



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

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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

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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*

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ATC Financial Profile

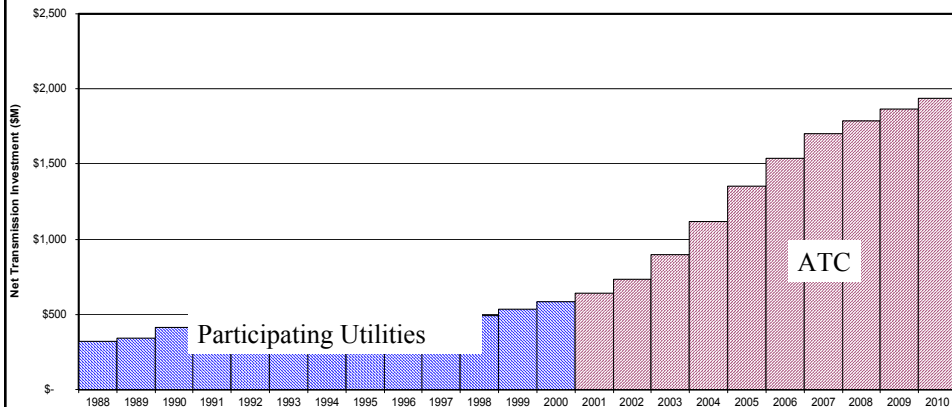
- January 1, 2001:
 - \$550m net assets
 - \$173m Revenue Rqmt.
- Historical test year
 - First year true-up
- 12.2% ROE
- 2001 *actual*
 - Net income \$50m
 - Cash from Ops \$80m
 - Dividends \$27m (3 qtrs)
 - Capex \$80m
- Ratings
 - Long term: A1,A-,A
 - Com'l Paper: P1,A2,F1
- January 1, 2003:
 - \$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

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ATC Planned vs. Historic Investments

Net Capital Investments



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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?

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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

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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