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CENTRAL ARIZONA PROJECT

PUBLIC INFORMATION FORUM

REPORTER'S TRANSCRIPT OF PROCEEDINGS

Phoenix, Arizona
August 27, 2015

REPORTED BY: CHRISTINE JOHNSON, RPR, RMR
Certified Reporter #50383

PREPARED FOR:
Western Area Power Administration

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1 Be it remembered that heretofore on August 27,
2 2015, commencing at 10:00 a.m., at the offices of the
3 Western Area Power Administration, Phoenix, Arizona, the
4 following proceedings were had, to wit:

5

6

7 OPENING REMARKS Page

8 BY MR. JACK MURRAY 3

9 PRESENTATION

10 BY MR. JACK MURRAY 6

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12 COMMENTS BY:

13 SMITH, Mark 14

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PROCEEDINGS

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MR. MURRAY: Well, let's go ahead and get started here. Well, good morning, everyone. I'd like to welcome you to today's Public Information Forum. My name's Jack Murray. I'm the Vice President of Power Marketing here at the Desert Southwest Region, Western Area Power Administration here in the Phoenix office.

I'm going to be the moderator, as well as the presenter for today's Forum.

This Public Information Forum has been scheduled to provide us the opportunity to give you a full explanation of the proposed rates to be established for the Central Arizona Project Firm Point-to-Point Transmission Service, Nonfirm Point-to-Point Transmission Service and Network Integration Transmission Service on the CAP 115 and 230 kilovolt transmission lines. The current rates under rate schedule CAP-FT2, CAP-NFT2 and CAP-NITS2 expire December 31st, 2015.

Western's not proposing any changes to the existing rate-setting formula through December 31st, 2020, but it is proposing to adjust the existing rates to provide sufficient revenue to cover all annual costs, including interest expenses and to repay required investment within the allowable time period.

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1 Western is also proposing under this rate order to
2 begin charging for short-term transmission service on the
3 Navajo, the 500kV portion of the CAP under rate schedule
4 CAP-NFT3.

5 Western currently markets excess transmission from
6 the Navajo 500kV portion of the CAP on a short term that's
7 less than 12-month basis at current CAP 115/2030kV
8 transmission rates under Western's administrators authority
9 to set rates for short-term sales. That authority comes
10 from Department of Energy delegation order number 00-037.00A
11 paragraph 1.5. These proposed rates would be effective from
12 January 1st, 2016 through December 31st, 2020.

13 This Forum also gives the opportunity to ask any
14 questions that you might have regarding the proposed rates.

15 Please keep in mind that all issues raised today
16 should be relevant to the rate process and please wait to
17 ask any questions until after our presentation has been
18 completed.

19 The Public Comment Forum for the proposed rates is
20 scheduled to be held on September 24th, 2015 at 10:00 a.m.
21 at this same location.

22 Written comments on the proposed rates may be
23 submitted at any time during the comment period. Comments
24 should be sent to Mr. Ronald E. Moulton, Senior Vice
25 President and Regional Manager of Western's Desert Southwest

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1 Customer Service Region. Any written comments should be
2 mailed so that they are received by October 22nd, 2015,
3 which is the end of the comment period.

4 A verbatim transcript of today's Forum is being
5 prepared by our court reporter. Everything said while we're
6 in session today, together with all exhibits, will be a part
7 of the official record. Copies of today's transcript will
8 be available to anyone who wants a copy upon payment of the
9 required fee to the court reporter. The court reporter's
10 name, address and telephone number may be obtained at any
11 time during or after today's Forum and copies of the
12 transcript and the complete record of the public process
13 will also be available for review here at the Desert
14 Southwest Customer Service Regional Office.

15 Any questions that we're not able to answer this
16 morning will be answered for you either at the Comment Forum
17 or in writing. Unless anyone has questions about our
18 presentation or about our procedures, I will go ahead and
19 start today's presentation.

20 Okay. All right. Well, let's go ahead and move
21 to the presentation. Let's hit the right button.

22 MR. SMITH: Jack, it's Mark Smith. I'm with
23 Alpine. So if we provide you written questions after this
24 presentation, will you respond to them on September 14th or
25 in writing back to us?

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1 MR. MURRAY: Typically, I believe that our --
2 we're required to respond to questions with -- any questions
3 that we don't respond to in writing within 15 days of the
4 end of the comment period, will be responded to in the final
5 rate order. I think those are the time lines in our
6 participation procedures.

7 MR. SMITH: Okay. And will all of the questions
8 and answers be posted to your website?

9 MR. MURRAY: Yes.

10 MR. SMITH: Okay. Thank you.

11 MR. MURRAY: You bet. Okay. So let's go ahead
12 and go to the presentation, just a quick agenda. We -- I've
13 introduced myself. I've welcomed everyone. I don't think
14 I'll take -- go around the room here today in a formal
15 setting.

16 We'll talk a little bit about the rate activity
17 schedule, what the next steps are. First, we'll talk about
18 the rate design for Firm Transmission Service, Nonfirm and
19 Network Integration Service. And then we'll talk about what
20 preliminary rates are looking like for 2016 and we'll give
21 you some basic contact information for questions.

22 Okay. So why are we here? The background on this
23 rate order. Well, as mentioned in the -- in the
24 introduction, the existing formula rates for the CAP
25 transmission service are set to expire on December 31st,

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1 2015. We're, therefore, conducting a public process to
2 place formula rates in effect for another 5-year period,
3 which would take them through December 31st, 2020.

4 It should be pointed out that the current formula
5 rates, as they're calculated each year, provides sufficient
6 revenue to cover all the annual costs, including appropriate
7 portions of principal and interest for the 115/230kV
8 transmission facilities. So as such, we're not proposing
9 changes to the existing rate-setting formula. We just are
10 going through the process to reestablish the new formula or
11 the existing formula.

12 Okay. So the basic schedule was set as required
13 under 10 CFR 903. We published a notice in the Federal
14 Register announcing the public process. That notice was
15 published on July 24th, which established the date -- dates
16 for today's meeting of the Public Information Forum and the
17 Public Comment Forum, which will be held September 24th.

18 Based on that publication date, the close of the
19 comment period is October 22nd with a final Federal Register
20 Notice being published in November. I noticed this says
21 November 1st. That's a pretty -- pretty ambitious schedule,
22 but it will be published sometime in November. And then the
23 rates as they are each year would come effective
24 January 1st, 2016.

25 Okay. So let's talk a little bit about Firm

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1 Transmission Service. That's the bulk of the service
2 offered under this rate order. The formula, as you can see,
3 is pretty straightforward. It's a 5-year average of the
4 annual revenue requirements divided by average transmission
5 sales reservations.

6 The calculation of the revenue requirement, of
7 course, we include O&M and the operation and maintenance
8 costs for the first two years -- we looked at a 5-year
9 window -- the first two years are based on work plans that
10 we have. The remaining three of that 5-year window are
11 indexed typically at about a 3 percent factor.

12 We also include in that -- in that revenue
13 requirement projected costs for known capital replacements.
14 And we also include, as I mentioned earlier, the principal
15 and interest portion of the transmission facilities
16 associated with the 115/230kV transmission system.

17 The interest rate in this case is set by the
18 authorizing statute. It's approximately 3.3 percent. The
19 principal portion is also set in that legislation and it's
20 the specific percentage of the -- of the principal balance
21 to be collected each year. And I don't remember the exact
22 percentage this year, but that -- that's how that's done.
23 It's a little different than some of the other projects.

24 The -- again, the number is calculated annually
25 and it includes a true-up mechanism for any over or under

1 collection from the previous year. So that's also part of
2 the revenue requirement or the enumerator.

3 So the bottom line here is that this is the rate
4 formula that's already in effect. This is what we're
5 already using. So we're proposing no changes to the
6 existing formula; just wanted to reiterate that.

7 Okay. Let's talk about the rate determinants,
8 what did it look like for the rate that's currently being
9 paid now and going into the next year. So you can see here
10 for the 2015 to 2019 evaluation period or rate window, we
11 show Western O&M, 4.6, other costs of 1.5 million, the
12 replacements we talked about, the known capital improvements
13 of 6.5 million there and then the P&I cost of 5.5.

14 So like all our other rates, you know, we have
15 these cost categories. The other costs in this case
16 includes costs for -- includes Reclamation's costs, includes
17 costs of uses of facilities at McCullough, for instance,
18 that's an example of what's in that category and then, of
19 course, we mentioned the capital replacements and P&I.

20 What you can see here between those two rate
21 windows, you see a total cost reduction of about \$1 million
22 from one year's rate window to the other. So that's --
23 that's kind of step one of determining the rate.

24 MR. SMITH: Jack, I'm sorry. I should know what
25 P&I is, but --

1 MR. MURRAY: Oh, principal and interest.

2 MR. SMITH: Okay. Thank you.

3 MR. MURRAY: Okay. So then like all rates, we
4 take the total expenses and determine is there any -- is
5 there any other revenue that we can apply against that to
6 reduce that net revenue requirement?

7 So in this case, we have other revenues, that is
8 things like other than firm transmission sales, oasis sales
9 over the 115/230 system, application of transmission line,
10 loss revenue to the CAP project, things of that nature.

11 So what you can see here is in the 2015 to '19
12 window, we had approximately -- we estimated approximately
13 \$6 million in those other revenues. In 2016 to '20 revenue,
14 what we're seeing now we're estimating about \$4 million so
15 about a \$2 million reduction in that level.

16 Now, I want to note here that this is all
17 preliminary because we don't have final '15 data yet so the
18 over or under collection in the '15 window is likely going
19 to be different than that as will the over/under collection
20 that we experience next year at this time, but based on --
21 based on historical trends and data analysis, this is what
22 we estimate is going to happen.

23 So what you see here is we have a \$2 million
24 reduction in other revenue and you combine that with a --
25 with the \$1 million reduction in cost. What we have is

1 about \$1 million net increase that we have to -- that we
2 propose having to collect.

3 And if you look at the reservations, we also see a
4 slight reduction, estimated reduction in those for the next
5 rate window, as well.

6 So with -- you combine -- we have total costs that
7 decrease, which is a good thing, but we also have a
8 reduction in estimated reservations, as well as reduction in
9 other revenues.

10 So if we go to the next slide, we'll talk a little
11 bit about what we think the Firm Transmission Rate looks
12 like for 2016. So with that -- with the total costs and
13 subtracting the other revenues and the estimated over
14 collections, we have look at a revenue requirement of about
15 \$13.1 million with the sales reservations of about 880MW
16 that results in preliminary 2016 rates of 14.88kW-year and
17 then that falls out \$1.24/month, .29kW-week and .4kW-day.

18 We also offer on the CAP system Nonfirm
19 Transmission Service. Of course, the nonfirm rate is
20 derived from the yearly point-to-point transmission rate.
21 It's billed to focus to take it on an hourly basis and it's
22 calculated simply by taking the yearly firm rate divided by
23 8,760 hours -- that's the number of hours in a year --
24 multiplied by 1,000 and then rounded to two decimal points.

25 All of that gyration gives you a rate of 1.7

1 mills/kWh for 2016. And obviously changes in the firm
2 point-to-point rate will also result in changes to the
3 nonfirm rate, as well.

4 As mentioned in the introduction, Western is -- is
5 proposing in this rate order to market or charge for excess
6 Navajo transmission under this rate schedule. As we
7 mentioned, we currently market the excess transmission on a
8 short-term that's defined as the less-than-12-month basis
9 and it's -- it's sold at the CAP 115/230kV rate that we
10 establish under this rate order.

11 We're proposing to -- this has no impact on the
12 CAP rate charged or no impact to the rate formula. We are
13 just simply include the charge for the excess Navajo
14 transmission as part of this nonfirm transmission rate
15 schedule rather than having Western's administrator
16 continually have to execute a memo to be able to accomplish
17 that.

18 Okay. And also on the CAP, we offer a Network
19 Integration Transmission Service. That's simply -- it's
20 different than point-to-point, obviously. The customer pays
21 for use that's measured at the time of the system peak
22 rather than paying for a specific transmission path
23 reservation.

24 So the monthly charge is essentially the
25 customer's load ratio shared times the CAP annual revenue

1 requirement divided by 12 so it's their load ratio share
2 divided by or times 1/12th of the annual revenue
3 requirement.

4 The load ratio share is basically calculated by
5 identifying the system's peak hour figuring out the
6 customer's use during that peak hour and then during -- then
7 the 12 CP is the customer's use during that system peak
8 average over a 12-month period. And then as I said, the
9 load ratio share then is the 12 CP divided by the average
10 system used during that peak hour.

11 So that's -- we currently offer network
12 transmission service on CAP and that will continue -- we're
13 proposing that to continue in the new rate order.

14 So finally, as we mentioned the estimated
15 transmission rate for 2016, this is -- again, this is
16 preliminary based on the best data we have available at this
17 time -- reflects an approximate 10 percent increase over the
18 previous year and as I mentioned, that's driven by decreases
19 in other revenues, as well as a decrease in estimated
20 reservations from what we had in the calculation in the
21 previous year.

22 Okay. The next steps in this process we've
23 mentioned Public Comment Forum is September 24th, 2015,
24 10:00, same location. The consultation and comment period
25 closes on October 22nd. So make sure that if you have

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1 written comments that you want submitted for the record and
2 considered by Western that they're received by that date.

3 Again, we will publish the Federal Register Notice
4 in November with formula rates then effective January 1,
5 2016.

6 And then just contact information and I need to
7 figure out how to get my name off of there. But feel free
8 to give either one -- either Christina or myself a call if
9 you have questions. And all of the information that
10 pertains to the -- to the rate adjustment will be on our
11 website and I won't read it, but it is in the -- it is in
12 your presentation.

13 Okay. So now I'll open the Forum for questions
14 and comments. After you've been recognized, please give
15 your name and the name of the organization that you
16 represent. And for the convenience of the court reporter,
17 please spell your last name.

18 So do we have questions or comments that we can
19 address here today?

20 MR. SMITH: Well, I do.

21 MR. MURRAY: Okay.

22 MR. SMITH: Mark Smith, S-M-I-T-H, with Alpine.
23 Actually, I probably have several questions, if that's okay.
24 On slide six, it looks like -- which is the rate
25 determinants.

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1 MR. MURRAY: Uh-huh.

2 MR. SMITH: You know, in the rates brochure, I saw
3 some background in terms of your historic costs.

4 MR. MURRAY: Uh-huh.

5 MR. SMITH: I guess this is more of a comment than
6 a question. We'll probably be asking for a little bit more
7 detail on the historic costs -- I suspect that you have
8 those -- as well as each year's forward projection that
9 you've identified.

10 MR. MURRAY: Okay.

11 MR. SMITH: The replacements, can you -- can you
12 describe to me the replacements that you've included in this
13 forecast? It looks like each year and every year you're
14 forecasting them about \$5.5 million.

15 MR. MURRAY: Yeah, as I mentioned, we have known
16 -- known capital replacements going to this calculation.
17 So, for instance, in the 2015 to '19 window and the 2016 to
18 '20 window, we have some major capital work being done and
19 one example is the EDT-2 Saguaro transmission line that's
20 being replaced.

21 So that's -- and I don't -- I won't try to
22 remember the total cost off the top of my head, but since
23 there are no appropriations involved with the CAP project,
24 the funding for that needs to come from what's collected by
25 the folks using the system.

1 So that's divided over approximately say 5 years
2 or it's divided by a number of -- set number of years, so
3 that's -- that's primarily what is driving those factors
4 right now or those known large capital expenditures that are
5 needed.

6 MR. SMITH: So these aren't expense items. These
7 are capitalized and depreciated or amortized or whatever you
8 want to call it?

9 MR. MURRAY: Yeah, that's -- the important thing
10 to remember is there is no appropriation. So in order to be
11 able to capitalize and amortize a capital cost here, we
12 would have to have appropriations or some other method to
13 borrow money.

14 In this case, there isn't, so it's collected --
15 needs to be collected on an annual basis similar to some of
16 our other projects that don't have appropriations.

17 MR. SMITH: So even though you call it a capital
18 project, you're paying as if it was an expense, a current
19 year expense?

20 MR. MURRAY: That year's portion is essentially
21 treated as an expense for that year. That's correct.

22 MR. SMITH: Okay. Thanks. On the next -- I think
23 it's the next slide, slide seven, I find it curious, I
24 guess, that you can forecast an over collection in forward
25 years. So are you designing rates to over collect?

1 MR. MURRAY: Not designing them to over collect
2 necessarily. What we did there was we based that on the
3 path -- on a previous year's performance. So if we've -- if
4 we've over collected, you know, X number of times over the
5 past year, that's how we base that estimate.

6 Obviously, if we did everything perfectly, there
7 would be no over or under collection.

8 MR. SMITH: Which would mean that rates would
9 actually be higher in future years by \$1 million if you
10 didn't over collect in the next year?

11 MR. MURRAY: Well, yeah, in this case, that's
12 exactly right. If there was -- if there was no over
13 collection in that true-up, then that next year's rates
14 would be higher than that by \$1 million.

15 MR. SMITH: Okay. Can you talk to me about the
16 reduction in reservations, the 11- --

17 MR. MURRAY: Yeah, when we did the rate
18 calculation for the 2015 to '19 window, a transmission
19 service arrangement had been executed that looked reasonably
20 certain of coming to fruition. So we included it in the --
21 in the total reservation. About midway through this year,
22 we found out that that wasn't going to happen, so we took it
23 out of the future calculations.

24 MR. SMITH: Okay. Thanks. I think that's all the
25 questions I have for now, Jack.

1 MR. MURRAY: Okay. Thank you. Any other comments
2 or questions?

3 MR. SMITH: I guess I'll just make one more
4 comment -- Mark Smith from Alpine -- and that is that we're
5 probably 30 percent CAP, so we're looking at picking up an
6 extra \$300,000 a year based on this increase, and it's a
7 significant concern to us.

8 So we'll follow up with more questions.

9 MR. MURRAY: All right. Thank you. Okay. If
10 there's no other questions, I will thank everyone for coming
11 today to attend this Forum. I'd also ask that if you
12 haven't already done so, that you register on our sign-up
13 sheets at the tables outside this room so that we have an
14 accurate record of who was here and we'll stay around for a
15 few minutes afterwards if you'd like to ask some questions
16 on a more informal basis.

17 The Forum is now closed and we'll go off the
18 record. Thank you.

19 (Whereupon, proceedings concluded at 10:30 a.m.)

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I, CHRISTINE JOHNSON, having been first duly sworn and appointed as Official Court Reporter herein, do hereby certify that the foregoing pages, inclusive, constitute a full, true and accurate transcript of all the proceedings had in the above matter, all done to the best of my skill and ability.

DATED this _____ day of _____, 2015.

Christine Johnson, RPR, RMR
Certified Court Reporter No. 50383

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