

Parker-Davis Project

Informal Rate Meeting

June 22, 2011

Meeting Agenda

- Overview of Parker-Davis Project (P-DP) Rate Methodology
- Ratemaking Assumptions
- Rate Determinants
- Proposed FY 2012 Service Rates
- Rates Outlook – Carryover
- Next Steps and Questions

FY 2012 Rate Preview

No change in the generation or
transmission rates for
FY 2012

Rate Methodology

- Service rates are calculated annually for a future five year cost evaluation period (rate window)
- When possible, revenues and costs are directly assigned to generation or transmission revenue requirements
- All other revenues and costs are allocated to generation or transmission revenue requirements
- Excess revenue from prior periods (carryover) is applied to reduce the revenue requirements

Standard Ratemaking Assumptions

- Actual work plans are used for O&M expenses when available. Work plans are escalated for inflation in remaining years of cost evaluation period
- Ten-Year Plan information from Western and the Bureau of Reclamation is used to project capital costs
- Transmission and generation service reservations are based on contractual data

Purchase Power - Generation

- Purchase Power projections from the Annual Operating Plan or more recent estimates are used for the first year of the cost evaluation period
- Given the volatility of hydrology and energy prices, the most recent actual expenses will be used for the remaining years of the cost evaluation period
- At the AOP, \$1.9 million in purchases were projected for FY12. Based on the latest information that amount is now \$2.4 million. Purchases of \$1 million will be used for the out-years.

Purchase Power - Transmission

- Purchase power for transmission provides energy and/or reserves necessary to support the balancing authority
- Previously purchases were funded by energy banks and netted against banking revenues so purchases were not rate impacting
- Due to changes in accounting policy in FY08, appropriations, if available, must be used for purchase power. When appropriations are used the costs must be included in the rate.
- For FY12, the purchase estimate is approximately \$877,000. That amount will be used for each year of the rate calculation



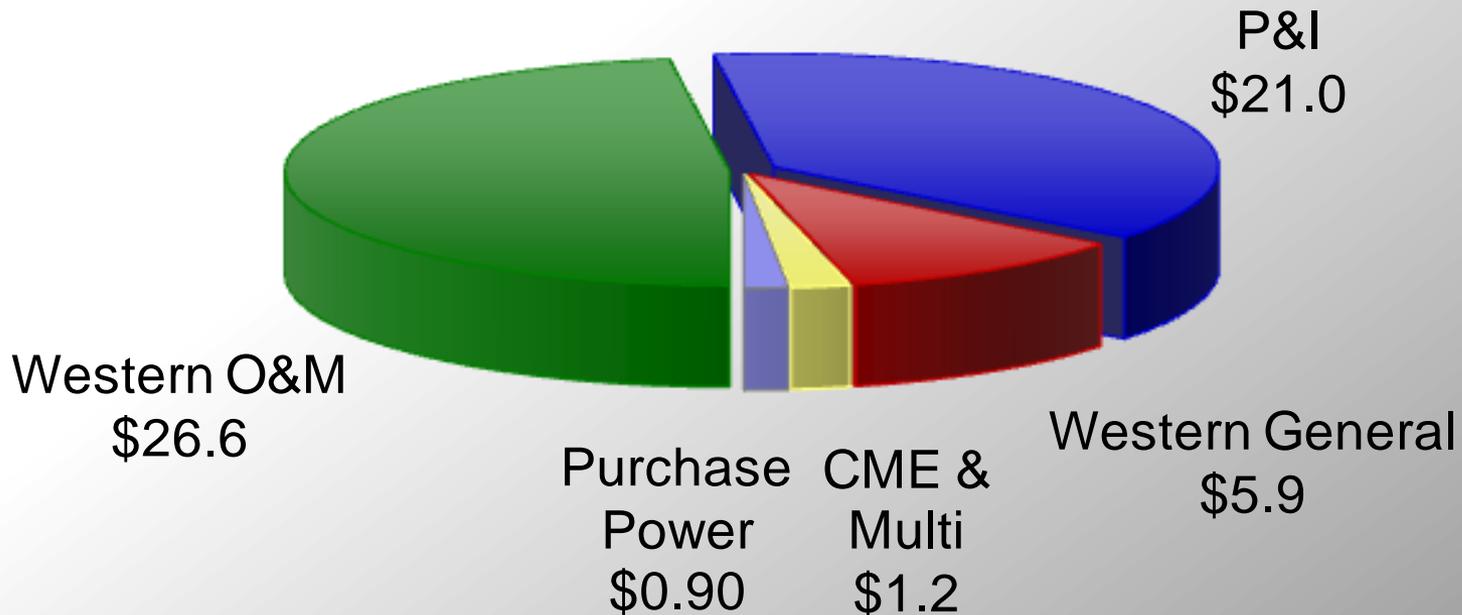
Transmission Rate Determinants

Average Annual Expenses (in millions)

	FY11-15	FY12-16	Change
Western O&M	\$25.9	\$26.6	\$ 0.7
Western General	\$ 5.9	\$ 5.9	-
CME & Multi-Project	\$ 1.2	\$ 1.2	-
Purchase Power	-	\$ 0.9	\$ 0.9
P&I	\$21.8	\$21.0	\$ (0.8)
Total	\$54.8	\$55.6	\$ 0.8

Transmission Rate Determinants

Average Annual Expenses (in millions)



Total: \$55.6 million

Transmission Rate Determinants

Average Annual Other Revenue, Carryover and Reservations (\$ in millions)

	FY11-15	FY12-16	Change
Other Revenue	\$ 9.4	\$ 9.9	\$ 0.5
Carryover	\$ 7.4	\$ 6.0	\$ (1.4)
Total	\$16.8	\$ 15.9	\$ (0.9)

Reservations (MW)	2,944	3,066	123
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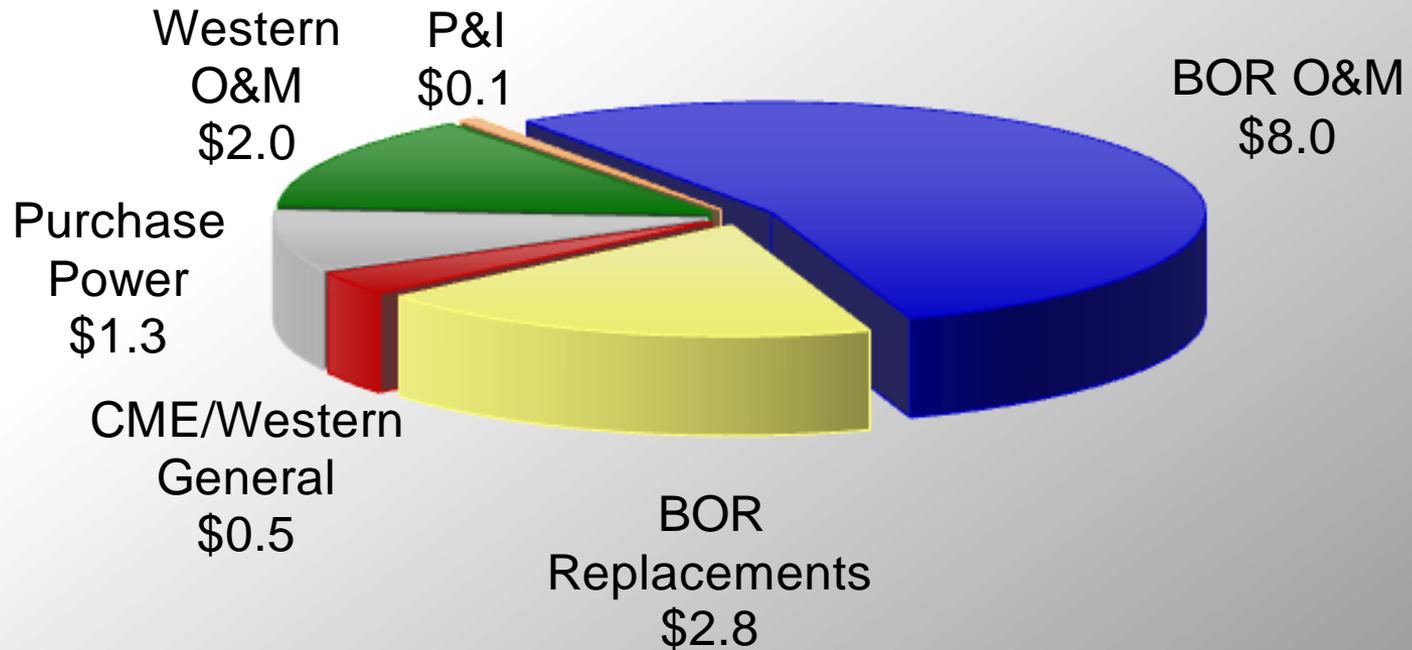
Generation Rate Determinants

Average Annual Expenses (in millions)

	FY11–15	FY12–16	Change
Western O&M	\$ 2.0	\$ 2.0	-
BOR O&M	\$ 7.4	\$ 8.0	\$ 0.6
Purchase Power	\$ 1.5	\$ 1.3	\$ (0.2)
CME & Western General	\$ 0.5	\$ 0.5	-
BOR Replacements	\$ 3.1	\$ 2.8	\$ (0.3)
P&I	\$ 0.1	\$ 0.1	-
Total	\$14.6	\$14.7	\$ 0.1

Generation Rate Determinants

Average Annual Expenses (in millions)



Total: \$14.7 million

Generation Rate Determinants

Average Annual Other Revenue, Carryover and Reservations (\$ in millions)

	FY11-15	FY12-16	Change
Other Revenue	\$ 0.1	\$ 0.2	\$ 0.1
Carryover	\$ 2.5	\$ 2.5	-
Total	\$ 2.6	\$ 2.7	\$ 0.1

Reservations (GWh)	1,425	1,425	-
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FY12-16 Rate Information

	Current (FY11)	Proposed (FY12-16)	Change
Firm Transmission (kW-Month)	\$1.08	\$1.08	-
Energy (mills/kWh)	4.24	4.24	-
Capacity (kW-Month)	\$1.86	\$1.86	-
Firm Power Composite w/o Transmission (mills/kWh)	8.48	8.48	-

Rates Outlook - Carryover

- Carryover is excess revenue from prior periods that is used to reduce the revenue requirements during the cost evaluation period
- Generally, carryover is created when costs are lower or revenues are higher than what was estimated in the rate calculation
- Generally, carryover is used when costs are higher or revenues are lower than what was estimated in the rate calculation
- Since our rates are formulated to assume the use of carryover, even if actual costs and revenues match the rate calculations carryover will be used

Rates Outlook - Carryover

Since FY09, the carryover balance has decreased on average by \$2.9m or 6.1% each year

FY	Balance (millions)	Change (millions)	Change %
2006	\$37.0	\$12.9	53.4%
2007	\$42.8	\$ 5.9	15.9%
2008	\$51.3	\$ 8.4	19.7%
2009	\$48.4	\$ (2.8)	-5.5%
2010	\$45.3	\$ (3.1)	-6.5%
2011 (est)	\$42.4	\$ (2.8)	-6.3%

Rates Outlook - Carryover

Carryover Usage in FY12-16 Cost Evaluation Period (\$ in millions)

FY	Generation	Transmission	Total
2012	\$ 4.5	\$ 3.7	\$ 8.2
2013	\$ 1.2	\$ 4.5	\$ 5.7
2014	\$ 2.4	\$ 4.2	\$ 6.6
2015	\$ 2.3	\$ 7.6	\$ 9.9
2016	\$ 2.0	\$10.1	\$12.1

Rates Outlook - Carryover

- Future decreases in the carryover balance will put upward pressure on rates even if costs do not increase
- Since both generation and transmission rates are dependent on carryover, both will be affected by decreased carryover
- As rates increase, they will be less dependent on carryover and less sensitive to decreased carryover, but they will still gradually increase
- We will continue to monitor and report on carryover in future rate meetings

Next Steps

- Information regarding the P-DP rates to be posted on Western's website:

<http://www.wapa.gov/dsw/pwrmt/RateAdjust/Main.htm>

- Proposed rates will be finalized in July and become effective for the October 2011 service month



Questions/Comments

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