



Western  
Area Power  
Administration

# Pacific Northwest–Pacific Southwest Intertie Project Fiscal Year 2021 Rate Meeting

May 28, 2020

Webex



# Participant Instructions

## For those utilizing Webex:

- Click the hand icon to the right of your name in the participant window – this will alert us that you have a question and you will be recognized. After your question has been addressed, click the hand icon again to lower your hand.



- Type “question” or your specific question in the chat window. You will be recognized and can ask your question.

## For those calling in by phone:

- Unmute your phone by pressing \*6
- After your question has been addressed, mute your phone by pressing \*6



# Meeting Agenda

- Purpose
- Rate Setting Methodology
- Rate History
- Determinants
- Rates
- Combined Transmission Rate
- Multi-Year Outlook
- Next Steps
- Additional Resources



# Purpose

- Rates expire September 30, 2020
- WAPA will propose extending the existing Intertie rates through September 30, 2023
- Provide ratemaking data and explain the need for an extension rather than the slight rate reduction that was previously forecast
- Opportunity for discussion and questions



# Rate Setting Methodology

- Intertie is treated as a stand-alone project for rate setting and repayment purposes
- For all Federal projects, interest is paid annually while principal is due at the end of the service life of assets or 50 years for additions
- Intertie uses a pinch-point methodology
  - Progress payments are made toward large required payments which are known as pinch-points
  - Payments are shaped around annual expenses to produce a level rate for a 50-year period
  - The rate is tested annually to ensure it is still adequate to recover costs and adjusted if necessary



# Rate Setting Methodology

- This methodology offers several benefits:
  - Minimizes principal and interest costs
    - Considers due dates and interest rates
  - Less volatile rates
    - A lengthy 50-year period
    - Predictable pinch-points rather than fluctuating annual costs
  - Deficits
    - When necessary, deficits can be incurred if revenue is insufficient
    - Deficits are capitalized and are repaid with interest within 10 years and typically prior to other investments



# Rate History

Rate Order No. WAPA-157

- Effective May 2013
- Firm Transmission: **\$19.32/kW-Year**
- A single rate was established for both 230/345-kV and 500-kV transmission lines
- The rate was sufficient to cover the repayment of deficits and the original project investment in fiscal year (FY) 2020



# Rate History

## Options Group Meetings

- A collaborative workgroup consisting of WAPA and its customers that formed after the 2013 rate adjustment
- Evaluated the financial position of the Intertie and explored ideas to produce long-term rate stability
- Analysis showed the Intertie rates would likely decrease slightly and then increase prior to the FY 2020 pinch-point
- WAPA committed to maintaining the rates then in effect through FY 2020, even at the risk of a deficit



# Rate History

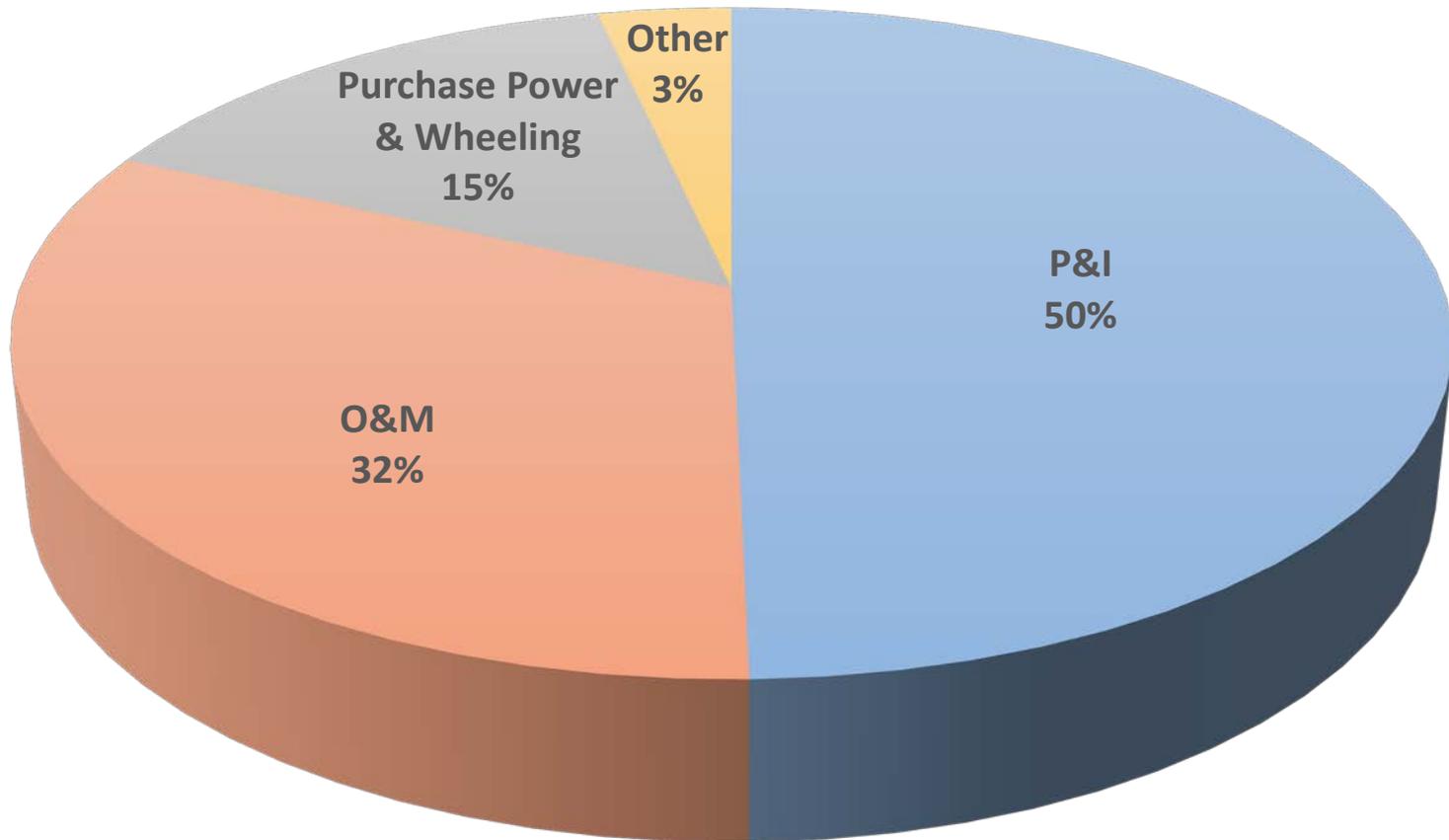
## Rate Order No. WAPA-181

- Effective October 2018
- With deficits repaid, progress toward the repayment of the FY 2020 pinch-point was continuing
- Indications of possible declining firm sales but the existing rate was still sufficient
- Rates were also extended to evaluate combining transmissions rates within the Desert Southwest Region (DSW)



# Determinants

## Typical Costs



# Determinants

- O&M expenses are based on the information presented at the 2019 Work Plan meeting
- Ten-Year Plan information is used to project capital costs in the near-term
- The Power Repayment Study calculates long-term capital costs based on service lives of existing equipment
- Transmission reservation projections are based on contractual values, adjusted for known and measurables



# Projected FY 2020 Deficit

- FY 2020 will likely result in a deficit of \$2.5m
- Due to greater reductions in firm sales and increases in purchase power than previously expected
- These changes decreased the amount of repayment toward the FY 2020 pinch-point resulting in a temporary shortfall
- The deficit will be repaid in FY 2021 prior to making progress toward the FY 2023 pinch-point



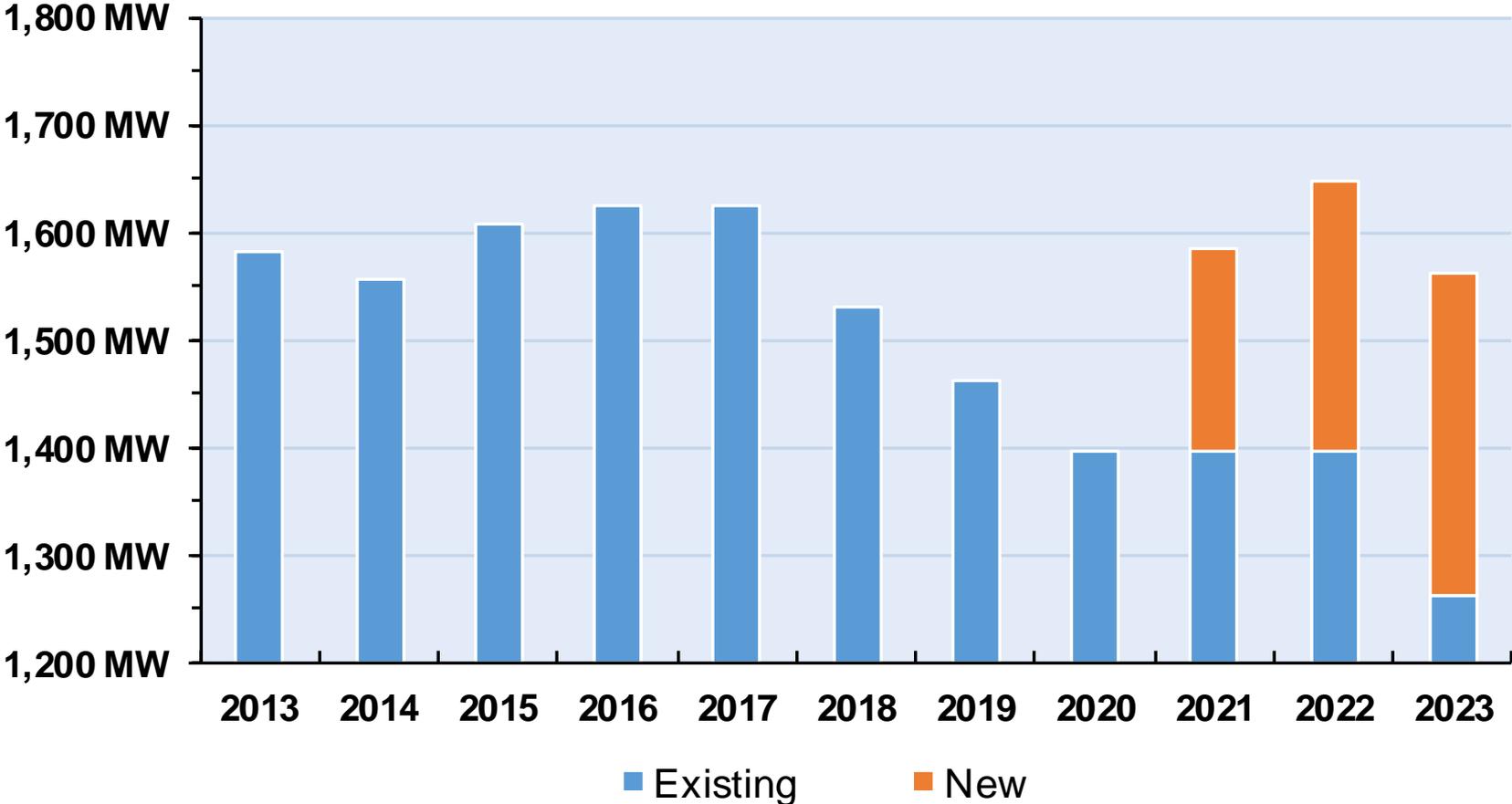
# Reservation Changes

	FY 2020	FY 2021	FY 2022	FY 2023
<b>Total Reservations (kW)</b>	<b>1,396,756</b>	<b>1,584,256</b>	<b>1,646,756</b>	<b>1,562,756</b>
NextEra		+ 187,500	+ 250,000	+ 250,000
AEPCO				+ 50,000
WAPA – CRSP Region				- 134,000

- NextEra is contingent on the completion of a new generation plant
- Arizona Electric Power Cooperative is expected to reserve an additional 50,000 kW
- WAPA - CRSP renewal is uncertain



# Reservations



# Purchase Power and Wheeling

The recent historic average for purchase power and wheeling is approximately \$3.6m

Actual	
Fiscal Year	Amount
2017	\$2.0m
2018	\$6.0m
2019	\$2.7m

Forecast	
2020+	\$3.6m



# Other Revenue

Other revenue increased significantly in FY 2017 and FY 2018

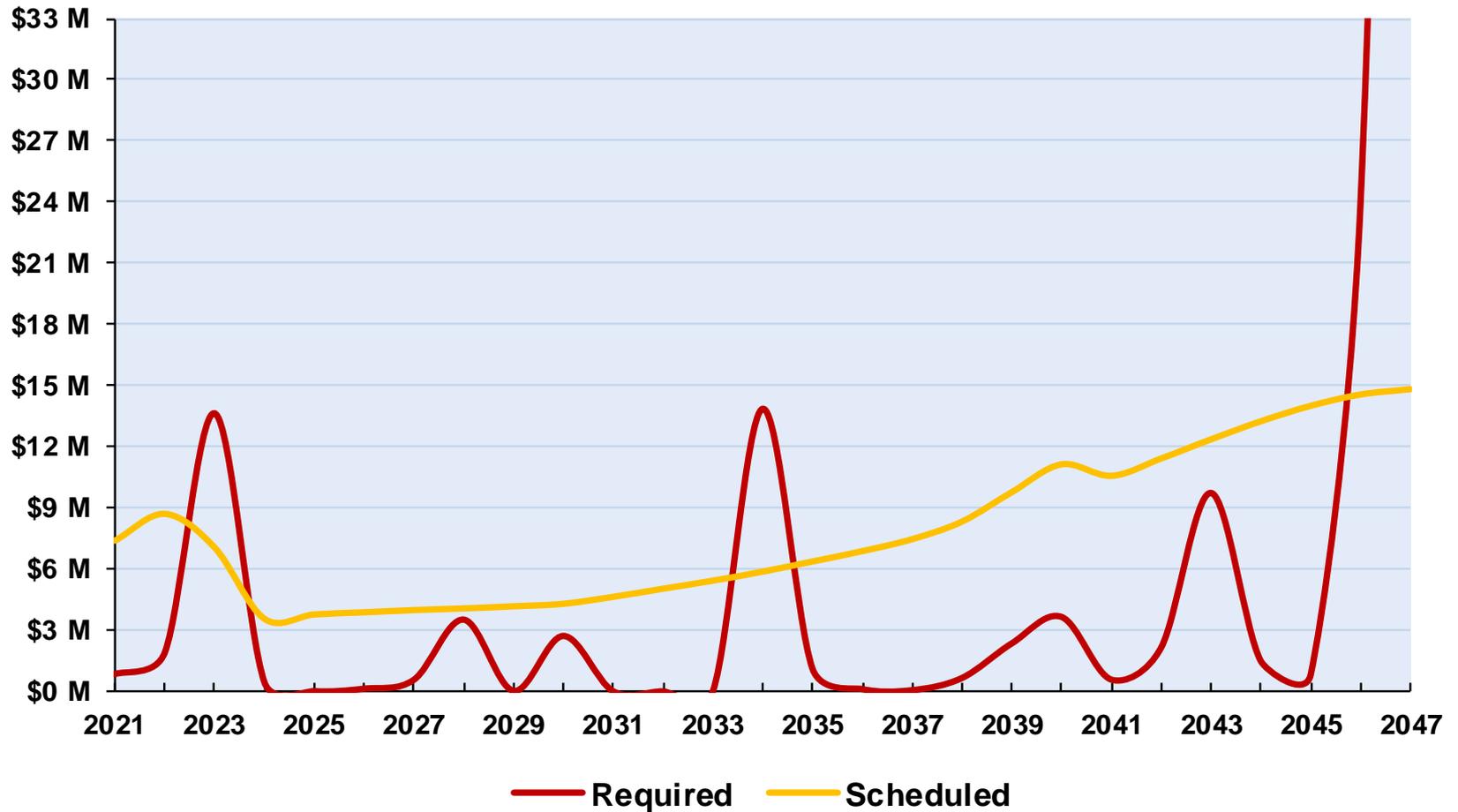
Actual	
Fiscal Year	Amount
2017	\$7.3m
2018	\$11.3m
2019	\$13.5m

Forecast	
2020+	\$9.6m



# Principal Payments



# Rates

	FY 2021	FY 2022	FY 2023
O&M	\$11.1m	\$10.7m	\$11.0m
Other Costs	\$0.7m	\$0.7m	\$0.7m
Purchase Power and Wheeling	\$3.6m	\$3.6m	\$3.6m
Principal and Interest	\$24.7m	\$26.3m	\$24.5m
Other Revenue	\$(9.6m)	\$(9.6m)	\$(9.6m)
Total/Revenue Requirement	\$30.6m	\$31.8m	\$30.2m
Reservations (kW)	1,584,256	1,646,756	1,562,756
Rate (\$/kW-Year)	\$19.32	\$19.32	\$19.32



# Summary

- WAPA will propose extending the existing Intertie rates through September 30, 2023
- Primary determinants of the rate calculation:
  - Deficit in FY 2020
  - Increased reservations
  - Purchase Power
  - Other Revenue
  - Principal payments
- The existing rates will collect sufficient revenue to meet repayment obligations



# Combined Transmission Rate

- WAPA is investigating combining the transmission rates of the DSW and Colorado River Storage Project transmission systems
- An initial customer outreach meeting was held in April
- Several meetings will be held in the fall to explore the concept with WAPA's customers
- A few potential benefits include more efficient use of transmission system, eliminating rate pancaking, and reducing administrative costs

<https://www.wapa.gov/regions/DSW/Rates/Pages/CombinedTransRate.aspx>



# Multi-Year Outlook

	2021	2022	2023	2024	2025	2026	2027	2028
O&M	\$11.1m	\$10.7m	\$11.0m	\$11.2m	\$11.2m	\$11.4m	\$11.6m	\$11.9m
Other Costs	\$0.7m							
PPW	\$3.6m							
P&I	\$24.7m	\$26.3m	\$24.5m	\$20.7m	\$20.7m	\$20.5m	\$20.3m	\$20.0m
Other Revenue	\$(9.6m)							
Total/Rev. Req.	\$30.6m	\$31.8m	\$30.2m	\$26.6m	\$26.6m	\$26.6m	\$26.6m	\$26.6m

Reservations (MW)	1,584	1,647	1,563	1,563	1,563	1,563	1,563	1,563
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Rate (\$/kW-Year)	\$19.32	\$19.32	\$19.32	\$16.99	\$16.99	\$16.99	\$16.99	\$16.99
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# Next Steps

June 2020

Public process begins when a notice is published in the *Federal Register*. Comments will be accepted any time during the 30-day comment and consultation period.

July 2020

Public process concludes

August 2020

Final rate order is published in the *Federal Register*

October 1, 2020

Effective date of rate



# Additional Resources

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For further information, visit WAPA's website at

<https://www.wapa.gov/regions/DSW/Rates/Pages/intertie-rates.aspx>

