Parker-Davis Project
Post-2008 Remarketing
Contract Extension Amendment No. 1

Western Area Power Administration
Desert Southwest Region

August 5, 2005

Purpose of Today's Meeting

Review and finalize the Parker-Davis Project (PDP) contract extension amendments to implement decisions contained in the Federal Register Notice (68 FR 23709) published May 5, 2003.

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Agenda

- Background
- Contract Extension Amendment
- Changes to March 31, 2004 Draft
- Opt-In Proposal
- Comments and Discussion
- Next Steps

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Background

- May 5, 2003 - Decision to apply the EPAMP Power Marketing Initiative to Parker-Davis (68 FR 23709)
  - Extension of the existing PDP Marketing Plan
  - Post-2008 final allocations for existing P-DP contractors
  - Purchase power is a component of the existing marketing plan
  - Payment in Advance for Western and Bureau of Reclamation costs
- Customer Meetings to discuss Amendment
  - October 1, 2003
  - November 11, 2003
  - January 16, 2004
  - May 4, 2004

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Background

- In May of 2004, all items complete except Section 12: "Review and Adjustment of Federal Power Allocation"
- Work on PDP Amendment deferred to General Power Contract Provision (GPCP) revision process
- New GPCPs published on June 15, 2005

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What's in the Amendment?

- Contract term extended (September 30, 2028)
- Seasonal Contract Rate Of Delivery (CROD) and Seasonal Energy moved from body of contract to Exhibit A
- Charge for Use of Non Parker-Davis Project Facilities inserted if applicable
- Billings and Payment in Advance
  - Single Statement Billing (handout)

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What's in the Amendment?

- Conservation and Renewable Energy deleted
- Integrated Resource Plans and Small Customer Plans inserted
- Fuel Replacement Energy Service deleted
- Replacement Advances Reconciliation Surcharge inserted

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What's in the Amendment?

- Term of Contract Amendment
  - Effective when executed
  - Exhibit A-1, revised CROD, becomes effective October 1, 2008
- Original Contract to Remain in Effect
  - Amendment 1 subject to all provision of the Original Contract

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Changes to 3/31/04 Draft

- Section 12 – Review & Adjustment of Federal Power Allocation deleted
- New GPCPs dated June 15, 2005 added
- References to Articles of the GPCP have been changed to Provisions
- Initial billing dates for Payment in Advance changed from 2004 to 2006

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Changes to 3/31/04 Draft

- The following has been deleted:
  - "...for purposes of complying with the notice requirements of this Contract, either the Contractor or Western may accomplish such notice by telecopy or facsimile transmission." and
  - "Where telecopy, facsimile, or electronic mail is utilized"...
- Now included in the June 15, 2005, GPCP

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Changes to 3/31/04 Draft

- Opt-In Language Added
  - Seasonal Energy defined as the *Maximum* quantity
  - *Monthly Energy quantities may be adjusted annually based on projected hydrology conditions.*
  - *The Contractor may request Western to purchase energy on a pass through cost basis to supplement the firm electric service resource.*
  - *Such pass through cost purchases shall be set forth in a separate agreement between the Parties*

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Background – Opt In Proposal

- FY 2005 purchase power requirements presentation during P-DP annual planning meeting (2/10/05)
- Customers requested that Western include language in the PDP Amendment to allow for reduction in energy delivery obligations based on projected hydrology conditions in lieu of making rate-based power purchases

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Opt In Annual Process

- April 13, 2005: Opt In Program annual process outline sent to customers
- Feb – Preliminary Annual Op Plan (AOP)
  - Review hydrology & forecasted generation with customers
  - Dialogue with customers to select adjusted energy delivery level
  - Dialogue with customers to select adjustment option based on April updated hydrology

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Opt-In Annual Process

- March – Adjusted Annual Op Plan
- Customers indicate which option they intend to exercise
  - Opt In for Western to make pass through cost power purchases under separate agreement - - OR -
  - Opt Out to make their own power purchases

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Opt-In Annual Process

- April
  - Final review of hydrology based on most current runoff information
  - Adjust energy delivery obligations IAW criteria established during Feb preliminary AOP meeting
  - Annual Operating Plan finalized
  - Seasonal and Monthly Energy quantities finalized

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Opt-In Annual Process

- April thru June
- Integrated Resource Exchange Program
  - Customers have opportunity to request adjustments to Monthly Energy quantities
  - Western analyzes requests to identify off setting requests among customers
- Western notifies customers of accepted adjustments to Monthly Energy quantities

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Opt-In Annual Process

- July – August
  - Revisions to Contract Exhibit A to establish monthly energy deliveries
- September – October
  - Operating Year Begins

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PDP ANNUAL OPERATING PLAN & OPT IN PROCESS CALENDAR

ANNUAL OPERATING PLAN PROCESS	J	F	M	A	M	J	J	A	S	O	N	D
Preliminary		■										
Customer Input		■										
AOP with annual reductions			■									
Customer Opts In			■									
Adjustments to AOP				■								
Final Plan				■								
Resource Integration Exchange				■	■	■						
Revised Exhibit A's							■	■				
Operating Year Begins									■	■	■	■

Note: Resource Integration Exchange Program timeline condensed customers will need to help expedite process

Opt In Program
Comments & Questions

- In the past few years, how often have generation forecasts been below the PDP firm electric service contractual obligations?
- The next chart compares both forecasted and actual generation to contractual obligations.

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Forecast & Actual Generation Data Compared to Contractual Obligations

FY	Parker & Davis Actual Generation [1] MWH	Parker & Davis Generation Forecast [1] MWH	Current Allocation MWH	Actual Surplus or (Deficit) MWH	Forecast Surplus or (Deficit) MWH
2000	1,548,097	1,354,700	1,345,801	202,296	8,899
2001	1,507,275	1,272,550	1,345,801	161,474	(73,251)
2002	1,522,592	1,288,800	1,345,801	176,791	(57,001)
2003	1,373,563	1,464,850	1,345,801	27,762	119,049
2004	1,397,314	1,347,800	1,345,801	51,513	1,999
2005	1,183,777	1,336,600	1,345,801	(162,024)	(9,201)
2006	N/A	1,367,400	1,345,801	N/A	21,599

Note 1: Figures shown are net plant generation. The U.S share of Parker generation is 50%.

Opt In Program Comments & Questions

- Is it possible to consider another forecasting method to use as the basis for projecting generation levels?
- Western is open to considering alternative indicators. For example,
  - Actual generation periods
    - (e.g. most recent 5 years)
  - The worst (or best) six years of actual generation on record, etc.
  - See next slides for 1980 – 2004 history

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PO&M Generation Data Compared to Contractual Allocations 1980 - 1992

FY	Parker & Davis Generation [1] MWH	Current Allocation MWH	Surplus or (Deficit) MWH
1980	1,460,847	1,345,801	115,046
1981	1,435,210	1,345,801	89,409
1982	1,081,493	1,345,801	(264,308)
1983	1,664,099	1,345,801	318,298
1984	2,556,812	1,345,801	1,211,011
1985	2,338,669	1,345,801	992,868
1986	2,347,396	1,345,801	1,001,595
1987	1,897,968	1,345,801	552,167
1988	1,422,708	1,345,801	76,907
1989	1,342,516	1,345,801	(3,286)
1990	1,333,429	1,345,801	(12,372)
1991	1,263,335	1,345,801	(82,467)
1992	1,149,458	1,345,801	(196,343)

Note 1: Figures shown are total net plant generation. The U.S share of Parker generation is 50%.

PO&M Generation Data Compared to Contractual Allocations 1993 - 2005

FY	Parker & Davis Generation [1] MWH	Current Allocation MWH	Surplus or (Deficit) MWH
1993	1,045,269	1,345,801	(300,532)
1994	1,341,625	1,345,801	(4,176)
1995	1,247,836	1,345,801	(97,966)
1996	1,456,154	1,345,801	110,353
1997	1,614,576	1,345,801	268,775
1998	1,729,123	1,345,801	383,322
1999	1,686,205	1,345,801	340,404
2000	1,548,097	1,345,801	202,296
2001	1,507,275	1,345,801	161,474
2002	1,522,592	1,345,801	176,791
2003	1,373,563	1,345,801	27,762
2004	1,397,314	1,345,801	51,513
2005 Projection	1,183,777	1,345,801	(162,024)

Note 1: Figures shown are total net plant generation. The U.S share of Parker generation is 50%.

Opt In Program Comments & Questions

- Q: Does Western always make purchases up to the firm electric service level whenever forecasted and/or actual generation is less than contractual obligations?
- A: Western only makes purchases that are included in the rate after all other banks, deviation accounts, interchange options, etc., have been utilized.
- See next slide for actual purchase history

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PDP Energy Purchase History 1984 - 2005

FY	MWH	FY	MWH
1984	0	1995	65,740
1985	0	1996	14,040
1986	0	1997	975
1987	0	1998	12,364
1988	0	1999	3,960
1989	0	2000	2,248
1990	0	2001	0
1991	31,055	2002	827
1992	118,313	2003	0
1993	225,566	2004	0
1994	54,349	2005 Projection	102,800

Opt In Program Comments & Questions

- What level of Hydro generation reduction forecast could trigger the implementation of this Opt In Program?
- Western is open to discussion with the customers to review data and determine whether or not a reduction to energy deliveries should be implemented.
- The next slide shows both years when there were generation shortages and years with purchases. They are not always the same years.

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Purchases vs. Generation Shortages
1984 - 1994

FY	Parker & Davis Generation[1] MWH	Current Allocation MWH	Surplus or (Deficit) MWH	Energy Purchases MWH
1984	2,556,812	1,345,801	1,211,011	0
1985	2,338,669	1,345,801	992,868	0
1986	2,347,396	1,345,801	1,001,595	0
1987	1,897,968	1,345,801	552,167	0
1988	1,422,708	1,345,801	76,907	0
1989	1,342,516	1,345,801	(3,286)	0
1990	1,333,429	1,345,801	(12,372)	0
1991	1,263,335	1,345,801	(82,467)	31,055
1992	1,149,458	1,345,801	(196,343)	118,313
1993	1,045,269	1,345,801	(300,532)	225,566
1994	1,341,625	1,345,801	(4,176)	54,349

Note 1: Figures shown are total net plant generation. The U.S share of Parker generation is 50%.

Purchases vs. Generation Shortages
1995 - 2005

FY	Parker & Davis Generation[1] MWH	Current Allocation MWH	Surplus or (Deficit) MWH	Energy Purchases MWH
1995	1,247,836	1,345,801	(97,966)	65,740
1996	1,456,154	1,345,801	110,353	14,040
1997	1,614,576	1,345,801	268,775	975
1998	1,729,123	1,345,801	383,322	12,364
1999	1,686,205	1,345,801	340,404	3,960
2000	1,548,097	1,345,801	202,296	2,248
2001	1,507,275	1,345,801	161,474	0
2002	1,522,592	1,345,801	176,791	827
2003	1,373,563	1,345,801	27,762	0
2004	1,397,314	1,345,801	51,513	0
2005 Projection	1,183,777	1,345,801	(162,024)	102,800

Note 1: Figures shown are total net plant generation. The U.S share of Parker generation is 50%.

Opt In Program
Comments & Questions

- Are there any rate impacts associated with the Opt In Program?
- The next slide shows several rate impact scenarios.
  - There are rate impacts under all scenarios
    - No Purchases
    - Some Purchases
    - All Purchases

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Opt In Program Rate Impacts

FY 2005 Revenue Requirement
Assumes shortage of 132,862 MWhs

	Status Quo All Generation Received to cover PDP Firm Commitment No Purchases	Reduced deliveries no purchases	No Reduction all purchases	Reduced deliveries 50% of purchases	Reduced deliveries 75% of purchases
Capacity Rate	$16.612 KW/Yr	$16.612 KW/Yr	$29.852 KW/Yr	$23.232 KW/Yr	$26.542 KW/Yr
Energy Rate	$3.16	$3.51	$5.68	$4.65	$5.18
Composite Rate	$6.32	$7.01	$11.36	$9.30	$10.36

Opt In Program
Comments & Questions

- Is it possible to make mid-year adjustments if we have another year like 2005?
- The rate is set at the beginning of the year. Mid year adjustments would result in under collections of revenue and rate deficits for the project.

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Opt In Program
Comments & Questions

- What happens if we have a large amount of generation compared to the forecast?
- If actual generation is greater than forecasted, Western will dispose of the energy as we do today, i.e.,
  - Issue Excess Energy
  - Make energy bank deposits
  - Make surplus energy sales

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Opt In Program Comments & Questions

- How would the separate pass through cost purchase power agreement work?
  - Customers advance funds to Western based on estimated purchases
  - Western pays for purchases out of customers' advance fund accounts
  - Any difference between actual cost and advanced funds true up at year end

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Opt In Program Comments & Questions

- Q: Will the Basin Development Fund Surcharge be applied to power that is purchased for the Opt-In Customers?
- A: No, the surcharge only applies to energy for which Western sets rates. Western does not set rates for pass through cost purchased power.

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Opt In Program Comments & Questions

- Can Western assist Customers with making supplemental purchases using the full CROD?
  - Western can assist customers with making supplemental purchases under a pass through cost agreement.
  - Western is willing to evaluate using transmission up to full CROD, but this flexibility may be limited.

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Opt In Program Comments & Questions

- Q: Make PDP a run of the river project just like Boulder Canyon. Customers should not have to accept any firming energy purchases.
- A: When the decision was made in May 2003 to apply the EPAMP PMI to PDP, that was an extension of the existing marketing plan, i.e.
  - Purchase Power is a component of the existing marketing plan
  - Firm electric service bundled power product
  - Guaranteed delivery of a set quantity of energy

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Opt In Program Comments & Questions

- Q: What are the potential costs and risks associated with the Opt In Program?
  - Higher rate
    - Denominator is reduced
    - Revenue requirement stays the same.
  - Less flexibility with deviation accounts
  - Higher cost to customers for purchased power, administrative fees & transaction fees.

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Comments & Discussion

- More Meetings & Discussion???
- Written Comments???
- Mail out individual customer draft Contract Amendments???

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Next Steps

- When Customers are ready.....,
  - Western will send out executable amendments for signature and return within 60 days of mailing
- Western is available for individual and group meetings upon request

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Web site Information

- General Power Contract Provisions dtd June 15, 2005:
  - http://www.wapa.gov/powerm/pdf/Final61505v
- Parker-Davis Project Re-Marketing Info:
  - http://www.wapa.gov/dsw/pwrmkt/PDProj/Main.htm

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