

Power Marketing Presentation

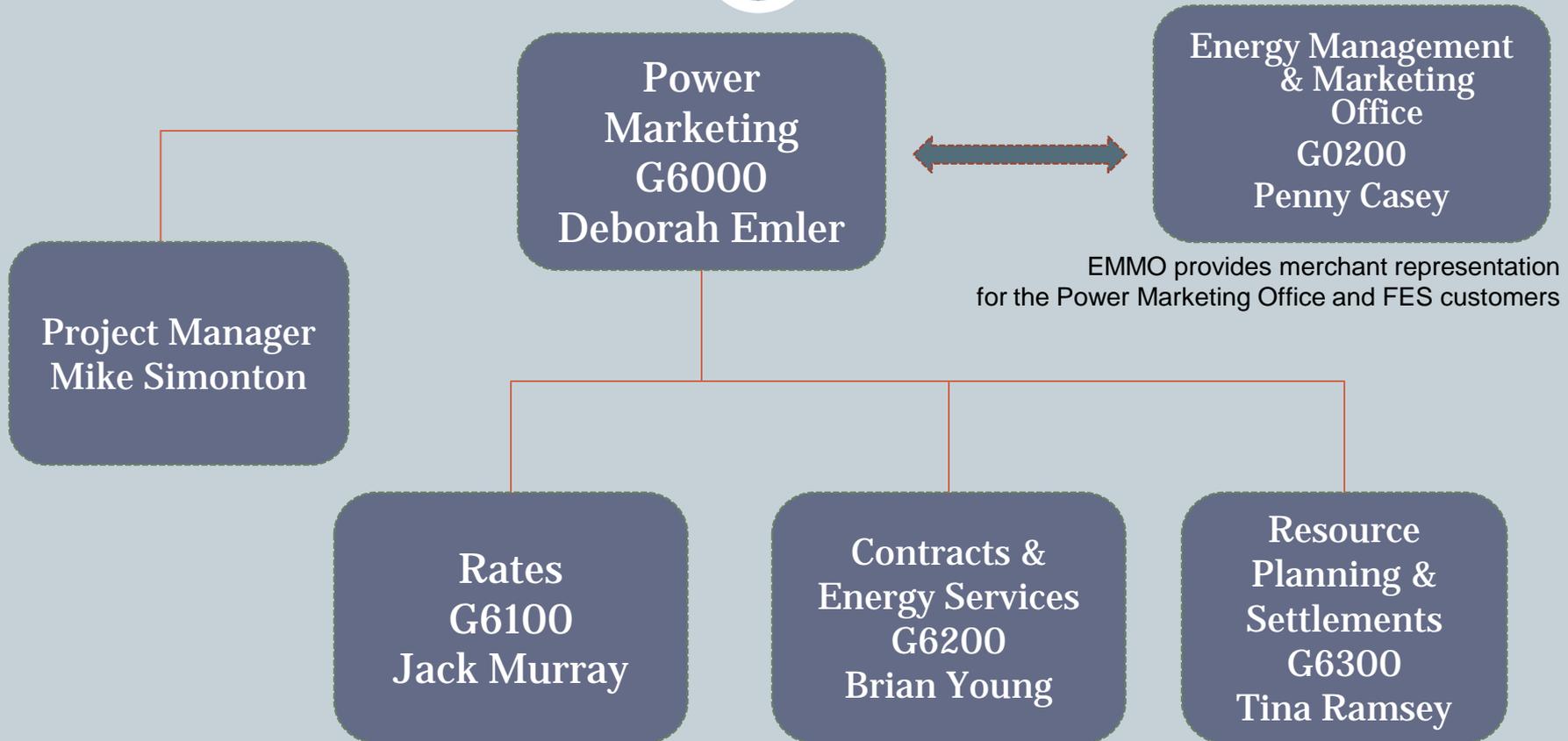
1

STRATEGIC PLANNING & CURRENT INITIATIVES

Debby Emler
Power Marketing Manager
(602) 605-2555
August 5, 2011

DSW Power Marketing Structure

2



Western's Strategic Plan

3

Western has four themes with certain goals associated with each theme within our current Strategic Plan:

Theme 1: Energy Security through Products and Services

Theme 2: Energy Infrastructure

Theme 3: Customer Partnerships/Funding

Theme 4: Organizational Excellence through People

Power Marketing has targets for nearly all the goals/themes.

Power Marketing Strategic Planning

4

Each of Western's Regions has a Power Marketing Mgr who is responsible to:

- Maintain core mission functions by providing cost-based and high-value power marketing services
- Develop and implement power marketing plans and policies for the sale, exchange and purchase of electric power and transmission of Federal power
- Establish revenue requirements for each power system sufficient to repay U.S. Treasury obligations
- Direct all Regional power resource studies and analysis
- Develop energy services program to meet customer needs for technical assistance in promoting cost-effective energy conservation and renewable energy programs
- Provide analysis and technical support for Operations; i.e., calculate network transmission and ancillary service rates, perform transmission accounting for energy imbalance, loss assessments, etc.

Power Marketing Strategic Planning

5

The four Power Marketing Managers and CRSP Management Center Manager work together through our Power Marketing Managers' Council (PMMC) to review regional and Western issues that apply to Power Marketing

- Previous Strategy: Issues were determined and policies written on a regional basis. Ensure that the other regions or Western were not negatively impacted
- New Strategy: Revamped focus. Develop policies and procedures from a Western perspective, where we can, ensuring that the decision is best for Western, the regions and our customers
- NOW: We review current policies and procedures, new initiatives, and current customer services to determine where we should dedicate our resources, how to better accomplish our mission and improve services to our customers

Strategic Essentials

6

- First and foremost, ensure that our core mission to provide cost-based and high-value power marketing services is accomplished ensuring our FES and priority use customers' needs are met
- Be key leaders/participants in the development of Tribal and Renewable Programs
- Effectively manage costs and emphasize proper charging
- Streamline processes Western-wide
- Jointly develop Western policies that are best for the customers and Western using sound business and utility practices
- Identify ways to better serve customers while staying consistent with legislation, regulatory requirements and policy

Benefits of Standardization

7

Power Marketing believes that standardization is beneficial in a number of ways:

- Standardize and consolidate policies/procedures & Reports. Provides consistent treatment of issues among all the regions where possible & reduces manual intervention and the number of reporting requirements
- Provide for Cost Avoidance. Use of the same policies & common tools will help minimize future cost increases
- Cross-training. Provides for an increased knowledge base to better serve our customers and improve workforce planning
- Automate Manual Tasks. Expedites certain processes and lessens human errors

Current Initiatives

8

- Identify Western-wide products that would be helpful for customers across Western. Each Region recently established a Renewables Energy Credit Program. Many features alike. Differences due to State law, available hydro that meets the requirements and available staffing resources.
- Develop plan to reach out to customers; FES, Tribal and transmission customers. Assess how we are doing, identify areas where we can assist and look for partnering opportunities
- Implement eTarriff requirements. Mandated by FERC but once completed, should improve overall efficiency of FERC related filings
- Assist in the development of a cost allocation process that best reflects actual workload for each power system

Current Initiatives, *Continued*

9

- Research other funding opportunities for our Ten-Year Capital Program, while being mindful of the rate impact
- Update our Power Repayment Study (PRS) program platform across Western
- Develop and maintain templates for standard contracts
- Complete the automation of Settlement's reconciliation, analysis and reporting processes
- Improve Customer request process

How Can We Accomplish These Initiatives?

10

- Establish teams, representing all regions, when needed, to work on specific projects with project charters and due dates
- Ensure all parties that are affected by new initiatives are informed and have an opportunity to provide comments/input prior to finalizing decision
- Seek customers' ideas on how we might improve our services and/or communication and determine if those ideas can be implemented within our legislative and regulatory parameters to the benefit of the customers and Western
- Continue to build partnerships with our customers

Customer Engagement

11

The following customer meetings occur on an annual basis

PDP:

- Advancement of Funds Planning Board
- Advancement of Funds Funding Board
- Annual Operating Plan
- Informal Rate Meeting

BCP:

- Quarterly Engineering & Operating Committee
- Technical Review Committee
- Informal & Formal Rate Meetings

Construction / Transmission Planning:

- Ten-year Construction Planning Meeting
- Prepayment Funding Meeting
- Semi-annual Transmission Planning Meetings (June and December)

Other DSW Regional Projects

12

- ED5-PVH Project
- Marketing of Navajo Surplus
- Complete the Hoover Remarketing effort
- Improve written procedures for those processes that are not fully documented
- Provide training, when funds are available, to ensure backup support
- Facilitate Ancillary Service rate development and implementation

Suggestions

13

For suggestions to improve communication or customer service, please send in your ideas. We would be anxious to hear them and see what we can accomplish together.

Send email to Emler@wapa.gov or call me at 602-605-2555 or to our Power Marketing email address: DSWPWRMRK@wapa.gov

I look forward to working with you on Power Marketing issues and to improve customer service in the future.

DSW Remarketing Efforts

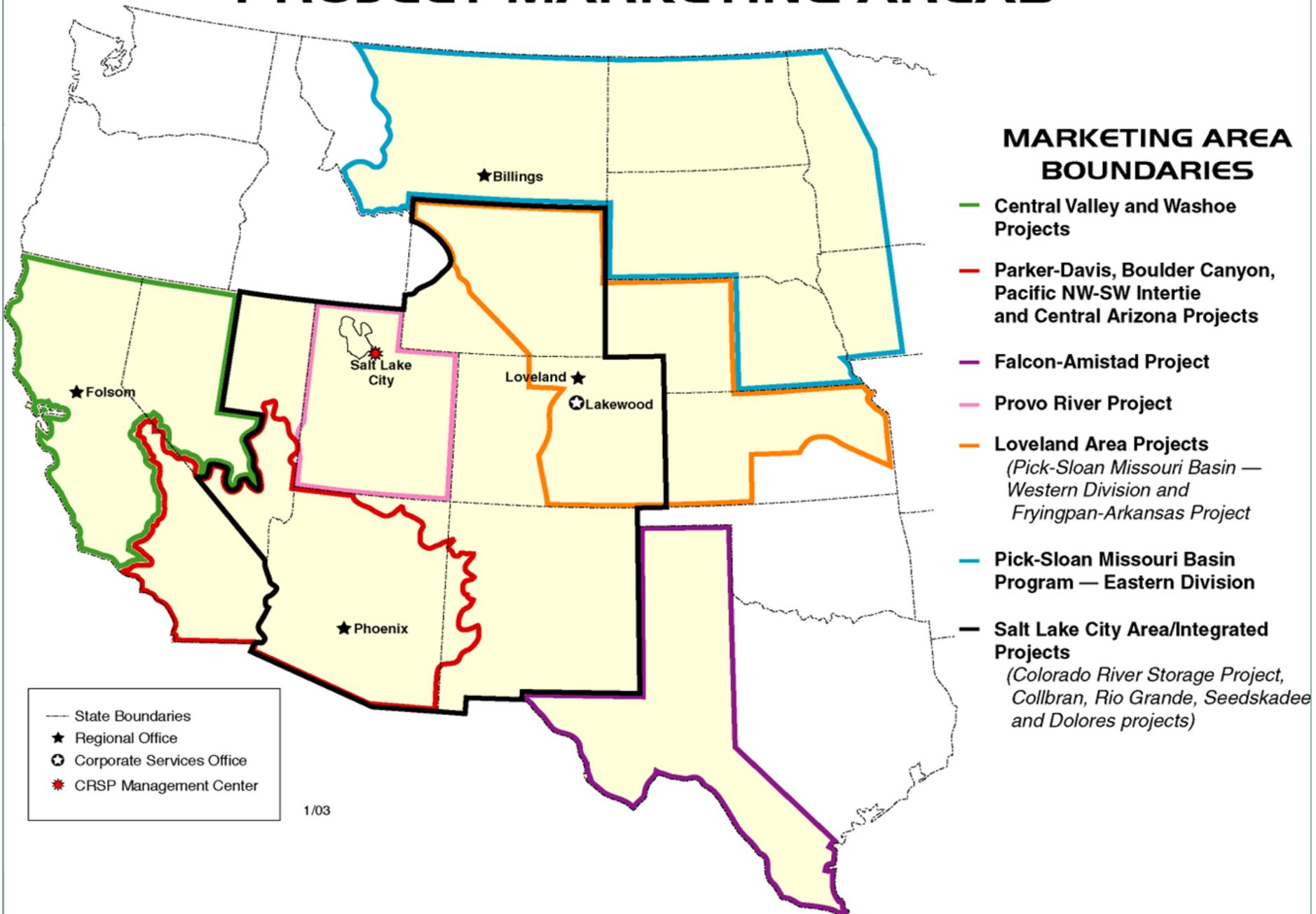
14

Boulder Canyon Project Remarketing

Navajo Surplus Marketing

Presented by: Mike Simonton
Project Manager
August 5, 2011

PROJECT MARKETING AREAS



Boulder Canyon Project (BCP) Remarketing Effort to Date

16

- November 20, 2009 - Initiated Public Process via Federal Register Notice (FRN) and Proposed:
 - To apply the Energy Planning & Management Program (EPAMP) Power Marketing Initiative (PMI) to the BCP
 - 30 Year Contract Term
 - 5% Resource Pool
 - 2,044 MW of Marketable Contingent Capacity
 - 4,116,000 MWh of Marketable Annual Firm Energy
- Conducted Public Information & Comment Forums
- April 16, 2010 - FRN Extended Comment Period from 1/29/2010 to 9/30/2010

BCP Remarketing Effort to Date

17

➤ April 27, 2011 – FRN Decisions & Proposals:

Announced Western's Decisions:

- Apply the EPAMP PMI to the BCP
- 30 Year Contract Term

Announced Additional Proposals:

- 5% Resource Pool
- 2,044 MW of Marketable Contingent Capacity
- 4,527,001 MWh of Marketable Annual Firm Energy
- Excess Energy Provisions

➤ May 24, 2011 – FRN Extended:

- Effective Date of Western's 4/27/11 Decisions from 5/27/11 to 12/31/2011
- Close of the Comment Period from 6/16/11 to 9/1/11
- Established 7/13/11 information forum & 8/17/11 comment forum

BCP Remarketing Milestones

18

- August 2011.....Conduct Public Comment Forum
- February 2012..... Establish Marketable Resource,
Resource Pool, & Excess Energy Provisions
- Summer 2012.....Propose Criteria & Call for Applications
- Spring 2013.....Finalize Criteria
- Fall 2013.....Propose Allocations
- Spring 2014.....Final Allocations
- Spring 2015.....All Contracts Finalized

Navajo Surplus Marketing

19

Western markets power from the U.S. entitlement in Navajo Generating Station that is surplus to the needs of the CAP. All Navajo Surplus power is marketed under long-term agreements which expire on Sept 30, 2011:

- Navajo Surplus will be marketed after October 1, 2011, under the Amended Navajo Marketing Plan adopted by Reclamation in a September 24, 2007 FRN.
- A public meeting will be held (date TBD) to provide details on the products and process for Navajo Surplus marketing prior to initiation of sales.
- Western will post available Navajo Transmission capacity on OASIS starting October 1, 2011. A long-term rate for this transmission has not been established.

DSW Rates Overview



JACK MURRAY
DSW RATES MANAGER
AUGUST 5, 2011

DSW Funding and Rates

21

- Shrinking Congressional Appropriations require us to look for other sources of funding for mission needs
- Reclamation Law allows Western to accept advances and treat “as if appropriated”
- Several examples over the years:
 - Parker-Davis Advancement of Funds (AOF) contract for generation costs
 - P-DP Firm Electric Service customers advance payment for transmission service
 - P-DP and Intertie long-term firm transmission customers prepay for service
 - Exploration of refinancing existing debt via bond financing

DSW Funding and Rates

22

- Most recent effort—utilize prepayments from P-DP and Intertie to fund construction needs
- 2011 is second year of program; average \$15M-\$20M per year so far for 3 separate construction projects:
 - 2010: Thornton Road – Empire & ED5 – Empire \$28.5M
 - 2011: ED4-ED5 Trans Line Rebuild approx. \$15M
- Under Prepayment MOA, Western recommends projects to be funded via prepayments; customers vote in annual meeting

DSW Funding and Rates

23

- DSW has agreed to use appropriations first to the extent available
- Prepayment funds utilized as a bridge between appropriations and system infrastructure needs
- Continuing to research & explore possibility of other sources of funding

DSW Funding and Rates

24

- Efforts to secure additional funding and use of funds for capital needs flow directly into Power System rate calculations
- Reclamation Law, DOE policy (RA 6120.2) and Western policy require rates be set to recover each Power System's revenue requirement
- Revenue requirements = total expenses less any "other revenues"
 - Total expenses consist mainly of estimated annual expenses (O&M), purchase power costs and principal and interest applications against appropriated capital expenditures
 - "Other revenues" mainly revenues from non-firm sales, facility use charges, and ancillary services

DSW Funding and Rates

25

- Increases in costs without offsetting increases in revenue (sales) result in increased revenue requirements
- In general, all DSW's power systems will (or will soon) see upward pressure on rates:
 - BCP—For FY 2012 the BCP revenue requirement shows an increase of about 12% over FY 2011
 - P-DP—FY 2012 rates are not projected to increase over current FY 2011 rates, but based on FY 2013 cost estimates and assets that will be reflected in the final FY 2011 PRS, P-DP rates will likely increase in FY 2013 and beyond

DSW Funding and Rates

26

- Intertie Project, while not be seeing large increases in its revenue requirement, isn't meeting 500kV sales as projected in last rate process; in order to recover all costs a rate adjustment will be needed
- Central Arizona Project experienced increases in projected revenue requirements due to increased operations & maintenance/replacements needs; FY11 rates reflected about 2.5% increase over FY10; preliminary estimates for FY12 look similar
- All costs have some impact on rates:
 - annual costs have an immediate impact
 - costs for capital and construction are generally amortized and paid over the useful life of the asset; impact is spread over a longer period

DSW Funding and Rates

27

Recently forwarded for Administrator's signature package to establish Ancillary Services rates for WALC balancing authority to be effective October 1, 2011. Sets rates for:

- 7 ancillary services: Scheduling, VAR Support, Regulation and Frequency Response, Energy Imbalance, Spinning Reserves, Supplemental Reserves and Generator Imbalance (as required by FERC Order 890)
- Formula rates for Network Integrated Transmission Services (NITS) for P-DP and Intertie
 - Represents the first joint effort by DSW and RMR to make the rates as consistent as possible between the two regions
 - Resulted in some methodology changes, most notably in regulation and restructuring of bandwidths under energy imbalance
 - Customers were presented proposed methodologies beginning in September 2010 with public forums in March 2011

Contracts Overview

28

PRESENTED BY: BRIAN YOUNG
CONTRACTS / ENERGY SERVICES MANAGER
AUGUST 5, 2011

Contract Types

Common Agreement Types	Primary Responsible Organization	Description
System Impact Study Agreement	Transmission Services	Determines effect interconnection will have on Western's electrical system
Facility Study Agreement	Maintenance and Transmission Services	Determines what facilities will be required to interconnect to Western. Includes good faith estimate and project schedule
Environmental Agreement	Environment	Funds work done by Western in support of applicable environmental determinations in compliance with NEPA
Construction Agreement	Maintenance	Funds Western for required construction work
Interconnection Agreement	Transmission Services	Delineates points of interconnection to Western's electrical system
Facility Use Contract or Exhibit	Power Marketing	Delineates Charges for Western Customers' share of equipment.
Electric Service	Power Marketing	For purchase of electric service associated with federal power allocations
Transmission Service Agreement	Transmission Services	Delivery of energy across Western's system (Point-to-Point or Network Service)
Letter Agreement	Various	Agreements to provide for various arrangements or funding generally of a duration of one year or less and that are not complex in nature
Marketing Agreement	Energy Management & Marketing Office	Details Western's services for procuring energy on a long-term basis for customer and customers' costs and responsibilities
Balancing Authority Agreement	Operations	Defines operational relationships among parties and describes Ancillary Services within Western's Balancing Authority
O&M Agreement	Maintenance	Delineates responsibilities for Operations, Maintenance, Ownership and Financial Responsibility for all facilities such as substations and/or transmission lines

Customer Request/Contract Process

30

1. Customer sends request via e-mail or letter to Power Marketing Manager (may copy Contracts Manager)
2. Request is forwarded to functional groups and a project manager (PM) or point of contact (POC) and contract specialist are assigned
3. PM/POC and contract specialist notify customer and initiate needed actions
4. PM/POC and contract specialist provide customer support until completion of contract and/or project

OATT contract requests are made through Western's OASIS or the Transmission Business Unit in accordance with Western's Tariff.

Power Marketing Contacts

31

Deborah K. Emler
Power Marketing Manager
(602) 605-2555

Mike Simonton
Project Manager
(602) 605-2675

Jack Murray
Rates Manager
(602) 605-2442

Brian Young
Contracts & Energy Svc Mgr
(602) 605-2594

Tina Ramsey
Resource Planning & Settlements Mgr
(602) 605-2565