UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Services, Inc.,	)	
	)	
on behalf of the Entergy Operating	)	Docket No. RT01-75
Companies: Entergy Arkansas, Inc., Entergy	)	Docket No. ER01-_____
Gulf States, Inc., Entergy Louisiana, Inc.,	)	Docket No. ER01-_____
Entergy Mississippi, Inc., and Entergy	)	Docket No. ER01-_____
New Orleans, Inc.	)	

APPLICATION OF ENTERGY SERVICES, INC. FOR APPROVAL OF TRANSCO'S RATE STRUCTURE

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Dated: December 29, 2000

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ATTACHMENTS

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APPLICATION OF ENTERGY SERVICES, INC.
FOR APPROVAL OF TRANSCO'S RATE STRUCTURE

Pursuant to Order Nos. 2000 and 2000-A,[1] Section 205 of the Federal Power Act ("FPA"),[2] and Sections 35.34 and 35.13 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Regulations,[3] Entergy Services, Inc., on behalf of the Entergy Operating Companies, Entergy Arkansas, Inc., Entergy Gulf States, Inc., Entergy Louisiana, Inc., Entergy Mississippi, Inc., and Entergy New Orleans, Inc. (collectively "Entergy"), submits this Application ("Application") for approval of its transmission enhancement and innovative rate proposal. In addition, Entergy submits for filing, under their own ER docket designations, an Open Access Distribution Services ("OADS") tariff, a Transmission Cost Transition Agreement ("TCTA"), and a notice of cancellation

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1 Regional Transmission Organizations, Order No. 2000, FERC Stats. & Regs. & 31,089 (1999) ("Order No. 2000"), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. & 31,092 (2000) ("Order No. 2000-A").

2 16 U.S.C. § 824d (2000).

3 18 C.F.R. §§ 35.34 & 35.13 (2000).

for Service Schedule MSS-2, Transmission Equalization, of the Entergy System Agreement.

On October 16, 2000, Entergy filed an application with the Commission ("Section 203 filing") detailing a proposal ("SPP Partnership RTO"), by which Entergy will create an independent, incentive-driven transmission company ("Transco") to operate under the oversight, and within the umbrella, of the Regional Transmission Organization ("RTO") created by Southwest Power Pool ("SPP RTO").[4] In the Section 203 filing, Entergy sought approval of the SPP Partnership RTO, under Order No. 2000, and approval under Section 203 of the FPA to transfer the transmission assets of Entergy to Transco.

As Entergy stated previously, the Section 203 filing was the first phase of Entergy's plan to obtain the regulatory approvals necessary to have Transco and the SPP Partnership RTO in place no later than December 15, 2001, as provided in Order No. 2000.[5] Entergy stated that it would also make a filing, in December 2000, that would include Transco's rate schedules that would govern transmission service over Transco's system pursuant to Section 205 of the FPA and Order No. 2000. As currently envisioned, Transco's rate structure would be included as an appendix ("Appendix TR") to the SPP RTO open access transmission tariff ("SPP RTO OATT"), a revised version of which is expected to be filed in the first half of 2001. Entergy further stated that it may also make

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4 *See* Application of Entergy Services, Inc. for Approval of a Regional Transmission Organization and Approval of the Transfer of Transmission Assets to a Regional Transmission Organization, filed on October 16, 2000 in Docket No. RT01-75-000 ("Section 203 filing").

5 *See* Section 203 filing at 2. As set out more fully in this Application and the testimony, the rates that Entergy is proposing for Transco would become effective when Transco becomes operational, which is anticipated to be January 1, 2002.

a filing at or near the time of the SPP's filing to conform Transco's rate schedules to the SPP tariff and the congestion management approach agreed upon by SPP and Entergy.

With this Application, Entergy has met the requirements of both Section 205 of the FPA and Order No. 2000 as well as the Commission's regulations regarding innovative rate proposals. Entergy respectfully requests that the Commission act in the above-captioned proceeding by July 31, 2001, in order for Transco to be in place no later than December 15, 2001. Moreover, Entergy also repeats its request that the Commission issue a ruling, by March 1, 2001, on the proposed process for selecting the independent board of the Managing Member as more fully set out in the Section 203 filing.

I. EXECUTIVE SUMMARY

In this Application, Entergy proposes the rate structure for Transco, an independent incentive-driven transmission company that will operate under the oversight, and within the umbrella, of the SPP Partnership RTO. Under the Entergy proposal, Transco's rate structure would be in most respects the same as the current Entergy rate structure embodied in the Entergy OATT. There are, however, some important differences.

First, Transco's rate structure includes a three-year exact recovery mechanism that will allow Transco to adjust its rates in order to mitigate any discrepancies between Transco's projected costs and its actual costs. Entergy proposes such an exact recovery mechanism in order to account for possible differences between actual results and Transco's budget projections. Because Transco is a new entity with no prior cost history, it is necessary to ensure that neither Transco nor its customers are benefited or harmed by formation of Transco.

Second, Entergy is proposing three innovative rate treatments that will provide the incentives for transmission expansion as well as encourage Transco to operate in the most efficient and effective way possible. Under the transmission expansion plan, there will be three major categories of projects: base case projects, participant-funded projects, and regional market expansion projects.

Base case projects are those projects necessary to maintain the reliability of Transco's grid. As explained fully in the Section 203 filing, Transco will evaluate these projects with input from the SPP RTO. Participant-funded projects represent the opposite end of the transmission expansion spectrum and include those projects in which market participants join together to fund expansion of the system. These projects will entitle market participants who participate in the funding to a share of the transmission rights created by this expansion. As one of the incentives for Transco, Entergy is proposing that Transco be given an incentive to market and support such projects, which will not become part of the Transco's ratebase. Entergy is proposing that Transco be allotted five percent of the transmission rights resulting from a participant-funded project. In some situations, however, there may be certain expansion projects that are not susceptible to participant funding because the project would increase capacity on the transmission system such that the new transmission rights created by the project may have limited value as congestive hedges. Nonetheless, the construction of these projects may still be in the public interest. These projects, which are not necessary for reliability purposes but will create a more robust regional energy market, would not have the proper incentive for funding.

The proposed enhanced ROE is an incentive to fund these types of regional market expansion and will provide Transco access to additional sources of funding. Entergy proposes that Transco be allowed to recover an enhanced return on equity ("ROE") of 300 basis points for certain regional market expansion projects. The Commission has recognized in Order No. 2000 that incentives for regional market transmission expansion are important. Projects that increase the throughput of the system are a necessary piece of the proposed market structure, and it is unlikely that market participants will fund all of them. Therefore, an incentive to engage in these types of projects is necessary.

The other innovative rate treatment proposed by Entergy is a performance-based rate ("PBR") mechanism that will enable Transco to earn an increased return when it performs well and , correspondingly, reduces its return when its performance declines. The proposed performance factors will allow Transco to gauge the quality of service being provided to its transmission customers as well as the reliability of service in Transco's region. As discussed in greater detail in the testimony of Mr. Randall and Mr. Bartlett, PBR allows Transco the opportunity to earn a higher rate of return in the event its performance exceeds the benchmark. Furthermore, in the event Transco's performance falls below the benchmark, the PBR mechanisms penalize Transco by reducing the authorized rate of return. As explained in the testimony of Mr. Randall, the bandwidth or deadband contained in the PBR structure also incents Transco to operate in an efficient manner, which in turn will provide tangible benefits to Transco's transmission customers.

Entergy respectfully requests that the Commission approve the rate structure proposed for Transco. As set out in greater detail below, Entergy is proposing its rate structure, including its innovative rate treatments, as part of its effort to establish the SPP Partnership RTO and requests that the Commission evaluate its proposal in the context of the formation of that entity.

II. INTRODUCTION

A. Background

In Order No. 2000, the Commission emphasized the need for increased transmission investment nationwide. As the Commission pointed out, since the release of Order No. 888,[6] there has been a dramatic increase in the number of new participants in the electric industry in the form of independent and affiliated power marketers and generators. This has led to a dramatic increase in the volume of power traded in the industry, particularly sales by power marketers. In the first quarter of 1995, just eight power marketers traded 1.8 million MWh of energy. By the first quarter of 1999, 400 million MWh of energy were traded by more than 100 power marketers. In addition, the Commission has granted market-based rate authority to more than 800 different entities nationwide, 500 of which are power marketers.[7]

In addition to the dramatic growth in the number of power marketers and the amount of power traded by such entities, there has also been a tremendous increase in the number

[6] *See* Order No. 888, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, FERC Stats. & Regs. ¶ 31,036 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in relevant part*, Transmission Access Policy Study Group, *et al.* v. FERC, 225 F.3d 667 (D.C. Cir. 2000), *petition for cert. filed*, 69 U.S.L.W. 3281 (U.S. Oct. 12, 2000) (No. 00-568).

[7] *See* Order No. 2000 at 30,997.

of merchant plants that sell power into the market. These merchant plants have become a major new source of generation. As Entergy noted in its Section 203 filing, roughly 70,000 MW of new generation are in the queue for interconnection studies in the Entergy region alone.[8]

Added to these new dynamics are the various state efforts to introduce retail competition into the industry. As of November 1999, 24 states had either enacted electric restructuring legislation or issued a regulatory order implementing retail competition.[9] In the Entergy service territory, two states – Texas and Arkansas – have passed restructuring initiatives.[10]

Due to this unprecedented strain on transmission systems, traditional forms of managing the grid are becoming increasingly ineffective. Evidence of this is the expanded use of the North American Electric Reliability Council's transmission line loading relief ("TLR") procedures. In 1998 and 1999, over 700 TLR events were reported. The 400 TLR events that took place in 1999 resulted in over 8,000 MW of power curtailment in the three month summer period in 1999.[11]

In terms of creating incentives for new generation and increasing the amount of power traded across transmission systems, including the Entergy transmission system, Order No. 888 has been successful. There has not been, unfortunately, a corresponding

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[8] *See* Section 203 filing at 29, n.13.

[9] *See* Order No. 2000 at 30,997.

[10] The Arkansas Public Utility Commission, however, has proposed to the Arkansas Legislature that electric utility restructuring be delayed.

[11] *See* Order No. 2000 at 30,998.

level of investment in transmission capacity. The amount of new transmission capacity planned over the next ten years is significantly lower than the transmission additions that had been planned just five years ago, and most of the planned projects are for local system support.[12]

Due to these facts, the Commission concluded that the success of efforts to restructure the electric utility industry and to create effective and efficient RTOs is dependent in large measure on the feasibility and vitality of the stand-alone transmission business. For that reason, the Commission concluded that incentives in the form of new transmission ratemaking policies are an important factor in the success of RTOs.[13]

The Commission further stressed that it was critically important for RTOs to develop ratemaking practices that eliminate regional rate pancaking, manage congestion, internalize parallel path flows, deal effectively and fairly with transmission-owning utilities that choose not to participate in RTOs, and provide incentives for transmission-owning utilities to efficiently operate and invest in their systems.[14] In particular, the Commission encouraged RTOs to develop and propose innovative ratemaking practices, particularly with respect to efficiency incentives. Toward that end, the Commission proposed various types of transmission pricing including:

(i) a transmission rate moratorium, which may include proposals based on formerly bundled retail transmission rates;

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[12] *See id.*

[13] Order No. 2000 at 31,171.

[14] *Id.*

(ii) rates of return that (a) are formulary; (b) consider risk premiums and account for demonstrated adjustments in risk; or (c) do not vary with capital structure;

(iii) non-traditional depreciation schedules for new transmission investment;

(iv) transmission rates based on a levelized recovery of capital costs; or

(v) transmission rates that combine elements of incremental cost pricing for new transmission facilities with an embedded-cost access fee for existing transmission facilities.[15]

On October 16, 2000, Entergy filed an Application seeking approval of the SPP Partnership RTO, under Order No. 2000, and approval of the transfer of Entergy's transmission assets to Transco, pursuant to Section 203 of the FPA. The Section 203 filing justified why the SPP Partnership RTO - a "binary RTO" - is an appropriate and proper structure for an RTO. In addition, the Section 203 filing outlined how the SPP Partnership RTO, upon commencement of RTO operations, will satisfy the four minimum characteristics and eight minimum functions required of any RTO under Order No. 2000.[16] Entergy also sought approval under Section 203 of the FPA to transfer its transmission and transmission-related assets to Transco, stating that rate implications associated with Transco would be set out in the December 2000 filing.[17]

This Application is the second phase of Entergy's Order No. 2000 compliance filing. Entergy and SPP continue to work towards a suitable congestion management plan for the SPP Partnership RTO and it is Entergy's understanding that SPP is still on track to

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[15] *See* Order No. 2000 at 31,192-95.

[16] Order No. 2000 at 30,993-34.

[17] Section 203 filing at 2-3.

file the details of a congestion management plan during the first half of 2001. Concurrent with or soon after SPP's filing, Entergy intends to file any changes to Transco's rate schedules to conform them to the SPP RTO OATT as well as those changes that are necessary to implement the congestion management plan for the SPP Partnership RTO region. Final agreement on an acceptable regional congestion management plan is a condition precedent to Transco joining the SPP RTO.[18] In the unlikely event that Entergy and SPP are unable to develop an acceptable congestion management approach, Entergy would file a new RTO proposal and separate market structure for Transco that satisfies the requirements of Order No. 2000. Entergy is also currently in the process of making the necessary filings with its state regulators to obtain approval for the transfer of facilities to Transco.

In response to the Commission's proposals for innovative rate structures and transmission enhancement packages, Transco has developed and submits herewith a comprehensive package of proposals that are more fully outlined below. These proposals seek to enhance and strengthen the performance and reliability of Transco while at the same time promoting new transmission expansion.

B. Summary of Application

As further demonstrated in this Application and testimony, Entergy is now submitting for Commission approval, under Section 205 of the FPA, Transco's rate schedules along with the cost support and justification for those rates. The Application

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[18] As noted in the Section 203 filing, Entergy will alert the Commission as soon as practicable if the significant details of the congestion management plan can not be worked out with SPP.

and testimony also set forth the innovative ratemaking proposals that will allow Transco to operate efficiently and effectively, explains and justifies the incentives for transmission expansion and describes the treatment of new capital expenditures. The testimony includes:

- **Testimony of Frank F. Gallaher (Attachment A).** Mr. Gallaher describes how Transco will operate in conjunction with the SPP RTO, including the treatment of Entergy's existing transmission customers, and explains how the various ratemaking incentives proposed for Transco will allow it to operate effectively and efficiently while encouraging the siting and development of new transmission capacity.
- **Testimony of Rodney K. Gilbreath (Attachment B).** Mr. Gilbreath discusses the formula rate structure that Entergy is proposing for application to Transco's transmission customers that will be served under the SPP RTO OATT. He also presents and supports Transco's initial rates, the Schedule 1 charge, and the development of the monthly payment amounts among the operating companies set out in the Transmission Cost Transition Agreement ("TCTA") that Entergy is filing in this proceeding as a separate FERC rate schedule.
- **Testimony of George R. Bartlett (Attachment C).** Mr. Bartlett describes the ancillary services that will be offered under Appendix TR as well as the performance factors that will contribute to the PBR feature of Transco's rate structure. Mr. Bartlett also discusses the criteria that transmission customers must satisfy in order to receive credits for facilities.

- **Testimony of Lee W. Randall (Attachment D).** Mr. Randall discusses the calculation of total costs associated with formation and operation of Transco in 2002 and describes the manner in which Transco will secure administrative and support services. Mr. Randall will also discuss the exact recovery methodology that Transco is proposing for the first three years of its operation. He also supports Transco's capital structure and certain PBR parameters.
- **Testimony of Bruce H. Fairchild (Attachment E).** Mr. Fairchild conducts an independent appraisal of the cost of common equity capital to Transco and justifies why a 13 percent return on common equity for Transco is appropriate due to the new risks associated with an independent transmission company.
- **Testimony of Michael M. Schnitzer (Attachment F).** Mr. Schnitzer explains the need for market-funded expansion and how market-funded expansion will be encouraged under the SPP Partnership RTO. He also discusses why Transco should receive an enhanced ROE associated with certain types of facilities.
- **Testimony of J. David Wright (Attachment G).** Mr. Wright sets out the cost support for the operation of Transco, including the work papers used in developing the cost estimates.
- **Testimony of David N. Beekman (Attachment H).** Mr. Beekman describes the OADS Tariff that will be used to provide distribution services to new wholesale transmission service customers and to new wholesale for resale customers, including generators connected to the distribution facilities of one of the Operating Companies that intend to sell their output into the wholesale power market.

In addition to the testimony submitted as part of this filing, Entergy is also submitting the following additional documents:

- **Appendix TR (Attachment I).** As discussed below, Entergy is proposing an appendix to the SPP RTO OATT that will contain the rate structure for Transco as well as the rates associated with certain ancillary services. As noted in the Section 203 filing, the revised SPP RTO OATT will be filed with the Commission in the first half of 2001.
- **Transmission Cost Transition Agreement (Attachment J).** The TCTA is the agreement between the Operating Companies that sets out the terms and procedures to be utilized in mitigating the cost changes that will occur as a result of the transfer of the Operating Companies' transmission assets to Transco. Entergy is filing the TCTA as a separate rate schedule and requests that it be given its own ER docket designation.
- **Notice of Cancellation for MSS-2 (Attachment K).** Since the Operating Companies will no longer provide transmission service, Entergy is filing a notice of cancellation for the MSS-2 service schedule to the Entergy System Agreement. Entergy requests that the notice of cancellation be given its own ER docket designation.
- **Open Access Distribution Service ("OADS") Tariff (Attachment L).** The OADS Tariff is a FERC-jurisdictional distribution tariff that will be administered by Transco for distribution service to wholesale transmission customers who currently take service under Entergy's OATT as well as for wholesale sales for resale customers currently served pursuant to an existing contract with one of the Operating

Companies. Entergy is filing the OADS tariff as a separate rate schedule and requests that it be given its own ER docket designation.

Based on these rate schedules, documents and testimony, this Application sets forth the justification for why the proposed rates for Transco are just and reasonable, and not unduly discriminatory.

III. FORMATION OF TRANSCO AND RELATIONSHIP TO SPP RTO

A. Transco Addresses FERC Requirement that RTO Provide Non-Pancaked Rates through SPP Partnership RTO's License Plate Rate Design.

As the Commission stated in Order No. 2000, the elimination of rate pancaking for large regions is a central goal of the Commission's RTO policy, and has been a feature of all five ISOs the Commission has approved.[19] In addition, the Commission recognized that it may be difficult for RTOs to develop a single access rate for the entire RTO region.[20] As the Commission noted, a single access rate would mean that low-cost transmission providers would see a rate increase and high-cost transmission providers would be concerned about not meeting their revenue requirement.[21] In order to compensate for these varying rate impacts, the Commission has approved a flexible approach to the problem, allowing each ISO approved by the Commission to implement "license plate" rates. A license plate rate provides access to the regional transmission system at a single rate although that rate may vary based on where the customer is located.

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19 *See* Order No. 2000 at 31,174-75.

20 *Id.* at 31,175.

21 *See* Order No. 2000 at 31,177.

As stated in the Section 203 filing and further outlined in this Application, Transco will be an independent incentive-driven transmission company that will operate under the oversight, and within the umbrella, of the SPP RTO. SPP's currently effective tariff has license plate rates. Transactions scheduled under the SPP regional tariff that sink inside of SPP pay a rate for the embedded cost of the system based on the revenue requirement of the transmission owner in whose zone the transaction sinks. Transactions through and out of SPP pay a single average rate regardless of where they originate.

Entergy anticipates that Transco will become a zone within the SPP Partnership RTO region. In its Order No. 2000 compliance filing, SPP stated that it would keep its current license plate rate structure and will make a filing with the Commission, either justifying continuation or proposing a new pricing method, no later than February 1, 2005.[22] Through the SPP Partnership RTO, Transco achieves a central goal of the Commission in Order 2000: the elimination of pancaked rates over a region of significant size and scope.

B. Congestion Pricing System

As the Commission noted in Order No. 2000, congestion pricing and congestion management are closely related issues.[23] While acknowledging that congestion pricing is in its infancy, the Commission concluded that markets that are based on locational marginal pricing ("LMP") and financial rights for transmission provide a sound framework for efficient congestion management.[24] The Commission emphasized,

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22 *See* Regional Transmission Organization Proposal of Southwest Power Pool, Inc., Docket No. RT01-34-000 at 18.

23 Order No. 2000 at 31,178.

24 *Id.*

however, that it intends to be flexible in reviewing pricing innovations related to congestion.[25] As Entergy stated in the Section 203 filing, SPP and Entergy have agreed to implement a single market mechanism, which involves the use of LMP for real-time operations and tradable transmission rights for forward markets.[26] SPP and Entergy have made consistent progress towards the development of a single congestion management scheme, and it is currently estimated that the design work for the SPP Partnership RTO's congestion management system will be completed in the first quarter of 2001.[27]

Under the new system, existing firm users of the Entergy transmission system will be allocated transmission rights that correspond to that customer's current use of the transmission system. In addition, Entergy anticipates that rights will be allocated to certain entities that invest in transmission expansion in the RTO region in order to encourage market-funded expansion in the SPP RTO region. Entergy is also proposing that Transco be entitled to a success fee, of up to five percent of the transmission rights created by the expansion, for certain market-funded investments in transmission. Transco would not hold these rights for its own account, but would auction such transmission rights at the appropriate time.[28] Alternatively, Transco would receive a development fee negotiated with participants of an expansion project.

The congestion management system that SPP and Entergy are working toward completing will support economic expansion of the transmission system in two important

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[25] *Id.*

[26] Section 203 filing at 59-60.

[27] Section 203 filing at 31.

[28] *See* Testimony of Michael M. Schnitzer, Attachment F at 21.

ways. First, visible locational prices will provide an economic signal as to the magnitude and frequency of transmission congestion that could be eliminated or reduced through expansion of the grid. Second, the congestion management system will create a property right that enables a new avenue for transmission expansion, i.e. market funding, in addition to the more familiar rate funding option.[29]

C. Participation by Other Entities

Order No. 2000 encourages all Transmission Owners to participate in RTOs.[30] Entergy has worked to ensure that Transco's structure and the SPP Partnership RTO arrangement are flexible enough to accommodate the needs of a variety of transmission owners. For transmission owners that elect not to transfer, or are precluded from transferring, their transmission facilities to Transco, an Operating Agreement has been developed to permit those entities to commit the operation of their facilities to Transco.[31]

Transco proposes to treat other entities that are willing to commit their assets to Transco, either through sale, lease or operating agreement, in a manner similar to that proposed for the Operating Companies. Accordingly, as such partners contribute their assets to the Transco, the cost of those assets would be included in Transco's ratebase and recovered through the rates reflected in Appendix TR. However, as with the Operating Companies, it may be appropriate to phase-in over a specified period of time the effects

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29 *Id.* at 8-20.

30 Order No. 2000 at 31,033-34.

31 *See* Section 203 filing at Attachment E.

of including these assets in the Transco's rate structure.[32] Such a policy provides incentives to customers to commit their assets to the Transco.

The Commission stated that it is critically important for RTOs to develop ratemaking practices that deal effectively and fairly with transmission-owning utilities that choose not to participate in RTOs and provide incentives for transmission-owning utilities to efficiently operate and invest in their systems.[33] Entergy remains willing to work with participants in the event that modifications are necessary to address their particular circumstances. A lease agreement will also be available to permit entities to lease their transmission facilities rather than transfer them to Transco. As stated in the Section 203 filing, Transco will submit to the Commission all operating agreements and leases for new Transco partners.[34]

D. Grandfathered Agreements

The Commission stated in Order No. 2000, that it continues to believe at this time that it is not appropriate to order generic abrogation of existing transmission contracts.[35] The Commission further stated that there is no consensus within the industry on how the Commission should manage the transition from existing transmission contracts to RTO service.[36] Therefore, the Commission is adopting a measured approach to the treatment of existing transmission contracts and will address the issue on a case-by-case basis

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32 *See* Testimony of Frank F. Gallaher, Attachment A at 20.

33 Order No. 2000 at 31,171.

34 *See* Section 203 filing at 74.

35 Order No. 2000 at 31,205.

36 *Id.*

rather than resolve the issue generically.[37] Towards that end, the Commission encouraged parties to address how and when it might convert existing contracts and submit a contract transition plan that contains specific details regarding conversion from existing contracts to RTO service.[38]

Grandfathered agreements for transmission service on Entergy's transmission system fall into two categories: (1) transmission service agreements entered into after Order No. 888 was issued and (2) pre-Order No. 888 transmission contracts. Entergy is proposing that agreements entered into post-Order No. 888 be modified to conform them to the SPP RTO OATT and Appendix TR.[39] Entergy is proposing this approach because the rate and non-rate terms and conditions of the current Entergy OATT and the proposed SPP RTO OATT are identical in almost all respects and would allow current transmission customers to avoid any rate pancaking that might otherwise occur.

As for transmission contracts entered into pre-Order No. 888, Entergy is proposing that Transco provide service under those contracts in accordance with the provisions of those contracts unless the parties agree otherwise.[40] Entergy is willing to negotiate with any transmission customer who wishes to renegotiate its existing pre-Order No. 888 transmission contract, but is mindful of the importance of honoring existing contracts and will not seek to abrogate any of these agreements. Entergy has attached as Appendix 1 to this Application a master list of all existing pre-Order No. 888 transmission contracts.

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[37] *Id.*

[38] *Id.*

[39] *See* Testimony of Frank Gallaher, Attachment A at 18.

IV. TRANSCO RATE STRUCTURE AND IMPLEMENTATION

A. Implementation

1. Coordination with the SPP RTO Tariff

As stated above, Entergy is proposing an Appendix TR that will contain the rates and charges for transmission service provided by Transco as well as the rates associated with certain ancillary services. As currently envisioned, Appendix TR will become part of the SPP RTO OATT. SPP plans to file a revised RTO OATT in the first half of 2001. It is likely that Appendix TR, as filed in this proceeding, will be revised to conform to the structure of the SPP RTO OATT when it is filed. Entergy will prepare and file a revised Appendix TR that conforms to the SPP RTO OATT shortly after that tariff is filed.

2. Proposed Service under Appendix TR

Appendix TR contain schedules for the following services:

- Schedule 1 – Scheduling, System Control and Dispatch Service
- Schedule 2 – Reactive Supply and Voltage Control
- Schedule 3 – Regulation and Frequency Response Service
- Schedule 4 – Energy Imbalance Service
- Schedule 5 – Operating Reserve – Spinning Reserve Service
- Schedule 6 – Operating Reserve – Supplemental Reserve Service
- Schedule 7 – Point-to-Point Transmission Service
- Schedule 8 – Network Transmission Service
- Schedule 9 – Texas Retail Electric Provider Transmission Service
- Schedule 10 – Compensation for Eligible Network Customer-owned Transmission Facilities
- Schedule 11 – Source and Sink Requirements for Point-to-Point Transmission Service

The proposed Transco rate structure is similar to that currently in effect under the Entergy OATT. Transco is also proposing that the rates for point-to-point transmission service and the rates for network integration transmission service be determined using

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[40] *Id.*

rate formulas that are similar to those currently utilized in the Entergy OATT. The initial rates, which are based on a transmission system revenue requirement of $484.9 million, are set out in the testimony of Mr. Rodney K. Gilbreath.[41] J. David Wright provides the projected 2002 costs that were utilized to develop the initial rates.[42] The appropriateness of the cost rate for common equity for Transco's normal, or base, investment is 13 percent as discussed by witness Bruce H. Fairchild.[43]

3. Exact Recovery Proposal

One important difference between Transco's rate structure and Entergy's current rate structure is that Entergy is proposing an exact recovery of Transco's revenue requirement for the first three years of Transco's operation.[44] Entergy is proposing the exact recovery mechanism in order to minimize risks to both customers and shareholders during the initial period of Transco's operation. The exact recovery mechanism will set rates each year based on projected costs, which are then trued-up to actual costs the following year. The difference will be added to the following year's revenue requirement together with interest determined in accordance with the Commission's regulations.[45]

Entergy is proposing an exact recovery mechanism because of the unique circumstances surrounding the formation of Transco. As an independent incentive-driven

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41 *See* Testimony of Rodney K. Gilbreath, Attachment B, Exhibit RKG-2.

42 *See* Testimony of J. David Wright, Attachment G.

43 *See* Testimony of Bruce H. Fairchild, Attachment E.

44 *See* Testimony of Lee W. Randall, Attachment D at 19-20; *see also* Testimony of Frank F. Gallaher, Attachment A at 15-16.

45 *See* Testimony of Rodney K. Gilbreath, Attachment B at 20-21.

transmission company, Transco will be a new entity with no prior cost history. Furthermore, the implementation of the new regional market structure involves the development of new procedures and services, such as congestion management. Transco will be a part of the proposed SPP Partnership RTO, which is also currently in the process of implementing new market and tariff concepts.

Due to these unique circumstances, there is a potential risk that the projected 2002 costs that have been utilized to form the initial revenue requirement and rates will vary during the first three years of Transco's operations. Neither Transco nor its customers should bear the risk that the costs associated with transitioning to the new RTO structure will be greater or less than those currently projected. After three years, Transco would convert to Entergy's current formula rate model that provides for prospective annual rate determinations based on prior year actual costs.[46]

4. Redetermination Procedures

The redetermination procedures are in most respects identical to those currently utilized under the Entergy OATT. On or about May 1 of each year, beginning in 2003, Transco will file a redetermination report with the Commission based on data for the applicable period. Each redetermination report would contain complete documentation of the redetermined rates, including an organized set of workpapers supporting the data and calculations utilized in developing the redetermined rates. The redetermined rates would become effective, subject to refund for service rendered on or after May 1 of the filing year. Transco would provide Commission Staff and any intervenors a copy of each redetermination report. The parties would then have 90 days to review the report to

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46 *Id.* at 31.

ensure that the procedures were properly and accurately applied to the test year data and to alert the Commission and Transco of any perceived errors. Transco would have 30 days to review the indicated error, at which time Transco may file either a corrected rate or its rationale for why its proposed rate is accurate. Parties would then have 30 days to review Transco's filing and to protest if Transco's fails to address any complaint in a satisfactory manner. Those rates would then remain in effect until superceded by rates implemented pursuant to the procedures the following May 1.[47]

5. Initial Implementation of Rate Structure

Entergy is requesting that the rates contained in Appendix TR become effective when Transco becomes operational, which is anticipated to be January 1, 2002, in order to coincide with the date that Entergy's Texas retail jurisdiction is expected to deregulate the generation market for customers under the jurisdiction of the Public Utility Commission of Texas. Entergy proposes to bill customers at initial rates for service rendered from January 1, 2002 through April 30, 2003, based on the projected costs for the 2002 test year. Transco would submit an informational filing to the Commission on or about May 1, 2003, setting out redetermined rates based on Transco's projected 2003 costs together with an over/under recovery adjustment including interest, for the 2002 test year determined using the transmission service revenue requirement formula set out in Attachment 2 to Schedule 7.[48]

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[47] *Id.* at 15-17.

[48] *Id.* at 30-31.

If Transco does not commence operation until after January 1, 2002, then projected 2002 costs would still be used to determine the initial rates. However, for purposes of determining the over/under recovery amount for the partial 2002 test year, the actual costs for the period of actual operation would be utilized.[49]

6. Return on Equity

In his testimony, Mr. Fairchild proposes a 13 percent ROE for Transco using a discounted cash flow analysis, using a representative group of electric utilities and natural gas pipelines.[50] He justifies the ROE based on a number of new and existing risks facing transmission operations. First, electric transmission operations are becoming increasingly complex. As overall power loading continues to grow and power quality demands increase, managing the transmission system becomes more difficult especially in light of the fact that current transmission systems were not designed to accommodate competitive power markets and large-scale power transfers.

As discussed fully in the testimony of Mr. Fairchild, transmission operations face competitive pressures from other fuels, *e.g.* natural gas, and distributed generation. Thus, past circumstances and a redesign of the transmission infrastructure have combined to require substantial investment in new transmission facilities, resulting in the additional risk of having to attract adequate capital. For these reasons, Mr. Fairchild supports a 13 percent ROE for Transco as appropriate.

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49 *Id.* at 31.

50 *See* Testimony of Bruce H. Fairchild, Attachment E.

B. Transmission Services

1. Ancillary Services

Because Transco will be a stand-alone transmission company, it will have to contract with existing generators to fulfill its supplier of last resort function for generation-related ancillary services under Appendix TR. For Schedules 2 through 6, customers have a choice to supply their own ancillary services or purchase them through a third party. Until a market structure is in place, ancillary services purchased from Transco will be provided through Entergy Services, Inc. ("ESI"), on behalf of Transco, with Transco acting as the billing agent for ESI.

ESI currently has effective rates for transmission service on file with the Commission and anticipates making a filing in January, 2001 that will set out new rates for ancillary services. These services will be provided through Transco pursuant to rate schedules 2 through 6 of Appendix TR.[51] Once the SPP Partnership RTO has established markets for ancillary services, Transco will purchase ancillary services through the market and pass-through costs associated with such services to its transmission customers.

Transco will provide service under Schedule 1 – Scheduling, System Control and Dispatch. Transco customers must purchase this service from Transco. Schedule 1 charges will be developed based on FERC Account 561 costs divided by the billing determinants set out in Attachment 1 to Schedule 1.[52]

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51 *See* Testimony of George R. Bartlett, Attachment C at 5-10.

52 *See* Testimony of Rodney K. Gilbreath, Attachment B at 8-9.

2. Point-to-Point Transmission Service

Schedule 7 of Appendix TR is materially identical to the point-to-point rate section of the Entergy OATT. There are, however, a few exceptions. First, new language is included that relates to Dedicated Facilities Transmission Service ("DFTS") and the deletion of the Distribution Service section, which will not be applicable to Transco.[53]

Second, since Transco is a stand-alone transmission service company with its own balance sheet and income statement, the transmission service revenue requirement formula had to be defined differently than its counterpart in the Entergy OATT. The revenue requirement formula utilized in the Entergy OATT allocates a number of common costs of Entergy's operating companies that support the generation, transmission and distribution functions. It will not be necessary for Transco to allocate such common costs. Third, Entergy is proposing that Transco's rate structure include several performance incentives. There are currently no such features in the Entergy OATT rate structure.[54] These features of Transco's rate model will be explained in more detail in Section V, below. Finally, Entergy is proposing a formula rate structure that, as discussed previously, includes an exact recovery mechanism for the first three years of Transco's operation.

3. Network Transmission Service

Schedule 8 of Appendix TR sets out the procedures through which Network Transmission Service ("NTS") customers are to be charged. As in Attachment H to the

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[53] *See* Testimony of Rodney K. Gilbreath, Attachment B at 11; *see also* Testimony of David N. Beekman, Attachment H and the OADS Tariff, Attachment L.

[54] *See* Testimony of Rodney K. Gilbreath, Attachment B at 10-11.

Entergy OATT, Schedule 8 provides that NTS customers are to be charged each month for their (12 CP) load ratio share of the monthly network transmission service revenue requirement. In order to simplify Schedule 8 and avoid duplicative procedural language, the Entergy OATT provides that the monthly network transmission revenue requirement for any one month is to be equal to one-twelfth of the transmission service revenue requirement, in effect for the same month as most recently determined under the redetermination procedures set out in Schedule 7.[55]

4. Dedicated Facilities Transmission Service

Entergy is also proposing a new category of service called DFTS for Transco.[56] This service would apply to situations in which transmission facilities installed after December 31, 2001 serve a single customer. Transco is not proposing to apply DFTS to facilities in place at the end of 2001. Transco proposes to grandfather any such facilities that may be in place at December 31, 2001.[57]

Thus, DFTS would only involve new facilities installed after December 31, 2001. This approach will allow Transco to design appropriate accounting systems to identify such facilities and their cost. The grandfathered facilities that would otherwise be subject to DFTS charges will ultimately be retired. When that occurs, all qualifying facilities would be subject to the charge for DFTS.[58]

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55 *See* Testimony of Rodney K. Gilbreath, Attachment B at 27.

56 *See* Testimony of Frank F. Gallaher, Attachment A at 19.

57 *See* Testimony of Rodney K. Gilbreath, Attachment B at 11.

58 *Id.*

5. Texas Retail Electric Provider Service

Schedule 9 of Appendix TR sets out the procedures through which Texas Retail Electric Providers ("TREPs") will be charged for network service. The structure and content of Schedule 9 is materially identical to that of Attachment J to the Entergy OATT, which provides for network service to TREPs during the pilot retail access program scheduled to be conducted by the Public Utility Commission of Texas between June 1, 2001 and December 31, 2001. The rate for TREPs' service is set out in detail in the testimony of Mr. Rodney K. Gilbreath.[59] The Commission accepted for filing Attachment J to the Entergy OATT with an effective date of June 1, 2001.[60]

6. Open Access Distribution Service

As explained in the testimony of Mr. David N. Beekman, Entergy currently provides both transmission and distribution services to wholesale customers under its OATT. Transco, however, cannot provide both transmission services and distribution services under a single tariff because Transco will operate as a separate and distinct entity from the Operating Companies and will not own any distribution facilities. Entergy is, therefore, filing with this Application a proposed OADS tariff to be administered by Transco on behalf of the Operating Companies. The OADS Tariff will be used by: (1) wholesale sales for resale customers; (2) wholesale transmission service customers that

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59 *Id.* at 27-29.

60 *See Entergy Services, Inc.*, 91 FERC & 61,155 (2000), *reh'g denied*, 93 FERC & 61,156 (2000).

take delivery at a distribution voltage for one or more of their points of delivery or receipt; and (3) generators whose output is sold into the wholesale power market.[61]

The OADS Tariff will not be used to provide distribution services to unbundled retail transmission service customers (or aggregators of such customers such as Retail Electric Providers authorized under the retail open access rules promulgated by the Public Utility Commission of Texas), nor to provide distribution services to generators connected to the distribution systems of one of the Entergy Operating Companies who do not choose to sell their output to the wholesale power market.[62]

Entergy is proposing that the rate for OADS Tariff to existing wholesale sales for resale customers and wholesale transmission service customers be grandfathered for the remainder of their existing contract term at that customer's now-current distribution rate. New OADS customers will be billed a rolled-in formula rate, using the rate formulas contained in Appendix 1 to the OADS.[63]

The Commission has stated previously that it does not require a direct assignment, customer-specific method and that there is no prohibition against proposing a rolled-in rate for low voltage facilities.[64] These formula rates will be redetermined annually, beginning in 2003, with an informational filing containing the redetermined rates and supporting workpapers to be filed on or about May 1 of each year and the redetermined rates would become effective, subject to refund, on June 1 of that year. There would be a

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[61] *See* Testimony of David N. Beekman, Attachment H at 4.

[62] *Id.* at 5.

[63] *Id.* at 6-11.

[64] *See PP&L, Inc.*, 86 FERC ¶ 61,306 (1999).

90-day review period for the informational filing, with any necessary corrections filed as soon as practicable after the end of the 90-day review period.[65] Entergy is filing the OADS tariff as a separate FERC-jurisdictional tariff and requests approval of that tariff under Section 205 of the FPA.

7. Source and Sink Requirements

Entergy is also filing, as part of Appendix TR, Attachment M to the Entergy OATT. Attachment M provides source and sink requirements for point-to-point transmission service. Under the source and sink requirements, which are designated as Schedule 11 to Appendix TR, all transmission customers that take point-to-point transmission service over Transco's transmission system must submit to Transco, through the OASIS, reservations and transmission schedules that designate specific and valid sources and sinks. Attachment M to the Entergy OATT was accepted by the Commission in *Entergy Services, Inc.*, 91 FERC & 61,565 (2000), *reh'g denied*, 92 FERC & 61,108 (2000).

V. PROPOSED INNOVATIVE RATE FEATURES

Entergy is submitting its innovative rate proposal for Transco in the context of a specific RTO proposal.[66] In the Section 203 filing, Entergy outlines a comprehensive RTO proposal and explains how the SPP Partnership RTO satisfies the minimum characteristics and functions of an RTO. Furthermore, in this Application, Entergy has

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[65] *See* OADS Tariff, Attachment L.

[66] On December 14, 2000, the Commission addressed an innovative rate proposal submitted by American Transmission Company LLC ("ATCO"), in which the Commission rejected ATCO's innovative rate proposal because Order No. 2000 contemplated that innovative rates would be considered only in the context of a specific RTO proposal. *American Transmission Company LLC*, 93 FERC ¶ 61,267 (2000).

proposed Transco's rate structure as an Appendix to the proposed SPP RTO OATT. Entergy is proposing that the innovative rate features of its rate structure become effective when Transco becomes operational, which is anticipated to be January 1, 2002.

A. Enhanced Return on Equity for Certain Economic Projects

The Commission recognized in Order No. 2000 that traditional cost-of-service ratemaking will not, in and of itself, be sufficient to attract needed investment in the transmission grid necessary to support a thriving and competitive power market.[67] A company with incentives to maximize transmission values will act in its own interests to realize transmission efficiency gains and maximize throughput. The profit motive will provide a strong incentive to increase both short-term and long-term reliability.

Towards that end, the Commission has proposed several innovative pricing treatments, including (1) an enhanced return on equity ("ROE"); (2) levelized rates; (3) accelerated depreciation; (4) transmission rate moratoriums; and (5) performance based rates.[68]

As part of its innovative rate features, Entergy proposes that Transco be allowed to recover an enhanced ROE for certain defined economic projects, by allowing an increase of 300 basis points for certain defined types of transmission investment. The testimony of Michael M. Schnitzer sets out why, as a general matter, incentives for new investment in transmission are appropriate and discusses why an enhanced ROE for certain facilities is appropriate for Transco.[69]

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67 *See* Order No. 2000 at 31,171.

68 *See* Order No. 2000 at 31,182-95.

69 *See* Testimony of Michael M. Schnitzer, Attachment F at 22-23.

As discussed in the testimony of Mr. Schnitzer, the transmission expansion plan for the SPP Partnership RTO contemplates three major categories of projects: base case projects, participant-funded expansion projects, and regional market expansion projects.[70] As discussed more fully in the testimony of George Bartlett, reliability projects are those types of projects that are necessary to maintain system reliability.[71] Participant-funded expansion projects are those projects that involve parties who voluntarily choose to fund grid expansion in order to receive the benefits of increased capacity on the system as well as the long-term transmission rights created by the expansion of the transmission system.

The third category of transmission projects are those necessary to increase the throughput of the system in order to create greater access overall to new and existing sources of generation. As discussed in the testimony of Mr. Gallaher, in some situations there will be projects that market participants choose not to fund because the project would increase capacity on the transmission system such that the new transmission rights created by the project may have limited value as congestion hedges.[72]

In other words, capacity would be increased to an extent that congestion would be removed from that part of the system. These projects, which are not necessary for reliability purposes but will create a more robust regional energy market, would not have the proper incentive for funding. For these investments, Entergy is proposing an increase of 300 basis points for certain defined types of transmission investments.[73] This

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70 *Id.* at 4.

71 *See* Testimony of George R. Bartlett, Attachment C at 16-18.

72 *See* Testimony of Frank F. Gallaher, Attachment A at 10.

73 *Id* at 11.

enhanced ROE proposal is consistent with the Commission's recognition in Order No. 2000 that different types of investments may face different levels of risk and that non-traditional ROE-based initiatives may be warranted.[74]

As currently envisioned, Transco proposes that transmission investments will be eligible for a premium return if such investment involves a project that increases the transfer capability of the transmission system but is not funded by market participants. This category would not include those reliability projects that might produce incidental capacity benefits.[75]

B. Performance-Based Features

In Order No. 2000, the Commission stated that its current interest in PBR stems from the proposition that PBR will allow the Commission to rely on market-like forces, to the maximum extent possible, to create incentives for RTOs to efficiently operate and invest in the transmission system.[76] The Commission further added that it believes that PBR, especially if accompanied by explicit and well-designed incentives, may provide significant benefits over traditional forms of cost-of-service regulation.[77]

Entergy agrees and is, therefore, proposing a PBR structure as part of its innovative rate treatments proposal. Under Entergy's proposal, Transco will be allowed to keep a portion of the efficiencies that it achieves, through the use of PBR mechanisms. Entergy

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[74] Order No. 2000 at 31,193.

[75] *See* Testimony of Michael M. Schnitzer, Attachment F at 22-23.

[76] Order No. 2000 at 31,182.

[77] *See id.*

has substantial experience with PBR incentives. The PBR mechanism proposed for Transco is similar to the formula rate plans used by Entergy Mississippi, Inc. ("EMI") since 1995 and Entergy Louisiana, Inc. since 1996. In fact, the EMI formula rate plan is the model for the proposed Transco PBR design. It has been Entergy's experience that PBR can stimulate significant efficiencies and technological improvements and encourage entities to invest in expansion of the transmission system.

As set out fully in the testimony of Rodney K. Gilbreath, the proposed PBR structure consists of the following components: (1) an earnings bandwidth within which no rate change would occur; (2) sharing of earnings above or below the bandwidth; and (3) performance factors that will adjust the midpoint of the earnings bandwidth based on performance.[78]

Under Entergy's proposal, Transco's performance will be gauged using two performance measures. First, Transco will measure performance using the Energy Delivery Index (EDI) to measure the level of transmission reliability afforded Transco's transmission customers.[79] EDI is defined as the amount of energy not served to end-use customers, resulting from transmission-related equipment outages, normalized by the total energy served during a year.[80] Second, Transco will use the Voltage-Fault Index (VFI) to measure the level of power quality provided to Transco transmission customers.[81] The VFI reflects the number of faults occurring on the transmission system

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78 *See* Testimony of Rodney K. Gilbreath, Attachment B at 12-15.

79 See Testimony of George R. Bartlett, Attachment C at 11.

80 *Id.*

81 *Id.* at 13-14.

per year, per the number of circuit miles of transmission line (weighted by line voltage).[82] Performance under the two measures is combined to determine the performance rating adjustment ("PRA"), which adjusts the base cost of capital rate. The PRA has the potential to increase or decrease the cost of capital, and, hence, the midpoint of the bandwidth by plus or minus 25 basis points.[83]

Entergy is proposing that there be a defined range, *i.e.* bandwidth, within which the earned rate of return on rate base could fall and not require either a rate increase or rate decrease. In other words, as long as the earned rate of return on rate base remains within the bandwidth, there will be no change in rates. The bandwidth provides an economic incentive to Transco to be cost efficient, thereby providing Transco an opportunity to achieve earnings above the midpoint of the bandwidth, which Transco can temporarily retain until such cost efficiencies are reflected in future rate redeterminations. The proposed bandwidth will be plus or minus 0.50 percent on either side of the performance-adjusted cost of capital.[84]

As long as the earned rate of return on rate base stays within the proposed bandwidth, Transco's rates will not be revised. If the earned rate of return on rate base exceeds or drops below the bandwidth, the currently effective rate level would be decreased or increased, respectively. The proposed sharing feature provides an additional incentive for Transco to minimize its costs.

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82 *Id.*

83 *See* Testimony of Rodney K. Gilbreath, Attachment B at 13-14.

84 *Id.* at 12.

C. Transco Incentive for Participant Funded Expansion

As discussed in this Application and in detail in the testimony of Michael M. Schnitzer, Entergy is proposing an incentive for Transco related to participant funded expansion. Under the proposal, Transco will monitor market conditions and develop a number of expansion projects that might economically increase transmission capability. Transco will identify the incremental rights and the cost associated with each potential project.[85]

These projects would be made available to interested market participants, and Transco will work with market participants to develop these projects. Transco will receive a share of the value of the rights created by the expansion, or, where appropriate, a development fee. The "shared value" incentive will provide Transco with up to five percent of the transmission rights created by the expansion. Transco will not hold these transmission rights, but will auction them without crediting the proceeds to transmission customers. The development fee would be negotiated individually with funding parties and would be an alternative to the "shared value" incentive.[86]

Either structure will give Transco the proper incentive to develop these projects. Transco must identify projects that are commercially attractive to market participants or no incentive will be earned. This type of incentive will facilitate project development and should be encouraged.

D. Innovative Rate Proposals Are Consistent with Order No. 2000

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[85] *See* Testimony of Michael M. Schnitzer, Attachment F at 19-20.

[86] *Id.* at 21-22.

In Order No. 2000, the Commission emphasized that RTOs should (1) improve grid management; (2) increase reliability; (3) improve market performance; (4) remove opportunities for discriminatory transmission pricing; and (5) facilitate lighter handed regulation. The priorities of Transco are consistent with each of these goals and the proposals presented by Entergy support the Commission's outlined objectives. Moreover, the benefits of Transco will be shared equitably between transmission owners and customers. Entergy's innovative rate and transmission enhancement proposals are just, reasonable, and not unduly discriminatory or preferential.

An independent, incentive-driven transmission company like Transco can create numerous potential benefits for the market. The benefits that may potentially flow from an independent transmission company include: a broader range of transmission service offerings, higher levels of reliability, higher quality of service, lower cost of transacting business in the market and regional economic development benefits. These benefits will be produced as a result of increased management focus on the provision of transmission service, which becomes a single line of business with the primary objective of maximizing the value of transmission service to all its customer.

Moreover, the proposed innovative rate treatments present benefits to Transco. The incentives within the innovative pricing proposal will facilitate efficiency and reliability as it relates to the short-run operation of Transco system and to long-term investments for the enhancement of system capabilities. Under the PBR mechanism, if Transco performs well, it will be rewarded; if it does not perform well, Transco will be penalized financially. Moreover, the proposed performance measures will help gauge the quality of the operational functions. The performance measures will provide Transco with useful data in order to improve efficiency.

Furthermore, the incentives for participant-funded and regional market investments will help make the economic expansion of the transmission grid more likely. As explained in the testimony of Michael M. Schnitzer, the projects that qualify for these incentives will be those that increase the transfer capability of the grid, thereby improving market performance and competition among generators. In this way, greater efficiencies will be gained as a direct result of the direct effects of these transmission improvements on competition in the wholesale power market.

In addition, the innovative rate treatments will provide substantial benefits to consumers. Under the PBR proposal, Transco will have an incentive to be responsive to customer needs or suffer economic consequences. The expansion incentives will improve the performance of electricity markets by enlarging the wholesale market. Increasing the range of feasible transactions has a direct effect on competition that can ultimately create lower energy prices to consumers, especially during high demand periods.

VI. TRANSCO'S OPERATING BUDGET

A. Development of the Budget

For purposes of this filing, Entergy has grouped costs associated with the formation and operation of Transco in 2002 into two categories: on-going operational costs and incremental costs associated with transition to membership in an RTO. On-going operational costs reflect the costs of Entergy's existing transmission service function, which currently supports the provision of transmission service in the Entergy system, including normal growth in those costs through 2002. These costs must be adjusted to reflect the incremental costs of establishing the Transco as part of the SPP Partnership RTO.[87]

The incremental costs include those that will be incurred as a result of the transition to the SPP Partnership RTO and those incurred to establish the Transco. The incremental costs include both capital costs and operations and maintenance ("O&M") costs that are one-time organization expenditures as well as permanent increases in costs related to operation of the transmission system as part of the SPP Partnership RTO.[88]

B. Cost Estimates

Entergy estimates that the projected O&M costs for 2002 will be as follows:

(a) Operational Costs

- Transmission Organization -- $87.1 million
- Support Services -- $21.0 million

(b) Incremental Costs -- $19.4 million

During the 2000-2002 period, additional costs will be incurred to establish the market structure for the SPP Partnership RTO. Entergy is requesting that these amounts, which are expected to total roughly $93 million be deferred for recovery over a ten-year period following the formation of Transco.[89]

As Mr. Randall explains in his testimony, there are two types of operational costs. First, there are the costs associated with operation of the transmission organization. This total includes the management of the transmission organization as well as the cost

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87 *See* Testimony of Lee W. Randall, Attachment D at 4.

88 *Id.*

89 *Id.* at 6-7.

incurred for field personnel in the operation and maintenance of the current transmission system. These costs were developed based on currently budgeted amounts for the existing transmission functions.[90] Second, there are the costs associated with providing support services (i.e. accounting, human resources, legal services, etc.) for the current transmission organization.[91] The incremental costs represent the increased costs associated with Transco's participation in the SPP Partnership RTO.

C. Transmission Cost Transition Agreement

Since the Operating Companies will no longer own any transmission assets, certain cost shifts between the Operating Companies will occur. Therefore, Entergy is filing, as part of this Application, the TCTA as a separate rate schedule. The TCTA sets out the terms and procedures to be utilized to phase-in the cost changes that will occur at each of the Operating Companies as a result of the transfer of the development of a regional rate structure.[92]

The TCTA establishes a schedule of payments that allow the Operating Companies and their customers to transition to the system-wide rate structure over a period of three years. As explained in the testimony of Mr. Gilbreath, those Operating Companies that will experience a reduction in their transmission costs as a result of the moving to the system-wide rate structure will make payments to those operating Companies that will experience an increase in their transmission costs as a result of moving to such a

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[90] *Id.* at 7

[91] *Id.*

[92] *See* Testimony of Rodney K. Gilbreath Attachment B at 32-34

structure[93]. Each month, during the transition period from January 2002 through December 2004, ESI, acting as agent for the Operating Companies, shall ensure that funds are transferred in the amount of the applicable monthly payment amounts to the designated account of each receiving company from each of the designated paying companies.

In addition to the filing of the TCTA, Entergy is also filing a notice of cancellation for service schedule MSS-2 to the Entergy System Agreement. As stated earlier, the Entergy Operating Companies are in the process of transferring all of their transmission assets to Transco. Since the Entergy Operating Companies will no longer own these transmission assets, it is no longer necessary for MSS-2, the transmission cost equalization service schedule of the Entergy System Agreement, to be effective.

VII. REQUEST FOR WAIVERS

Entergy respectfully requests waiver of the Section 35.3(a) notice requirements to allow this Section 205 application, the TCTA, and the OADS to be filed more than 120 days from the date on which the proposed rates would be effective. Waiver of the notice requirement will give the Commission sufficient time to review and accept the filing in advance of Transco's proposed effective date.

Entergy requests any additional waiver necessary to permit Transco's proposed Appendix TR and the rates therein, the OADS and the TCTA to go into effect when Transco becomes operational, which is anticipated to be January 1, 2002.

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[93] *Id.*

VIII. COMMISSION FILING REQUIREMENTS

A. Section 35.13(b)(1) – Contents of Filing

A detailed list of the contents of this filing can be found in the Attachments section of the Application in Section I.

B. Section 35.13(b)(2) – Proposed Effective Date

Entergy proposes that the rates contained in Appendix TR, the OADS and the TCTA become effective when Transco becomes operational, which is anticipated to be January 1, 2002.

C. Section 35.13(b)(3) – List of Persons Served

See Application for a list of the persons served in this proceeding.

D. Section 35.13(b)(4) – Description of the Rate Schedule Change

See discussion in Sections IV and V of this Application.

E. Section 35.13(b)(5) – Reasons for the Rate Schedule Change

See discussion in Sections IV and V of this Application.

F. Section 35.13(b)(6) – Showing of Requisite Agreements

Not applicable.

G. Section 35.13(b)(7) – Costs or expenses that have been alleged or judged to be illegal, duplicative or unnecessary that are the product of discriminatory employment practices

No expenses or costs included in this filing have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative or unnecessary costs that demonstrably the product of discriminatory employment practices.

H. Section 35.13(b)(8) – Form of Notice

A form of notice suitable for publication in the Federal Register is attached to this Application and on a computer disk. In addition, a notice of cancellation for MSS-2 to the Entergy System Agreement can also be found in Attachment K.

I. Section 35.13(c) – Effect of the Rate Schedule Change

See discussion in Sections IV and V of this Application.

J. Order No. 614 Compliance

In this application, Entergy has complied with the requirements of Order No. 614. The TCTA and the OADS tariff, which have both been submitted for approval, have been formatted to conform to the requirements of Order No. 614. Appendix TR, which contains the rate schedules and attachments governing service over Transco's transmission system, will be an appendix to the SPP RTO OATT. Since SPP has already submitted its OATT in accordance with Order No. 614 and anticipates making another tariff filing in the first half of 2001, Entergy respectfully requests that it be allowed to file Appendix TR without conforming to Order No. 614 at this time. Entergy will file Appendix TR again to conform to the SPP RTO OATT after SPP makes its additional filing in the first half of 2001.

K. Communications

Entergy requests that all correspondence and communications with respect to this filing should be sent to, and that the Secretary include on the official service list, the following:

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IX. CONCLUSION

For the reasons stated above and in the attached testimony, Entergy requests the Commission issue an order approving the rate schedules and procedures submitted herewith as just and reasonable and in accordance with Section 205 of the FPA and Order Nos. 2000 and 2000-A.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by first-class mail upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 29th day of December 2000.

Stephen M. Spina
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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Services, Inc.,	)	
	)	Docket No. RT01-75-
On behalf of the Entergy Operating	)	ER01-
Companies: Entergy Arkansas, Inc., Entergy	)	ER01-
Gulf States, Inc., Entergy Louisiana, Inc.,	)	ER01-
Entergy Mississippi, Inc., and Entergy	)	
New Orleans, Inc.	)	

NOTICE OF FILING

Take notice that on December 29, 2000, Entergy Services, Inc., on behalf of the Entergy Operating Companies, Entergy Arkansas, Inc., Entergy Gulf States, Inc., Entergy Louisiana, Inc., Entergy Mississippi, Inc., and Entergy New Orleans, Inc. (collectively "Entergy"), filed an Application for approval of Transco's rate structure pursuant to Section 205 of the Federal Power Act and Order No. 2000. Entergy will create Transco, an independent, incentive-driven transmission company to operate under the oversight, and within the umbrella, of the Southwest Power Pool Regional Transmission Organization. Entergy also submitted for filing a Transmission Cost Transition Agreement, an Open Access Distribution Service Tariff and a Notice of Cancellation for the MSS-2 service schedule of the Entergy System Agreement.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedures (18 C.F.R. § 385.211 and 18 C.F.R. § 385.214). All such motions or protests should be filed on or before ___________, 2001. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).

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