# PRR March Review (Mid Year Review)

Informal Rates Meeting

October 30, 2008

# Background

- CV-F12 indicates,
  - "The PRR for the April through September period will be reviewed in March of each year. The review will analyze financial data from October through February Period, to the extent information is available, as well as forecasted date for the March through September period. <u>If there is a change of $5 million or more, the PRR for April through September period will be recalculated."</u>

# Why $5 million?

- Original thought process was that post-2004, the biggest financial swing was going to be O&M
- In addition:
  - PP&W costs anticipated to be generally 100% pass-thru
  - SNR believed that we would have limited market participation (SBA decision wasn't finalized yet)
- Investment repayment was the goal, so 50% was thought to be sufficient to meet repayment targets

# Mid-Year Review History

| Fiscal Year | Estimated Amount of Adjustment (note 1) | $ 5 M Threshold Met? | Capital Repayment Amount (PRS Disposition) |
|---|---|---|---|
| 2006 | $ 4,537,527 | No | ($4.9 million) |
| 2007 | $ 4,631,182 | No | $ 8.1 million (note 2) |
| 2008 | ($7,340,858) | Yes | *not available yet* |

Note 1: Dollar amount of estimated adjustment

Note 2: The 2006 deficit was paid off first; the remaining cap repayment was $ 3.3 M

# Possible Alternatives for Mid Year

A. Keep status quo
B. Change the mid year threshold amount
   1. A smaller dollar amount ($2-4 million)
   2. Make it a percentage change of the PRR
   3. Make it a percentage change of the annual capital repayment
C. Institute a Revenue Adjustment Clause (RAC) – an after-the-fact adjustment
D. Eliminate the threshold entirely

# Option A: Status Quo

**PRO**

- Have some historical reference for threshold
- Affords some rate certainty for the customers

**CON**

- Project repayment not being met every year
- Even in years where threshold is almost met (e.g. $4.5 M), project repayment will be reduced

# Option B: Change the mid year threshold amount

**PRO**

- Allows greater flexibility to ensure project repayment
- Affords greater transparency of the PRR and repayment

**CON**

- Lower threshold creates more likelihood of a Mid year adjustment

# Option C: Institute a Revenue Adjustment Clause (RAC)

**PRO**

- Ensures project repayment

**CON**

- Cash flow issues
- Delays can be problematic
- Very time consuming
- Less rate certainty
- Adjustment would effect the following year's power rates

# Option D: Eliminate the Threshold

**PRO**

- Saves resources (Western staff)
- Necessary capital repayment adjustments can be made in the following year (unless a pinch point year is approaching)

**CON**

- Less project repayment certainty
- Delayed "report card" – 6 months ATF

# Brainstorming Discussion

- Other options that the customers would like to consider
- Customer consensus on which option to use in Post-2009 rate case
- If Option B, then review granularity approach (amount vs percentage)

Questions?