Draft Proposal for Discussion Purposes
First Preference (FP) Alternative for 2011 Rate Design
"FP Revenue True Up"

Background: The current FP rate design[1] and subsequent revenue requirement is based on a calculation methodology that uses forecasted generation and load amounts and estimated power purchases. This information is used to monthly bill the FP customers in the FY.

Issue: After the end of the FY, actual load and generation information for the FY is available and it is possible to recalculate the FP customers' revenue requirement. This "actual" revenue requirement could then be compared to the "billed" or estimated amount to determine if an over or under payment occurred on the part of the FP customers.

Implementation Details: Any "true up" or annual FP reconciliation will have a time lag associated with it. The overpayment or underpayment cannot be identified until after the FY is over, so the adjustment will occur in FY+1. If an overpayment occurred in the respective FY, then a "credit" is due to the FP customers. Conversely, an underpayment would result in a "charge" to the FP customers. Alternatively, any "credit" given to the FP customers, becomes an expense to the Base Resource (BR) customers, while a "charge" results in offsetting revenue to the BR customers and the BR revenue requirement.

This alternative suggests that the FP adjustment (over or underpayment) take the form of a dollar amount. Additionally, because of the linkage of the FP and BR rate designs, the adjustment would not be factored into the PRR until AFTER the PRR is finalized and the FP revenue requirement is subtracted from the PRR to arrive at the BR revenue requirement. In this way, the adjustment (either expense or revenue) only effects a change in the BRR.

The FP annual reconciliation adjustment would be mutually independent of the FY+1 PRR. In other words, the FP calculation methodology would be unaffected in FY+1 by the FP annual reconciliation adjustment being done for FY.

Sensitivities: Known sensitivities include (but are not limited to):

- *Future Year cash flow concerns. Advance funding programs limit the amount of cash available to credit against customer accounts. This alternative could limit Western's ability to credit the FP annual reconciliation adjustments.*
- *Complexity. Does this create additional complexity in the PRR design that detracts from the overall intent of the rate design?*
- *FP and BR customer input.*

[1] Currently, the rate design for First Preference and Base Resource power are in one rate schedule (CV-F12) that links them together. For purposes of this alternative, the rate designs are discussed separately as FP and BR.