Questions and Responses

Intertie Project and Parker-Davis Project
Fiscal Year 2021 Work Plan Meeting
April 3, 2019

The following questions, paraphrased where appropriate, were submitted to Western Area Power Administration (WAPA) after the Work Plan Meeting.

Intertie Project

Q. What is driving the approximately $500k increase in the maintenance budget for "Subs, direct hours, no specific job" and "O&M of Subs and Related Facilities". I understand from the answer to the question asked at the meeting that substation guard services was re-bucketed from these categories and into "Safety & Security". Without that re-bucketing, the increase vs. fiscal year (FY) 2020 would presumably have been approximately $900k, or about 22%. Is that correct?

> *The combined Work Plan for Admin Maintenance Support, Environmental, Subs, Direct Hrs, No Specific Job, O&M of Subs & Related Facilities, and Safety & Security increased approximately $481k or 10% from FY 2020 to FY 2021 (see supplemental information).*
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> *This increase is partially due to a change in the allocation percentage of indirect costs for Intertie. The Admin Maintenance Support and Environmental allocations are calculated using a 5-year average of DSW direct labor hours. The Intertie allocation for these activities increased from 14.5% in FY 2020 to 15.41% in FY 2021. The Subs, Direct Hrs, No Specific Job is calculated using a 5-year average of DSW O&M of Subs & Related Facilities direct labor hours. The Intertie allocation for these activities increased from 19.76% in FY 2020 to 20.56% in FY 2021.*
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> *Another driver for the increase in FY 2021 are engineering salary and craft pay increases. WAPA has experienced challenges in recruiting and retaining engineers. WAPA and other agencies worked with the Office of Personnel and Management to implement salary increases for engineers to enable us to be a competitive employer. The new engineering pay was implemented at the end of FY 2018 at a rate higher than budgeted in FY 2020. The craft pay increases in FY 2019 were also higher than projected. WAPA used this information to formulate the FY 2021 Work Plan.*

Q. What is driving the approximately $300k increase in "Power Marketing" expenses?

WAPA anticipates discussions on market strategies and post-JPA activities, including potential revisions to the prepayment funding agreement.

Q. What is the "Mead-Phoenix Project" that was referenced in the meeting as the source of the approximately $3 million increase shown for "Transmission Lines"? What is the purpose and status of that project?

WAPA is a participant in the Mead-Phoenix Project (MPP), a jointly owned 500-kV transmission line. WAPA's capacity in the MPP is a component of the Intertie project. Using the MPP six year capital forecast data, participants are anticipating capital work to include installation of shunt reactors at Marketplace substation and replacement of the Mead-Perkins transmission line insulators.

During our final Work Plan review subsequent to the meeting, WAPA found the cost of the Mead-Perkins transmission line insulator project for all MPP participants was inadvertently included in the Intertie FY 2021 Work Plan. WAPA's portion of the insulator project is estimated to be approximately $400k. The capital program was reduced by $1.3 million to accurately reflect WAPA's costs of the project. Intertie's revised FY 2021 Transmission Lines capital program is now $3 million, which is a $1.5 million increase from FY 2020.

Q. What is the projected principal and interest (P&I) under a "status quo" assumption relative to incremental capital expenditures? As explained at the meeting, for purposes of the analysis presented, P&I was presumed flat to FY 2020, irrespective of the $28 million original capital repayment in FY 2020. We are trying to understand what P&I (and associated contribution to rates) would be to just cover existing debt obligations.

Assuming no additional capital expenditures in FY 2020 and beyond, our analysis projects P&I in FY 2021 would drop to approximately $22m to cover existing debt. Changes in estimates for rate components such as Other Revenue and Purchase Power Expense for FY 2020-2021 could affect the amount of revenue available for repayment thereby impacting the FY 2021 P&I amount. Also, the Intertie Project has another smaller pinch-point (approximately $12m in original investment) due in FY 2023. A pinch-point is the due date for a sizable balloon payment of debt and is the primary factor in determining the amount of P&I in a rate calculation.

Q. What are the sources of Other Revenue of approximately $7.2 million? What factors will determine variability around this figure?

Other Revenues are facility use charges (i.e. for interconnect to Mead substation) (47%), non-firm transmission sales (19%), short-term firm transmission sales (29%), ancillary services charges, and late payment fees. Facilities use charge revenues are generally consistent; non-firm and short-term transmission revenues are the most variable components of Other Revenue.

Q. What assumptions were made relative to contract capacities in FY 2021 (i.e. to yield the assumed 1,530,756 kW)?

The 1,530,756 kW used in the information presented at the Work Plan Meeting is based on the FY 2018 long-term firm contract reservations. Although currently the reservations for FY 2020-2021 are a small reduction from the FY 2018 reservations, WAPA projects some of those decreases will be mitigated by new agreements.

Q. Can WAPA provide a schedule of current Intertie customers and their respective contract capacities and contract expiration dates?

FY 2019 contract reservations are currently 1,460,756 kW (see supplemental information).

Q. Does WAPA contemplate actually increasing Intertie rates in FY 2021 or accruing a deficit?

WAPA's goal is to neither increase Intertie rates nor accrue a deficit for FY 2021. WAPA is exploring options to avoid both and produce long-term rate stability, such as actively marketing transmission capacity, mitigating increases in purchase power costs, and a combined transmission system rate in the region. A few of the benefits of a combined rate were discussed during a presentation to the Intertie and Parker-Davis Project customers on January 24, 2018. WAPA is committed to open communication and collaboration and will share our progress on these efforts.

Q. Can WAPA provide a FY 2019-2028 Cash Flow Forecast for the Intertie (i.e. break out the Intertie component from the Parker-Davis & Intertie cash flow forecast provided on slide 37)?

A consolidated cash flow forecast was presented at the Work Plan Meeting because this reflects the joint management of Intertie and Parker-Davis Project cash. Both projects operate in the Reclamation Fund and use transmission service prepayments so WAPA manages cash between them to meet O&M and capital requirements.

Cash flow does not impact rates or repayment. Rates and repayment are based on revenues and expenses including debt service, not on cash flow. On January 20, 2018, WAPA briefed Intertie and Parker-Davis Project customers on Unobligated Balances & Cash Flow. That presentation provides information about the unique separation of cash and rates and repayment.

Parker-Davis Project

No questions were submitted