

Results of the Initial Analysis

EAI Technical Conference
September 23, 2010

Discussion Framework

**Understanding
the Drivers**

**2013 & 2014
Initial Results**

**Individual
Operating
Company
Drivers**

**Gas Price
Sensitivities**

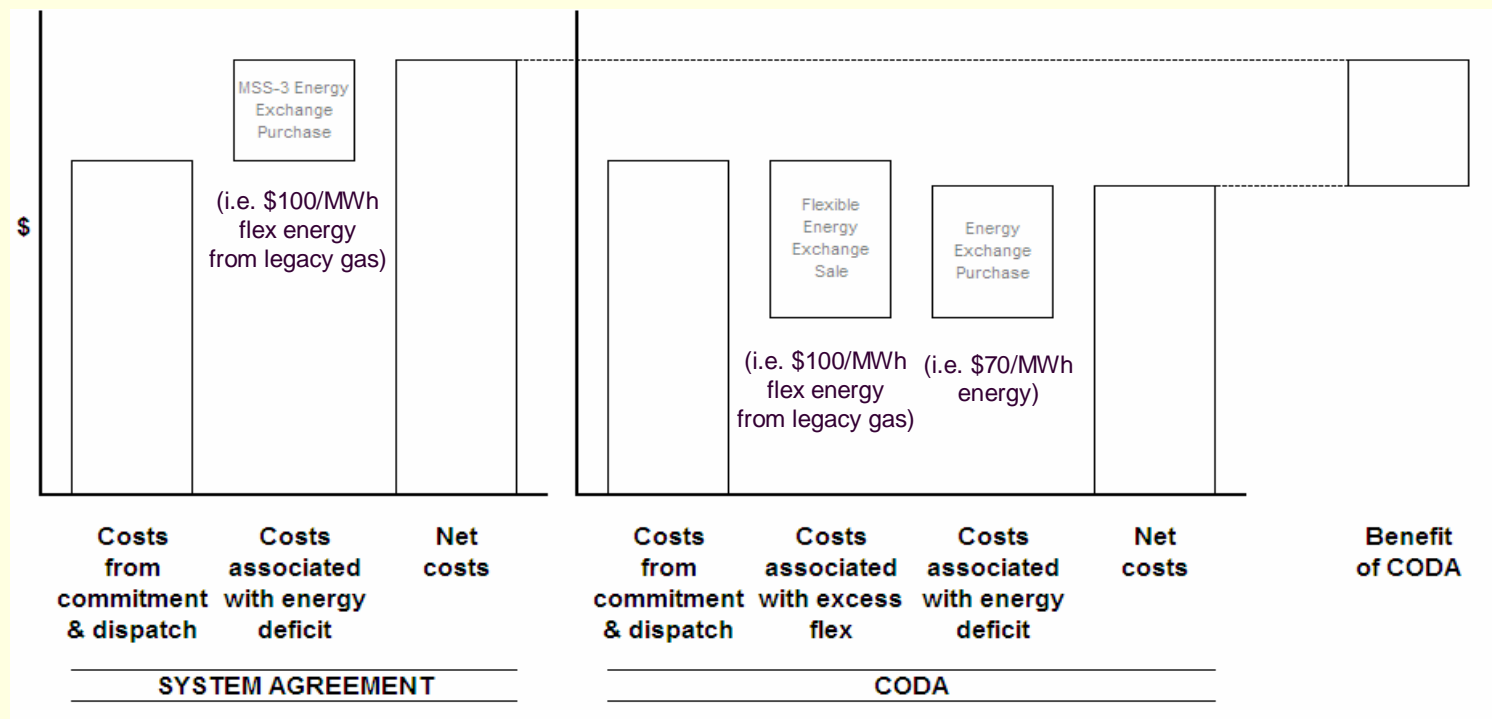
Preliminary Results -- Subject to Change
Additional Scenarios Contemplated

The main difference in this initial analysis between CODA and the System Agreement revolves around the allocation of flexible energy costs

- Flexible energy costs refer to the costs that correspond to the provision of flexibility for the System
- Flexible energy costs are not unique to CODA -- they are as much a part of the System Agreement as they are of CODA
- CODA and the System Agreement allocate flexible energy costs very differently
 - The System Agreement allocates flexible energy costs regardless of an OPCO's "flex" position (i.e. if it has excess flexibility or is short flexibility)
 - CODA allocates flexible energy costs based on an OPCO's flex position
 - The largest impact relates to different allocations of the flexible energy costs of legacy gas/oil units as the cost of these unit are usually much higher than newer gas and coal units -- i.e. \$100/MWh versus \$65-75/MWh
- The following charts highlight how the CODA and System Agreement structures differ, using three portrayals that are indicative of circumstances faced by the OPCOs

The first depicts an OPCO with lower costs under CODA than under the System Agreement

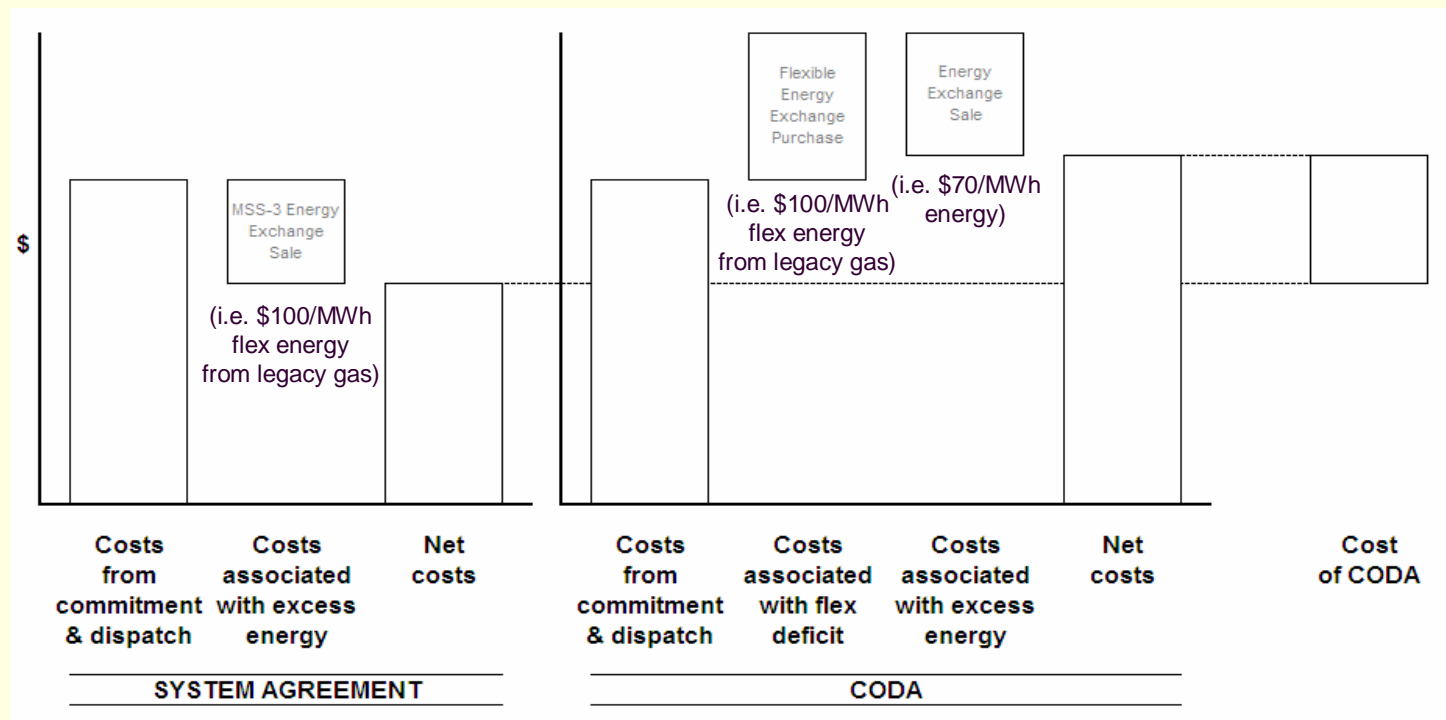
- Under MSS-3, this OPCO is allocated flexible energy costs not because it needs flex -- it has excess flex -- but because it needs energy
- Under CODA, the OPCO sells its excess flexible energy and buy its energy needs at the hourly avoided cost



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The second depicts an OPCO with higher costs under CODA than under the System Agreement

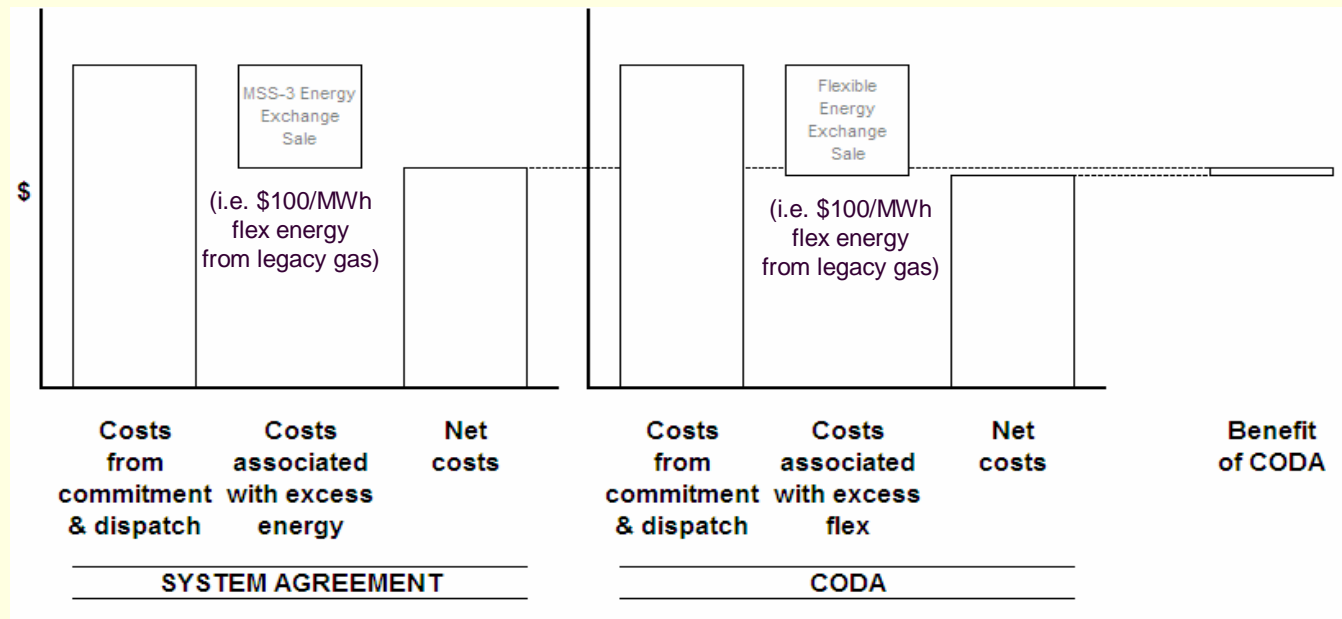
- This OPCO sells flexible energy under MSS-3 not because it has excess flex -- it needs flex -- but because it has excess energy
- Under CODA, the OPCO must buy its flex needs and then sell its excess energy at the hourly avoided cost



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The third depicts an OPCO that has roughly the same costs under CODA and the System Agreement

- This OPCO sells its flexible energy under the System Agreement and under CODA



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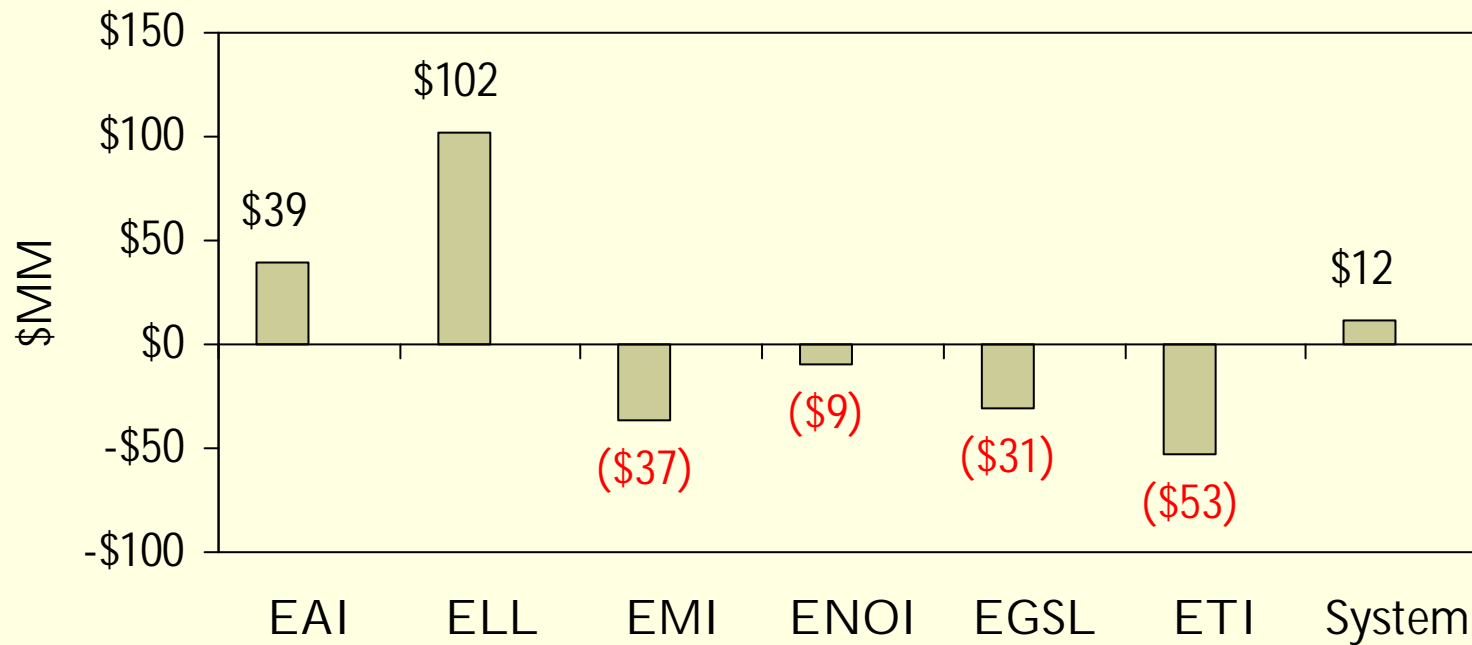
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Summary of 2013 Initial Analysis: 6-Company CODA vs System Agreement

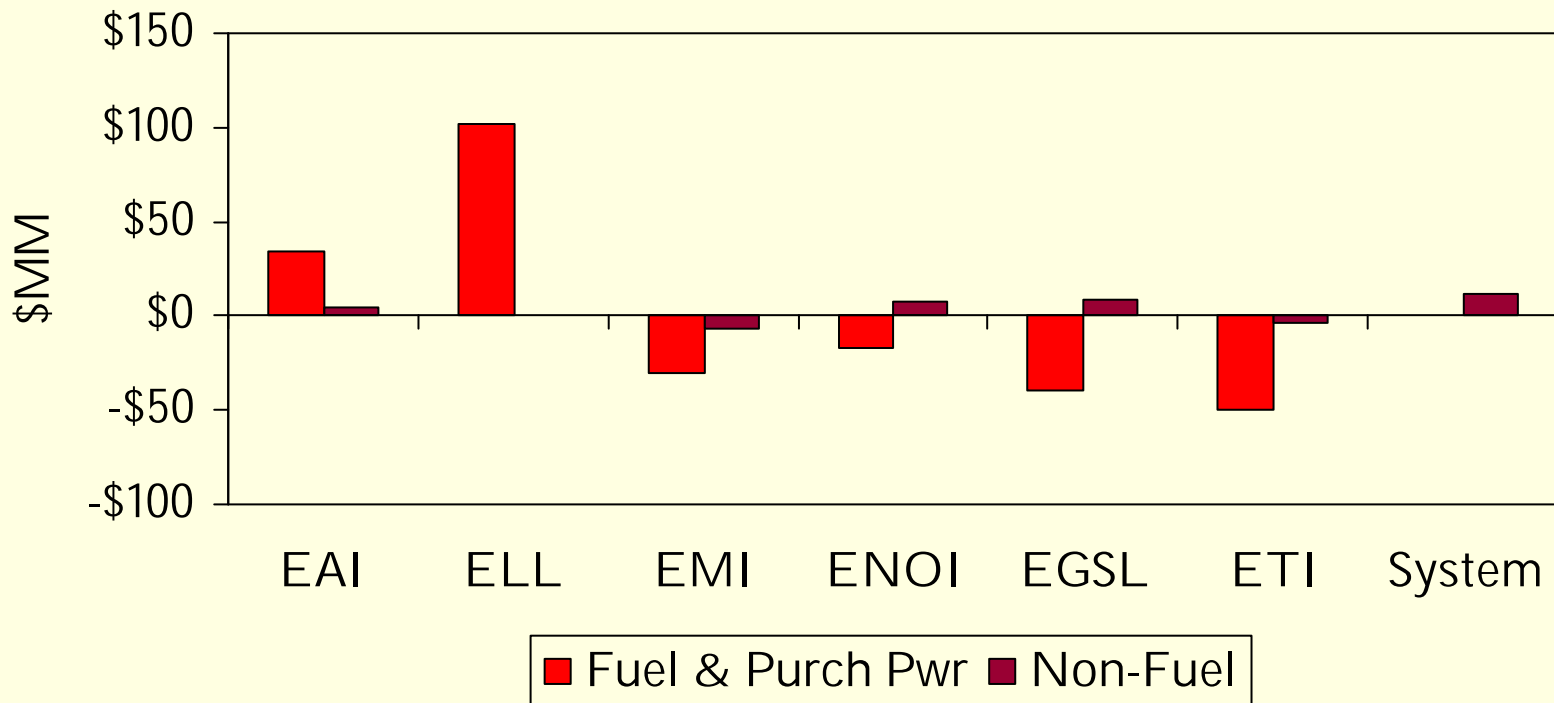
Comparison of 2013 Total Production Costs under CODA vs System Agreement



• RPCE payments are not factored into the CODA results. Those are included in the appendix.

For 2013, the 6-Company CODA results in a shift of fuel costs among the operating companies and produces non-fuel savings

Breakdown of 2013 Production Cost Savings by Fuel and Non-Fuel under CODA vs System Agreement

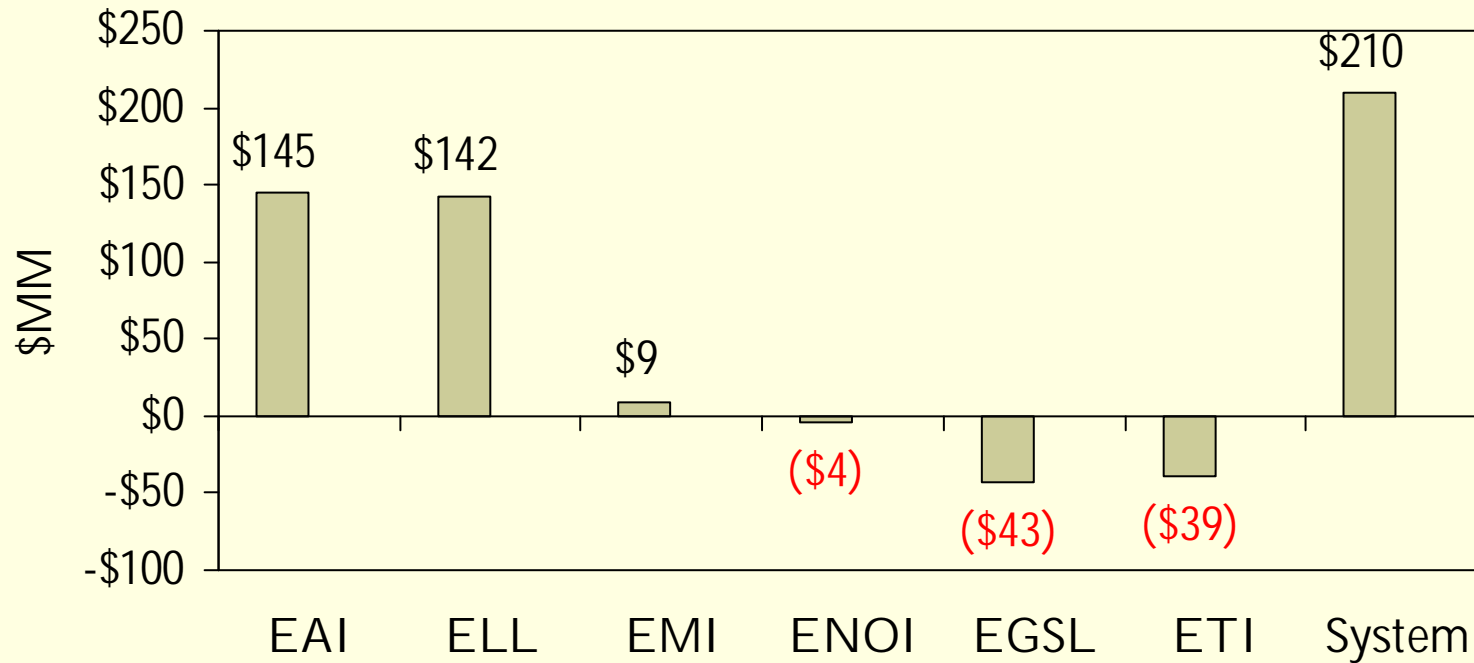


• RPCE payments are not factored into the CODA results. Those are included in the appendix.

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Summary of 2014 Initial Analysis: 6-Company CODA vs 5-1 Scenario

Comparison of 2014 Total Production Costs under CODA vs 5-1 Scenario

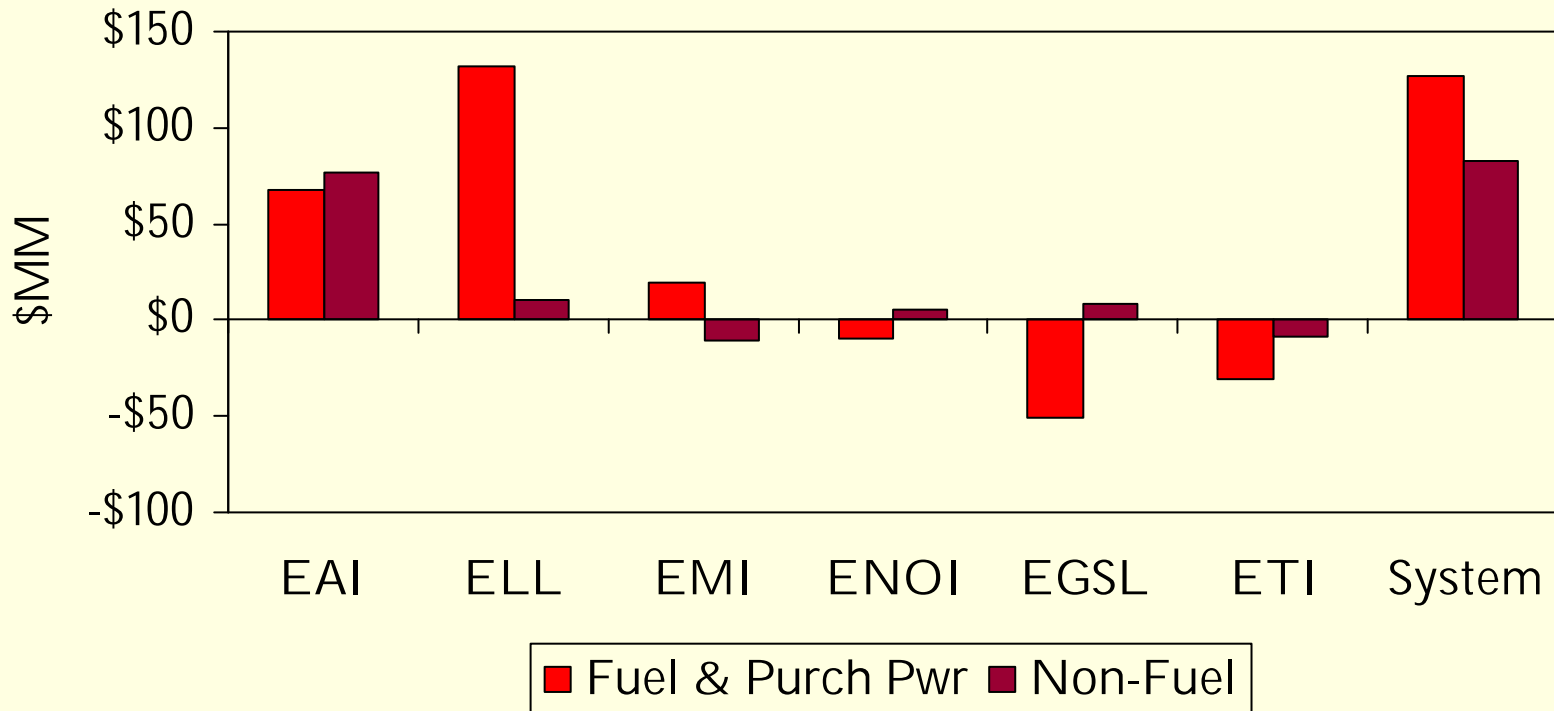


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For 2014, the 6-Company CODA produces both fuel and non-fuel savings for the combined companies

Breakdown of 2014 Production Cost Savings by Fuel and Non-Fuel under CODA vs 5-1 Scenario



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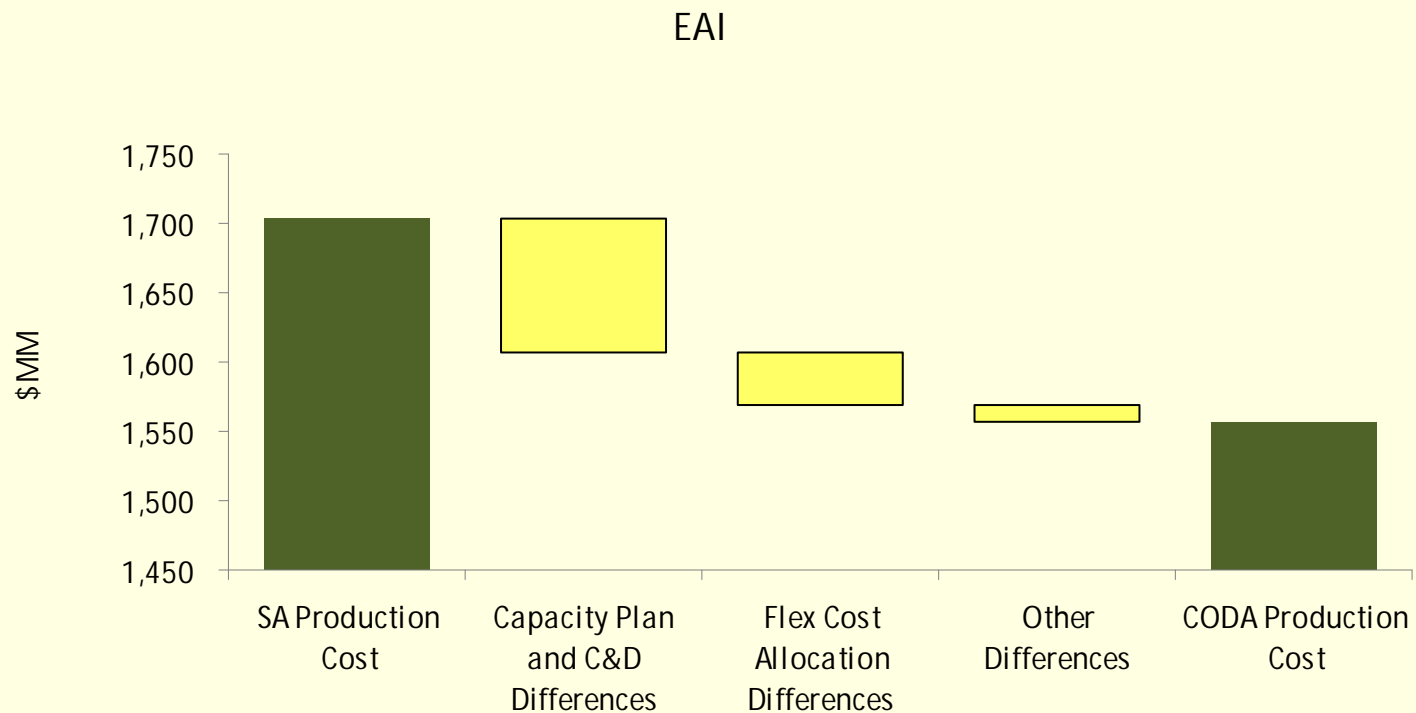
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Summary of differences between EAI's costs under CODA versus the 5-1 scenario in 2014

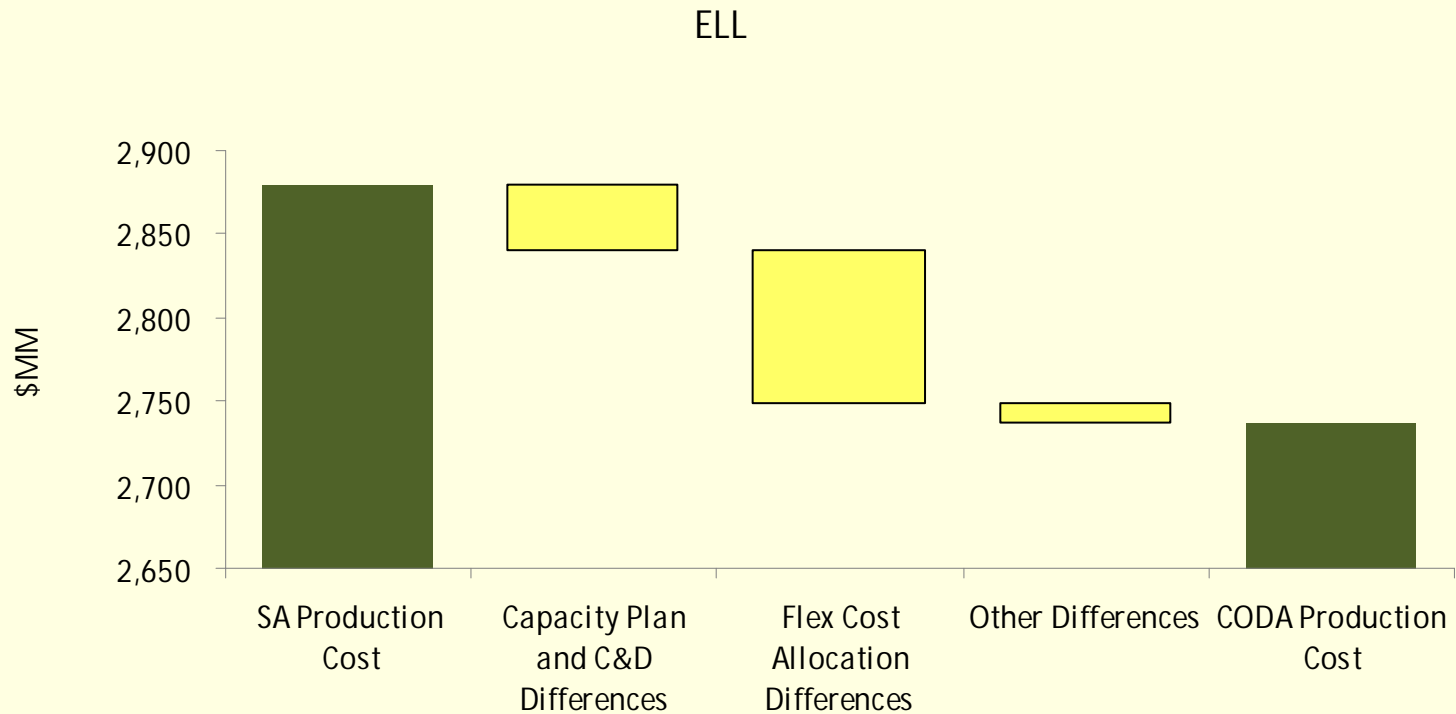
- While the allocation of flexible energy costs is a large component of the change, the capacity plan associated with EAI standalone operations is even more significant.



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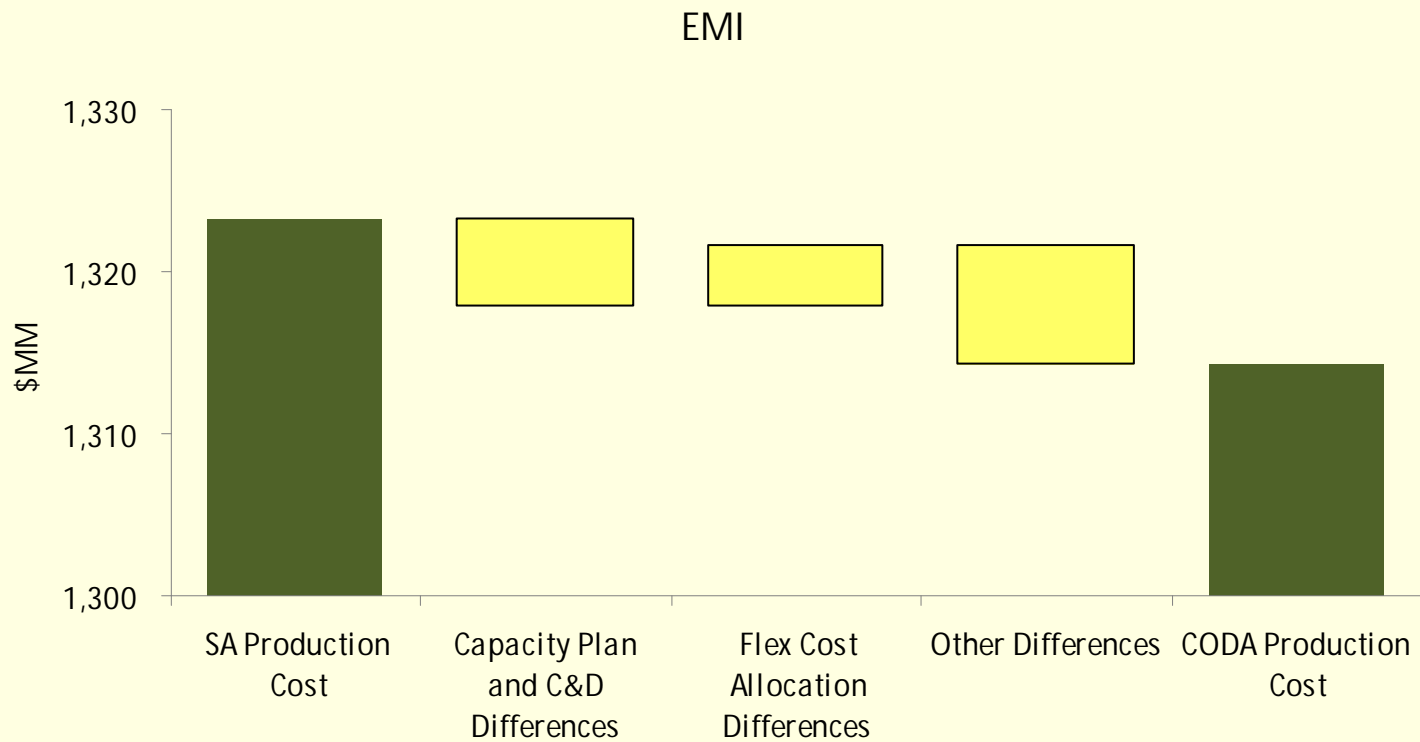
Summary of differences between ELL's costs under CODA versus the 5-1 scenario in 2014

- The largest impact relates to the allocation of flexible energy costs.



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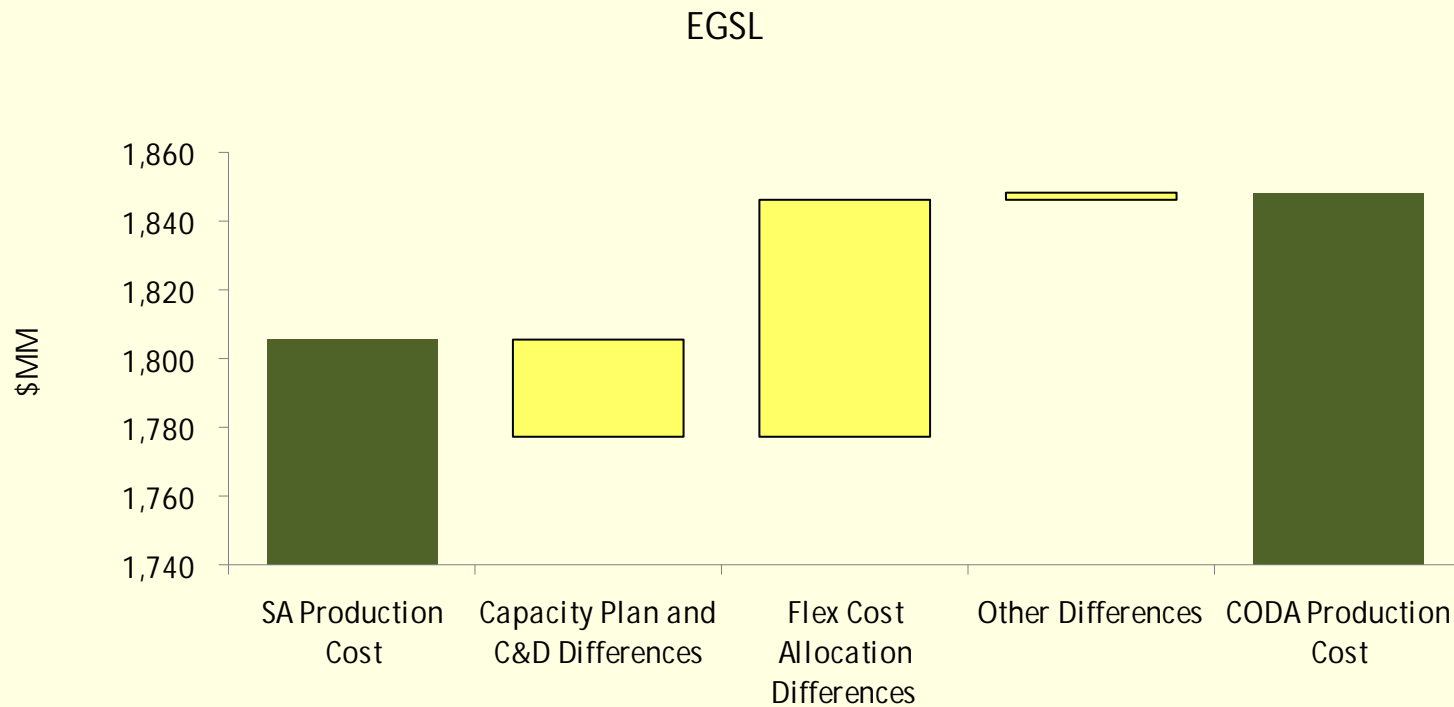
Summary of differences between EMI's costs under CODA versus the 5-1 scenario in 2014



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Summary of differences between EGSL's costs under CODA versus the 5-1 scenario in 2014

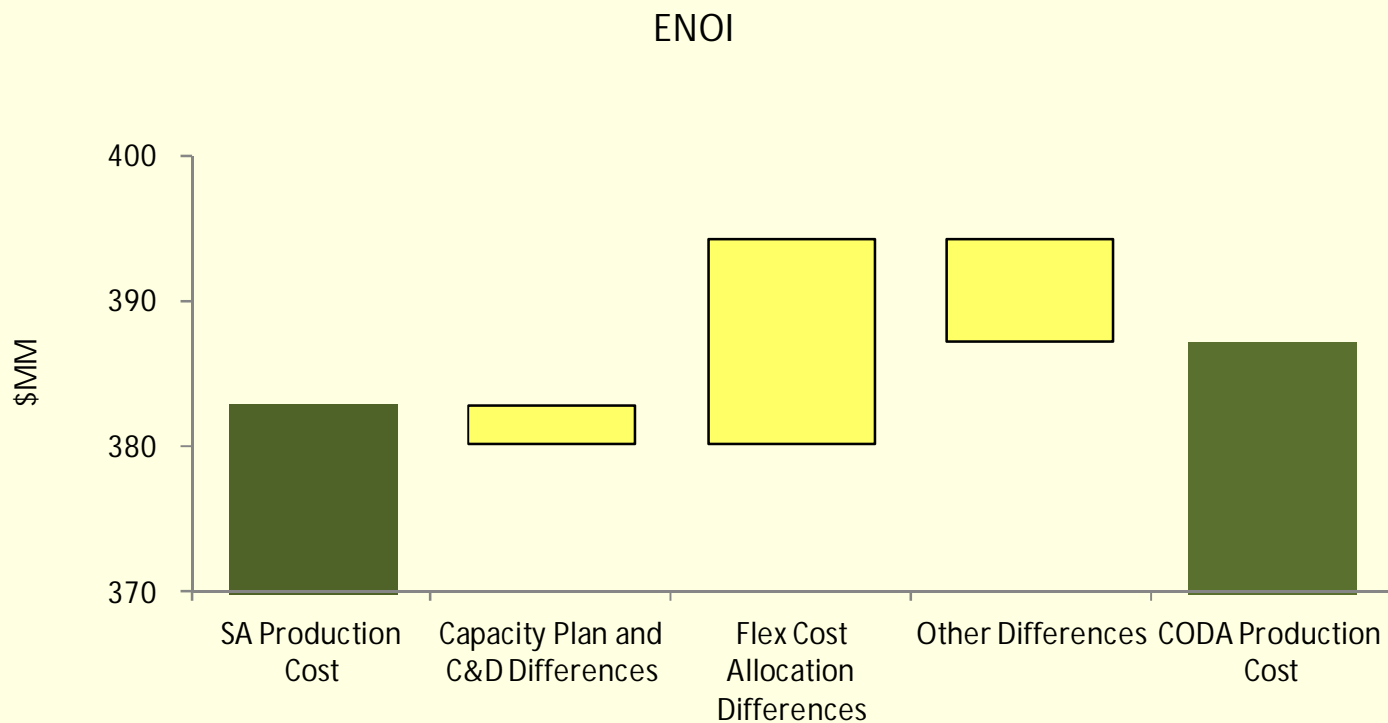
- The largest impact relates to the allocation of flexible energy costs.



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Summary of differences between ENOI's costs under CODA versus the 5-1 scenario in 2014

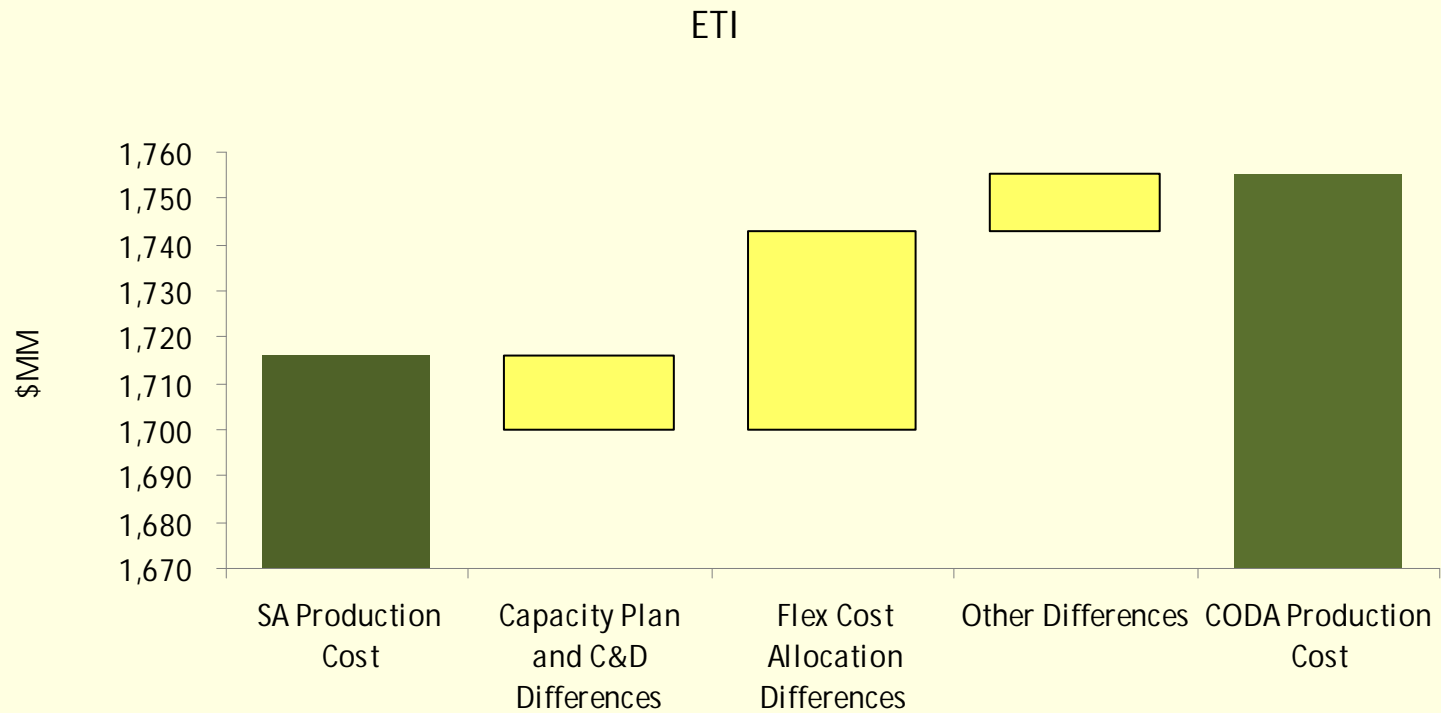
- The largest impact relates to the allocation of flexible energy costs.



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Summary of differences between ETI's costs under CODA versus the 5-1 scenario in 2014

- The largest impact relates to the allocation of flexible energy costs.



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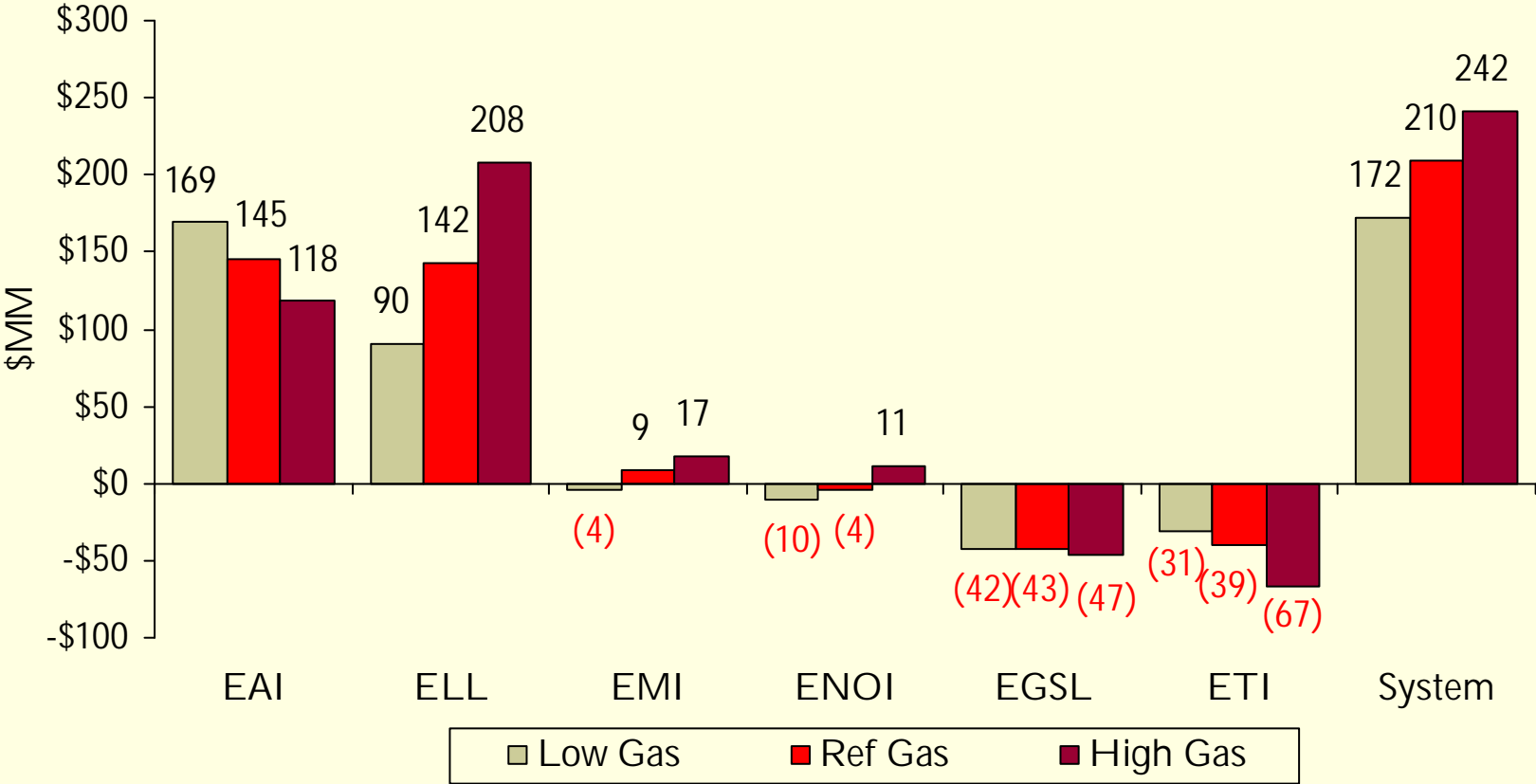
**Gas Price
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Key forecasts based on 2010 Business Plan

	Low	Reference	High
Gas Price (\$/MMBtu)	\$5.30	\$7.37	\$9.18
Market Price (\$/MWh)	\$60	\$71	\$77

Summary of Benefits: 6-Company CODA vs 5-1 under varying gas scenarios

Savings in 2014 Production Costs under CODA vs 5-1



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Appendix

2013 RPCE calculation

- Under the terms of CODA, no RPCE payments are made
- Per the Show Cause Order, the APSC mandated that an RPCE calculation be produced for all successor arrangement scenarios

RPCE PAYMENTS/(RECEIPTS) IN 2013 (\$MM)

	EAI	ELL	EMI	ENO	EGSL	ETI	System
RPCE for CODA	174	0	0	0	(78)	(96)	0

2014 RPCE calculation

- Under the terms of CODA, no RPCE payments are made
- Per the Show Cause Order, the APSC mandated that an RPCE calculation be produced for all successor arrangement scenarios

RPCE PAYMENTS/(RECEIPTS) IN 2014 (\$MM)

	EAI	ELL	EMI	ENO	EGSL	ETI	System
RPCE for CODA	141	0	(1)	0	(54)	(86)	0

2014 RPCE calculation – Gas Price Scenarios

RPCE PAYMENTS/(RECEIPTS) UNDER GAS PRICE SCENARIOS (\$MM)

	EAI	ELL	EMI	ENO	EGSL	ETI	System
RPCE for CODA – Low Gas	15	0	0	0	0	(15)	0
RPCE for CODA – High Gas	227	0	(8)	0	(91)	(128)	0