Defining the Output of Transmission Companies

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Basic Questions

• What is the output of a Transmission Company?
  – Access,
    • Physical, which relates to reliability
    • Financial, which relates to cost of congestion
    • If you do not need access you do not need transmission service
    • Most supply alternatives require transmission service
• What is the market role of a Transmission Company
  – Enabler of the market, not competitor
What is ATC?

• A Public Utility
  – A regulated monopoly that implements public policy with the obligation to serve
  – Holder of a public-interest mandate to provide the transmission services needed in the area it serves

• An infrastructure company
  – Engaged solely in electric transmission
  – Owns, maintains, operates, plans and builds transmission assets to meet customer needs
  – Seeks to earn a regulated return on investment commensurate with its business risks

Can ATC build the needed transmission?

Are incentives needed? No, instead need:
  – Customer, regulator and public support
  – Strong cash flow, adequate earnings, manageable risks
  – Strong financial ratios, high credit ratings, low costs of money, high investor interest

• Does not need incentives to apply good utility practices
  – New technology, materials and methods
  – Reduced costs of redispatch and TLRs

• ATC lacks internal disincentives to build!

• FERC incentives (ie. candy) is not the basis for a stable business
  – The FERC giveth and the FERC taketh away
ATC Financial Profile

- January 1, 2001:
  - $550m net assets
  - $173m Revenue Rqmt.
- Historical test year
  - First year true-up
- 12.2% ROE
- 2001 actual
  - Net income $50m
  - Cash from Ops $80m
  - Dividends $27m (3 qtrs)
  - Capex $80m
- Ratings
  - Long term: A1,A-,A
  - Com’l Paper: P1,A2,F1

- January 1, 2003:
  - $700m net assets
  - $211m Revenue Rqmt.
- Projected test year
  - Annual true-up
- 12.2% ROE
- 2003 projected
  - Net income $61m
  - Cash from Ops $100m
  - Dividends $48m (4 qtrs)
  - Capex $200m
- Ratings
  - Long term: A1,A,A
  - Com’l Paper: P1,A1,F1

ATC Planned vs. Historic Investments

Net Capital Investments

Participating Utilities

ATC

Years: 1988 to 2010
ATC cannot build too much transmission, because:

- Transmission projects must be justified based on need in very public and contentious processes
  - Transmission projects are very easy to stop or interminably delayed, which is the same
  - Significant roadblocks for what is needed let alone what is not needed
- Cannot compete against alternative ways of meeting the same needs (generation or demand side programs), if any
  - It takes many times longer to build transmission than any of the alternatives
- Failure of a major construction project represents a significant threat to the viability of a transmission company
- What is too much transmission?

Performance-based rates

- Is there a risk we can manage better than the customer?
- Will the customers support the incentive service?
- Can we keep the money if we manage it right?
- Lack of regulatory tradition of incentive rates in the US
Metrics of transmission outputs

• Traditional metrics are not adequate
  – CAIDI, SAIDI, outage hours, costs of maintenance
• Metrics should reflect impacts on the transmission customer such as:
  – Ability to plan, license and build (in a timely and economic basis) to meet the needs and objectives of its customers
  – Reduced customer opportunity loss due to lack of access to the regional electricity market
  – Reduced Redispatch costs / Congestion costs / System energy losses