THE NEED FOR A CHANGED VISION FOR RTOs
HEPG: 6/2/06

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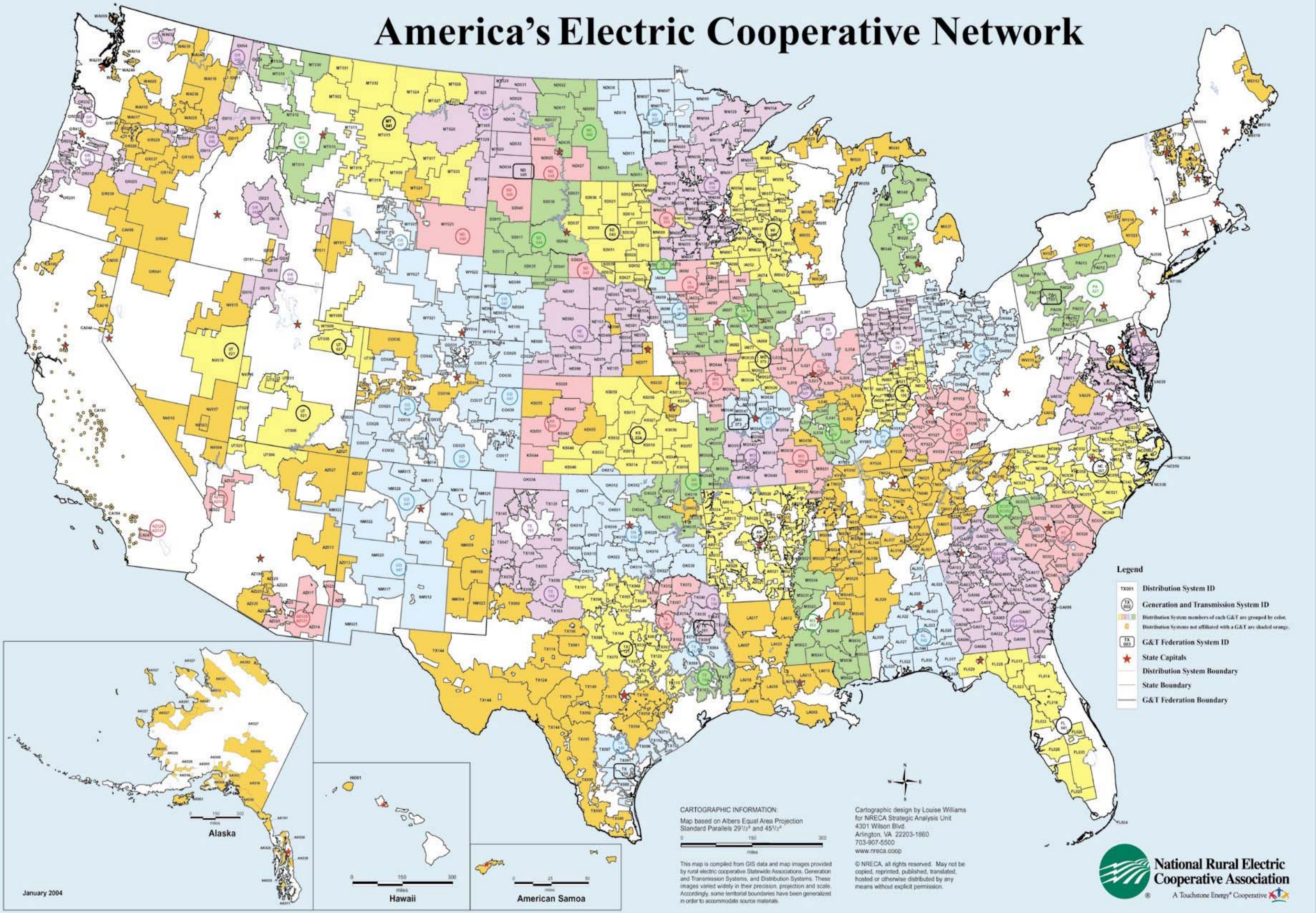
WHAT HAS:

- 2 ½ Million Miles of Distribution
- Owns 45,000 MW of Generation
- Purchases <u>60,000 MW</u> @ Whsle.
- Provides electricity in 83% of U.S. Counties, in 47 States
- Serves 40,000,000 Consumers



America's Electric Cooperative Network
Legend
TX001 Distribution System ID
Generation and Transmission System ID
Distribution System members of each G&T are grouped by color.
Distribution Systems not affiliated with a G&T are shaded orange.
G&T Federation System ID
State Capitals
Distribution System Boundary
State Boundary
G&T Federation Boundary
Alaska
Hawaii
American Samoa
CARTOGRAPHIC INFORMATION:
Map based on Albers Equal Area Projection
Standard Parallels 29½° and 45½°
This map is compiled from GIS data and map images provided by rural electric cooperative Statewide Associations, Generation and Transmission Systems, and Distribution Systems. These images varied widely in their precision, projection and scale. Accordingly, some territorial boundaries have been generalized in order to accommodate source materials.
Cartographic design by Louise Williams
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National Rural Electric Cooperative Association
A Touchstone Energy® Cooperative
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ELECTRIC COOPERATIVES ARE:

- Consumer-Owned
- Consumer-Controlled
- Not-For-Profit Operation
- Private Corporations
- Single focus: meet members', local economy's long-term need for reliable, affordable, non-violatile electric power

OUR PERSPECTIVE IS DIFFERENT:

….it's <u>not</u> based on theology, theoretical economics, nor bottom line concerns, but on expected benefits to our consumer-owners, the local economy

OUR VIEWS ON DEREGULATION

- Electricity is critical to long-term economy, energy and national security
- 85-90% benefits in wholesale competition
- 85-90% benefits in transmission access
- Infrastructure development, not short-term optimization of scarce resources, must be the focus
- Generation competition won’t work without robust, equitable, independently operated regional grids focused on long-term LSE needs

CONGRESS AGREES!

- EPAct 1992-Transmission Access
- EPAct 2005-217(b)4

"…..exercise the authority of the Commission under this Act in a manner that facilitates the planning and expansion of transmission facilities to meet the reasonable needs of LSE's, and enables LSEs to secure firm transmission rights (or equivalent FTRs) on a long-term basis for long-term power supply arrangements made, or planned, to meet such needs"

RTO CONCERNS

- Concept of short-term theoretical efficiency must not be placed above longer-term welfare of consumers, economy, energy and national security
- Auctioning off scarce facilities-***bad***
- Building infrastructure to meet needs, power economic growth, facilitate generation competition, eliminate market power-***good***

RTO CONCERNS

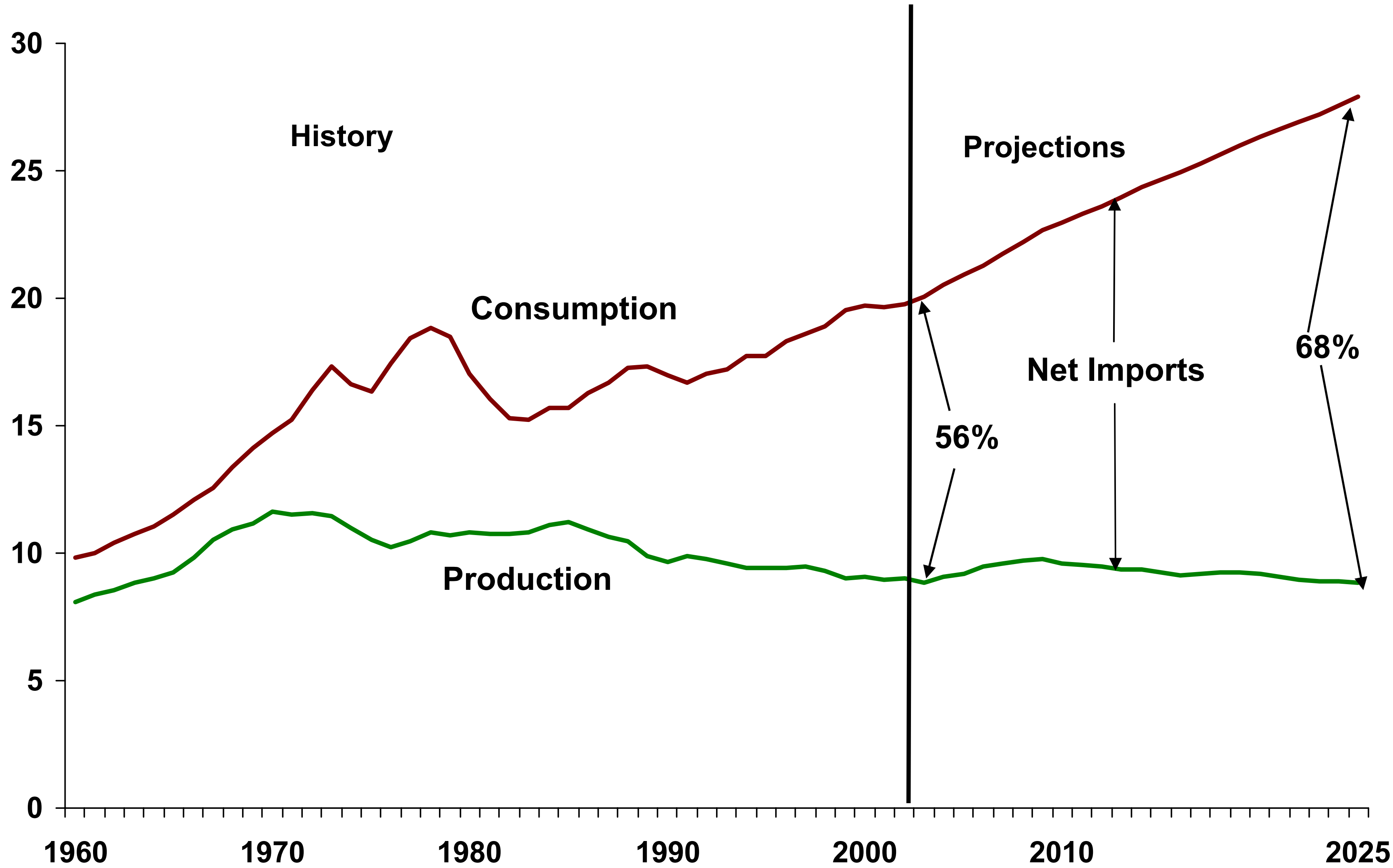
- Insufficient regional efforts to plan, build transmission for long-term economy <u>and</u> reliability
- LMP has not, will not get transmission built, but has raised prices to consumers, stopped infrastructure development
- Additional transmission incentives won't work, certainty of cost recovery will
- Default Participant Funding, LMP has Balkanized grid, but at market rates

COOP RTO VISION

- Open, inclusive transmission planning for long-term reliability <u>and</u> economy of LSEs over “<u>rational regions</u>”
- “Rolled-in” cost recovery for long-term in-region LSE reliability <u>and</u> economic transmission needs; most outside region needs “Participant Funded”
- Long term “fully hedged” transmission service available for infrastructure development, financing
- Reliance on bilateral markets, <u>**not**</u> over-reliance on spot markets

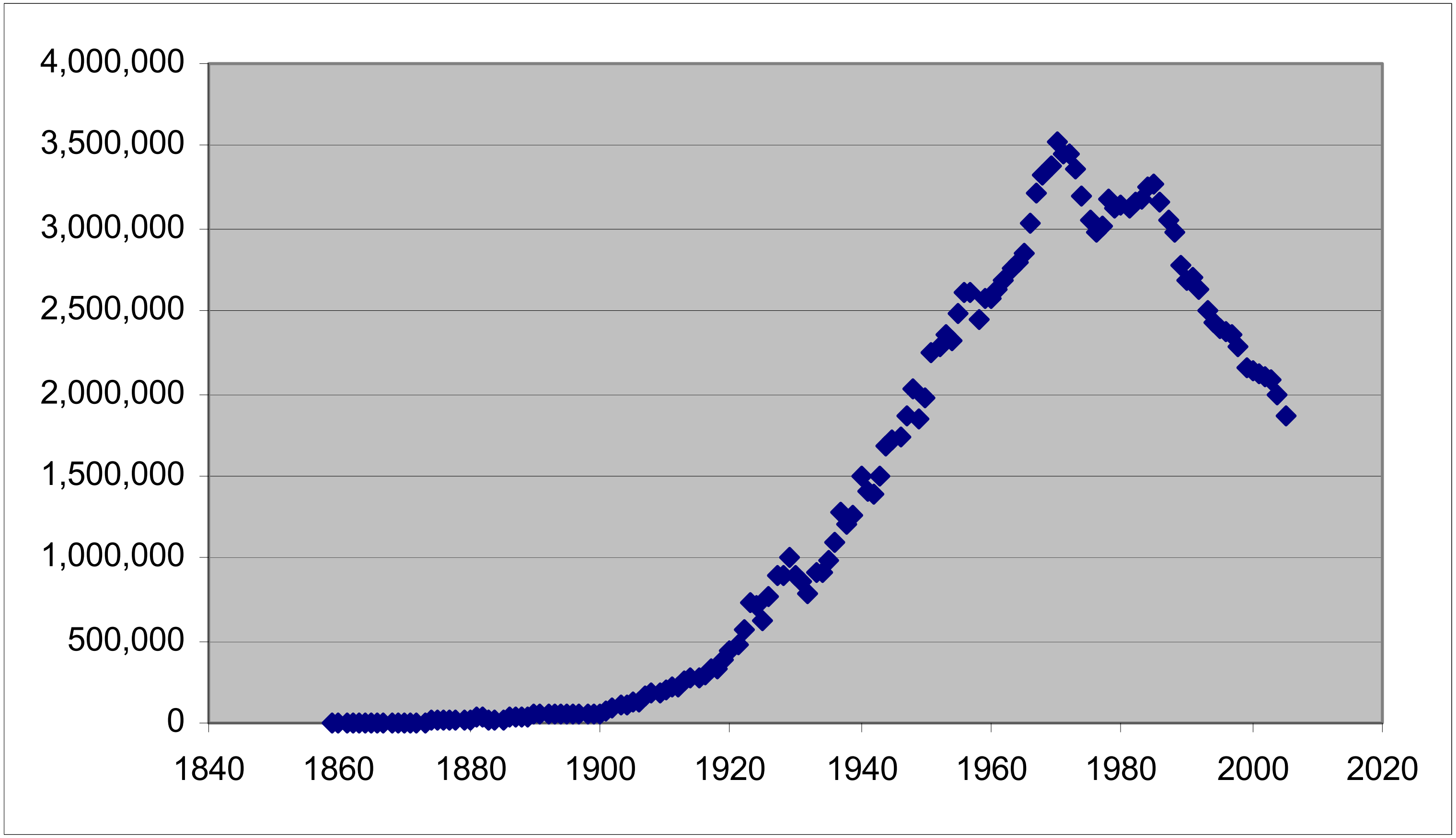
WHAT WAS $726 BILLION IN 2005?

U.S. Petroleum Production, Consumption, and Net Imports, 1970-2025 (million barrels per day)

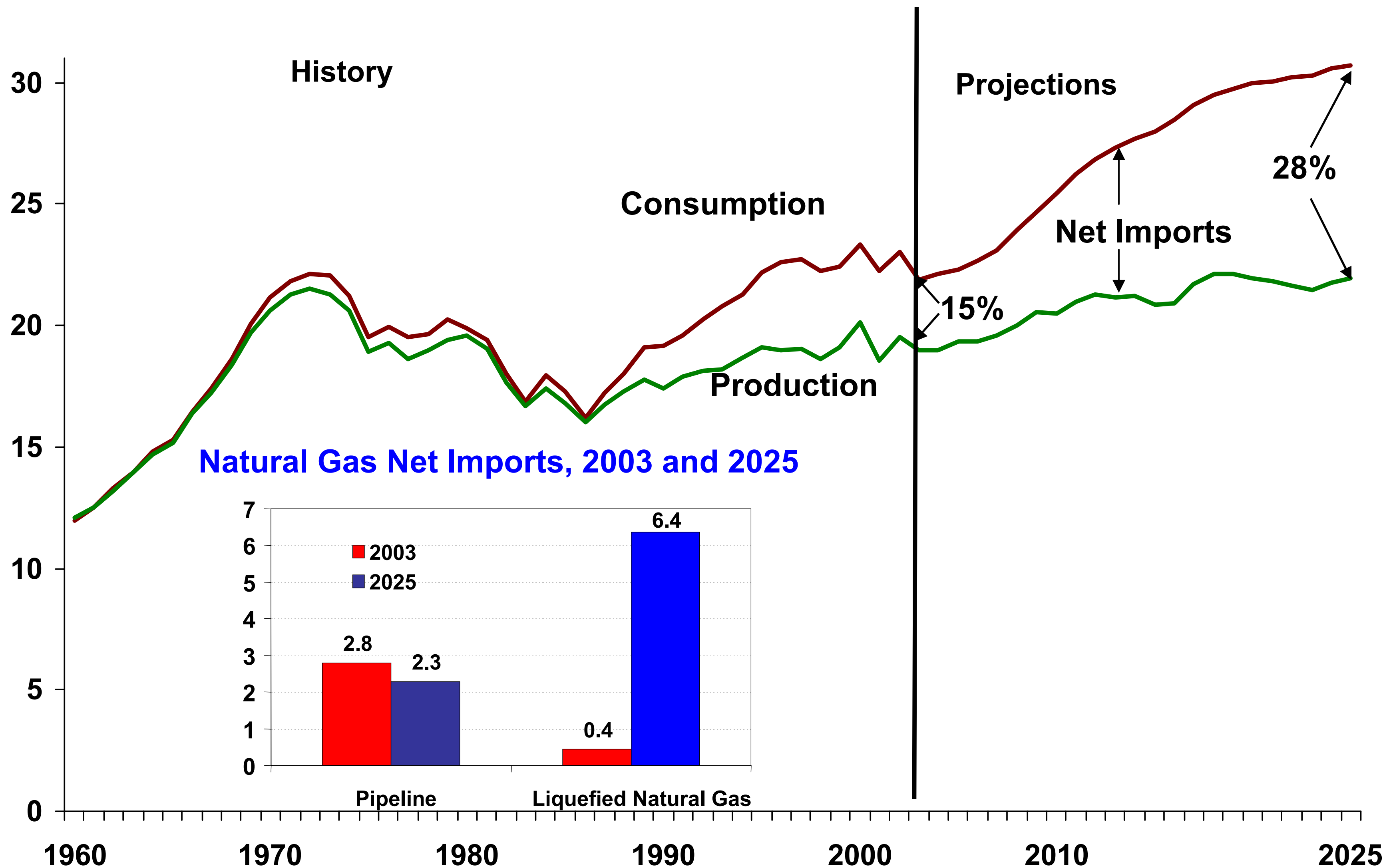


Annual Energy Outlook 2005

Domestic Oil Production (1000 barrels)



U.S. Natural Gas Production, Consumption, and Net Imports, 1970-2025 (trillion cubic feet)



Annual Energy Outlook 2005