MULTI-SYSTEM TRANSMISSION RATE

Third Informal Customer Meeting

Jack Murray

Meeting Agenda

- Why DSW is proposing Multi-System Transmission Rate
- Review Rate Design Methodologies
- Overview of a Rate Design Methodology suggestion provided by a customer
- Address questions from previous meetings
- Obtain customer feedback

Why DSW is proposing a Multi-System Transmission Rate

- Additional Contract Capacity
- Focused Upgrades
- Eliminate Pancaked Rates
- Increased Access to Tie Points
- Encourage Customer Financing
- Comply with FERC

Additional Contract Capacity

- When rate pancaking is eliminated, certain customers who currently contract on P-DP can take transmission service on the Intertie without an increase in cost.

- DSW estimates that approximately 78 MW of available transmission capacity (ATC) is gained when rate pancaking is eliminated.

Focused Upgrades

- Build to benefit all transmission systems
  - DSW can more effectively plan future upgrades to existing transmission system facilities.
  - Results in strengthening the integrated transmission system.
- Eliminate work arounds
  - Current practice encourages customers to lobby for upgrades to avoid crossing more than one transmission system.

Eliminate Pancaked Rates

- DSW is the only Transmission Provider in the southwest that pancakes charges for transmission service.
- DSW has talked about eliminating the pancaking of rates for many years.

Increase Access to Tie Points

- Customers will have more opportunities to purchase supplemental power from other Control Areas with a Multi-System Transmission Rate
- Power Producers will have greater access to tie points to sell power when a Multi-System Transmission Service is available.

Encourage Customer Financing

- Future load growth will necessitate additional transmission facilities.
  - Other Transmission Providers may contract for transmission Service from DSW.
  - Entities may find it cost effective to upgrade or add to Western's transmission system to accommodate future load growth rather than construct new transmission facilities.

Comply with FERC

- FERC views pancaked rates as a market barrier.
- To Eliminate pancaking is a goal of FERC's recent Orders and white papers.
- FERC believes customers will have greater access to the market and ultimately less expensive power when pancaking is eliminated.

Review Rate Design Methodologies

- MSTR Only
- MSTR w/ Convergence
  - Apply MSTR 5th Year
  - Apply MSTR 1st Year
- Customer Choice
  - Determine MSTR First, SSTR Second
  - Use Existing SSTR First, Determine MSTR Second

MSTR Only

- Total Revenue Requirements divided by Total Capacity Reservations with Pancaking Eliminated.
- All transmission service customers would pay the same rate each year.
- Rate is recalculated each year.
- Similar to current P-DP rate design methodology.

Table 1: MSTR Only

	Current Rates				
	CAP	**IP 230/345**	**IP 500**	**P-DP**	**MSTR Only**
FY04	$0.82	$1.00	$1.44	$1.08	$1.16
FY05	$0.82	$1.00	$1.44	$1.08	$1.14
FY06	$0.82	$1.00	$1.44	$1.08	$1.15
FY07	$0.82	$1.00	$1.44	$1.08	$1.14
FY08	$0.82	$1.00	$1.44	$1.08	$1.12

MSTR w/Convergence

- Transmission Rate for each power system converges towards a Target MSTR over a five year period.
- The Target MSTR is the lowest rate possible that will ensure collection of the Total Revenue Requirements over the five year period.
- Convergence is uniform each year for each power system.
- This methodology is similar to having step rates for each power system.

MSTR w/Convergence - Two Options

- Apply MSTR 5th Year
  - Customers pay the converging transmission rate for each power system the first four years.
  - All Customers pay the MSTR the fifth year and all pancaking is eliminated.
- Apply MSTR 1st Year
  - Customers pay the converging transmission rate for each power system the first four years **or** pay a MSTR with pancaking eliminated.
  - All Customers pay the MSTR the fifth year and all pancaking is eliminated.

Table 2: MSTR w/Convergence Apply MSTR 5th Year

	CAP	IP 230/345	IP 500	P-DP	MSTR
FY04	$0.87	$1.01	$1.37	$1.08	n/a
FY05	$0.92	$1.03	$1.29	$1.08	n/a
FY06	$0.97	$1.04	$1.22	$1.07	n/a
FY07	$1.02	$1.06	$1.14	$1.07	n/a
FY08	$1.07	$1.07	$1.07	$1.07	$1.07

Table 3: MSTR w/Convergence Apply MSTR 1st Year

	CAP	IP 230/345	IP 500	P-DP	MSTR
FY04	$0.87	$1.01	$1.37	$1.08	$1.60
FY05	$0.92	$1.03	$1.29	$1.08	$1.45
FY06	$0.97	$1.04	$1.22	$1.07	$1.31
FY07	$1.02	$1.06	$1.14	$1.07	$1.18
FY08	$1.07	$1.07	$1.07	$1.07	$1.07

Customer Choice

- Customer would select Transmission Service for either a Single System or Multi-System and pay the applicable rate.
- Two Rate Design Options
  - Determine the Multi-System Transmission Rate (MSTR) first and Single System Transmission Rates (SSTR) second.
  - Use existing SSTR first and determine the MSTR second.

Customer Choice – Two Options

- Determine the MSTR first and SSTR second
  - Calculate the MSTR using the MSTR Only Rate Design Methodology.
  - Allocate Multi-System Transmission Rate revenue to each power system.
  - Calculate SSTR to recover each power system's Revenue Requirement less allocation of Multi-System Transmission Rate revenue

Customer Choice – Two Options

- Use existing SSTR first and determine the MSTR second
  - Determine Single System Transmission Service revenue using existing SSTR for each power system.
  - Calculate the MSTR to recover each power system's Revenue requirement less Single System Transmission Service revenue.

Customer Choice – Circular Argument

- When determining the MSTR first and SSTR second, economics would encourage customers to select Multi-System Transmission Rate
- When using existing SSTR first and determining the MSTR second, economics would encourage customers to select Single System Transmission Rate

OATT 1st

- A customer suggested this Rate Design Methodology.
- First Year
  - All new OATT customers would take Multi-System Transmission Service and pay the MSTR.
  - Existing customers can select Multi-System Transmission Service and pay the MSTR under the terms of their existing contracts or service agreements.
  - All Short-Term Firm and Non-Firm Transmission Service would be offered as Multi-System.

OATT 1ST

- Subsequent Years
  - Existing Customers that select Multi-System Transmission Service and pay the MSTR will not be allowed to switch back.
  - Customers must take Multi-System Transmission Service and pay the MSTR when their Firm Transmission Service contract or OATT service agreement terminates without renewal rights.
  - Requires calculation of transmission service rates for each power system and Multi-System until all customers transition (> 10 Yrs).
  - Network Transmission Service will be offered only for Multi-System, not Single System.

Possible Time Lines

- Goal: Have MSTR in place effective 10/1/04 – FY05
- Finish Informal meetings early 2004
- Begin formal process approximately March 2004
- Customer Feedback essential.

Issues from Previous Meetings

- Inclusion of CRSP customers in MSTR Calculations
- Unpancaking of CRSP/P-DP losses
- Possible development of a Customer Choice method as brought up on 5/23/03.

To Summarize…

- Discussed Reasons & Advantages of going to a Multiple System Transmission Rate (MSTR)
- Discussed questions from previous meetings.
- Overview of "OATT 1st" method
- Customer Feedback/Comments