

# Parker-Davis Project

Informal Rate Meeting

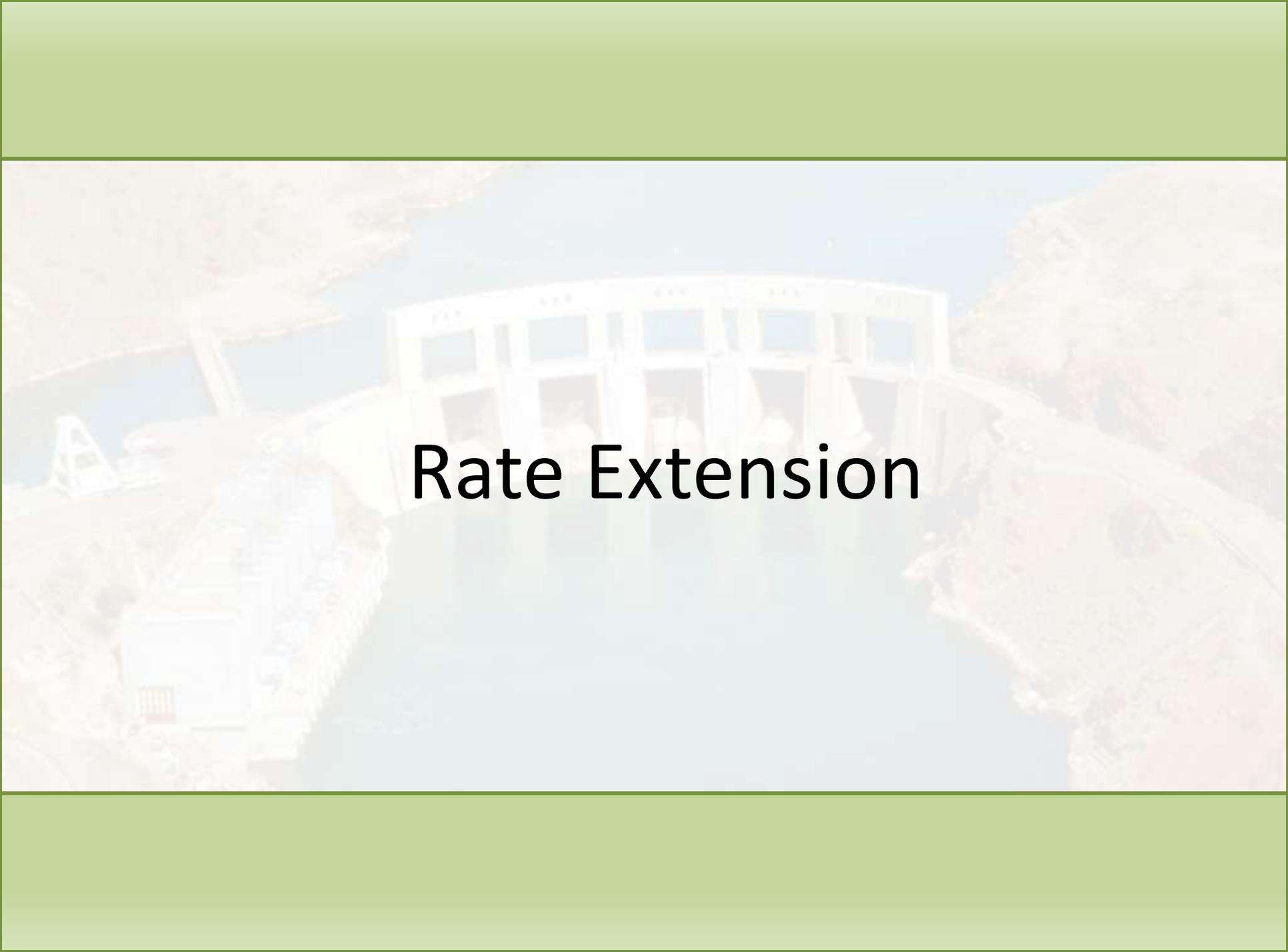
June 20, 2013



# Meeting Agenda

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- Rate Extension
- Rate Methodology Refinement Efforts
  - Interest Credit on Negative Investments
  - Interest Credit on Carryover
  - Recalculated Service Life of 40 Years
- FY 2014 Rate Calculation
  - Ratemaking Assumptions
  - Rate Determinants
  - Proposed FY 2014 Service Rates
- Additional Rate Methodology Refinements
- Next Steps and Questions

An aerial photograph of a large concrete dam with multiple spillways, situated in a valley. The dam is surrounded by steep, rocky hillsides. The text "Rate Extension" is overlaid in the center of the image in a large, black, sans-serif font.

# Rate Extension



# Rate Extension

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- The existing rate methodology expires on September 30, 2013.
- On June 11, 2013, we published a *Federal Register* notice to extend our existing rate methodology through FY 2018
- We are proposing an extension because we do not need any immediate changes to the methodology. Any refinements considered so far can be accommodated by the existing rate methodology.
- The comment period for the proposed rate extension closes on July 11, 2013.
- This informal rate meeting is not a part of the formal extension process. Any comments you may have on the extension must be submitted in writing to the contact information in the notice.

An aerial photograph of a large concrete dam with multiple spillways. The dam is situated in a valley with steep, rocky slopes. The water level is high, and the spillways are partially filled. The image is overlaid with a semi-transparent green filter.

# Rate Methodology Refinements



# Methodology Refinements

- At our last rate meeting, we discussed the need to improve the rate methodology to counter the upward pressure on our rates
- On January, 24, 2013, we held a meeting to present three potential refinements to the rate methodology:
  - Interest Credit on Negative Investments (IFI)
  - Interest Credit on Carryover
  - Recalculated Service Life of 40 Years



# Credit on Negative Investments

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- When capitalized projects (investments) are completed, the cost of the project with interest is booked in our accounting system and the Power Repayment Study (PRS)
- Those costs are adjusted a year or two later, if needed, as a result of a detailed review of the project costs (close-out process)
- These adjustments are also included in the PRS and netted against the original project cost



# Credit on Negative Investments

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- Unfortunately, the PRS is not capable of crediting interest to prevent an overstatement of interest between the initial booking and the adjustment
- To correct this, we recommend calculating an interest credit for each historic negative cost adjustment (decrease in investment) and to continue the practice should any negative costs adjustments occur in the future



# Credit on Negative Investments

## Simplified Example of Interest Calculation

Year	New Investment	Unpaid Investment	Interest at 5%
2007	\$1,000,000	\$1,000,000	-
2008	-	\$1,000,000	\$50,000
2009	-	\$1,000,000	\$50,000
2010	\$(80,000)	\$920,000	\$50,000
2011	-	\$920,000	\$46,000
2012	-	\$920,000	\$46,000

Overstatement of interest by \$12,000  
(\$4,000 x 3 yrs)



# Credit on Negative Investments

## Interest Credits Applied to FY13

Year(s)	Number of Negative Inv.	Value of Negative Inv.	Interest Credit
Pre-1991	6	\$7.10m	\$1,908,584
1991	2	\$9.04m	\$2,052,856
1992	1	\$2.07m	\$367,328
2007	3	\$0.02m	\$1,491
2008	1	\$0.11m	\$12,217
2009	2	\$0.51m	\$23,810
2010	5	\$0.24m	\$21,478
2012	3	\$1.98m	\$116,827
<b>Total</b>	<b>23</b>	<b>\$21.07m</b>	<b>\$4,504,592</b>



# Interest Credit on Carryover

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- A component of our annual interest expense is a credit (reduction) called “interest offset”
- Interest offset is intended to account for the difference between collecting revenues monthly while determining repayment annually
- Offset is like the “earnings” on revenues collected throughout the year and held in Treasury until those revenues are applied toward repayment at the end of the year



# Interest Credit on Carryover

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- The offset concept works for most power systems in Western because any excess revenues are applied toward repayment at the end of the year
- Incomplete for P-DP because excess revenues are held in carryover and not included in subsequent offset calculations
- We recommend retroactively expanding the offset concept to include interest credits on the carryover balance



# Interest Credit on Carryover

## Interest Credits

Year(s)	Carryover Credit	
1997 - 2012	\$17.51m	\$18.29m immediately
2013 (Est.)	\$0.78m	
2014 (Est.)	\$1.85m	\$6.33m during rate window
2015 (Est.)	\$1.74m	
2016 (Est.)	\$1.44m	
2017 (Est.)	\$0.96m	
2018 (Est.)	\$0.34m	
<b>Total</b>	<b>\$24.62m</b>	



# Recalculated Service Life

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- Most power systems at Western apply the service lives from the Bureau/Western Replacements manual to each replacement asset to determine required repayments
- P-DP uses an older, although no less accurate, method of calculating a weighted average service life of assets and applying that to all replacements
- The weighted average service life was last calculated at 32 years during the 1997 public process that established the existing rate methodology



# Recalculated Service Life

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- Given the considerable change in our power system assets since 1997, we recommend implementing a recalculated service life for replacements
- This will more accurately match repayment periods with service lives and will also result in a longer amortization period for assets



# Recalculated Service Life

## Weighted Avg. Service Life Calculation

Property	FY11 Balance	Replaced in 50-yrs	Dollars in 50-Yrs	Service Life (yrs)
Buildings/Roads	\$66.5m	9.0%	\$6.0m	47
Land & Rights	\$9.4m	0.0%	-	-
Station Equipment	\$176.0m	68.5%	\$120.5m	29
Steel Towers/Poles	\$47.2m	3.0%	\$1.4m	50
Wood Poles & Conductor	\$62.1m	13.8%	\$8.6m	50
Communications Equip.	\$53.2m	88.7%	\$47.2m	12
Misc Equip.	\$2.2m	3.7%	\$0.1m	35
Remaining ≥ 50-yrs	-	-	\$232.8m	50
<b>Total</b>	<b>\$416.6m</b>		<b>\$416.6m</b>	
<b>Weighted Average Srv. Life</b>				<b>39.58</b>



# Recalculated Service Life

## Impact of Change in Service Life

<b>\$1m Investment @ 5% Interest</b>	<b>32-Year Life</b>	<b>40-Year Life</b>	<b>Difference</b>	
Annual P&I Payment	\$63,280	\$58,278	\$(5,002)	-7.9%
Total P&I	\$2,024,973	\$2,331,126	\$306,153	15.1%

<b>FY13 Rates (Last Year)</b>	<b>32-Year Life</b>	<b>40-Year Life</b>	<b>Difference</b>	
Average Tran P&I	\$24.3m	\$23.1m	\$(1.2)m	-4.9%
Firm Tran Rate (\$/kW-Month)	\$1.24	\$1.20	\$0.04	-3.2%



# Methodology Refinements

## Impact of Refinements

(in millions)

	<b>Immediately</b>	<b>During Rate Window</b>	<b>Total</b>
Credit on Neg. Investments	\$ 4.5	-	\$ 4.5
Credit on Carryover	\$18.3	\$ 6.3	\$24.6
Recalculated Service Life	-	\$ 6.0	\$ 6.0
<b>Total</b>	<b>\$22.8</b>	<b>\$12.3</b>	<b>\$35.1</b>



# Methodology Refinements

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Thoughts, concerns,  
comments?

An aerial photograph of a dam structure, featuring a curved spillway and a powerhouse building with multiple windows. The dam is situated in a valley with rocky terrain. The image is overlaid with a semi-transparent green circle containing the title text.

# FY 2014 Rate Calculation



# Standard Ratemaking Assumptions

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- 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



# Methodology Refinements

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- At the January rate methodology meeting, most were comfortable with the interest credits on negative investment and carryover so those have been included in the rate calculation
- The recalculated 40-year service life was also used; however, since there was some hesitation at the January meeting, we have also calculated the rates with the existing 32-year service life



# Purchase Power

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- Previous purchase estimates were based on the AOP for the first year of the rate window and most recent actual experience of purchases for the out-years
- Estimating purchase expenses in May for the rate year ending 16 months later may adversely impact rates due to uncertainties in future hydrology and market prices
- To minimize the impact to the rates we recommend using a historic trend of expenses that will be re-evaluated annually



# Purchase Power

Estimates and Actuals (in millions)

	2010	2011	2012	Average
Gen Estimate	\$ 3.2	\$ 3.1	\$ 2.4	\$ 2.9
Gen Actual	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Tran Estimate	-	-	\$ 1.0	\$ 0.3
Tran Actual	\$ 2.7	\$ 1.7	\$ 2.7	\$ 2.4



# Transmission Rate Determinants

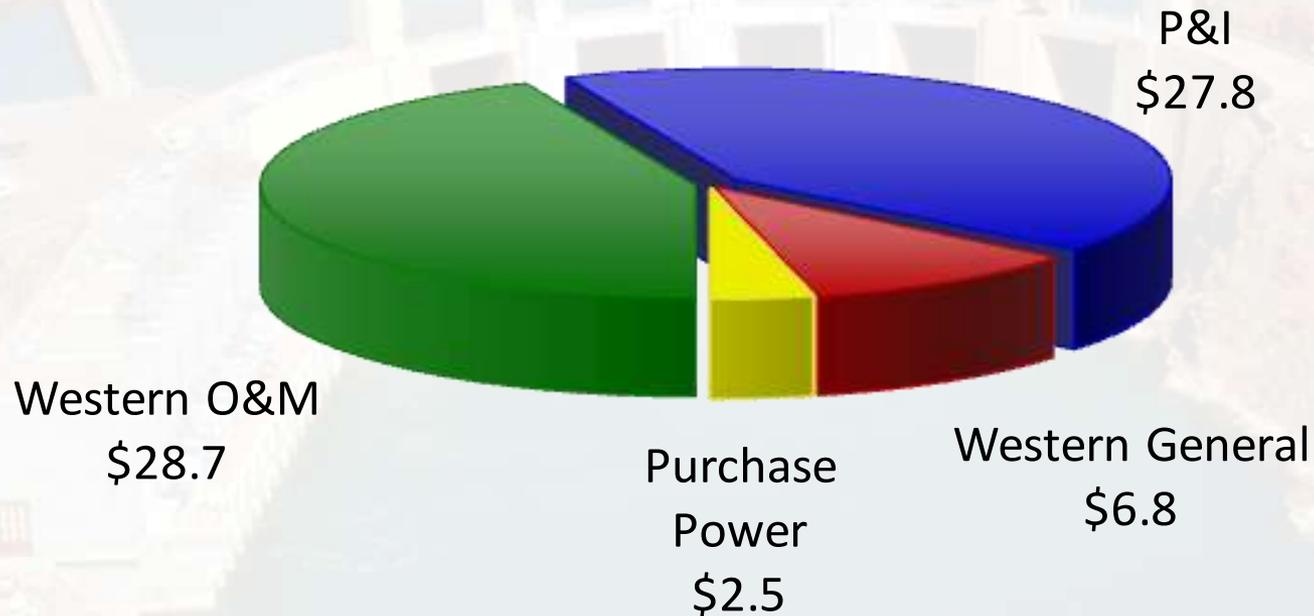
Average Annual Expenses (in millions)

	<b>FY13-17</b>	<b>FY14-18</b>	<b>Change</b>
Western O&M	\$27.1	\$28.7	\$ 1.6
Western General	\$ 6.4	\$ 6.8	\$ 0.4
CME & Multi-Project	\$ (1.0)	\$ (1.2)	\$ (0.2)
Purchase Power/Wheeling	\$ 1.7	\$ 2.5	\$ 0.8
P&I	\$24.3	\$27.8	\$ 3.5
<b>Total</b>	<b>\$58.5</b>	<b>\$64.6</b>	<b>\$ 6.1</b>



# Transmission Rate Determinants

Average Annual Expenses (in millions)



**Total: \$64.6 million (Including -\$1.2 million of CME & Multi)**



# Transmission Rate Determinants

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

	FY13-17	FY14-18	Change
Other Revenue	\$ 8.0	\$ 9.7	\$ 1.7
Carryover/Credits	\$ 5.1	\$ 8.4	\$ 3.3
Total	\$13.1	\$18.1	\$ 5.0

Reservations (MW)	3,062	3,033	(29)
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# Generation Rate Determinants

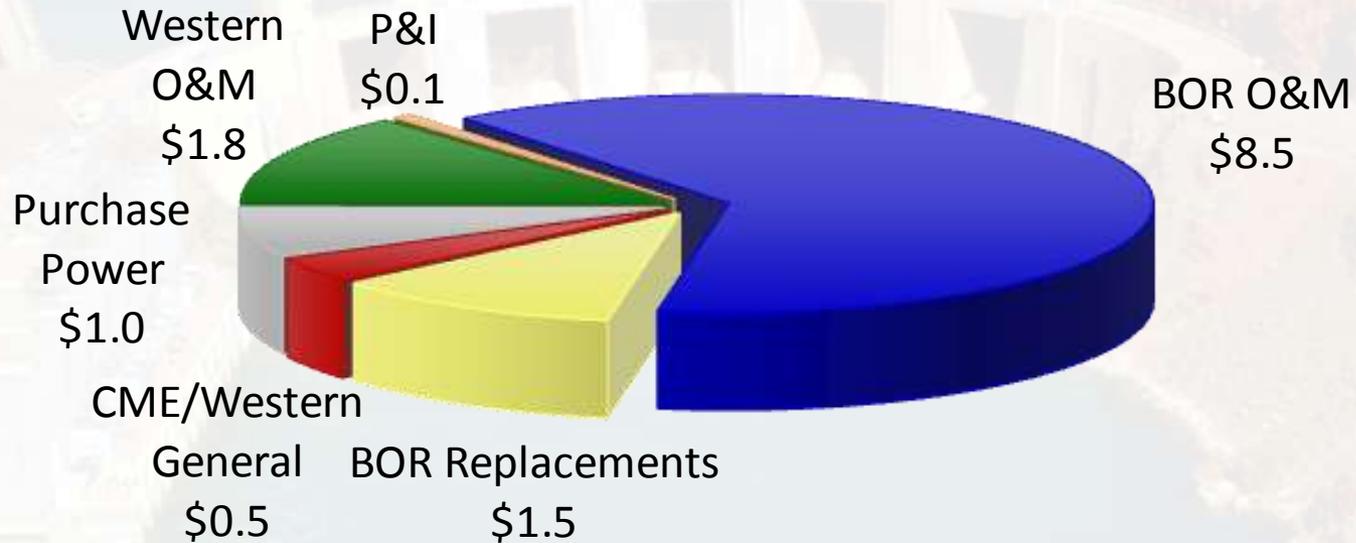
Average Annual Expenses (in millions)

	FY13–17	FY14–18	Change
Western O&M	\$ 1.9	\$ 1.8	\$ (0.1)
BOR O&M	\$ 8.2	\$ 8.5	\$ 0.3
Purchase Power	\$ 1.0	\$ 1.0	-
CME & Western General	\$ 0.5	\$ 0.5	-
BOR Replacements	\$ 1.4	\$ 1.5	\$ 0.1
P&I	\$ 0.1	\$ 0.1	-
<b>Total</b>	<b>\$13.1</b>	<b>\$13.4</b>	<b>\$ 0.3</b>



# Generation Rate Determinants

## Average Annual Expenses (in millions)



**Total: \$13.4 million**



# Generation Rate Determinants

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

	FY13-17	FY14-18	Change
Other Revenue	\$ 0.2	\$ 0.2	-
Carryover/Credits	\$ 0.9	\$ 1.1	\$ 0.2
Total	\$ 1.1	\$ 1.3	\$ 0.2

Reservations (GWh)	1,425	1,425	-
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# Fiscal Year 2014 Rates

	Current (FY13)	Proposed (FY14)	Change	
Firm Transmission (kW-Month) w/40-Yr Service Life	\$1.24	\$1.28	\$0.04	3.2%
<i>With 32-Yr Service Life (illustrative only)</i>	<i>\$1.24</i>	<i>\$1.33</i>	<i>\$0.09</i>	<i>7.3%</i>
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	-	-

An aerial photograph of a large dam structure, likely a concrete gravity dam, with multiple spillways. The dam is situated in a valley with steep, rocky slopes. The water level is visible behind the dam, and the spillways are partially filled. The image is overlaid with a semi-transparent green filter.

# Additional Rate Methodology Refinements



# Additional Refinements

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- The three refinements developed so far are/will be very effective in reducing short-term rate pressure
- As discussed at previous meetings, more complex refinements are needed to address the long-term rate pressures of rebuilding our aging transmission system
- After the FY 2014 rates are finalized in August, we will resume our work on these more complex refinements and meet with the customers in the fall/winter



# Additional Refinements

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- Since these long-term refinements will be the most impacting to the rates, we want to work closely with the customers to develop and examine potential ideas
- NOTE: If the refinements cause significant changes to the existing methodology, we will initiate a public process to ensure customer input and support
- Although open to any format, to facilitate scheduling and productivity of the refinement meetings, we recommend a format similar to the Rate Committee of 1996-1997



# Additional Refinements

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We propose that Western and a small representative group of customers form a methodology workgroup. This workgroup will:

- Meet to explore, test and review potential refinements to the rate methodology
- Document and post to a website relevant discussions, decisions and action items to ensure all customers have access to the group's work
- Present successful refinements to all P-DP customers for input and, if needed, vet through a public process



# Additional Refinements

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Thoughts, concerns,  
comments?

An aerial photograph of a dam structure, featuring a curved spillway and a central powerhouse building with multiple windows. The dam is situated in a valley with rocky terrain on either side. The image is overlaid with a semi-transparent light blue filter.

# Next Steps and Questions/Comments



# Next Steps

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- Information regarding the P-DP rates to be posted on Western's website:  
<http://www.wapa.gov/dsw/pwrmt/RateAdjust/Main.htm>
- Advancement of Funds Funding Board - 7/18/2013
- Proposed rates will be finalized in July/August and become effective for the October 2013 service month
- Follow-on meetings later this year to collaborate on additional refinements to rate methodology



# Questions/Comments

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