



Energy Revenues

Most everyone knows that a source of our revenues primarily consists of the sale of electricity to our customers. Using the approved rates, we charge our customers a fee for our electricity based on the amount that they use each month. Another source of revenue that most people are not aware of is the revenue provided by the WWV generation plant, both sales of electricity to the PJM market and our capacity payment.

This second source of revenue is what we are trying to maintain with our Energy From Waste project. When we sell energy to the PJM market, we receive revenues equal to the amount sold at a given time period multiplied by the price of electricity on the market. This PJM market is getting more difficult to participate in; the costs of generation are increasing, while electricity costs are decreasing due to demand and other sources of fuel.

Our revenues from the PJM market are very weather and demand dependent. If it is not profitable for RP&L to sell to the PJM, WWVS will not generate any electricity. The challenge is to generate when the market prices are high enough to make it profitable, while still maintaining low fuel and operational overheads. This is why sales from generation are seasonal and dependent on the cost of coal.

Another source of revenue is capacity payment. Simply put, the capacity payment is a source of revenue paid to generators by the energy markets to have the capability to generate electricity. It is an insurance payment in case the electricity is needed to meet a crisis situation or an increase in demand. The generation station does not necessarily need to generate any electricity, it just needs to be able to generate.

Being a generator, we are paid this capacity payment, which is determined three years in advance of present time. The problem, our capacity payment, once several million dollars, is quickly disappearing. This revenue was critical for system improvement projects and keeping rates low. With the loss of this revenue and

the revenue from the PJM market decreasing, RP&L had to reconsider the operation of WWVS. This re-evaluation has led us to consider the Energy From Waste (EFW) project as a new source of revenue not dependent on the markets and capacity payments. Firm, long term contracts for the EFW electricity sales will provide stable revenues for a long period of time.

All three of these components make up the revenue received by RP&L, all are critical and all must be constantly monitored to ensure the success of RP&L.