

MULTI-SYSTEM TRANSMISSION RATE

Fourth Informal Customer Meeting

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Meeting Agenda

- **Overview of previous presentations**
 - **MSTR Principles**
 - **Advantages of MSTR**
 - **MSTR Rate Methodologies**
 - **Action Items & Responses**
- **Current State of Losses Study**
- **Discussion and Feedback**

MSTR Principles

- **Eliminate Pan-caking Service Charges**
- **Mitigate Cost Shifts to Customers**
- **End State**
- **Rate applies to whole contract amount**
- **Increase Available Transmission Capacity (ATC)**

MSTR Principles (con't)

- **Similar to Industry Standards**
- **Simple and Transparent**
- **Each Project is Financially Independent**
- **Ensure Repayment of Project**

Advantages of a MSTR to DSW Customers

- **Additional Contract Capacity**
- **Eliminate Pancaked Rates**
- **Increased Economic Access to Tie Points**
- **Encourage Joint Financial Participation**
- **Design in accordance with Restructuring where possible**

Overview of Methods for Calculation

- **MSTR Only**
- **MSTR w/ Convergence**
 - **Apply MSTR 5th Year**
 - **Apply MSTR 1st Year**
- **Customer Choice**
- **OATT 1st**

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 vs MSTR Only | | | | |
|-------------|----------------------------|---------------|---------------|---------------|---------------|
| | 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 – 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.**

Table 4: OATT 1st Comparison to Current

| | Current Rates | | | | MSTR Only |
|-------------|---------------|---------------|---------------|---------------|---------------|
| | CAP | IP 230/345 | IP 500 | P-DP | |
| FY04 | \$0.82 | \$1.00 | \$1.44 | \$1.08 | \$1.91 |
| FY05 | \$0.82 | \$1.00 | \$1.44 | \$1.08 | \$1.68 |
| FY06 | \$0.82 | \$1.00 | \$1.44 | \$1.08 | \$1.67 |
| FY07 | \$0.82 | \$1.00 | \$1.44 | \$1.08 | \$1.64 |
| FY08 | \$0.82 | \$1.00 | \$1.44 | \$1.08 | \$1.48 |

Disadvantages of OATT

1ST

- **Customers may pay much higher rate for same service if contract terminates < 5 years**
- **Last Contract switches to MSTR in 2039**

Action Items from 3rd Meeting

- **Put presentation on Web**
- **Put calculations to the OATT 1st Method and put on Web**
- **Discuss How to Change POD for FES to take delivery on Intertie**
 - **Contact DSW Contracts Division**
 - **Availability and feasibility will be determined**

Q & A on OATT 1ST from Third Meeting

- **Could Western extend the contracts to end at the same time?**
- **No. Substantial change requires contractor to take OATT service**

Q & A from 3rd Meeting (Con't)

- **Could Western treat \$ from increase in MSTR as prepayment to be credited when MSTR rate drops in later years?**
- **No because it is not really a prepayment so:**
 - **RR would increase in year MSTR converges**
 - **No language in contract to allow this**
 - **No equitable treatment of Variable reservations over the period**
 - **Treatment of Interest unknown**

Q & A from 3rd Meeting (Con't)

- **How will the MSTR work with the AOF contract?**
- **AOF contract—not applicable to design/implementation of firm transmission rate**
 - **P-DP AOF contract deals strictly with Generation costs.**
 - **MSTR relates only to firm transmission rates.**

Current State of Losses Study

- **Losses issue under study currently**
- **Ongoing meetings between Operations and Marketing**
- **Will keep customers updated as to progress**

Discussion & Feed Back

- **Are there parts of these methodologies which need more exploration?**

Next Steps

- **Status of Repayment**
- **Redo tables with SOR numbers**
- **Continue Losses analysis**
- **Meeting to discuss new numbers**