OPERATIONS COST ALLOCATION CUSTOMER PRESENTATION(s)
SEPTEMBER 19 - 20, 2011
QUESTIONS/COMMENTS AND ANSWERS/RESPONSES

Questions Specific to Presentation – September 19, 2011:

1) *Reference Slide No. 3 (Leslie James, CREDA)*

Q: In regard to the drivers for planning, what was the assumption going on where you have changes to industry, for instance the Efficient Dispatch Toolkit (EDT) for the energy review market?

A: The verdict is out on EDT. We know, and knew, things were happening. EDT specifically, wasn't a consideration at the time of this analysis. This is a new effort that we will be dealing with – it's more accurate to say DSS and ADI were proposals at the time. There were numerous initiatives going on at WECC at the time, but EDT wasn't one of them.

2) *Reference Slide No. 5 (Michael Curtis, AMPUA)*

Q: Is the Baseline Program Plan developed to implement common tools considered a financial benefit?

A: Yes.

3) *Reference Slide No. 5 (Michael Curtis, AMPUA)*

Q: Would Loveland and Phoenix move to financial settlements, or would the tool be the same?

A: Both Loveland and Phoenix will continue to follow the same settlement methodology in use today. We are currently working towards having the same tool perform the different methodologies.

4) *Reference Slide No. 6 (Michael Curtis, AMPUA)*

Q: In regard to common switching and outage tools, if we have to schedule a switching or an outage in DSW, does that mean that DSW (maintenance) will have to contact Loveland management for clearance approval?

A: No, there will not be any changes in this regard. All outage requests for facilities in our south system (WALC BA) will continue to be coordinated with our Phoenix office Outage Coordinators. Similarly, all outage requests for facilities in our north system (WACM BA) will continue to be coordinated with our Loveland office Outage Coordinators.

5) *Reference Slide No. 6 (Leslie James, CREDA)*

Q: If Phase II, CRSP Reconfiguration occurred before Phase I, would that have any impact on the allocations?

A: No, the allocations are based on line miles and nameplate MVA. Neither of these will change due to the CRSP reconfiguration.

6) *Reference Slide No. 10 (Leslie James, CREDA)*

Q: As identified in this slide under "Resulting Cost Allocation" the average of 5 years expenses for both DSW and RMR is respectively 51.7% and 48.3% - What was the CRSP share of each of those?

A: CRSP's share is 27% of the total; or 10% from DSW and 17% from RMR.

Reference Slide No. 11 (Darrick Moe, DSW Regional Manager)
The maintenance costs to install those things (69kV upgrade to breaker 230kV double breaker double buss) are direct-charged to the specific projects they (the maintenance crew) work on; that charge is outside the scope of this cost allocation. Direct charging for maintenance work is not part of this project and will continue. This effort is to split costs for the Operations functions, for which direct charging is not practical.

7) *Reference Slide No. 20 (Bob Lynch, IEDA)*

Q: In regards to the Task Analysis worksheet, when or how often will the percentages be re-evaluated?

A: The percentages will be re-examined on a periodic basis – an easy indicator is when there is an upgrade in generation or added transmission lines. Percentages will change based on changes to the power system.

8) *Reference Slide No. 22 (Leslie James, CREDA)*

Q: Does the cost methodology reflect any actual numbers of the schedules, contracts, etc? For example, projects that may have a lot of transmission miles, but no accounting for contracts or schedules.

A: There is no distinction in the proposed cost allocation as how each transmission mile is scheduled, e.g. whether there is one e-tag/schedule or whether there are 10 e-tags/schedules. The cost allocation assumes uniform usage of transmission system regardless of number of contracts or schedules. Also, the tools that Dispatchers use today allow much easier automatic analysis and ways to approve tags.

9) *Reference Slide No. 22 (Leslie James, CREDA)*

Q: Billing for those contracts doesn't factor in either?

A: No, the billing of contracts is not performed by Operations and is not part of this cost allocation methodology.

10) *Reference Slide No. 22 (Leslie James, CREDA)*

C: At some point it would be helpful to see which budget or line item these percentages would apply to.

R: The line of accounting is directly related to RMR's Operations budget, and it's 100% labor costs - $17 million in total. The Operations budget can be found in multiple funds within the Western-wide budget. Although reports vary by customer group, the detailed costs in this allocation would be captured in the power system specific SOLDM budget activity (System Operation and Load Dispatch costs). For others, this would be a subset under Operations and Maintenance expenses, or rolled together as O&M in Western's Annual Report.

The total Operations dollars represented to the customers were based on current FY2013 work plans.

Analysis of Proposed Allocation – Darren Buck stressed that this will be for FY14.

11) *Reference Slide No. 24 (Dennis Delaney, K R Saline)*

Q: What is the rational for the trust percentage as it relates to the cost allocation split?

A: When we get a request to provide services, we analyze the required work and if existing staff can perform the work. If Western Operations can accommodate the extra work with the existing staff, the savings is shared by all. When the trust goes away, everyone is also impacted by the loss of trust funding.

12) *Reference Slide No. 24 (Dennis Delaney, K R Saline)*

Q: If you use the Trust projects' megawatts and transmission, would it be more or less than 1.5m?

A: The idea of using the same methodology to assess the Trust ratio doesn't fit the work performed. Every Federal project will need transmission and generation assets. We accommodate a level of Trust work because we can accommodate the small incremental work load. We have entities that ask us to be their tagging agent; administer their OASIS etc. that don't have transmission miles or generation assets we operate. An example of this is the operations of the Rapid City DC Tie; operating costs related to this function is not correlated to transmission line or generation because they would both be zero.

13) *Reference Slide No. 24 (Dennis Delaney, K R Saline)*

C: We want to make sure that Western is not undercharging.

R: Agreed. While Western tries to maximize the revenue from the trust work, it is a balancing act since we don't want to overcharge either. Also, Western is not trying to compete with private sector and undercut their potential business, thus, this is balancing act.

14) *Reference Slide No. 24 (Mike Gazda, APA)*

Q: Please explain how the Boulder Canyon Implementation Agreement that was established in the 90's, which identified how costs were to be split across multi-projects will be affected? Currently, it's evaluated on SCADA points and evaluated on an annual basis; we don't want to change that.

A: The Boulder Canyon Project Implementation Agreement (Contract No. 95-PAO-10616) does not address allocation of labor costs, which is what is covered by the proposed cost allocation methodology. The "Multi-Project Cost Written Procedures" were developed in accordance with section 9 of the Implementation Agreement and were adopted as Resolution 96-2 of the BCP Engineering and Operating Committee. Those procedures address only capital costs for three specific facilities; Mead Service Center, Phoenix Service Center, and the capitalized SCADA System. The allocation for the Mead and Phoenix Service centers is based on Western's General Allocation (GWA), and only the SCADA capital costs use a SCADA point based allocation.

15) *Reference Slide No. 24 (Mike Gazda, APA)*

Q: How are the Operations costs split today? Based on the same thing?

A: The present cost allocation is based on the five-year average in each office. Each project's share during these five years has been different. For projects in the DSW Region, SCADA points have been used in the past and the current methodology is basically average of what was used in the previous 5 years.

16) *Reference Slide No. 24 (Mike Gazda, APA)*

Q: Would we prefer to stay with that methodology? I don't know how you would split?

A: The Implementation Agreement only refers to capital costs. As explained SCADA points are not an indication of what it takes to operate the system. See response above.

17) *Reference Slide No. 24 (Michael Curtis, AMPUA)*

Q: If the SCADA point concept is used, what's the impact on Parker-Davis?

A: The SCADA point count for Parker-Davis would be higher.

18) *Reference Slide No. 24 (Michael Curtis, AMPUA)*

Q: Intuitively, it relates back to the 69-kV Davis improvement to system integrity. SCADA would pick up more points simply by improvement to the system?

A: Correct, it more than quadruples the SCADA count but improves reliability and actually simplifies switching activities for the dispatchers operate the system.

19) *Reference Slide No. 24 (Gary Given, CAP)*

Q: On Page 24 – allocation of generation and transmission – what is it now? There doesn't appear to be a reference point? Is there a way to show historic costs between generation and transmission?

A: There was never a distinction between generation and transmission in the past; allocations were based upon point count in the SCADA for each project. Based upon this there is only historical cost for individual projects.

20) *Reference Slide No. 25 (Mike Gazda, APA)*

Q: Benefits for the dynamic signal are spread across all the projects – I understand there's a small rate; but I don't believe it's a benefit to everyone. We need to be consistent with different metrics – going from one system to another.

A: The analysis was done with the dispatchers on the desk. Collecting money in one project and how it shifts into other project is not part of this analysis. This only relates to what type of work Operations does on each desk.

21) *Reference Slide No. 25 (Bob Lynch, IEDA)*

Q: What are the contractual complications and long-term consequences as it relates to costs shifts between projects? And as relates to recent improvements to Davis Dam to Parker-Davis and Boulder Canyon?

A: The new construction will add a significant number of points to SCADA. However, the amount and complexity of work will be less. It would be detrimental to the reliability of the system to have to worry about the number of points added to the SCADA. We want dispatchers to have the best situational awareness. Contracts or pressure to reduce or keep SCADA points low would impact the reliability of the power system.

22) *(Bob Lynch, IEDA)*

Q: How will Northstar be affected by this cost allocation methodology since it was just recently approved?

A: The ED5-Palo Verde project will very likely resemble a Trust project, as it has to be economically independent. Western has not made final determinations on this yet; the project doesn't go into service until 2015.

23) *Reference Slide No. 25 (Dennis Delaney, K R Saline)*

Q: Please explain more the rational for combining Parker-Davis and Boulder Canyon and then splitting the cost 50-50.

A: Analysis within Operations to determine how we operate Parker-Davis and Boulder Canyon resulted in findings that they are operated as an electrically integrated system. Separation in workload was difficult.

24) *Reference Slide No. 25 (Dennis Delaney, K R Saline)*

Q: Is it correct to say that Intertie does not include the line miles at Mead-Phoenix?

A: Yes, that is correct.

25) *Reference Slide No. 26 (Michael Curtis, AMPUA)*

Q: If we continued with the SCADA point analysis, would there be cost shift?

A: Yes, there would be a big cost shift from Phoenix to Loveland because of SCADA points. Before OCP, RMR had fewer dollars per point count than DSW. One benefit of this methodology is that it avoids any dramatic costs shifts between regions.

26) *Reference Slide No. 26*

Q: Is Dryfork a new power plant?

A: Yes, that is correct Dryfork is a new power plant.

27) *Reference Slide No. 26 (Michael Curtis, AMPUA)*

Q: What happens to the $500,000 at Mead-Phoenix? What happens with that money?

A: $565,000 is part of all of the Trust that the Dispatchers would do to accommodate the system; we get paid that amount to monitor it, etc. Cost comes off the top of the total costs.

28) *Reference Slide No. 26 (Michael Curtis, AMPUA)*

Q: Revenue from?

A: Mead-Phoenix participants – we identify the cost and offset it. Participants advance that money to us. It's in the budget process.

29) *Reference Slide No. 26 (Michael Curtis, AMPUA)*

Q: The money goes into a pot and then you pay bills – what are you paying out of that pot?

A: Salaries, training, travel, etc. specific for the Operations group only.

30) *Reference Slide No. 26 (Michael Curtis, AMPUA)*

Q: If we reduce that for DSW, where does the money come from?

A: We will have to go find from other groups within Western. If any Trust leaves, Western would need to replace the funds. Under this methodology all projects share the benefits of a new Trust project and at the same time all projects share the higher allocation if a Trust account goes away.

31) *Reference Slide No. 26 (Leslie James, CREDA)*

Q: How is RMR going to sort out this new methodology between Pick Sloan eastern and western divisions?

A: The process isn't going to be altered; the percentage allocation between RMR and UGP is the same. This is the percentage of total costs and realizing that we are one Operation maximizing efficiencies and minimizing costs across the entire footprint. Percentages will be slightly less, but the process has not altered the RMR relation with the western Pick Sloan.

32) *Reference Slide No. 26 (Dennis Delaney, K R Saline)*

Q: How is Western's part of Mead-Phoenix part of this?

A: Western has two different "identities" when it comes to the Mead-Phoenix project. One is Western the participant in a combined project with multiple participants. SRP is the fiscal agent and on an annual basis Western along with all the other participants provide the anticipated expenditures to SRP, who then divides the total costs among all the participants based on the appropriate percentage participation. Western's portion of the total costs, as a participant, is recovered in the Intertie transmission rate.

The second identity is that of the "Operating agent" for the Mead Phoenix Project. SRP hired Western to do the O&M under a trust arrangement. The three percent number represents the total covered by that trust arrangement.

33) *Reference Slide No. 29 (Bob Lynch, IEDA)*

Q: Will Western consider extending the comment period beyond the October 20th date in order to finalize a response regarding the Implementation Agreement for Boulder Canyon? I think it is a fundamental question being raised as to whose costs will go up or down, and whether shifting to this type of analysis is something that the customers will support; or those that have signed the Agreement may consider changing or not changing based on this proposal. I'm concerned – you will listen to what we have to say; will factor something; will then implement it by 2014 whether or not there are problems.

A: The purpose of going through this exercise at this time is because the budget process for 2014 begins in January of 2012. We understand there are contractual issues, and we will look at them, if relevant. We will make sure that the contractual relationships are appropriate. The only other alternative would be to continue with it the way it is using historical averages, but this has serious limitations, including its lack of any foundation based on physical system characteristics.

The below information was in response to the question concerning the Agreement:
The Boulder Canyon Project Implementation Agreement (Contract No. 95-PAO-10616) does not address allocation of labor costs, which is what is covered by the proposed cost allocation methodology. The "Multi-Project Cost Written Procedures" were developed in accordance with section 9 of the Implementation Agreement and were adopted as Resolution 96-2 of the BCP Engineering and Operating Committee. Those procedures address only capital costs for three specific facilities; Mead Service Center,

Phoenix Service Center, and the capitalized SCADA System. The allocation for the Mead and Phoenix Service centers is based on Western's General Allocation (GWA), and only the SCADA capital costs use a SCADA point based allocation.

Questions Specific to Presentation – September 20, 2011:

1) *Reference Slide No. 24 (Tom Graves, Mid-west Customer Group)*

Analysis of Proposed Allocation

Q: Trust work in Arizona varies quite a bit. How do you handle that?

A: All new trust work benefits all; all lost trust work hurts all.

2) *Reference Slide No. 24 (Tom Graves, Mid-west Customer Group)*

Q: Is Glen Canyon part of this?

A: Yes, it is captured in CRSP.

3) *Reference Slide No. 24 (Tom Graves, Mid-west Customer Group)*

Q: Glen Canyon does not normally operate to its nameplate capacity. This does not seem fair. How many emergencies has Glen Canyon experienced?

A: It can also be said that Hoover does not operate to its nameplate capacity. We believe this methodology is the fairest way to use even though there are nuances with other generators. Hoover is also legislatively mandated.

4) *Reference Slide No. 29 (Leslie James, CREDA)*

Q: Will the deadline be extended due to questions from these customer meetings?

A: Research has already begun on finding answers to questions from the Phoenix customer meeting regarding the Implementation Agreement.

5) *Reference Slide No. 29 (Leslie James, CREDA)*

Q: How will the questions and answers be provided to the customers?

A: They will be distributed through the DSW, CRSP and RMR Power Marketing web sites.

6) *(Tom Graves, Mid-west Customer Group)*

Q: For the 2014 budget, do you have an estimate of capital versus annual?

A: Operations' numbers presented in the allocation presentation are for annual expenses only.