

**CLECO POWER LLC 2004 RFP
LPSC STAFF'S QUESTIONS**

Q1. The RFP states that Cleco Power will utilize the bid results to evaluate potential retirements. When will that analysis be performed? Is that likely to be the subject of a future RFP?

A1. Whether retirements may be economic or future RFPs will be required depends on the outcome of this RFP. As far as performing analyses, the Company will continue to evaluate its overall need through its Integrated Resource Plan (IRP). As stated in Section 2.3 of the Solicitation, "the results of this RFP will help indicate if early unit retirements or mothballings may be economic, in which case follow-on RFPs may be needed. Alternatively, if power prices increase as retirement or mothballing dates approach, life extension investments may be economic. Cleco Power will consult with the LPSC's Staff to evaluate the implications of the RFP on this and other facets of the Company's overall resource planning."

Q2. Please state the basis of Cleco's target 20 percent reserve margin. Is there a study or analysis supporting that target? Given the SPP's plans to obtain RTO status, how will that affect Cleco's reserve sharing arrangement with the SPP (assuming Cleco does not join the RTO)?

A2. The 20% reserve margin target is based on the Company's experience and concern regarding increasingly constrained regional transmission markets. Cleco Power's Integrated Resource Plan indicates that the 20% requirement allows Cleco Power to lose an existing plant or large PPA contract and still be able to serve its load requirements. An RTO may improve deliverability of market power but physical constraints could take years to correct. Cleco Power will continue to monitor the capacity reserve based on transmission availability. Cleco Power continues to monitor the development of the SPP RTO and any impacts that would result.

Q3. Bidders are required to provide arrangements to deliver to Cleco's grid. Are there any preferred delivery points on Cleco's grid? Will Cleco itself perform a transmission study (i.e., System Impact Study) for resources delivered to its grid? If so, when in the RFP process will this occur and who will be responsible for arranging and paying for the study?

A3. The delivery point shall be Cleco Power's control area interface with Entergy, CSW, or City of Lafayette consolidated government, as applicable. In the case of an IPP internal to the transmission system of Cleco Power, the delivery point shall be the established point of interconnection between that IPP and Cleco Power. After opening the bids on or about October 29, 2004, Cleco Transmission will evaluate the deliverability of each proposal on its own transmission system at no cost to the bidders.

Q4. For PPA bids, does Cleco prefer that the fixed charges in the PPA be flat or constant year round, or does Cleco prefer that the fixed charges be “shaped,” i.e., higher in the summer and lower in the non-summer months?

A4. Cleco Power prefers that the fixed charges in the PPA be constant year round versus containing a summer/winter differential.

Q5. AGC appears to be a requirement for bidders. Is it necessary for AGC to be available now, or is it sufficient for a bidder to commit to its installation at a later date?

A5. Bidders may bid without AGC as long as it’s installed and operational by start date of contract. A bidder who does not have AGC should fully describe how AGC is envisioned to be implemented.

Q6. Will Cleco accept bids for coal-fired capacity in which the cost of fuel is indexed to the coal market in some fashion rather than being fixed?

A6. Yes. Please refer to the RFP, Section 3.3, for more on this topic.

Q7. For a PPA bid, can the contract be based on the unit’s actual heat rate performance, or must the bidder “guarantee” a heat rate curve as part of the bid?

A7. The bidder must guarantee a heat rate curve as part of its bid.

Q8. Please provide the formula that Cleco intends to use for evaluating PPAs when taking into account the “debt equivalence” effect inputted by credit rating agencies. Please include a numerical example.

A8. Cleco Power intends to use the methodology used by S&P to calculate the debt equivalence. Based on comments received from the LPSC, Cleco Power plans to work closely with the LPSC and IM to redevelop a numeric example to which the LPSC, IM, and Cleco Power can agree conveys the proper methodology.

Q9. Under the FERC’s Interconnection Rule, absent an RTO a generation facility will receive credits (plus interest) for needed grid upgrades. How will the transmission credits be taken into account in the evaluation process for:

- a. PPA bids requiring network upgrades;**
- b. Asset purchases requiring network upgrades; and**
- c. Self build requiring network upgrades**

A9.a. The credits for a PPA will go back to the bidder and thus will have no economic effect on bid evaluation. However, the timing of the upgrades will be included in the evaluation of the PPAs.

A9.b. On asset purchases the costs of the upgrades, including AFUDC, will be added to the cost of the asset with the time value of money included on the returned credits.

A9c. All upgrades to self builds are being included in the total project costs and therefore, the impact of the cost is included in the evaluation.

Q10. Will all of the self build projects currently contemplated in the RFP be directly interconnected with the Cleco grid? If not, please identify any exceptions.

A10. All of the self-build options currently contemplated in the RFP will be directly interconnected to the Cleco Power grid. Please see Section 3.7 of the RFP. Most self-build options either involve upgrades to or expansion of existing generation facilities. Even the one greenfield option is currently contemplated to utilize an existing brown field site.

Q11. Please explain in detail why Cleco has a preference for asset ownership over PPA (everything else held equal). How is this preference accounted for in the evaluation process?

A11. Cleco Power has a preference for asset ownership over PPA primarily because the Company believes the risk of service unreliability and credit/financing risk will be less. Cleco Power believes unit reliability, through ownership, will be improved because of the Company will have direct control to implement evolving technologies and to make other capital investments that improve the overall performance of the resource. It is the Company's view that there is significant risk in attempting to write PPAs that adequately anticipate and adequately provide for all significant eventualities that may occur over a long term and that counter-party problems of contractual interpretation and application during long PPA terms can significantly diminish the operational efficiency of the PPA for Cleco Power customers and the value of the PPA for Cleco Power's customers. As to accounting for an asset ownership preference, the Company intends to incorporate a debt imputation calculation to address potential incremental financing costs associated with maintaining the Cleco Power credit rating (See LPSC's Question No. 8 and Potential Bidders' Questions Nos. 2 and 11 for more information on the debt imputation calculation). Additionally, PPA proposals will need to be priced to include dispatch flexibility equal to that of asset ownership.

Q12. What is the basis or criteria that Cleco will use to determine the size of the shortlist? If a project is shortlisted and subsequently drops off (due to either Cleco's rejection or the bid being withdrawn), would Cleco replace that bid with another bid that was previously rejected to maintain the size of the short list?

A12. All proposals which meet the requirements of the RFP, prove to be deliverable and provide economic benefit will be included on the short list. Bids dropped off the short list will not be replaced.

Q13. Staff has previously expressed a preference for diversification, i.e., multiple awards as part of the RFP rather than a single award. Please state Cleco's views on the inherent desirability (or lack thereof) of an RFP outcome with multiple awards.

A13. For reliability purposes, Cleco Power agrees with the LPSC Staff that multiple awards of smaller blocks of power are preferable to a single award if the economics are the same. However, Cleco Power prefers the most economically priced power over source diversification. The Company also notes that many units expected to be bid into the RFP are part of multi-unit stations; thus, a single source bid may have greater reliability if multiple unit trains are available for dispatch.

Q14. The RFP process discusses evaluations of non price factors, but it is unclear how this affects or is factored in to bid rankings. Please explain how this will be done, including any plans for numerical scoring, weighting, etc., of non-price factors.

A14. Please see Section 4.17 of the RFP for further explanation, which in part states,

“Independent of the economic evaluation and transmission system impact study (SIS) requirements (see Subsection 3.6 Reliable Delivery), RFP teams will conduct a non-price factor evaluation to identify key elements that may affect the quality of the bid, or identify parameters that affect the economic evaluation. The non-price factors will not be used to select bids that will make the short list. Non-price issues that identify ‘fatal flaws’ will place a bid as non-conforming and the bidder will be notified and given three business days to correct the condition that has caused the ‘fatal flaw’ The determination of “fatal flaws” will be done with oversight and input from and in consultation with the IM and LPSC Staff. Non-price performance factors will include, but not be limited to...credit issues...fuel diversity...fuel supply...unit commitment and dispatching... transmission...and operational.

Q15. Please explain how different “product type” bids will be compared and ranked. For example, will baseload bids be compared just with other baseload bids, or will all long-term bids compete against each other (e.g., a baseload bid competes against a gas CCGT)?

A15. For purposes of the short list, Cleco Power will evaluate within bid categories. Once the short list is determined, bidders will be notified and asked to submit binding bids. Once binding bids are received, Cleco Power will then look at a portfolio of combinations instead of just one PPA or self-build on its own. During this binding bid evaluation, the initial categories will not be binding in determining the optimum combination of alternatives.

Q16. When a binding bid is submitted, will bidders be permitted a “prior sale” exception?

A16. No.

Q17. How will credit support for Cleco Power affiliates be handled? For example, will Cleco utility provide such support directly or indirectly?

A17. Cleco Power affiliates will have to obtain their own credit support. As stated in Section 1.3 of the RFP, Cleco Power’s affiliates must “operate separately and independently with respect to Cleco Power’s RFP, and thus, that Cleco Power’s affiliates receive no preferential treatment, contrasted to non-affiliate bids.”

Q18. Please describe the type of information Cleco intends to provide to the losing or rejected bids.

A18. Cleco Power will provide information consistent with the Commission's MBM Order to include "whether the rejected bid was (a) non-conforming (cite reason); (b) contains a technical or business flaw (identify); (c) was not sufficiently economically attractive. To the extent that the utility can provide information on economic attributes that cause the bid to be rejected, without revealing confidential information, that is encouraged." It has been the Company's experience that bidders prefer such feedback through phone conferences or face-to-face meetings. Practically speaking this is difficult for the Company from a time standpoint. Moreover, it does not provide a record that assures the feedback process is fair and consistent for all bidders. As a result, and generally, the Company will provide written feedback to bidders who are not short-listed consistent with the MBM Order. At least the same feedback will be provided short-listed bidders, but since additional discussions and negotiations can be expected with this group the Company may provide additional feedback based on the ensuing binding bid process.