aspects of the RFP's development and implementation.

- The Project Team organized and staffed the RFP to safeguard data and ensure fair consideration of all proposals. All RFP participants signed CAs requiring them to protect proposal information and the integrity of the RFP process. Bidder, resource, and proposal names were replaced by numeric identifiers. Other identifying information was carefully redacted. Each evaluation team was designated to perform discrete and separate functions and was provided only with the information it needed to do its job. The IM reviewed all evaluators designated to participate in the RFP to ensure that they did not possess material non-public information about any proposal, and that they would otherwise maintain the protocols and safeguards of the RFP.

- Prospective bidders had the opportunity to request clarifications and ask questions about the RFP. Bidders exercised that opportunity by putting 75 questions to EAI – many of which addressed issues of interest to those proposing renewable resources.

- The RFP documents described the proposal evaluation in sufficient detail in the RFP documents. The evaluation process, different teams and their responsibilities, and the evaluation timeline were described in written documents posted on the RFP Website, and discussed during the RFP Bidders' Conference. Evaluation model assumptions and inputs were discussed with the IM and provided to her, but were otherwise confidential. The evaluation process was substantially transparent and disclosed to bidders how and when price and non-price factors would be considered in the review of their proposals.

- Bid registration and submission procedures were fair and described fully. All bidders successfully complied with RFP registration and bid submission procedures. The RFP Administrator provided backup support through the RFP Hotline.

- Fourteen renewable resource bidders submitted twenty-eight proposals into the RFP. This robust response provided EAI with the opportunity to conduct a solid market test of utility-scale solar and wind resources.

III. Proposal Evaluation

A. Evaluation Process

The goal of the 2014 RFP evaluation of renewable resources was to identify the proposal or proposals that met the requirements of the RFP and best addressed EAI's need for long-term reliable capacity at the lowest reasonable cost and risk. The evaluation was structured to meet that goal and to treat all proposals fairly and objectively. It was designed to be conducted in two phases. They are described briefly here and in greater detail in the discussion of the work performed by each evaluation team.

During Phase I, the RFP evaluators assessed all renewable proposals as planned and in accordance with RFP protocols. Each of the fourteen bidders offering renewable proposals was responsive both to the RFP's proposal submission requirements and its follow-up clarifying questions.[13] The objective of the Phase I evaluation of renewable resources was to identify the proposals that were the most attractive overall so EAI could select a preliminary shortlist from those proposals and eliminate less attractive proposals from further consideration.

For renewable proposals, Phase I included: 1) a fundamental economic analysis of each proposal performed by the Economic Evaluation Team ("EET") to determine its average energy cost and average capacity value (both in $MWh); 2) a levelized estimate of energy benefits using EAI's production cost model, the AURORAxmp Electric Market Model ("AURORA"), to develop a relative indicator of the potential energy benefits of each proposal by simulating the hourly operations of the power market for two representative calendar years (2021 and 2022); 3) an initial assessment performed by the Deliverability and Operations Assessment Team ("DOAT") of interconnection requirements, and the risks and costs associated with delivering each proposal and; 4) a review performed by the Viability Assessment Team ("VAT") of an RFP-required self-assessment submitted by bidders for each proposal, a determination of whether any proposal contained a "fatal flaw" that would disqualify it from consideration, and an identification of issues to be reviewed, clarified or further assessed during Phase II of the RFP.

[13] Clarifying questions addressed a wide range of proposal issues. They requested additional information, or clarification of a special consideration attached to a proposal, or asked for more information on an option proposed by a bidder. All clarifying questions were monitored by the IM.

Based on consolidated Phase I information that it received from the evaluation teams, EAI's Resource Planning Team recommended to the RPOC that eight (8) renewable proposals – five wind and three solar – be selected to a preliminary shortlist. The RPOC concurred with the recommendation. Those eight proposals remained under consideration and were subject to additional evaluation based on their economic attractiveness and potential, otherwise, to address EAI's renewable resource objectives. The other renewable proposals were rejected.

The completion date of the Phase I evaluation was affected by the large number of renewable resource proposals (28), by the fact that all were sourced from developmental proposals, and that more than half of the proposals (17) were located either outside MISO LRZ 8 or outside MISO altogether. EAI concluded that it required more time to select a preliminary shortlist of renewable proposals and needed to focus all its RFP resources on doing so. After conferring with the IM about its conclusion, EAI postponed selecting its preliminary shortlist for one month to no later than September 18, 2014 and notified all bidders of the change.

The Phase II evaluation considered renewable proposals selected to the preliminary shortlist. During Phase II: 1) the EET used the AURORA model to develop a more detailed production cost analysis of the short-listed proposals to determine the energy benefits of each proposal during each year of the proposal term, and conducted analyses to determine the sensitivity of the proposals to different natural gas and carbon price assumptions, different financial delivery points, or changes in tax credit assumptions; 2) the DOAT assessed in greater depth the issues associated with delivering each proposal to EAI; and 3) the VAT conducted a more detailed viability assessment of all resources and developed a comparative ranking for each.

During Phase II, EAI, along with VAT and DOAT evaluators and the IM, met directly via telephone conference call with each short-listed renewable resource bidder to discuss in detail various aspects of its proposal. When compiled, the Phase II results provided a comprehensive assessment of each proposal and how it was projected to satisfy the objectives of the RFP.

The following subsections describe the responsibilities of the EET, DOAT, and VAT evaluation teams during Phase I and Phase II of the evaluation, and discuss the role of the Credit Evaluation Team ("CET").

1. Economic Evaluation

In Phase I of the RFP, the EET produced a quantitative estimate of the economics of each proposal. In addition to information provided by bidders, the EET's model used proprietary assumptions from EAI internal forecasts (e.g., carbon costs, fuel prices, inflation projections, tax rates, debt and equity costs, weighted average cost of capital, etc.) and MISO renewable capacity credits for wind and solar resources.

Before opening any proposal, the IM received all RFP assumptions and the EET's completed spreadsheet evaluation model (populated with test data). She reviewed the information to see how the model would handle assumptions, forecasts and proposal information. She concluded that the assumptions were reasonable and either validated by or in line with those of independent third party sources, and that the model handled information provided by bidders, RFP analysts, and other sources fairly and objectively.

In addition to cost information, EET populated its model with other proposal data including: proposal dates, the type of resource, and capacity information.

It has been the EET's practice in power supply RFPs to compute a cost to PPA proposals due to the proposals' potential effect on EAI's capital costs. This so called "imputed debt" cost stems from the treatment of long term PPAs by credit rating agencies.[14] The EET evaluates each PPA proposal both with and without estimated imputed debt costs. Because in this RFP all renewable proposals offered 20 year PPAs, the cost of imputed debt did not differentiate among them and was not a factor in the evaluation.

The economics of the renewable proposals submitted into this RFP depended, with one exception, on federal tax credits. The Production Tax Credit ("PTC") provides a credit of 2.3 cents/kWh for the first ten years of a wind project. The PTC had expired for new projects on December 31, 2013, but every bidder proposing a wind project, except one, priced its proposal to

[14] According to Standard & Poor's, a PPA is considered to be a debt of a certain percent of the PPA obligation. If a utility were to enter into a long-term PPA, its total debt would increase. Because a credit rating could decline when debt increased, entering into a PPA could decrease the utility's credit rating and increase its cost of capital. The utility accounts for these increased costs by measuring the equity it would have to issue to maintain the same capital structure and credit rating.

include the PTC with the expectation that it would be restored by the U.S. Congress before December 31, 2014.

The Investment Tax Credit ("ITC") for solar projects provides a credit equal to 30% of eligible solar investment expenditures. The ITC remains in effect for new solar projects, but is scheduled to terminate on December 31, 2016.

The EET evaluated all renewable projects as proposed by the bidders, but, at EAI's request, also modeled the economics of each proposal without the benefit of the PTC and the ITC. On average, the EET projected that the bidder-assumed tax credits accounted for 30% of the bid price on a real levelized basis, but were as high as 45% of the bid price for certain proposals.

RFP safeguards and information protocols were designed to ensure that the EET's conclusions would be based on the objective results of its analyses. They were in place and fully enforced during the evaluation. The EET was not provided with the identity of any bidder or resource during the RFP. It conducted its evaluations and received evaluation inputs from other evaluation teams using RFP numeric IDs. The EET communicated with bidders throughout the RFP through the RFP Administrator and the IM. During approved communications between the EET and DOAT and/or VAT evaluators, proposals were referred to by their numeric IDs, and all such discussions and communications were fully monitored by the IM.

The EET's Phase II evaluation originally planned to conduct analyses of both shortlisted traditional and renewable proposals grouped into product portfolios to determine which portfolio combinations best met EAI's long term capacity needs. However, since EAI did not complete the selection of any traditional resource in the 2014 RFP, the EET did not conduct portfolio analyses during Phase II of the RFP evaluation.

Instead, the EET conducted a more in depth analysis of each renewable proposal using AURORA to project energy benefits during each year of its 20 year proposal term. The EET also conducted sensitivity analyses on the three wind and two solar proposals (e.g., different delivery points, different fuel and carbon price assumptions) that demonstrated the highest projected value for EAI.

At the conclusion of Phase II, the EET provided the results of its more detailed analyses to the EAI Resource Planning Team for it to consider in its final recommendation to the RPOC.

2. Delivery and Operations Assessment

During Phase I, the DOAT conducted a qualitative assessment of each traditional proposal to determine whether it met the interconnection and energy delivery requirements of the RFP. The DOAT identified whether a resource was existing or developmental, where it was located, whether it met RFP capacity requirements, whether it had provided valid interconnection and MISO Network Resource Interconnection Service ("NRIS") request information, and whether the bidder had noted significant exceptions to key RFP terms. For each category the DOAT identified whether each proposal fully or partially met different RFP expectations, whether it did not meet expectations, or whether further information was required to know whether it met expectations.

The DOAT identified certain potential shortcomings for all but 5 of 28 renewable proposals. For example, while most bidders located outside MISO agreed to physically deliver energy to an open interface between MISO and an external balancing authority, most of those same bidders objected to financially scheduling energy to the commercial pricing node ("CP Node") in MISO's financial model for EAI's load ("EAILD") and bearing the financial risk of the price difference between physical and financial delivery.[15] The DOAT noted that in many instances it required further information from bidders in order to draw a firm conclusion, and provided the results of its review to EAI for its use in selecting the preliminary shortlist.

The DOAT also provided the location of each proposed renewable resource to evaluators running the AURORA production cost model.

During Phase II, the DOAT expected to use a power flow model to assess each portfolio of shortlisted renewable and traditional proposals to identify potential transmission constraints and potential costs to mitigate those constraints. The DOAT expected to provide and discuss its

[15] The IM notes that it is not at variance with protocols for bidders to propose a commercial exception at this stage of the RFP. For EAI a commercial exception can be a way to distinguish between different proposals, but it does not in and of itself disqualify an otherwise attractive proposal from consideration.

Phase II analyses with EAI so the results could help inform final portfolio rankings. Because EAI did not complete the selection of any traditional resource in the 2014 RFP, the DOAT did not conduct Phase II portfolio analyses.

Instead, the DOAT performed an updated status assessment of delivery issues for each shortlisted renewable proposal. The assessment updated interconnection, system impact study, network resource and scheduling issues as proposed by shortlisted bidders. It also updated information on how each bidder proposed to schedule the output of its facility in order to determine whether EAI or the bidder would bear delivery risk, or, as was the case with at least one proposal, the bidder reported that it had changed its energy delivery pricing structure. The assessment was provided to EAI for its consideration in selecting the most attractive renewable proposals.

Because the DOAT needed to know the location of all resources to do its job, it received the name and location of the resource at the beginning of the evaluation. DOAT members were prohibited by RFP protocols from disclosing this information or communicating directly with the EET. The RFP Administrator and IM handled all communications between the DOAT and the EET to ensure that this prohibition was observed.

DOAT communications and evaluation documents used bidder, resource and proposal IDs in place of names or other identifying information. At no time did the DOAT have access to proposal cost information directed to the EET.

3. Viability Assessment

The VAT evaluated the overall viability of all resources bid into the RFP and provided guidance on the merits of each resource for EAI. The VAT provided the results of its work to EAI who added it to that of the other evaluators to identify the proposals that best addressed the needs of this RFP. The IM monitored and, as needed, provided input to the VAT's work to ensure an objective and impartial review.

The VAT was staffed by subject matter experts ("SMEs") prepared to address all renewable technologies eligible to bid into the RFP. Because no biomass or hydroelectric resources were bid into the RFP, SMEs focused on wind and solar resources.

SMEs who reviewed renewable resources were all Entergy employees experienced in the subject areas for which they were responsible. Since all renewable proposals in this RFP were sourced from developmental resources, SMEs reviewed information from each bidder addressing the following kind of issues:[16] a) project development including proposed schedule, status of design and engineering studies; b) documentation of site control; c) environmental issues, including required permits; d) information about the specified technology; e) commercial considerations, including business and risk issues; and f) construction experience of the project team.

The VAT's Phase I preliminary assessment reviewed all renewable resources to determine whether they qualified as eligible resources, were capable of meeting the RFP's required start date, met capacity requirements, proposed a term of at least ten years, and were free of any "fatal flaws" that would keep them from meeting EAI's supply objectives. The VAT also identified issues and special considerations bidders had noted in their proposals in order to highlight them for review during Phase II. The VAT did not find that any renewable resources possessed a fatal flaw or, otherwise, was ineligible to remain in the RFP. It provided that information to EAI for its consideration.

The VAT's Phase II assessment evaluated the five wind and three solar short listed resources in greater detail. The Phase II assessment was organized around focus areas that together created a scorecard for each resource. Each proposal was scored based on the importance of the focus area and on the status of each proposal in each focus area sub-category. The scorecard was similar to scorecards used in previous RFPs, but its topics, sub-categories and weightings were reevaluated to address the renewable proposals sought by this RFP.

The weightings for each focus area are based on SMEs' expert opinion of its relative contribution to the overall viability of the resource and are, in the IM's view, a reasonable way to measure that contribution.

The scoring system for each sub-category is based on a three point scale with "1" as low or not adequate, "5" as average, and "10" as high or fully functional. For example, when considering

[16]This is a representative list of VAT due diligence categories for developmental renewable resources. Appendix C-1 of the 2014 RFP documents contains the complete requirements and is posted on EAI's RFP Website.

environmental issues and the associated potential for operating restrictions or concerns "1" indicates that the potential for significant issues exists and there is no plan in place to address them, "5" indicates that there is potential for issues to develop, but a limited plan in place to address them if they do, and "10" indicates either that there is no potential for issues to develop or that there is a full plan in place to address them if they do. The overall score for each focus area is determined by the simple average of the scores for each of its sub-categories. The final scorecard ranks all proposals based on their focus area viability scores.

The 2014 RFP focus area for developmental wind and solar resources, their sub-categories, and weightings are illustrated below.

Table 4: VAT Wind and Solar Resource Focus Areas

Operations	**Weighting**	**Project Status**	**Weighting**
Proposed Technology	**10%**	Status of Engineering	**25%**
Overall Condition of Major Equipment		Status of EPC Contract Process	
Fit with Functional Objectives and Products		Adequacy of Construction Plan to Meet COD	
Plan in Place for Dealing with Common Facility Issues			
Planned Operator Experience/Knowledge			
Operational Control/Governance			
Flexibility of Effective Operating Range			
Strategy for Long-Term Equipment Maintenance			
Fuel – Resource Assessment Quality	**Weighting**	**Environmental**	**Weighting**
Wind – Resource Assessment Quality	**25%**	Status of Critical Permits	**15%**
Solar – Resource Assessment Quality		Compliance History	
		Potential for Operating Restrictions or Concerns	
		Land or Environmental Issues	
Commercial	**Weighting**		
Product Delivery Term	**25%**		
Deviation from Key Proposal Guidelines			
Proposal Pricing Structure			
Viability as Long-Term Supplier			
Plan in Place for Obtaining Easements/ROWs/Site Control			
Acceptance of Disallowance Risk			

The VAT accounting SME evaluated in detail whether any of the renewable PPA proposals would trigger a capital lease, a circumstance that would consider the PPA a purchased asset for accounting purposes and require EAI to account for the PPA on its balance sheet.

The VAT knew the identity of bidders during its evaluation. It requested clarifying information on each resource from the beginning of Phase I that it used to develop further areas of inquiry. During Phase II, the VAT issued additional clarifying requests to all short listed renewable resource bidders and, along with EAI, DOAT evaluators, the RFP Administrator and the IM, conducted a detailed telephone conference call meeting with each of them.

VAT members were prohibited by RFP protocols from disclosing bidder and resource identifying information to the EET. Throughout the RFP, all VAT communications and evaluation documents used bidder, resource and proposal numeric IDs in place of names or other identifying information. While most VAT members did not have access to proposal cost information, the SME evaluating capital lease accounting was the exception because he required that information in order to do his work.

4. Credit Evaluation

The RFP established the CET to assess whether a bidder's credit quality combined with the proposal(s) it offered adequately addressed EAI risk management standards. It was the CET's job to identify collateral requirements or other forms of security in the event the supplier failed to perform and EAI was required to replace energy and capacity during the term of the PPA. EAI described its credit evaluation requirements in a detailed appendix to the RFP, which discussed how the CET would review a bidder's credit rating and how and when collateral requirements would be applied to different products. During the development of the RFP documents, the IM reviewed credit and collateral requirements and when they would be implemented by EAI. The IM concluded that the requirements were fair and thoroughly disclosed.

The CET functioned separately from the other RFP evaluation teams. To perform a credit evaluation, it needed to know the name of each bidder and its legal organizational structure. In order to assess each bidder's ability to manage potential risk, the CET also received information on the capacity amount, delivery term and proposed cost of each proposal. No bidder was excluded from participating in the RFP due to its credit position, and the CET's credit evaluation had no effect on the outcome of the evaluation. Instead, recommendations from the CET were provided to the RFP and slated to be considered during negotiations with any successful third party bidder.

B. Phase I

The goal of the Phase I evaluation was to determine which proposals would be candidates for the preliminary shortlist. Phase I began on June 20, 2014 when the RFP Administrator first provided bid information to evaluators, and was completed when bidders were notified of their shortlist status on September 17, 2014.

EET, DOAT, VAT and CET evaluators reviewed proposal information they received and submitted clarifying questions to bidders through the RFP Administrator.

EAI convened a meeting with evaluation team members and the IM on August 28, 2015 to review the Phase I findings it had received from each team, the highlights of which were discussed in Section III.A of this report. EAI led meeting participants through a discussion of the current status of the evaluation and a detailed assessment of each proposal – to confirm with evaluation team members whether the information was accurate, to highlight areas of low, medium and high risk, and to help identify areas in each proposal where additional information was needed.

Following this meeting and after considering proposal economics, as well as updated qualitative issues identified in the Phase I evaluation, EAI recommended to the RPOC that eight proposals be selected to the RFP preliminary shortlist. The IM reviewed EAI's recommendation and concurred that it fairly represented the results of the Phase I evaluation. The RPOC ratified EAI's recommendation.

The eight renewable bidders were notified that their proposals had been selected for the preliminary shortlist on September 17, 2014. The remaining bidders were notified at that same time that their proposals had been rejected from further consideration.

The Phase I economic results if the eight short listed proposals are show below. They are based on the nominal offer price in $/MWh for each proposal.

Table 5: EET Phase I Evaluation
Short Listed Renewable Proposals

Proposal	Resource	MW	Capacity Factor	Production at Time of Peak	Nominal Offer Price ($/MWh)
[redacted]					

On October 13, 2014, EAI met with APSC Staff to discuss RFP Phase I outcomes and reported that it had moved eight renewable proposals to the preliminary shortlist. EAI also reported that had begun its more in depth Phase II assessment by conducting telephone conference calls with each of the eight bidders offering renewable resources.

C. Phase II

Phase II is intended to be a more detailed evaluation of all shortlisted proposals. When EAI notified eight renewable bidders on September 17, 2014 that they had been selected to the preliminary shortlist, it requested that they update any previously submitted due diligence material by September 24, 2014, and informed them that EAI would set up meetings to discuss viability, commercial and transmission issues that the Phase I evaluation had determined required further review.

1. Bidder Meetings

EAI held teleconference meetings with each of the eight renewable resource bidders beginning September 29, 2014 and concluding October 17, 2014. Each meeting was tailored to the issues

identified for each bidder but, in general, addressed the following topics: a) project development status; b) plant and equipment issues; c) transmission and interconnection progress; d) bidder perspectives on federal tax credits; e) environmental issues; f) commercial issues; g) regulatory issues; and h) capital lease accounting issues. In addition to EAI, members of the DOAT and the VAT teams, the RFP Administrator, and the IM participated in each meeting.

The meetings gave EAI the opportunity to understand more fully bidders' views on a range of issues. Of particular note was information on project development timing requirements, environmental issues, and bidders' perspective on whether federal tax credits, particularly the wind PTC, would be available to support their proposals. The meetings also provided bidders the opportunity to ask questions. Among the most frequent was whether EAI would complete its proposal review on schedule so bidders could maintain the development and construction schedule assumptions they had built into their proposals.

2. Focus on Renewable Proposals

On October 2, 2014, EAI notified the IM that it wanted to suspend consideration of all traditional resources for an indeterminate time. As EAI explained, even after selecting the preliminary shortlist and decreasing the number of renewable proposals, the Project Team felt its evaluation of renewable resources had become so complex and consuming that EAI did not believe it had adequate resources to continue evaluating traditional resources at the same time. EAI concluded that renewable resources needed to take priority because the proposals submitted by all renewable bidders, except one, were dependent on federal tax credits to maintain the pricing terms they had bid into the RFP, and all federal tax credits were subject to approaching expiration dates.

Given the complexity and the timing requirements of the renewable proposals, it was clear to the IM that EAI did need to focus substantial resources on them. However, the IM also questioned how long the suspension for traditional resources would last, and whether EAI had considered how an indeterminate suspension could affect the pricing and other commercial terms offered by traditional resource bidders.

The IM concluded from this discussion that if EAI delayed the Phase II evaluation of the traditional resources bid into the RFP, it needed to provide affected bidders with a definite date by which it planned to resume the evaluation of their proposals.

EAI agreed on a specific date by which it would resume its Phase II evaluation of RFP traditional proposals. On October 15, 2014, EAI informed all bidders that it would delay further consideration of traditional resources until November 28, 2014, but would continue its evaluation of renewable resources according to the schedule described in the RFP. On November 28, 2014, EAI notified traditional resource bidders that it was resuming its evaluation of traditional resource proposals, and that it expected to complete its evaluation and notify bidders of the evaluation results during the first quarter of 2015.

3. Capital Lease

Capital lease accounting has emerged as an issue in power contracts due to requirements put in place by the Financial Accounting and Standards Board ("FASB") and subject to ongoing refinement and interpretation. To determine whether any of the renewable resource PPAs in this RFP would be considered a capital lease, and, therefore, a purchased asset for accounting purposes, the VAT accounting SME had to identify whether PPA terms and the economic life of the resource met one of four tests.[17] Following his assessment, the SME determined that seven of the eight renewable proposals[18] did trigger a capital lease because the lease term for each (the 20 year PPA) was at least 75 percent of the underlying property's estimated economic life (25 years for solar and 20 years for wind). However, based on recent accounting guidance related to renewable facilities, the SME found that each proposal's minimum lease payments would be $0 because there would be limited fixed payments and those payments would be independent of each proposal's energy production. Therefore, there would be no capital lease asset or obligation

[17] The four tests are: a) ownership of the asset under lease transfers to the lessee (EAI) by the end of the lease term; b) the lease contains a bargain purchase option; c) the lease term is at least 75% of the property's estimated economic life; and d) the present value of the minimum lease payments is greater than 90% of the fair market value of the leased property.

[18] One wind proposal avoided the capital lease designation because its proposed energy delivery structure disqualified it.

to record at the beginning of the lease agreement and no cost impact to EAI's balance sheet for these renewable proposals.

4. Economic Analysis

The Phase II economic analysis of renewable proposals simulated how EAI costs would change if EAI entered into a PPA with each short listed proposal. The EET assumed that each proposal would be priced "as bid," including that each wind proposal would benefit from the PTC and each solar proposal would benefit from the ITC. It also assumed that all proposals would financially deliver to the EAILD CP Node.

The projected savings of each proposal as bid is shown immediately below.

Table 6: EET Phase II Evaluation
Renewable Proposals – Total Savings

Proposal	Resource	MW	Total Savings ($M)	Average Savings ($/kW)	Levelized Savings (2015 ($/MWh)
[redacted]					
[redacted]					
[redacted]					
[redacted]					
[redacted]					
[redacted]					
[redacted]					
[redacted]					

The EET also conducted sensitivity analyses considering high and low natural gas and carbon prices, as well as analyses to determine the change in savings between different financial and physical delivery points on the wind and solar proposals, and different assumption regarding extension of the federal PTC. Testing proposal economics under these different scenarios gave

EAI insight into how well each proposal would perform under different conditions and helped inform its final selection recommendations.

5. Viability Assessment

The VAT completed its due diligence evaluation of each renewable proposal and completed its scorecard based on focus area categories. The results showed some differences among proposals, and highlighted some concerns. Together with EAI, the VAT also reviewed bidders' positions on certain commercial terms, including deliverability issues. Taken together, these analyses provided useful information, but did not, EAI felt, provide grounds to either eliminate any proposal or strongly promote one proposal over another. Rather, EAI concluded and the IM agreed that these findings provided information that could be pursued during contract negotiations with selected bidders.

D. Proposal Selections

On November 19, 2014, the Resource Planning Team recommended to the RPOC that it select the solar proposal submitted by NextEra and known as Stuttgart Solar for negotiation of a 20 year PPA. The Stuttgart Solar proposal showed a higher level of savings than the other short listed solar proposals, both in the evaluation's base case and in its sensitivity analyses.

Because all but one of the short listed wind proposals relied on the PTC for their economic value to EAI, and because the remaining proposal would be more attractive if the PTC was renewed, the Resource Planning Team also recommended to the RPOC that it postpone consideration of all wind proposals until January 2015. The Team reasoned, and the IM agreed, that EAI needed to know whether the U.S. Congress would restore the PTC before the end of 2014 and, if so, what form that restoration would take. Without this information, EAI concluded it could not fairly consider the wind proposals since all but one relied on the PTC for their pricing

The RPOC endorsed the Resource Planning Team's recommendations. It authorized the Team to move ahead with PPA negotiations with NextEra, and postponed consideration of wind proposals until January 2015.

E. Notifications

On November 20, 2014, EAI notified NextEra that it had selected the Stuttgart Solar proposal for its primary selection list and wished to proceed to negotiate a definitive 20 PPA contract for the proposal. At the same time, EAI notified one other solar proposal that it had been placed on EAI's secondary selection list, a designation that meant EAI could pursue discussions with that bidder at a later time if negotiations with Stuttgart Solar were not successful. The bidder on the secondary selection list was asked to hold its proposal pricing and terms for 30 days in consideration of that possibility. The third solar proposal was informed it would not be considered further.

On November 28, 2014 EAI notified bidders proposing wind resources that it would delay a decision on those resources until January 2015 due to uncertainty regarding the status of the PTC.

On December 8, 2014 EAI met with Staff to update them on key issues. The IM attended the meetings by telephone. EAI informed Staff that it had short listed both traditional and renewable resources in September, had performed more detailed analyses on renewable proposals in October and November, and that these analyses concluded with EAI's selecting the Stuttgart Solar proposal and beginning negotiations for a 20 year PPA. EAI also told Staff that it was deferring consideration of wind proposals until January 2015.

On January 21, 2015, the RPOC endorsed entering PPA negotiations for a 200 MW wind proposal with the wind bidder whose proposal did not rely on the PTC for its pricing. This followed EAI's review of Congress' decision to extend the PTC for a two week period that concluded December 31, 2014. EAI contacted the five short listed wind bidders to determine their response to this brief extension. Based on those responses, EAI determined that the wind proposal that did not rely on the PTC was the most attractive of the short listed wind proposals and projected substantial savings to EAI in both base and sensitivity cases. EAI notified the bidder proposing that resource that it had been selected to EAI's preliminary selection list and that EAI wished to proceed to negotiate a possible definitive 20 year PPA for the proposal. On January 26, 2015, EAI initiated PPA negotiations with the bidder proposing the 200 MW wind proposal.

F. Comments

The validity of the RFP depended on whether proposal evaluation was thorough, objective, impartial, and free of undue preference toward any bidder. Based on my close oversight, I conclude that the evaluation met these standards. My conclusion is supported by the following observations:

- The Phase I evaluation was consistent with the description and protocols described in the RFP. EAI and all evaluators adhered to the protocols in place to ensure fair and objective treatment of all proposals. In addition to evaluating the economics of each proposals – both with and without the benefit of federal tax credits – the RFP Project Team identified important issues including bidders' willingness to accept certain delivery risks. At the end of Phase I, EAI recommended and the RPOC approved short listing five wind and three solar proposals.

- The Phase II evaluation did not analyze proposal portfolios as originally planned, but conducted a thorough evaluation of all renewable proposals and treated each proposal fairly. During Phase II, VAT and DOAT evaluators both updated and conducted more in depth due diligence and deliverability analyses. The EET, which did not have access to the identity of any bidder, conducted savings analyses on each proposal including an assessment of average cost savings in $/MWh of purchased renewable energy, average cost savings in $/kW of contracted renewable capacity, and projected total cost savings. EAI provided hands on guidance and direction to all facets of the evaluation. The evaluation was overseen by the IM, who worked closely with EAI, the VAT, the DOAT, the EET, and the RFP Administrator.

- The Phase II evaluation identified the renewable proposals with the greatest likelihood to benefit EAI. Evaluation procedures and models were consistently applied to all proposals. The economic evaluation of all bids was fair and objective. The availability of PTCs for wind and ITCs for solar was a key factor in determining how economically attractive short listed renewable proposals were. Uncertainty surrounding the status of PTCs delayed EAI's evaluation of wind proposals until early 2015, and ultimately led EAI to select for negotiation the only wind proposal that did not rely on the PTC to

support its economics. The economics of all solar proposals benefited from the fact that the ITC does not expire until December 31, 2016.

- The VAT and DOAT evaluation findings provided useful due diligence and deliverability information on each renewable proposal, but did not change the outcome of the evaluation. The economic analysis of all proposals was the most important factor in determining the Resource Planning Team's recommendations to the RPOC.

- The large number of renewable proposals provided a solid market test, but also required EAI to modify its evaluation schedule twice to address all the issues they presented. EAI did not fully anticipate how complex the evaluation of renewable proposals would be, or how much time it would take to thoroughly consider the large number of proposals it received. The situation was particularly challenging because all 28 proposals were sourced from resources that did not yet exist. As a consequence, EAI delayed selecting a short list for several weeks, and set aside consideration of traditional proposals so it could pursue evaluation of renewable proposals – all of which were subject to expiring tax credits. Of course, EAI could not know at the beginning of the RFP how many proposals it would receive. And the robust response of renewable proposals enabled EAI to conduct a meaningful market test. Despite the challenges it faced, EAI managed the RFP successfully and selected two renewable proposals for negotiation that were projected to provide solid long term benefits to EAI customers.

IV. PPA Negotiations

On November 24, 2014, EAI and NextEra conducted their first negotiation meeting by telephone conference call. The IM was present during this initial discussion. The IM also monitored subsequent work on the contract through periodic discussions with EAI, and by receiving and reviewing draft PPA contracts during the negotiation's course. However, because this was an arm's length negotiation between two unaffiliated parties operating freely and independently from each other, the IM did not participate directly in all discussions as would have been the case if the proposed PPA transaction and negotiations were taking place between affiliated companies.

The IM's principal interest in monitoring this negotiation was determining whether the essential terms of the proposed PPA mirror those of the proposal bid into the RFP. It is the IM's opinion that for the most part they do. The $[redacted] nominal offer price for the 20 year term of the contract remains the same. However, in the course of the negotiation and in light of information received since negotiations began, there have been certain changes. For example, EAI has secured a price of [redacted] for excess energy if Stuttgart Solar delivers more than [redacted] of the expected energy in any calendar year. [redacted]

EAI has secured certain contractual protections including [redacted] EAI also has negotiated typical, but important compensation and termination rights in the event Stuttgart Solar does not achieve commercial operation, is delayed, or does not achieve contractually guaranteed minimum operational requirements.

Overall, the costs of this proposal increased somewhat due to [redacted]. Even with that increase, the Stuttgart Solar proposal remains a better value for EAI than the other short listed solar proposals, and continues to provide a projected benefit to EAI over the course of the 20 year contract period.

It is the IM's conclusion that the proposed 20 year PPA contract for the output of the Stuttgart Solar project was negotiated fairly between EAI and NextEra.

On January 26, 2015, EAI began PPA negotiations with the wind proposal selected by the RPOC earlier that month. The IM attended the first negotiating session, but thereafter did not directly participate in the discussions. Instead, she monitored progress between EAI and the bidder because, as with Stuttgart Solar, the negotiation was an arm's length transaction between two independent and unaffiliated parties.

EAI's negotiation with the wind project did not result in a proposed PPA. It concluded on April 28, 2015 when EAI notified the bidder that it was terminating discussions on the proposed contract due to what it considered the low likelihood of success. This ended the 2014 RFP's consideration of renewable proposals.

V. Conclusion

EAI has, subject to regulatory approval, proposed to enter into a 20 year PPA for the output of the 81 MW Stuttgart Solar project. The Stuttgart Solar project is the result of EAI's 2014 RFP, a competitive solicitation that attracted 28 renewable proposals from 14 bidders. Eleven of the proposals were for solar PPAs. Fifteen of the proposals were for wind PPAs. Two proposals were a combination of wind and solar technologies. The Stuttgart Solar proposal proved to be the most attractive solar proposal bid into the RFP based on quantitative and qualitative measures.

During the 2014 RFP, the IM monitored RFP activities closely and had access to all RFP information and all EAI and RFP evaluation team personnel. EAI cooperated fully with the IM, was responsive to her suggestions, sought her input on open or unclear issues, provided timely and complete responses to her requests for information, and involved her in its thinking and decisions during each step of the solicitation.

Overall, it is the IM's conclusion that the proposed 81 MW Stuttgart Solar PPA was selected by EAI as the result of an objective and fair RFP that showed no undue preference toward any proposal. This conclusion is supported by evidence regarding the development and administration of the RFP and the evaluation of RFP proposals, all of which have been described in detail in this report.