

# Potential Funding Mechanism for Construction

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## Prepayments



February 17, 2010

# Agenda

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**Problem – Lack of Funds**

**Create Multi-Functional Team**

**Develop/Review Options**

**Potential Customer Concerns**

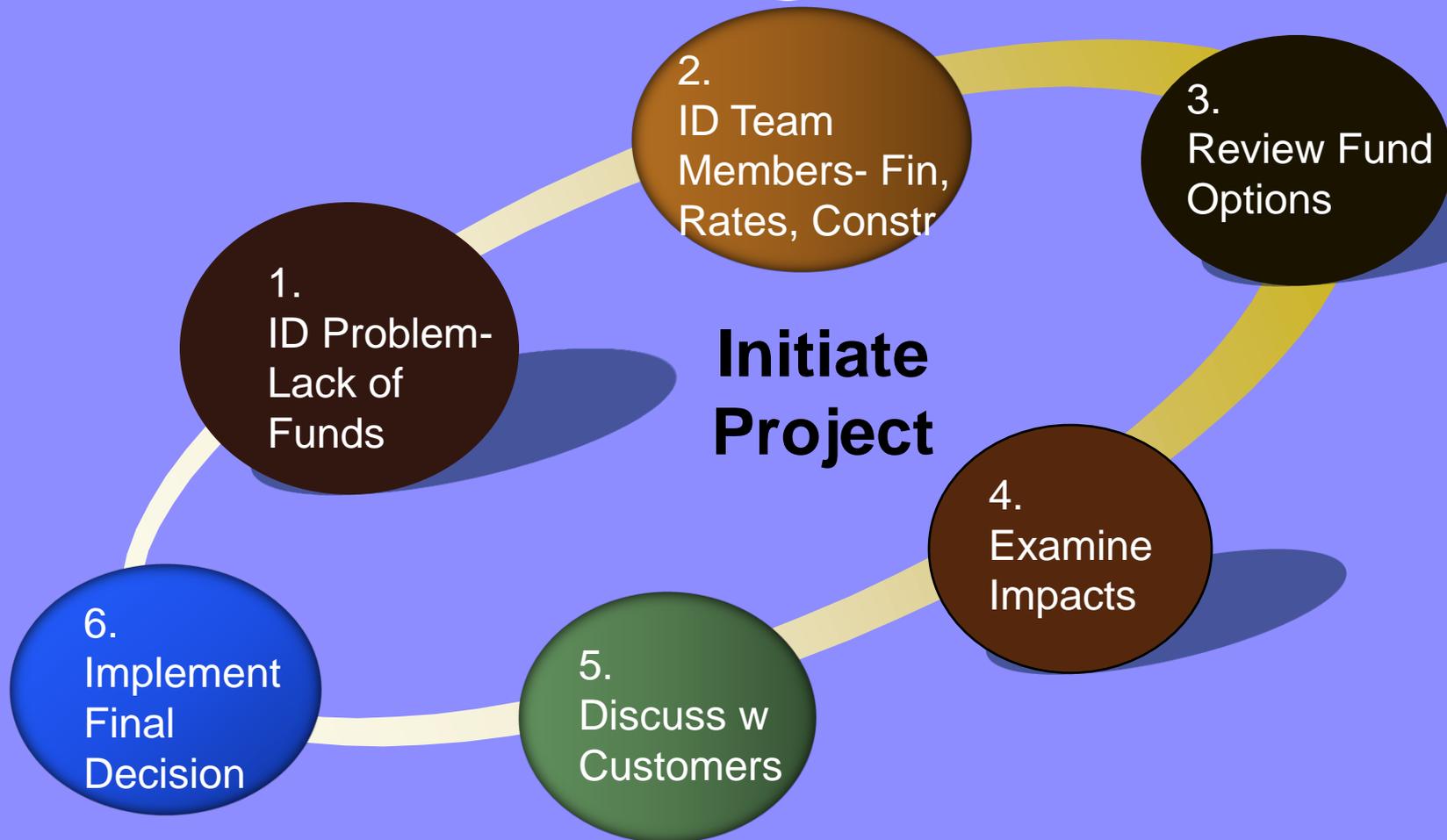
**Comments**

**Next Steps**

# Create Multi-Function Team

## Develop and Review Options

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# Clarification

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Advances and Prepayment Differences –

NONE

We named these payments “prepayments” to avoid confusion with contractual advancing programs such as the P-DP AOF

# Potential Options

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- Appropriations -----> • Inadequate in Recent Years
- TIP -----> • Limited to Projects that Meet Narrow TIP Criteria
- Leasing -----> • Does not Meet GC or CFO Requirements
- 3<sup>rd</sup> Party Bonds -----> • Higher Rate Increase
- Prepayments -----> • Least Impact, Address Customer Concerns

# Potential Customer Concerns with Use of Prepayments

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- Payment of Principal and Interest
- Western-wide Usage
- Oversight; Congressional and Customer
- Budget Formulation

# Use of Cash

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<b>Cost Category</b>	<b>Funding Requirement</b>	<b>Cash Required?</b>
O&M-salaries, Supplies, etc.	Monthly	Yes Appropriations or Advances
RRADS-capitalized Construction Program	Annual capitalized & amortized on Financial Statements	Yes Appropriations or Advances
Purchase Power	As needed	Yes Access to Receipts
Interest on Investment	Annual	No Based on Revenue Only
Principal Repayment	Annual	No Based on Revenue Only

# Recorded in Rates and Impact

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- Specific points:
  - Power System rates are cost-based; increased costs drive rate increases
  - Utilization of cash received via prepayment advances, BY ITSELF, has no impact to power system rates
  - If prepayment advances were used to fund 100% of power system costs & costs did not change, rates would not change
  - “Repayment” measured against revenues applied to investment—NOT cash to Treasury

# Rate Setting and Repayment

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- Power Repayment Study (PRS) and measurement of repayment is entirely revenue based
- DOE Order RA6120.2 lays out requirements for rate setting (PRS)
- PRS consists of 2 parts: historical data and forecasted information
- Historical information includes actual *revenue and expense* data as published in Western annual financial statements

# Rates Setting and Repayment, *Cont'*

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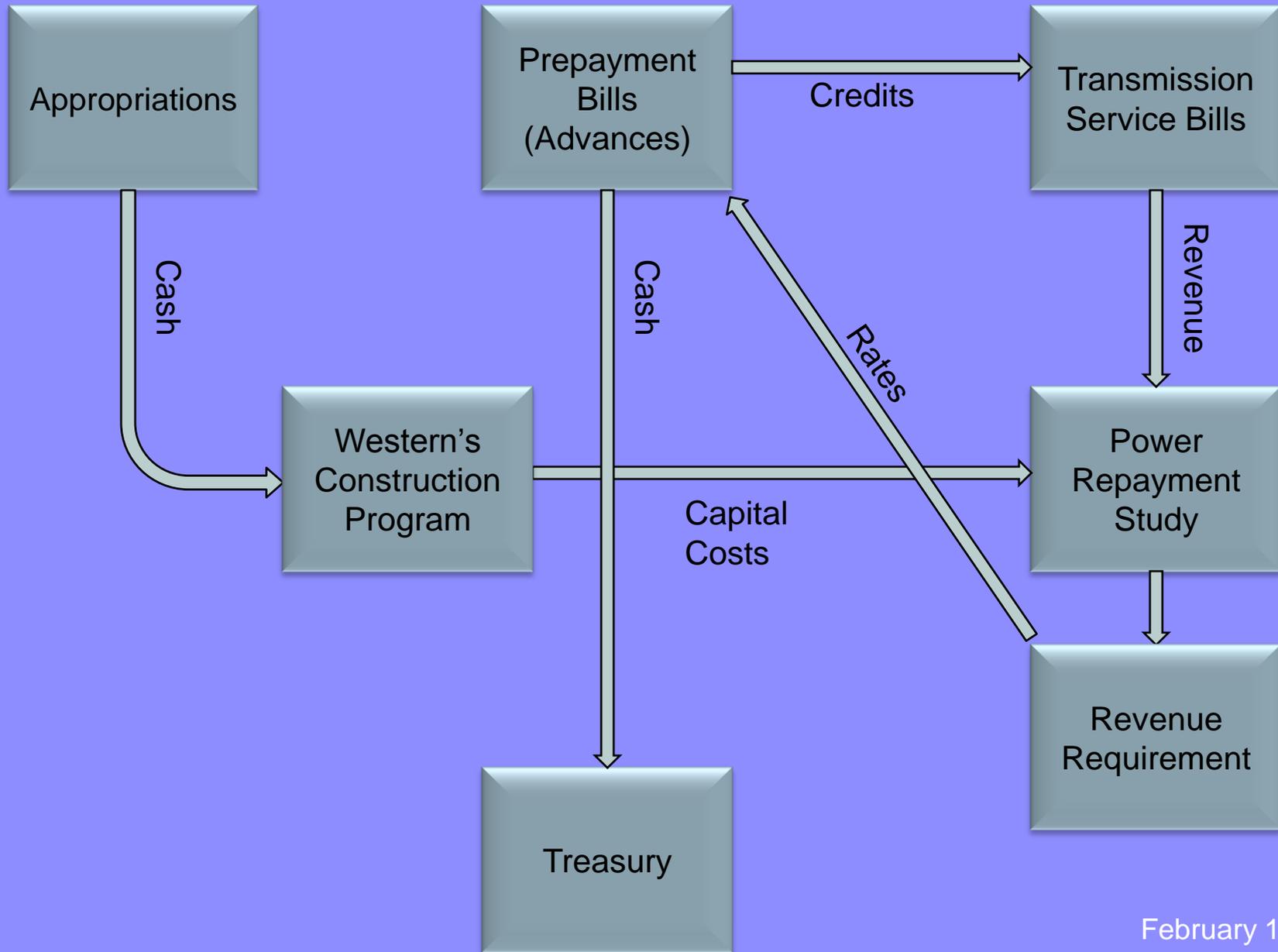
- Forecasted information includes projected *revenue and expense* data
- Forecasted expense data based on work plan
- PRS updated annually with revenue & expense data as published in Western financial statements
- Process ensures rates are adequate to recover costs, including principal and interest on investment

# Repayment Measure

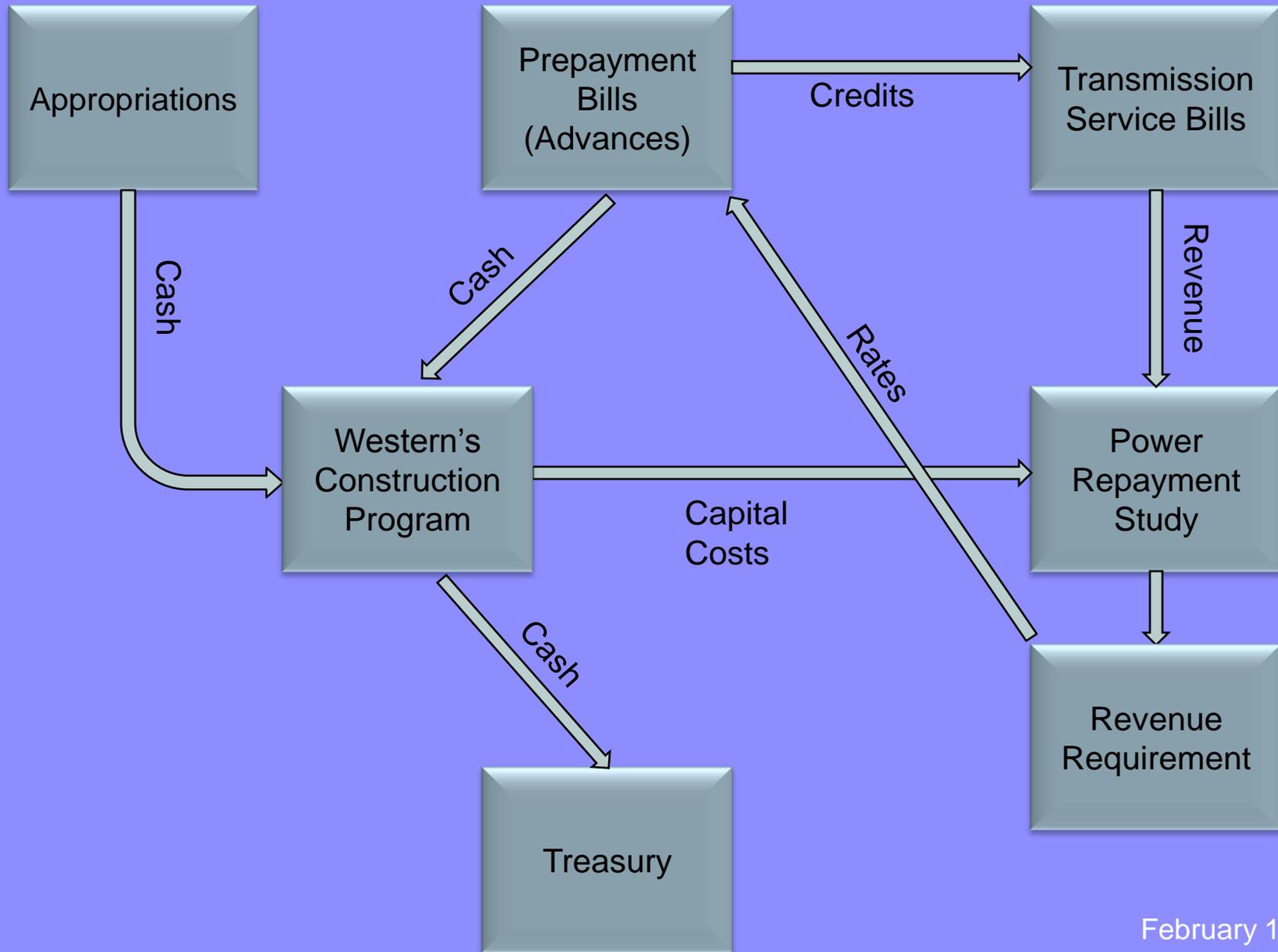
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- PRS is revenue based; Section 10 of RA6120.2 specifies how “application of revenue” will be achieved (“priority of repayment”)
- Repayment reporting is also revenue based
- “Status of Repayment” (SOR) based on annual revenue data as reported in annual financial statements
- Used to report to DOE and ultimately the Congress

# Transaction Flow Without Using Prepayments



# Transaction Flow With Using Prepayments



# Opening the Door to PRS Repayment

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	<b>\$228 million</b>	<b>Unpaid Investment</b>
-	<b>5 million</b>	<b>Principal Payment</b>
+	<b>5 million</b>	<b>New Investment</b>
	<b>\$228 million</b>	<b>Unpaid Investment</b>

Revenue from Service Bills

Capital Costs from Using Appropriations/Prepayments

Owed to Treasury - Basis for Revenue Requirements

- ✓ Revenue recorded in PRS based on financial statements
- ✓ Principal (and interest) payments made within PRS through revenue application
- ✓ No cash and/or transfers to Treasury required



# Not New Concept

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We are proposing to use prepayment due to the decreasing availability of appropriations.

- Has net impact to Treasury:
  - More Prepayments mean Less Appropriations
  - Less Prepayments mean More Appropriations
- This is the same concept as Western has done for:
  - Purchase Power and Wheeling (use of receipts)
  - Net Zero
  - Construction Customer Advances received by Other Regions

# P-DP Prepayment Amounts

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At the End of FY 2009:

Parker-Davis Project had about \$15 million in available cash

Two Options for Use:

- ✦ Send to Treasury
- ✦ Use for Construction

OR



(Have not used it in FY10 pending customer discussions)

# Western-wide vs DSW Usage

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- Prepayments are generated by Intertie and Parker-Davis Project transmission customers
- Cash is managed first within a Region
- Amounts will be sufficient to cover a conservative DSW construction Ten-Year Plan using appropriations and prepayments. As such, would not generally be available for other regions.

# FY 2010 Ten-Year Plan Parker-Davis Project

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## Budget Request

- FY10 Parker-Davis Project TYP Budget requested \$33.75 million including \$15 million for Basic Substation Remediation

## Actual Need

- FY10 P-DP Actual Construction Need for Wood Pole Replacement Program alone is \$50 million per Year for the next 11 years

## Received

- DSW Received \$20.0 million: \$18.5 Non-Reimbursable for Basic Substation Remediation and \$1.5 million for Construction Program

## Affect

- Insufficient funds to complete full Construction Program so projects need to be pushed out into future years

# Budget Process

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DSW submits budget to CSO. CSO reviews, combines with all regions. CSO formulates total submission based on insights of DC environment. \$\$+

\$\$\$

DOE HQ reviews Western budget. DOE usually reduces amount. Submits to OMB. OMB usually reduces amount. \$\$

\$\$\$

Congress Acts  
OMB/DOE/CSO  
distribute

# Budget Formulation

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We are embargoed from providing you with any details regarding our budget formulation amounts; however, your active participation in the TYP, rates, and JPA gives you insight into our future plans and projects for each power systems.

That said: “What is included in our budget; appropriations or advances; or both?”

# Included in the Budget

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DSW Requests Appropriations for:

- O&M
- Program Direction
- Construction
- PPW

# DSW Budget Request Process

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In the budget request, DSW provides the amount of advances backed by specific contracts. This excludes prepayments since they are less certain and are based on billing terms and conditions for transmission service. Advances are excluded from our request for appropriations.

# Western Budget Request Process

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1. DSW submits our budget request to CSO
2. CSO combines all regional requests together
3. CSO reviews and formulates Western's request based on various insights they have with DC environment
4. DOE HQ and/or OMB and/or Congress may reduce again prior to the enactment of the Act
5. Generally, what Western receives is less than requested-- which is distributed among the regions. CSO also retains a reserve for emergencies

# Oversight

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## DOE and Congress

- Western's budget formulation is approved by DOE, OMB and Congress. Includes delineation between appropriations and advances/prepayments
- Amount included in legislation influenced by advances and other actions - legislators' constituents
- An apportionment must be signed by OMB and DOE before funds can be used; appropriations, trust and reimbursables
- Monthly, quarterly and annual financial reports to DOE and/or Treasury

# Oversight

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## Customer

- Ten-Year Plan
- Joint Planning Agreement
- Rates Processes
- Requested Customer Meeting Presentations
- Access to Regional Manager and ARMs
- Other visibility such as OASIS

# Additional Dialogue and Cooperation

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- Quarterly or Semi-Annual Meetings and input regarding Construction plans
- More frequent JPA meetings
- More attendance and participation at TYP, JPA, and Rates meetings
- Others?

# Preferred Sequence of Funding for Construction

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**Appropriations**

First, request and use appropriations - if available

**TIP**

Then use TIP funds – if qualifies for the program, and customers support use of TIP for the project

**Prepayments**

Use prepayments - if appropriations and TIP are insufficient

Third party bonds are also an option we are open to using

# Successful Funding Program

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Includes Several Components:

- Flexibility – use all available funding options (Appropriations, TIP, Prepayments, Bonds)
- Customer Participation – Active and increased participation in development of TYP, Rates and JPA
- Cooperative Spirit – Meet customers needs while maintaining a reliable and affordable transmission system

# Next Steps

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1. Respond to today's comments/questions
2. Request written comments by March 3, 2010
3. Post presentation on website:  
[www.wapa.gov/dsw/pwrmt](http://www.wapa.gov/dsw/pwrmt)
4. Review comments and make a decision
5. Notify you of the results soon after a decision is made

Send comments to: [DSWFPP@wapa.gov](mailto:DSWFPP@wapa.gov) or  
[emler@wapa.gov](mailto:emler@wapa.gov)

# Comments and Contacts

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- **Today's comments/questions?**
- **Contacts:**
  - **Rates: Jack Murray (602) 605-2442**
  - **Finance: Ethel Redhair (602) 605-2566**