

ENERGY TEXAS, INC.

Electric Service

SCHEDULE LQF

Sheet No.: 57

Effective Date: 1-28-09

Revision: 4

Supersedes: LQF Effective 1-14-04

Schedule Consists of: One Sheet and
Attachment A

NONFIRM ENERGY PURCHASED FROM LARGE QUALIFYING FACILITIES

I. APPLICABILITY

This rate is applicable to the purchase of nonfirm energy from sellers owning or operating Qualifying Facilities (QFs) with a design capacity larger than 100 kW. A QF is defined as a small power production facility or cogeneration facility that qualifies under Subchapter K, Part 292, Subpart B of the Federal Energy Regulatory Commission's Regulations that implement § 201 and 210 of the Public Utility Regulatory Policies Act of 1978.

II. CONTRACT

Sale of nonfirm energy to the Company under this tariff requires a written contract, the standard form of which is on file with the Public Utility Commission of Texas and is entitled "Agreement For Purchase Of Capacity And Energy From Qualifying Facilities". The final form of the contract may be negotiated by the QF and Company to establish final contract terms applicable to specific projects.

III. PAYMENT DETERMINATION**A. Monthly Energy Payments by Company to QF**

Energy delivered into Company's system, adjusted for any transformation or interconnection losses, shall be recorded hour-by-hour during each calendar month. The price to be paid per kWh for such energy delivered each hour shall be the amount of fuel costs and/or purchased power costs per kWh which were avoided on the Company's system in the same hour because of deliveries of energy from QFs. Payment by Company to QF shall be made monthly and shall be the sum of the hourly amounts calculated in accordance with the above for hourly energy deliveries by QF. The Company's methodology for calculating such avoided costs and components of the calculation are described in § IV and V of this schedule.

B. Monthly Charges Payable to Company by QF

Each QF will pay a monthly Customer Charge as established in the written contract, for the purpose of recovering related costs, including administrative, billing, and metering costs.

IV. AVOIDED ENERGY COST METHODOLOGY**A. Summary**

An economic dispatch model is used to determine an energy cost based on actual conditions and an energy cost based on an assumption that Qualifying Facilities (QFs) had not produced any energy. The difference is used to determine the energy component of the avoided cost on an hourly basis.

B. Economic Dispatch Analysis

The description of the economic dispatch analysis is contained in Attachment A.

C. Energy Requirement

The energy requirement that is modeled in determining avoided energy cost is the actual energy requirement on the Entergy System, excluding off-system sales.

V. **CALCULATION OF PRICE PER KWH FOR AVOIDED ENERGY**

A. Price Per kWh

The price per kWh paid for energy delivered by a QF during a single clock hour shall be equal to the incremental cost the Entergy System would have incurred to generate or purchase an equal amount of non-firm energy in the same hour divided by the total kWh delivered from all QF's on the Entergy System during the same hour. The price may also include the price received by the Entergy System for sales made to third-parties during Low Load Events as more fully described in Attachment A.

B. Factors Considered

The factors considered in the calculation are those identified in PUCT Substantive Rule 25.242(1)(3) and further described in Attachment A.

C. Description of Step-By-Step Calculation of Avoided Cost

A narrative description of the step-by-step process followed in calculating avoided energy costs, including a description and the application of the factors enumerated in this section is provided in Attachment A, attached hereto and made a part hereof.

VI. **BILLING**

The Company shall send a statement and payment (if applicable) to the QF on or before the 20th day after the QF's meter is read. The statement shall include the kilowatt-hours delivered to the Company during the previous monthly billing period, the amount of the per unit energy payments for the month, and the charges described in § III. B. The payment for service furnished or received shall be due within 20 days of the invoice date.

VII. **AUDIT COSTS**

The calculation of avoided cost by the Company will be audited on an annual basis (pursuant to the Settlement Agreement in Docket No. 29035). All costs associated with auditing the calculation of avoided cost will be borne among all QFs putting QF energy to the Company under Schedule LQF. The allocation of such costs will be based on each QF's PURPA put kWhs to ETI's system during the audit period.

ATTACHMENT A**Calculation of Avoided Cost—Entergy Texas, Inc.****I. Description of the Process for Calculating Avoided Cost**

- A. The first step in calculating the actual hourly avoided cost to be paid to QFs is to perform an economic re-dispatch of the Entergy System. This is done to remove any differences between how each generator responds to dispatch instructions and the true mathematical implementation of economic dispatch on an integrated hourly basis. This is necessary because the economic dispatch model needs to start from a position where each generating unit is operating at an output level with equal incremental costs.
- B. Then all non-firm off-system sales and the cost associated with supplying these wholesale sales are removed and a second redispatch is performed. This is accomplished by reducing the System's generation and purchases down their incremental cost curves by the amount of the non-firm off-system sales, assigning the highest cost resources to these sales. This ensures that the System's retail ratepayers do not bear the cost of those highest cost dispatchable resources used to supply the non-firm sale.
- C. Finally, all QF energy put to the System is removed, and a third and final redispatch is done to compute the QF avoided cost. Output from dispatchable resources are increased by moving them up their incremental cost curves to replace the amount of the QF energy. Dispatchable resources include those generators on economic dispatch, non-firm purchases entered into by the System Dispatchers but removed during step I.B above, energy that would have been available to serve native load but for emergency sales, and rejected purchases. (The determination of emergency sales and rejected purchases is described more fully below.) This final redispatch is performed in the following order:
1. Subject to the notice provisions set forth in this step, emergency sales during low load conditions are backed down from their actual level to zero starting with the lowest priced emergency sale and working up to the highest priced emergency sale. The total amount of emergency sales backed down is limited to the amount of actual QF energy. If the amount of actual QF energy is greater than the total amount of emergency sales, the process proceeds to the next step. If notice of an emergency sale is given at least 30 minutes in advance of the sale, then the price of the emergency sale shall be included in the avoided cost calculation. If notice is not given at least 30 minutes in advance of the emergency sale, then the price of the sale will not be included in the avoided cost calculation.
 2. Subject to the provisions of this paragraph, rejected next day purchases are included up to the total amount of purchases that are identified as "rejected next day purchases" for purposes of this process by application of the criteria set forth below. The rejections are processed in date-time order. The total amount of rejected next day purchases included is limited to the lesser of a) the forecasted QF energy for the hour, or b) 75% of the actual QF energy in any hour. Once either of these limits is met or all rejected next day purchases are included, the process proceeds to next step. The process for identifying avoided cost rejected purchases is described in II.F below.

3. The remaining dispatchable resources (generation, rejected current day purchases, and single hour purchases that were made but backed down during step I.B as a source of an off-system sale) are dispatched up their incremental cost curves by the remaining amount of actual QF energy. The portion of rejected current day purchases permitted to be utilized as an input in this step shall be those rejected current day purchases first received in date-time order, but not in excess of 75% of the amount of actual QF energy in any hour less the amount replaced in the previous step by rejected next day purchases.
- D. In the final redispatch, for those dispatchable resources identified in the final redispatch whose output was increased to replace the QF energy that was removed in the final redispatch, an average incremental cost is computed by taking the average of the incremental cost at the output level for the resource prior to the redispatch and the incremental cost at the output level for the resource after the redispatch. An O&M and SO₂ adder is added to the average incremental cost for all fossil generation. The QF avoided cost computed is the weighted average of the average incremental cost for all sources weighted by the MWh contributed by each source. This value is applied to the MWh from each QF to determine payments for the applicable hour.

II. Description of Factors Utilized in Determining Avoided Cost

A. Fuel Costs

The incremental fuel cost used in the avoided cost calculation is the estimated cost of incremental fuel used in the Intra-System Bill per the Entergy System Agreement. Thus, the calculation uses an hourly incremental fuel cost instead of a monthly average fuel cost.

B. Incremental Operating and Maintenance Costs:

The avoided cost includes an incremental O&M adder as used in the Entergy's System Agreement Schedule MSS-3.

C. Line Losses:

Loss factors are applied to the Entergy generation units based on the results of calculations in the Entergy Generation Management System (GMS). Penalty factors are computed for line losses and applied to the generation dispatch curves.

D. Heat Rates:

Generation unit heat rate curves are based on the results of tests performed on each unit. Unit efficiency data is revised periodically on the units.

E. Cost of purchases from other sources:

Purchases for which commitments have been made for no more than one hour and that were used in the costing of non-firm off-system sales are considered dispatchable resources and are included in the avoided cost calculation.

F. Purchased Power Opportunity - Rejected Purchases

Rejected Purchases are those offers for next day or current day economy energy that Entergy rejects due to projected puts of QF energy to the Entergy System.

Process for Identifying Avoided Cost Rejected Purchases

Each morning, the Entergy System develops a resource plan to meet the following day's forecasted load in a reliable and economic manner. It takes into consideration generation availability, fuel cost and availability, purchased energy cost and availability, and projected QF energy. Decisions on purchases are made by comparing purchased power costs with Entergy's projected system incremental cost for the period corresponding to that for which the purchase would be made. Next day on-peak Avoided Cost Rejected Purchases are identified as those next day purchases that would not have been rejected if there had been no projected QF energy. The Operations Planning group develops a projected incremental cost for the System that excludes the projected QF energy, called the "Alternate Price". This price is used to determine whether or not a purchase would have been entered into but for the QF put.

For purposes of identifying next day off-peak Avoided Cost Rejected Purchases, the System also determines an acceptable threshold price based on then prevailing market conditions, which is called the "Off Peak Price Cap." . The off peak price cap serves as a proxy for the target price that would have been used in determining whether an off-peak next day purchase that had been offered at a particular price would have been taken at the time it was offered. The Off Peak Price Cap for any given hour will be the lower of (1) the Alternate Price or (2) the greater of the highest cost actual daily block purchase. or 125% of an appropriate market index price (such as, but not exclusively, "Into-Entergy") for off-peak deliveries that was published on the prior day for that hour.

The Off Peak Price Cap is used in the avoided cost calculation to reflect the fact that, particularly when purchases are offered for an off-peak period, a next day purchase that is offered at a price below the System's then-current projected incremental cost may be rejected based on an expectation that energy will be available during that period at a lower cost. For example, if Entergy's gas-fired generation has a cost of \$40/MWh and is projected to be on the margin during off-peak hours, Entergy would reject an offer to purchase energy at \$38/MWh because off-peak energy is generally available at a much lower price, regardless of the amount of QF power.

If the Entergy System is unable to accept an offer for economy energy due to the QF energy that is expected to be put to the System, Entergy records the rejected purchase as an "Avoided Cost Rejected Purchase." An Avoided Cost Rejected Purchase may be either a rejected next day purchase or a rejected current day purchase. The criteria used by the traders for identifying rejected purchases as Avoided Cost Rejected Purchases for purposes of the avoided cost calculation are the price of the offer and the amount of QF energy forecasted for the relevant period. Only "valid" offers are considered.

An offer is a "valid" offer when it includes the price, quantity, start time, and duration. For this process, the price of a valid offer must be lower than the Alternate Price during on-peak periods and lower than Off Peak Price Cap during off-peak periods. For an offer to be "valid" it must have also been made by a potential seller from which Entergy would have otherwise accepted the offer.

The Entergy System provides an estimate of the amount of QF energy for the following day. The next day traders record rejected next day purchases as Avoided Cost Rejected Purchases up to the estimated amount of the QF energy that will be put to the System. These next day rejections are recorded in date time order. Any next day rejections that are recorded after rejected purchases have been recorded in the amount of the estimated QF energy for the pertinent time period are not used in the avoided cost calculation.

The current day traders record rejections based on the difference between the projected hourly QF energy and the rejections already recorded by the next day traders.

G. Emergency Sales

At times, the Entergy System dispatchers may be required to make sales at less than the Entergy System incremental costs. These sales are made in order to maintain minimum stable operating levels without curtailing QF production or in order to minimize the level of such curtailments. These sales are referred to as emergency sales. The cost for emergency sales used in the avoided cost calculation is the price received for the sale, as the energy sold would have been available to serve Entergy's customers but for the emergency sale at that price.

If ETI reasonably believes that it will be required to make emergency sales, ETI will attempt to provide QF's with two hours notice of those sales. If notice of an emergency sale is given at least 30 minutes in advance of the sale, then the price of the emergency sale shall be included in the avoided cost calculation. If notice is not given at least 30 minutes in advance of the emergency sale, then the price of the sale will not be included in the avoided cost calculation. ETI will provide to QFs a monthly report identifying all Emergency Sales made in the previous month, including the corresponding times and magnitudes of such sales. In the event that ETI makes an Emergency Sale that is in excess of 500 MWh in any single hour, ETI shall make a representative available if so requested by a QF within 30 days of such request. The requesting QF is responsible for notifying all other QFs of the scheduled date, time, and place of the meeting. ETI shall only be obligated to attend one meeting with QFs for each month during which it has an emergency sale of 500 MWh or more in a single hour.

H. Other energy-related costs:

The avoided cost includes a sulfur dioxide (SO₂) adder as used in Entergy's System Agreement Schedule MSS-3.