



NEW POWER SUPPLY CONTRACTS


GETTING A GOOD ONE IN TODAY'S WORLD

Ted Orrell
Utility Technology
Engineers-Consultants




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TODAY'S TOPICS

- Typical Contracts Through The 1990's
- Utility Industry Changes - Last 20 Years
- Results Of Changes
- SC Native Territory Load
- Transmission Services
- Soliciting Proposals
- Types Of Proposals To Be Expected
- Evaluation Process
- Negotiation Process
- Contract Term
- Contract Development
- CELEBRATION



TYPICAL CONTRACTS THROUGH THE 1990's

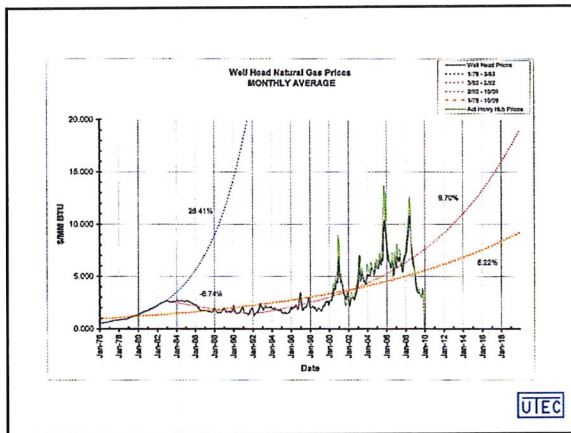
- Fixed Demand Charge Rates
- Fixed Energy Rates
- Perhaps A Fuel Adjustment Clause



UTILITY INDUSTRY CHANGES LAST 20 YEARS

- Load Growth Declined Significantly
- Stopped Building Base-Load Nuclear Plants
- 1992 Energy Policy Act
 - Segregated the vertically integrated utility into:
 - Generation Business
 - Transmission Business
 - Distribution Business
 - Generator given the right to connect to anyone's transmission system to serve its customers
 - Wholesale customers given the right to purchase power from any generator or power supplier
- Natural Gas Prices Bottomed, Escalated, & Have Been Volatile





UTILITY INDUSTRY CHANGES THE LAST 20 YEARS (continued)

- Coal Costs Increased
- Utility Industry "Slimmed Down" In Preparation For Retail Deregulation



RESULTS OF CHANGES

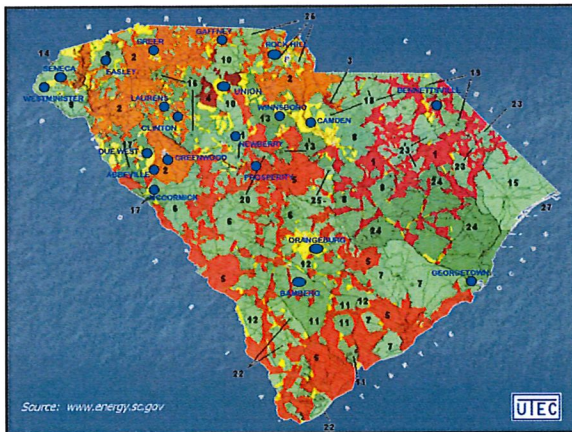
- Significant Impact On Production Costs & Ability To Offer Fixed-Price Wholesale Rates
- Utilities Do A Good Job On Forecasting Capital Costs; However, Fuel Costs Can Not Be Controlled
- Today, Power Providers Can Not Take The Risk Of Offering Fixed Rate Contracts & Remain Competitive

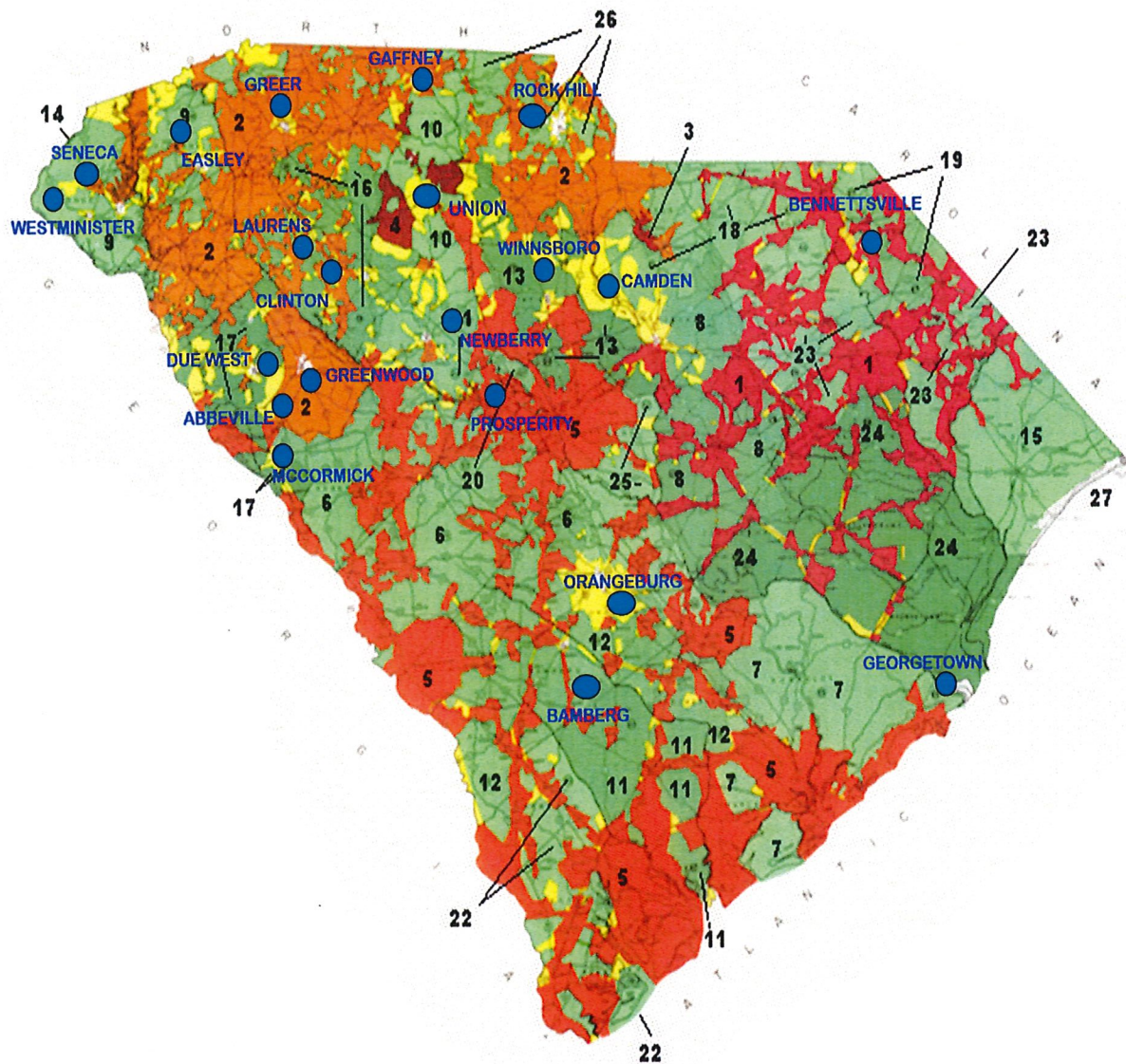
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SC NATIVE TERRITORY LOAD

- THE SC Territorial Act Passed In 1966
 - Identified the service territories for IOUs and Cooperatives
 - Defines the service territory that each municipal is located in
 - Loads within each service territory are called "native" load

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- | | | | |
|----|---------------------------------------|----|---|
| 1 | Progress Energy | 16 | Laurens Electric Cooperative |
| 2 | Duke Power Company | 17 | Little River Electric Cooperative |
| 3 | Heath Springs Light & Power | 18 | Lynches Electric Cooperative |
| 4 | Lockhart Power Company | 19 | Marlboro Electric Cooperative |
| 5 | South Carolina Electric & Gas Company | 20 | Mid-Carolina Electric Cooperative |
| 6 | Aiken Electric Cooperative | 21 | Newberry Electric Cooperative |
| 7 | Berkeley Electric Cooperative | 22 | Palmetto Electric Cooperative |
| 8 | Black River Electric Cooperative | 23 | Pee Dee Electric Cooperative |
| 9 | Blue Ridge Electric Cooperative | 24 | Santee Electric Cooperative |
| 10 | Broad River Electric Cooperative | 25 | Tri-County Electric Cooperative |
| 11 | Coastal Electric Cooperative | 26 | York Electric Cooperative |
| 12 | Edisto Electric Cooperative | | Unassigned Area |
| 13 | Fairfield Electric Cooperative | 27 | South Carolina Public Service Authority |
| 14 | Haywood Electric Cooperative | | Municipally Owned Electric System |
| 15 | Horry Electric Cooperative | | |

SOLICITING PROPOSALS

(continued)

- Prepare A Request For Proposal:
 - Provide system description and basic one-lines
 - Provide information on load-side generation assets
 - Provide contract terms you want:
 - Operation of load-side generation
 - Load management programs



SOLICITING PROPOSALS

(continued)

- Provide Historical Hourly Load For The Past 12-Months
- Define Desired Contract Term
- Define Your Schedule For:
 - Bid receipt
 - Evaluation
 - Negotiations
 - Service date



TYPES OF PROPOSALS TO BE EXPECTED

Wide Variety Of Rate Designs:

- From Regulated Utilities Serving Your Assigned Territory:
 - Likely formulary rates
 - Based on system average cost estimates



TYPES OF PROPOSALS TO BE EXPECTED (continued)

- From Regulated Utilities Serving Outside Your Assigned Territory:
 - Likely formulary rates
 - Based on marginal cost estimates



TYPES OF PROPOSALS TO BE EXPECTED (continued)

- From Unregulated Power Providers:
 - Likely formulary rates
 - Based on generation fleet costs
 - Based on other affiliate supply costs



EVALUATION PROCESS

- **General**
 - Proposals will likely be very different from one another
 - Proposals will include costs based on estimates of future costs
 - Your Chore – Get cost estimates on a “level playing field”
 - Must know how the bidders intend to serve your load using their resources



EVALUATION PROCESS

- Develop Models To Calculate Costs Based On How Each Bidder Intends To Serve Your Load
 - Each model will likely be different
 - Ask bidders for their hourly load data for the past 12 months
 - Ask each bidder for their projection of fuel costs (nuclear, coal, gas, oil, others)
 - If significant differences in estimated future fuels costs, develop your own estimates
 - Apply similar fuels costs for each bidder



EVALUATION PROCESS

(continued)

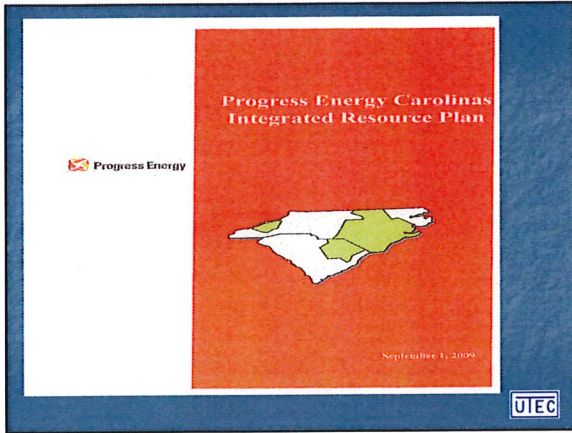
- Develop Models To Calculate Costs Based On How Each Bidder Intends To Serve Your Load (...Continued)
 - Determine the existing capital assets, heat rates, and production costs for these assets (FERC Form 1 Submittals)
 - Model providers hourly loads with your system loads added
 - Develop production cost to serve each hour's load based on likely economic dispatch of units
 - Determine future generation assets, estimated capital costs, and estimated production costs using typical heat rates and O&M rates reported in the FERC Form 1s
 - For regulated utilities, these plans are a matter of public record



The Duke Energy Carolinas
Integrated Resource Plan
(Annual Report) Rev 1

January 11, 2010





EVALUATION PROCESS

(continued)

- For Each Proposal Calculate All Costs For Each Future Month & Year:
 - Demand and energy costs
 - Transmission costs
 - SEPA costs
 - Load-side generation costs
- Compare & Make Preliminary Assessment

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NEGOTIATION PROCESS

- MEET/ASK
- MEET/ASK
- AND MEET/ASK
 - Meet with each bidder and review your calculations and methodology for their bid only
 - Give each bidder an opportunity to refresh their bids and offers
 - Make final analyses and make your decision

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CONTRACT TERM

- Short Term – 5 Years
- Long Term – 20 Years
- In Between
- Which Is Best?



CONTRACT DEVELOPMENT

- Selected Bidder Should Prepare The Draft Contract
- You Completely Review The Contract & Address Any Technical Concerns Or Ambiguities
- Work Out The Technical Issues With The Selected Provider
- Obtain A Legal Firm Knowledgeable & Experienced In Utility Contracts
- You Provide Red-Line Marks & Comments Regarding Any Legal Or Accounting Questions
- Request A Thorough Legal Review Of The Identified Legal Issues & Ask Your Accountant To Review Identified Accounting Issues



CONTRACT DEVELOPMENT (continued)

- Resolve Any Accounting Concerns
- Meet With Attorney And Prepare Red-Line Contract Changes
- Send The Legal Reviewed Red-Lined Contracts Back To Bidder For Their Legal Review
- Set Up A Conference Call So Both Attorneys Can Discuss Their Concerns
- Move The Group Toward An Agreeable Resolution



CELEBRATION

- You Are Now "Partners" In The New Contract
- This New Deal Should Be A Win-Win For All Parties
- Now That The Work Is Done, Decisions Made, Contracts Signed, It Is Time to Get The Players Together & **CELEBRATE!**