

Session 2

Status Update

**Assessment of Strategic Options and “No Regrets” Implementation
Plan Activities**

Kurt Castleberry

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Status Update

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

- **EAI is still considering all strategic options and is on schedule for a 4Q 2011 Transition Plan recommendation**
- **EAI is focused on providing a low implementation risk plan for First Day operations (2013-2014) but the Transition Plan will describe enhancements to operations that can be put in place by 2017**
- **The RTO/ICT endpoint options are possible under all strategic options – Both MISO and SPP RTO options are under assessment**
- **The RTO/ICT Decision is not on our critical path for purposes of the Transition Plan – uncertainty regarding these issues will be reduced over the 2010-2011 period**
 - **There are numerous “No Regrets” implementation steps that EAI will take that are robust regardless of the outcome of future decisions regarding the strategic option or the RTO/ICT**

Objectives for this Session

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

Provide an update regarding:

- **EAI’s principle-guided approach for developing the strategic options**
- **EAI’s current assessment of each of the strategic options**
- **Illuminate areas that are common to all strategies and thus are “No Regrets” activities that merit implementation prior to 4Q 2011**

Principle-guided Approach for Developing Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

Why is it important to have a principle-guided approach for developing the strategic options?

- **Very complex subject matter**
- **Many uncertainties over which EAI has little if any control**
- **Some issues whose impacts are uncertain today**
 - can't predict with certainty what the price of natural gas, CO2, or a renewable portfolio standard might be in the future, or how merchants will decide to use and price their generation

Principle-guided Approach for Developing Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

Guiding Principles

- **Focus on resources in or adjacent to EAI’s footprint and the options for which more certainty can be obtained**
- **Utilize integrated resource planning solutions**
- **Locating generation close to the load served reduces risks and uncertainty**
- **Coordination arrangements can improve costs, efficiency, and reliability**
- **First and foremost understand the effects on EAI’s customers with a focus on early and identifiable results**
- **Decisions should consider a multiple range of outcomes, when appropriate**
- **Strategic options must be understood and analyzed on a “fundamentals” basis**
 - **qualitative descriptions of the plans and issues, then**
 - **rough screening analyses that can be readily understood, then**
 - **evaluate more precisely with the complex, resource intensive (and harder to understand) models**

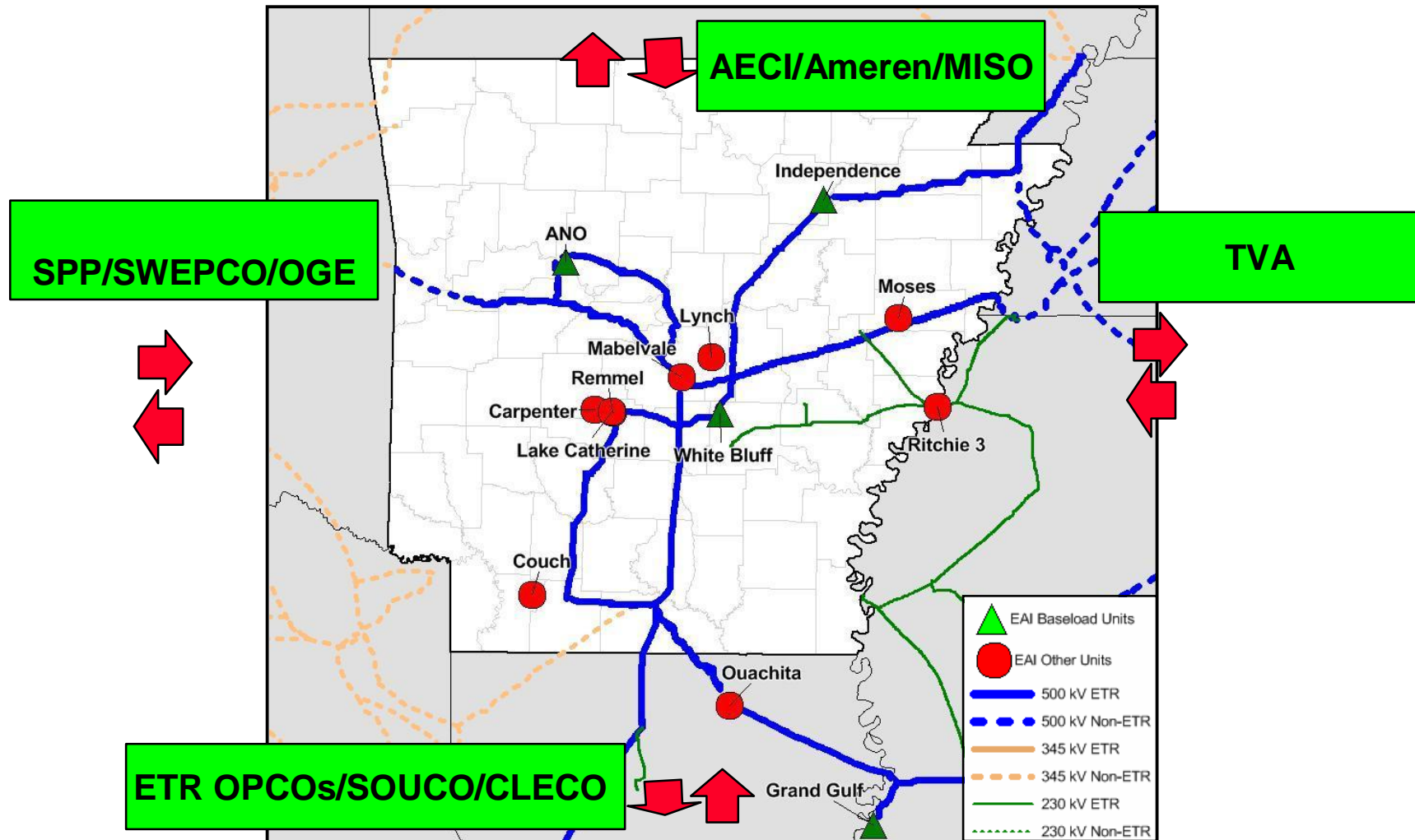
Principle-guided Approach for Developing Strategic Options Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

“Arkansas Focused” and “Customer Focused” Transition Plan

What Does This Mean and Why?

- **Focus on serving EAI customers using “clear line of sight” solutions**
- **“Clear line of sight” generally means Arkansas based solutions** (e.g., in-state resources, reliance on existing EAI arrangements and interconnections)
- **Broader regional opportunities pursued when appropriate** (i.e., if shown to improve customer costs, reliability or reduce risks and can be implemented without unacceptable risks)
- **EAI has strong transmission interconnections with major utility systems with available capacity to support transactions**
- **Arkansas-based generation resources for reliability reserves and flexible generation**
- **Focus on whether EAI and the APSC have more control over activity needed to support the initial years of Transition Plan operations – less implementation risk**

EAI Transmission Interconnections with Major Utility Systems Support Multiple Opportunities and a Diversity of Supply Resources



- Contractual and Legal issues may restrict the use of certain interconnections between EAI and AECI/Ameren and TVA
- EAI currently cannot buy power from TVA due to legal ruling (TVA Fence)

Principle-guided Approach for Developing Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

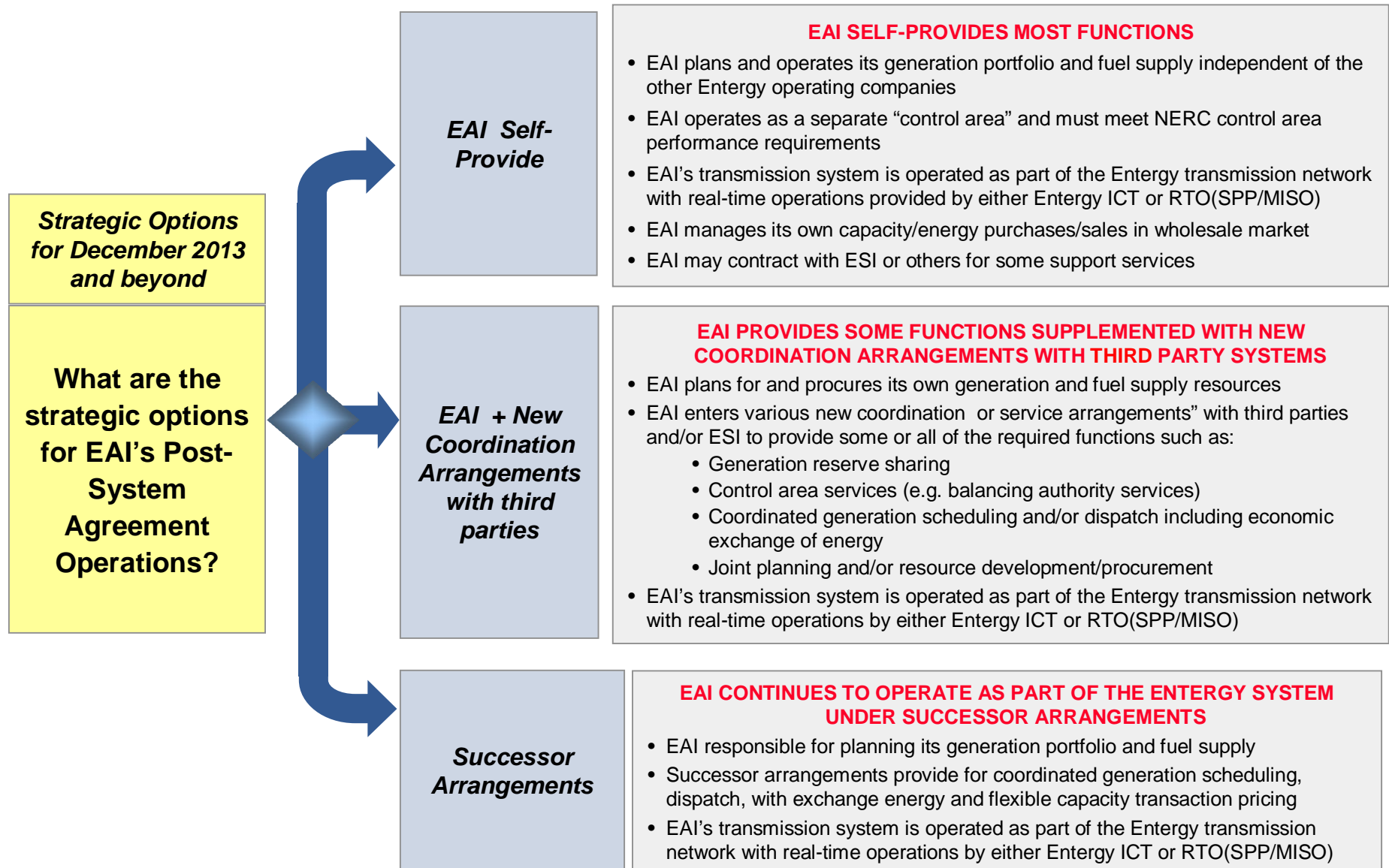
“Arkansas Focused” and “Customer Focused” Transition Plan

Arkansas-based Generation Solutions

- **While EAI’s transmission interconnections with adjacent utilities provide opportunities for purchased power transactions with neighbors in each of several directions, EAI does not have to depend heavily on out-of-state generation to serve its current or long-term needs**
- **There are in–state merchant CCGT resources and numerous locations for CCGT/CT resources to be built if needed**
- **“Arkansas” load is approximately 8,100 MW and approximately 3,800 MW of merchant capacity within the Arkansas footprint.**

Current Assessment of Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities



Current Assessment of Strategic Options

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Successor Arrangements

- **ESI working towards completion of documents and models that will describe the details and potential impacts of Successor Arrangements**
- **EAI anticipates a Technical Conference on this subject when sufficient details are available to discuss**

Current Assessment of Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

EAI Self Provide

- **Although the baseline, unlikely this will be a long-term end-point option**
 - **May not take advantage of natural economies of scale and efficiencies from coordination arrangements, *etc.***
- **However, compared to the other strategic options, EAI Self Provide offers**
 - **Control and predictability for meeting the needs of customers by December 2013**
- **Represents a more certain and “upper bound” scenario for future EAI supply plans**

Current Assessment of Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

EAI Self Provide – Baseline Scenario – Risk Mitigation and Flexibility

- **Baseline Scenario for First Day operations**
- **However, it is important to understand:**
 - EAI will pursue every effort to lower costs, improve reliability or reduce risks by considering future opportunities once they are proven and can be executed
 - The implementation plan for the Baseline Scenario uses a phased approach with numerous “checkpoints” that allows course corrections and “off-ramps” if better solutions found
- **Baseline Scenario provides the basis for EAI understanding the resources and plans that can be implemented to meet all of the functional requirements**
- **EAI will use the information to compare against other supply or provisioning options while maintaining the flexibility to adapt if the projections or actions of others result in unacceptable impacts for EAI**
 - An example is the provisioning plan for BA/CA functions. Knowing what it takes to perform this function and the time it takes us to implement allows us to value the feature of operating in a consolidated BA/CA group with other companies
- **EAI will keep the Baseline Scenario “shelf-ready” for implementation if needed**

Current Assessment of Strategic Options

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EAI Self Provide – Baseline Scenario – “Risk Mitigation and Flexibility”

Additional Examples of Risk Mitigation

Provided by EAI Self Provide-Baseline Scenario Implementation Option

- ✓ **Litigation Risk or Cost Reallocation Risk**
- ✓ **Generation Cost Risk**

Developing and maintaining a “shelf-ready” EAI Self Provide-Baseline Scenario provides:

- **An exit option or replacement option for any agreements with outside parties**
 - There will be numerous opportunities for such agreements, whether they be RTO membership, power supply arrangements, reserve sharing arrangements, etc.
- **Supply certainty for reliability and economics and results in an upper bound of costs**
 - Knowing what it costs to build the next generating unit or make a generating unit more effective for EAI’s operations provides information to assess purchased power opportunities or alternative coordination arrangements that could mitigate these costs

Current Assessment of Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

EAI with 3rd Party Coordination Arrangements

- Major focus of 2010 activities
- What IS being considered are coordination arrangements where:
 - each party is responsible for its own decisions
 - parties voluntarily enter into the arrangement because of economies of scale efficiencies provided by the arrangements
- What IS NOT being considered:
 - a single comprehensive agreement such as EAI has with the System Agreement
 - arrangements that result in joint planning
- Each 3rd party coordination arrangement would address a specific functional requirement or a set of functional requirements
- Could have multiple 3rd party arrangements with multiple 3rd parties
- Arrangements would be clear and well-defined but limited in scope
- Duration of 1-5 years

Current Assessment of Strategic Options

Assessment of Strategic Options and “No Regrets” Implementation Plan Activities

EAI with 3rd Party Coordination Arrangements

- **EAI has started confidential discussions with 3rd parties to explore interest in these types of arrangements**

- **As conclusions are reached in 2010-2011 EAI will provide additional updates:**
 - **on the types of arrangements being considered, and**
 - **on the status of our assessment regarding which arrangements are viable for inclusion in our Transition Plan**

Current Assessment of Strategic Options

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EAI with 3rd Party Coordination Arrangements

Examples of the 3rd Party Coordination Arrangements Under Consideration

- **Operating Reserve Sharing Coordination Agreement**
- **Planning Reserve Sharing Coordination Agreement**
- **ACE Diversity Coordination Agreement**
- **Contingency Replacement Power Coordination Agreement**
- **Maintenance Period Replacement Power Coordination Agreement**
- **Coordinated Unit Commitment of Flexible Generation**
- **Coordinated Arkansas-area Resource Supply Procurement**

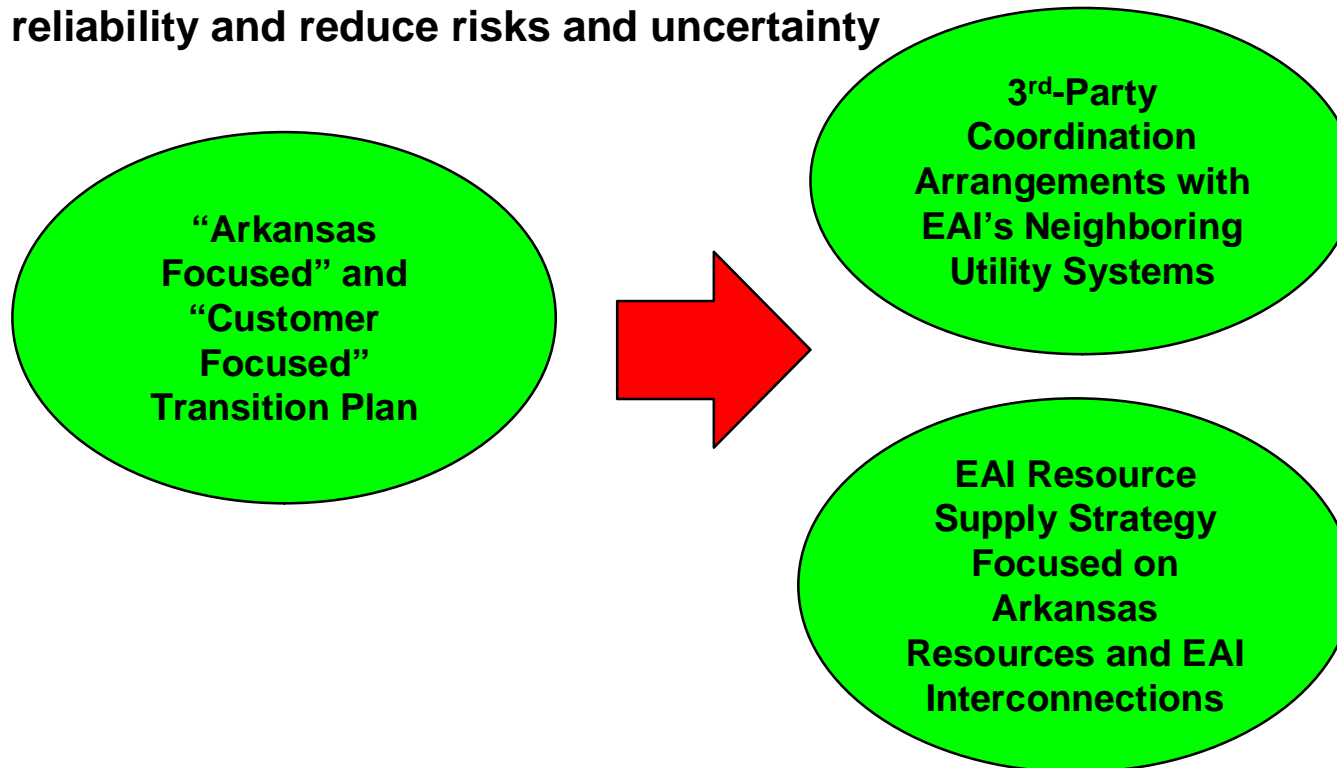
EAI seeks to discuss other possible arrangements with Parties to explore where there is sufficient opportunity and mutual interest

Current Assessment of Strategic Options

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EAI with 3rd Party Coordination Arrangements

- 3rd Party Coordination Arrangements are a natural extension of the Transition Plan Guiding Principles and Arkansas Focused and Customer Focused Transition Plan
- That means a focus on 3rd Party Coordination Arrangements with Arkansas entities and neighboring utilities that can improve costs, efficiency, and reliability and reduce risks and uncertainty



“No Regrets” Activities

Assessment of Strategic Options and “No Regrets” Implementation Plan

Some of the most important “No Regrets” activities that EAI has identified are:

- **EAI Generation Unit Assessment** - assessment of the suitability of major units for various operational roles expected for the 2013-2022 period
- **EAI Arkansas CCGT/CT Self-build Project Options** – assessment and preliminary planning to determine sites and projects for flexible generation for long-term needs and the replacement of aging resources. Also provides a contingency plan in the event of carbon legislation
- **EAI Fuel Supply Planning for Flexible Generation** – assessment and planning to arrange fuel supply to support EAI generating resources
- **Purchase Power Procurement Planning** – preparations for upcoming procurement activities expected during the 2011-2013 period to acquire additional purchased power resources