

# Transmission Pricing and ICT Benefits

July 30, 2004

# Pricing Overview

## ICT Pricing Proposal:

- Reliability investments automatically “rolled in” (Base Plan investments)
- Upgrades beyond the Base Plan treated according to the “higher of” pricing principle of native load protection
- The determination of what upgrades are incremental to the Base Plan, and therefore subject to “higher of pricing principle”, will be made by the ICT
- Comparable treatment: the policy applies to all service requests, including those made by Entergy’s operating companies and affiliates

# “Higher of” Principle

- “[A]llowing transmission providers to charge the higher of an incremental cost rate or an embedded cost rate ensures that other transmission customers, including the Transmission Provider’s native load, will not subsidize Network Upgrades required to interconnect merchant generation.” (Order 2003A)
- “Higher of” principle protects native load by ensuring that incremental transmission revenues exceed incremental costs (revenue requirements)
- Straightforward to apply for PTP service
- Network service application not as clear
  - what is the definition of “incremental revenue”?
  - how should the “higher of” principle be applied when “incremental revenues” are zero?

# Example

- 3000 MW Network Customer, 10% T load ratio share, \$36 MM NITS charge
- Supply contract expiring, two choices:
  - Supplier A power cost \$10 MM/year lower than B, but requires network resource transmission upgrades that cost \$20 MM/year
  - Supplier B power cost \$10 MM/year higher than A, but requires no transmission upgrades

# Example (cont)

- If total NITS charge is defined as “incremental revenue”, the average rate (\$38MM) exceeds the incremental rate (\$20MM) and Supplier A upgrades are “rolled in”
- Customer chooses Supplier A
  - Customer saves \$8 million
  - But native load costs increase by \$18 million
- This definition does not protect native load or give proper incentives for economic behavior

## Example (cont)

- But the result is even worse if the customer pays the incremental rate (\$20 MM) *instead* of the average rate (\$38 MM)
- Customer chooses Supplier A and saves \$26 MM/year
- Native load costs increase by \$36 MM/year

# The Issue

- Incremental revenue associated with new network resource qualification is generally zero
  - Always zero for resource displacement/replacement
  - And also zero for load growth except for “above average” growth
- When incremental revenues are zero, neither the average rate nor the incremental rate provide native load protection

# Implementing the Native Load Protection Principle

- For new network resource qualification, requesting party pays the incremental rate
  - ICT determines what is “incremental”
- Requesting party gets “property rights”
  - “Portable” network resource status
  - Allowance for free PTP service on an ATC-available basis
- Load-based network service charges not affected

# Is It “And Pricing”?

- Designed to be as similar as possible to other FERC-approved approaches
  - Portable network resource status
  - PTP allowance
  - Congestion hedge (for NITS service), but not FTRs
  - Determination of incremental investment made by independent entity (ICT)
- Any other approach would not provide the native load protection from the cost of network resource upgrades described in Order 2003A

# Transmission Pricing Summary

- Consistent with Order 2003A Pricing Principle -- protects native load
- Sends efficient price signals
- Full comparability between Entergy and other network customers

# ICT Independence

- ICT will be independent from Entergy and all other market participants
- ICT will meet FERC independence standards for market monitors
- ICT will have a full staff, including a 24/7 desk
- Entergy cannot unilaterally terminate the ICT if a disagreement occurs; FERC approval would be required
- FERC will resolve any disputes over budgets, access to data, etc.

# Benefit/Cost Overview

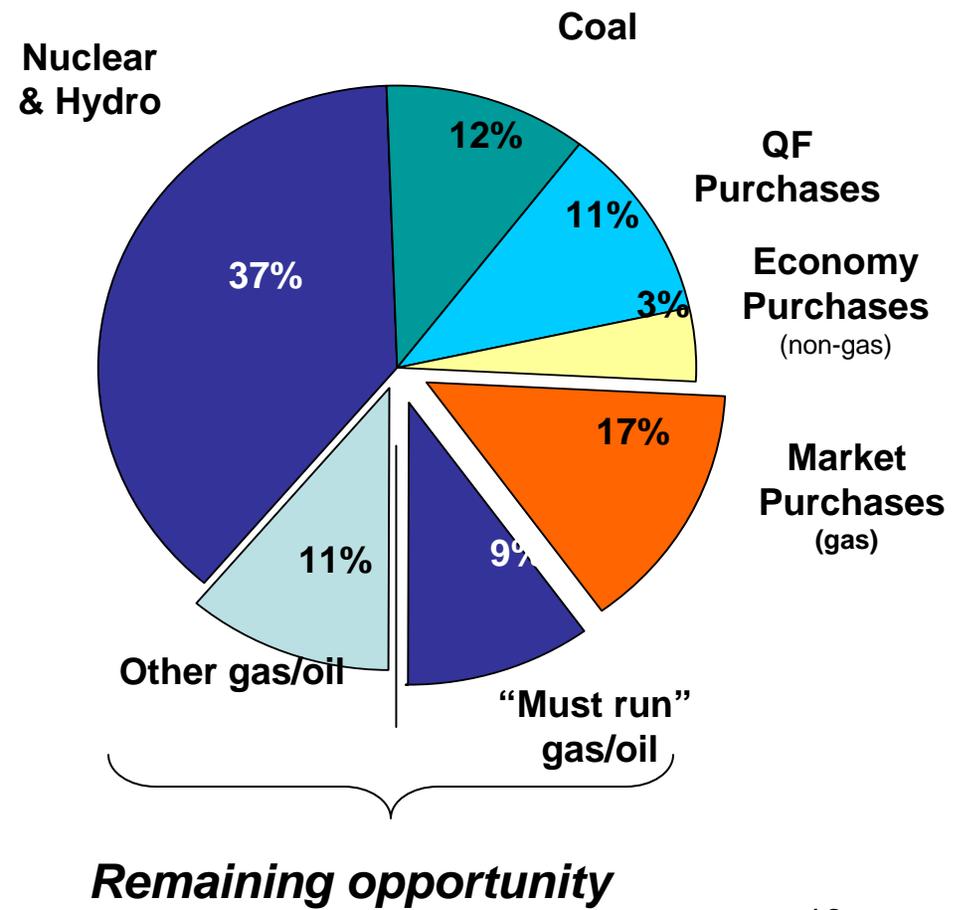
## Benefits

- WPP savings/additional revenues
- Reduced exposure to transmission expansion costs (native load protection)
- Costs – Incremental costs associated with the proposal
- Compared to both status quo and RTO alternatives

# ENERGY COST SAVINGS (WPP)

- Current purchases account for 17% of annual energy
- The remaining opportunity is potentially significant
- While there are limits on the level of displacement, every percentage point decrease in oil/gas generation (e.g. from 20% to 19%) results in savings of approximately \$30 million per year

2003 ENERGY REQUIREMENTS



# Summary of Benefits and Costs

## ICT Savings versus Status Quo Case

- Transmission Investment
  - \$24-\$35 mm/yr
  - \$240-\$360 mm pv
- WPP: \$30 mm/yr/1%
- \$15 mm annual cost

## ICT Savings versus RTO Alternative

- Transmission Investment
  - \$125 mm/yr
  - \$1050 mm pv
- WPP: \$30 mm/yr/1%
- \$0 incremental cost