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Transmission investments must fairly address region-wide reliability, local reliability and congestion relief. For G&T cooperatives, this means that some transmission investments should be rolled in and not built through participant funding. Participant funding should not be used:

1. When network resources are redesignated but no new capacity is added.

G&Ts typically obtain new resources to replace expiring contracts for a substantial portion of their generation portfolios. In doing so, they are required to re-designate their network resources to account for the new resources. ETEC, on the Entergy System, has issued an RFP to replace about 40 % (365 MW) of its resource portfolio by the end of 2004. Many of the resources being considered are existing network resources* now serving other native load on the Entergy system. If they are selected, any resulting transmission upgrades should be considered as benefiting total system reliability and not participant funded. Facing the high cost of upgrades to leave their traditional IOU supplier to access other suppliers, G&T Coops are pressured to renew purchases from the IOU and competition is stifled.

2. When the transmission investment cannot justify the power supply. In planning to replace power supply resources under contracts expiring at the end of 2004, ETEC's preliminary analysis indicates transmission network upgrades for as little as 50MW of firm service for the RFP resources would range from \$16 million to \$33 million. Network upgrades are inherently "lumpy" and ETEC determined that a large 500kV autotransformer could be required to facilitate the delivery of one of the 50 MW resources modeled in the preliminary studies. The autotransformer obviously would benefit other transmission users as well, but an ETEC request to change network resources may trigger the upgrade and ETEC would be required to participant fund that investment. A G&T cooperative having to pay \$16 - \$33 million in network upgrade

* One resource is a 1982 coal-fired plant, co-owned by Entergy and Sam Rayburn G&T and located on Entergy's transmission system.

costs for 50 MW of service from an existing generating plant results in huge cost shifts. The incremental cost will about **double** the overall average cost of transmission service to the cooperative's customers. This is clearly an unacceptable result that would have a chilling effect on competition.

3. When transmission upgrades are needed to relieve existing load pockets.

The East Texas Cooperative's load on the Entergy transmission system is located in the western part of the Entergy Gulf States service territory known as WOTAB in Entergy's planning documents. This area has limited import capability and is a "load pocket" relying heavily on must-run generation for reliability. Transmission reinforcements to maintain historical robust levels of transmission capability have been delayed. The result is a transmission system that relies heavily on the availability and dispatch of generation to maintain service to loads and that cannot independently provide transmission service to its customers at historical levels of reliability. Entergy has only a relatively small part of its load in "load pockets", whereas the East Texas Cooperatives have all of their load in a "load pocket". Assuming that both Entergy and the cooperatives end up in an RTO, it is likely that regional planning to upgrade and expand the transmission system to make it more robust would require a disproportionately higher investment in the "load pocket" areas. A Participant Funding Protocol would shift the burden of funding such expansion to the East Texas Cooperatives in spite of the fact that the cooperatives, as long-standing transmission customers of Entergy, have paid for the system-wide grid.

4. When the local transmission network is upgraded to match regional network comparability. The members of the East Texas Coops are in the process of upgrading their transmission systems by adding facilities to tie their radials into a looped system to achieve a reliability level that is comparable to Entergy's system. Entergy would be eligible to roll these facilities into the "license plate" zonal rate base under an RTO, but the East Texas Coops would have to participant fund any new facilities that exceed NERC reliability criteria, even if comparable Entergy facilities are in the zonal rate base. G&T Cooperatives should be allowed to upgrade their systems to the same level of reliability as their IOU transmission provider before being exposed to participant funding for such upgrades.