

Parker-Davis Project Informal Rate Meeting

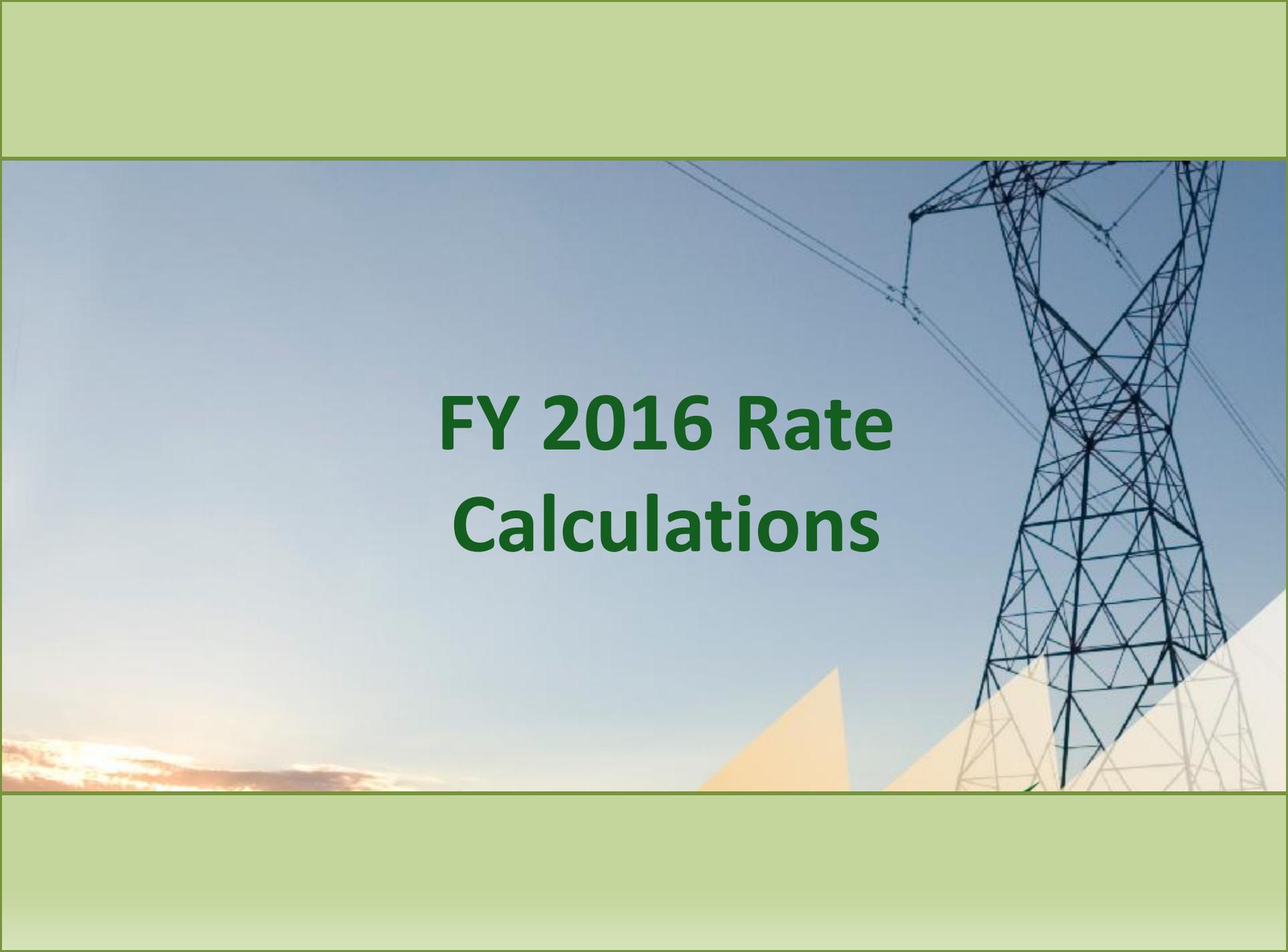
June 9, 2015





Meeting Agenda

- FY 2016 Rate Calculations
 - Ratemaking Assumptions
 - Rate Determinants
 - Preliminary Rates
- Optional Restructuring of Principal
- Next Steps and Remaining Questions



FY 2016 Rate Calculations



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 (rate window)
- Ten-Year Plan information from Western and Reclamation is used to project capital costs
- Costs not readily identified as generation or transmission are allocated via the Cost Apportionment Study
- Transmission and generation sales estimates are based on contractual values



Reduction in Transmission Sales

- Our projection of firm transmission sales has decreased approximately 350 MW or 11% from the last rate calculation (FY15)
- This unforeseen change in sales is due primarily to:
 - Expiration of an APS agreement (56 MW)
 - Expirations and service delays for MEC (137 MW)
 - Indefinite postponement of Rice Solar (150 MW)
- We will continue to monitor sales and include any new or additional reservations before the FY 2016 service rates are finalized



Reduction in Carryover

- Rates are formulated to use carryover annually to both reduce and level costs across each rate window
- Unanticipated changes in costs or revenues will also affect carryover
- For FY 2016, we are projecting \$8 million less in carryover than previously expected
- This reduction in carryover is mainly attributed to:
 - Higher generation PPW in FY 2014 (\$1.6m)
 - Reduced transmission sales in FY 2015 (\$5.5m)



Generation Rate Determinants

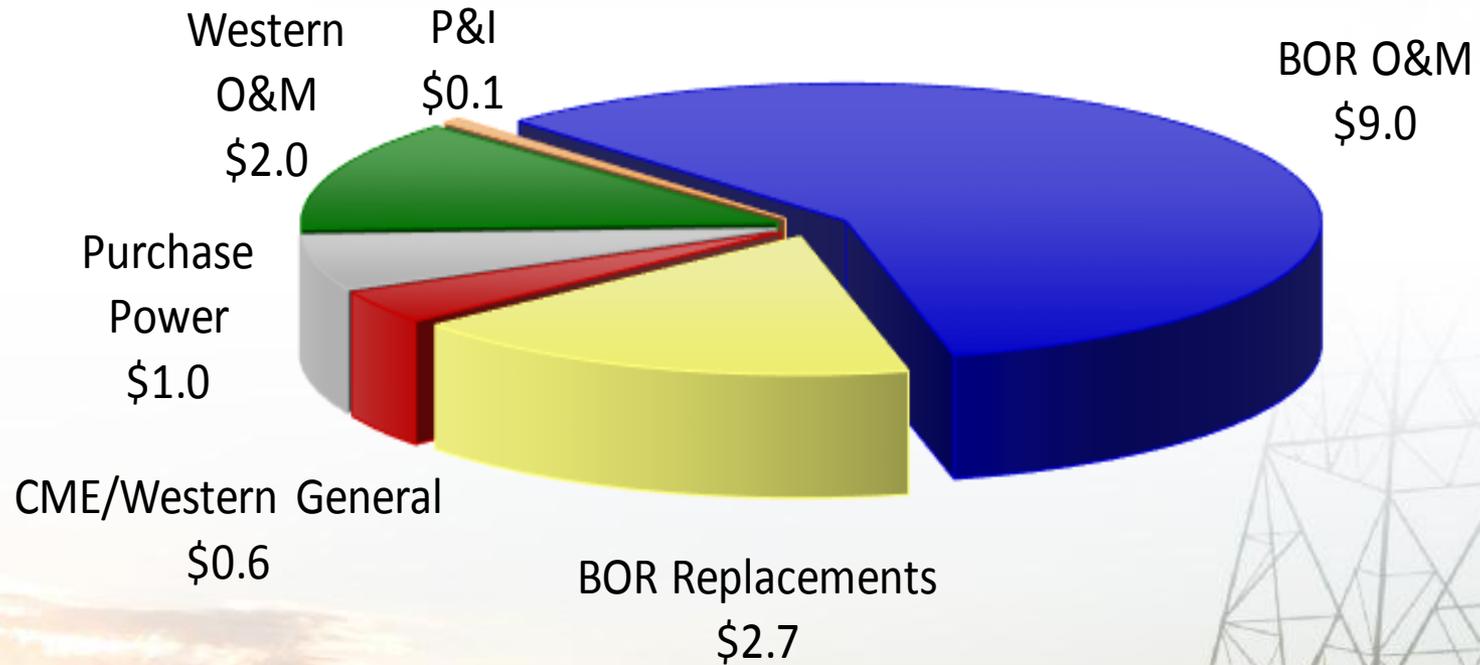
Average Annual Expenses (in millions)

	FY15–19	FY16–20	Change
Western O&M	\$ 1.9	\$ 2.0	\$ 0.1
BOR O&M	\$ 8.8	\$ 9.0	\$ 0.2
Purchase Power	\$ 1.0	\$ 1.0	-
CME & Western General	\$ 0.5	\$ 0.6	\$ 0.1
BOR Replacements	\$ 3.0	\$ 2.7	\$ (0.3)
P&I	\$ 0.1	\$ 0.1	-
Total	\$15.3	\$15.4	\$ 0.1



Generation Rate Determinants

Average Annual Expenses (in millions)



Total: \$15.4 million



Generation Rate Determinants

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

	FY15-19	FY16-20	Change
Other Revenue	\$ 0.2	\$ 0.2	-
Carryover/Credits	\$ 1.7	\$ 1.2	\$ (0.5)
Total	\$ 1.9	\$ 1.4	\$ (0.5)
Reservations (GWh)	1,425	1,425	-



Transmission Rate Determinants

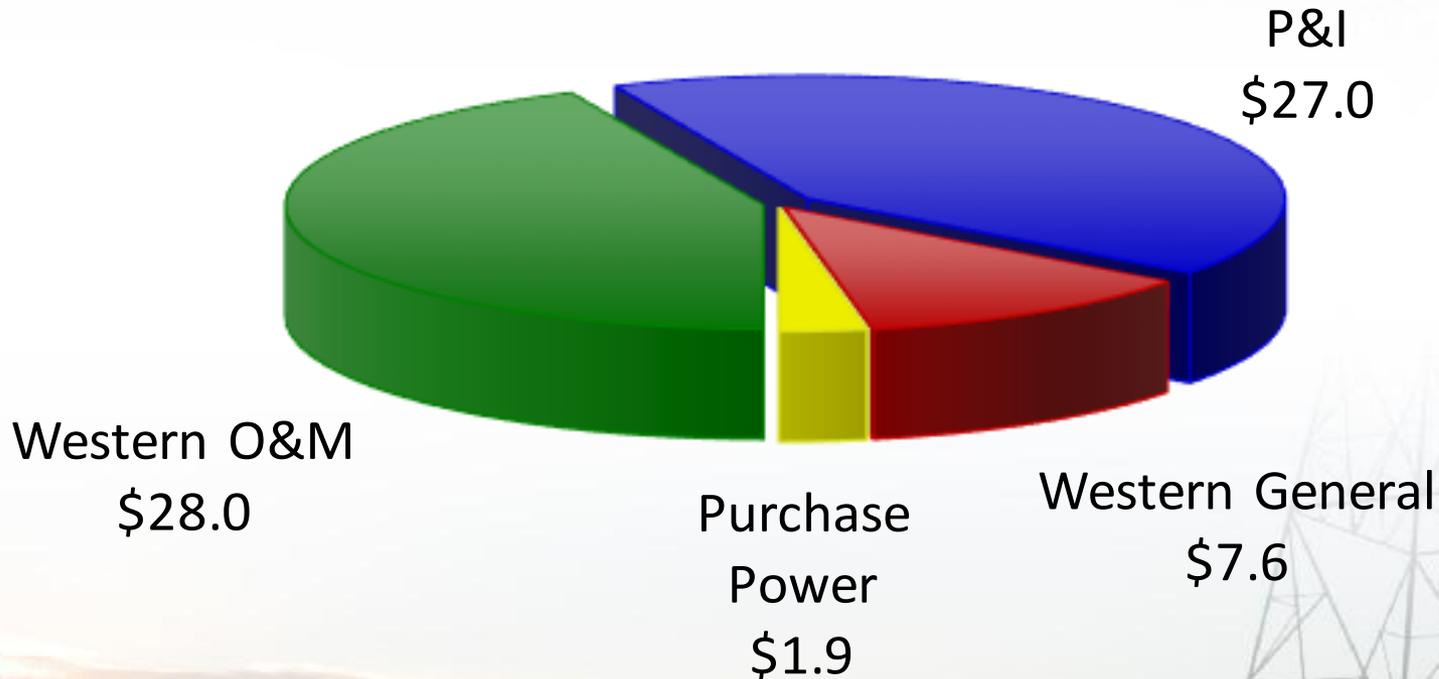
Average Annual Expenses (in millions)

	FY15-19	FY16-20	Change
Western O&M	\$29.0	\$28.0	\$ (1.0)
Western General	\$ 6.7	\$ 7.6	\$ 0.9
CME & Multi-Project	\$ (1.4)	\$ (1.5)	\$ (0.1)
Purchase Power/Wheeling	\$ 2.1	\$ 1.9	\$ (0.2)
P&I	\$27.3	\$27.0	\$ (0.3)
Total	\$63.7	\$63.0	\$ (0.7)



Transmission Rate Determinants

Average Annual Expenses (in millions)



Total: \$63 million (Including -\$1.5 million of CME & Multi)



Transmission Rate Determinants

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

	FY15-19	FY16-20	Change
Other Revenue	\$10.3	\$10.2	\$ (0.1)
Carryover/Credits	\$ 6.0	\$ 4.1	\$ (1.9)
Total	\$16.3	\$14.3	\$ (2.0)

Reservations (MW)	3,084	2,728	(356)
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Fiscal Year 2016 Rates

	Current (FY15)	Prelim (FY16)	Change	
Firm Transmission (kW-Month)	\$1.28	\$1.49	\$0.21	16.4%
Energy (mills/kWh)	4.72	4.91	0.19	4.0%
Capacity (kW-Month)	\$2.07	\$2.15	\$0.08	4.0%
Firm Power Composite w/o Transmission (mills/kWh)	9.44	9.82	0.38	4.0%



**Optional
Restructuring of
Principal
(Transmission)**



Flexibility of Repayment

- As discussed in our rate methodology meetings, we have a great deal of flexibility to structure our repayment
- Our principal payments are determined by using a straight-line or mortgage-style calculation
- Although we choose to pay principal annually, investments are actually balloon payments due at the end of their 40-year service life (50 years for additions)
- If repaid as balloons, our first significant payment would not occur until 2033



Recommended Restructuring

We recommend using our repayment flexibility to temporarily reduce our principal payments, effectively spreading the FY 2016 transmission rate increase across two years. Specifically:

- Unless financial conditions improve significantly in FY 2015, we will not make a principal payment in FY 2016
- Due to “averaging” in the rate methodology, we will calculate the rates without principal payments in each year of the current rate window (FY16-20)
- Next year, we will resume planned principal payments in the FY 2017 rate calculations or reassess at the time



Costs/Savings of Restructuring

- Not making a principal payment in FY 2016 will save approximately \$4 million
- Not making the payment will cause the existing investments to re-amortize. Initially the re-amortized principal payment will be \$50,000 higher, but will increase each year. Over the repayment period this equates to a 0.6% increase in annual principal payments.
- The increased interest from not making the payment will cost approximately \$353,000 initially and will decline each year as the re-amortized payment is made. It will cost \$5.5 million in total or 0.9% more across the 40-50 year repayment period.



Costs/Savings of Restructuring

Comparison of Principal Payments (in millions of \$)

Current Window	2016	2017	2018	2019	2020	2021
Normal	3.97	4.57	5.17	6.18	6.96	
Restructured	0.00	0.00	0.00	0.00	0.00	

Savings / (Costs)	3.97	4.57	5.17	6.18	7.00	
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Next Window	2016	2017	2018	2019	2020	2021
Normal		4.57	5.17	6.18	6.96	7.74
Restructured		4.61	5.22	6.24	7.02	7.80

Savings / (Costs)		(0.04)	(0.05)	(0.06)	(0.06)	(0.06)
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Rate Impact of Restructuring

	kW-Month	Change	
Current Rate (FY15)	\$1.28	-	-
Normal Principal (FY16)	\$1.49	\$0.21	16.4%
Restructured Principal (FY16)	\$1.35	\$0.07	5.5%



Restructuring Summary

- By restructuring principal payments in the FY 2016 rate calculation we can spread the transmission rate increase across two years (or more)
- Restructuring does not decrease the total principal payments, it simply changes the timing of those payments
- Restructuring will cause an increase in interest of \$5.5 million in total or 0.9% over the 40-50 year repayment period
- This will reduce the FY 2016 rate increase from \$0.21/kW-Month to \$0.07/kW-Month. The remaining increase will occur in the following year(s).



Restructuring Questions/Thoughts





**Next Steps and
Questions/Comments**



Next Steps

- Information regarding the P-DP rates to be posted on Western's website:
<http://www.wapa.gov/dsw/Rates/PDRateAdjust.htm>
- Generation costs finalized at Advancement of Funds Annual Funding Board - 7/16/2015
- Proposed rates will be finalized in July/August and become effective for the October 2015 service month



Questions/Comments

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