

DSR Transmission Frequently Asked Question

1. How has Western traditionally financed construction for transmission used to meet its Federal Hydropower mission?

Western has traditionally requested Federal appropriations to cover the construction costs for transmission replacement, betterments or additions. The appropriated construction funds must be repaid, including a charge for interest during construction and interest on the unpaid principle balance, within the service life of the new transmission. The interest rate for each is the same and is the U.S. Treasury rate in effect when the first capital expenditure was made on the project. The repayment obligation is incorporated into the power repayment study and becomes a component of the transmission rate. Transmission capability, in excess of the capability required to meet statutory and contractual obligations is then offered under Western's Open Access Transmission Tariff (OATT). The sale of transmission services generates revenue to repay the new transmission. The Liberty to Mead 345-kV transmission line is an example of a traditionally financed transmission addition.

2. Can another party participate with Western in a new transmission construction project?

Yes, these are generally referred to as Joint Participation Projects. Western has considerable flexibility in structuring these projects, but does not share ownership without special legislative authority. Instead, physical ownership is separated from ownership-like rights. The physical ownership of the project is divided among the project participants in a mutually agreed upon manner in accordance with Western's limitations. In some projects, Western might own all of the transmission physical rights. In others Western might own a segment with other participants owning other segments. Then ownership-like rights, such as capacity entitlements, are established and allocated. Construction cost responsibilities are negotiated based on items like the pro-rata share of capacity entitlements. Traditionally, Western would then request appropriations to cover its share of the construction costs in the manner described in question one above. The Mead to Phoenix 500-kV transmission line is an example of a joint participation project.

3. Is Western required to rely on Federal appropriations to fund either individual or Joint Participation Project transmission construction? How would non-appropriated sources of construction funding be repaid?

Western can use contributed funds instead of appropriations to fund either individual or Joint Participation Project transmission construction. The contributed funds are used as if they were Federally appropriated, and the same ownership restrictions apply as if the funds were appropriated. After the transmission is constructed, it would become contributed plant. If Western determines that the contributed plant is

beneficial to Western, Western could also repay the entity that contributed the funds. Western could repay the contributed funds with interest if appropriate. The term of repayment is based on many items, but rate impact and cash flow are often determining factors. The repayment obligation would be identified in the power repayment study, and would be used to establish rates as if the project had been built using appropriated funds.

Western has various means of repaying the contributed funds, and each Federal hydropower project has unique legislation. The most straightforward means of repaying the contributed funds would be through a net billing arrangement. Net billing means that two parties owe each other money. Rather than each sending their total obligation, the parties agree to exchange the net difference. To use net billing on a contributed funds project, the funding party would owe Western money, typically in the form of payment for transmission service. If the transmission is not under an existing contract, or subject to a marketing plan process, it would be provided under a Westerns Open Access Transmission tariff. In this case, the payment for transmission service would be at Western's standard transmission rate. Western would owe the contributed funding party for the contributed plant. Generally, Western arranges the terms such that the monthly payment owed by the contributing funds party is greater than or equal to the funds owed by Western. In this case, Western nets its obligation against the obligation of the contributing funds party, and sends the party a bill for the difference. The Peacock to Griffith 230-kV transmission line addition is an example of contributed funds used to construct transmission with net billing for repayment.

4. Does contributed funding give the funding party unique advantages when taking open access tariff service?

Contributed funds allow a party to work with Western to get transmission constructed; however it is independent of open access tariff service. With contributed funding, Western incurs a repayment obligation, but tariff service remains standard. An exception would be for the initial term of tariff service. The term could be extended beyond the typical ten-year term to ensure that the net billing requirements are met.

5. Why would anybody want to contribute funds, rather than getting ownership like rights through a joint participation project?

Contributed funding works best when it is necessary to add or upgrade a segment of transmission to Western's system as part of a larger overall service requirement. The assumption is that ownership like rights over the segment would not be sufficient to meet the funding parties overall service requirements. The customer needs transmission service well beyond the limits of the new segment. In this situation, contributed funding is a much-preferred alternative to joint participation projects.

6. How can a party work with Western to get transmission constructed?

The party should make their needs known to Western. Western identifies its future plans through the Joint Planning Agreement (JPA) and Ten Year Planning processes. If both Western and the party have mutually compatible needs that can be met through either contributed funding or Joint Participation Projects, then contracts can be negotiated and transmission constructed.

7. How has Western traditionally funded transmission operating and maintenance expenses?

Western traditionally requests Federal appropriations for the Parker-Davis Project and Intertie Transmission operating and maintenance expenses. The appropriations are repaid through the sale of transmission services.

8. Can another party work with Western to reduce the need for Federal appropriations?

Yes, if funds were provided to Western in advance of the operations and maintenance expenditure, then the funds could be used in lieu of appropriations. Western has considerable flexibility in structuring these advanced funding arrangements. The open access tariff agreement that Western has with Nevada Power Company is an example of advanced funding of transmission service.

9. Who can we contact for more information?

Western has considerable flexibility in structuring joint participation, contributed funding of construction or advanced funding of O&M for transmission service. To discuss details, please contact:

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