

Desert Southwest Region  
Multi System Transmission Rate (MSTR)  
Power Marketing Rates  
July 14, 2004  
Public Information Forum

## Agenda

- Opening remarks
- Western presentation of MSTR proposal
- Question and Answer Session

## Reasons for MSTR

- Customers requested DSW explore a common rate
- Partially mitigate need to reduce Firm Transmission capacity at conversion of FTS contracts to OATT agreements
- Align rate structure with integrated operation of control area resources

## Benefits

- Additional Contract Capacity
- Upgrades focused on entire system benefit
- Facilitates Customer Financing
- Eliminate Pancaked Rates

## Assumptions Used in MSTR Calculation

- “Single System Use Credit”
  - Applies to DSW’s Statutory Obligations
  - If power taken ONLY on P-DP, payment for TX component credited by difference between MSTR and P-DP only rate
  - MSTR required for FES who choose to take advantage of broader system for resource delivery

## Assumptions-cont’d

- FES and Priority Use Power Customers: Receive a bundled product which includes appropriate transmission component charge for single system use
- Consistent with FES marketing plan determined via separate public process

## Assumptions-Cont'd

Assume no loss of transmission reservations-

### EITHER

- Existing contracts would be extended beyond their expiration dates through the end of the rate evaluation period.

### OR

- Western would market that reservation to another customer through the end of the rate period.

## Assumptions-cont'd

- New Firm Transmission Service Sales for the AC Intertie 500-kV; 10 year phase-in process as part of existing rate implementation (FRN 3April1998).
- Western currently on track for projections.

## Assumptions-cont'd

- Additional Firm Transmission Service Sales resulting from implementing a Multi-System Transmission Service Rate.
  - 78,000 kW available from South of Mead path available on full implementation of MSTR in 2009
- Changes to reservations due to new or increased post 2004 allocations
- Non-Firm Transmission: During transition to MSTR Non-Firm rates assumed unchanged.

## Overview of Methodologies Explored

- MSTR Only: All customers would go to a MSTR immediately.
- Customer Choice model – Western Design
- “OATT 1<sup>st</sup>” – Customer designed model customer choice until FTS contract terminates
- MSTR w/convergence to a target rate
  - Converge w/MSTR available in the 1<sup>st</sup> year
  - Converge w/MSTR available in the 5<sup>th</sup> year

## Pros & Cons-MSTR Only

- Pros:
  - Additional ATC available immediately (78 MW)
  - Pancaking eliminated upon rate implementation
  - Reduce administrative processes
  - Simplify West Wide OASIS posting

## Pros & Cons-MSTR Only-cont'd

- Cons:
  - Largest immediate cost shift to single system customers
  - Immediate rate fluctuations
  - Higher rate in 5<sup>th</sup> year than convergence methods

## Pros & Cons Customer Choice (Western Model)

- Pros:
  - Customer Choice
- Cons:
- Customer choice benefits negated by circular issues:
  - Start point gives customers incentive to choose MSTR or single system rate based on economic impacts

## Pros & Cons – “OATT 1<sup>st</sup>”

- Pros:
  - Allows customer choice for some
  - Minimizes cost shift for some customers
- Cons:
  - Initial MSTR target rate significantly higher than other methods
  - Delays full implementation and benefits of MSTR for more than 10 years
  - Inequitable treatment

## Pros & Cons-Convergence Model

- Pros:
  - Allows for full implementation & benefits of MSTR in 5 years
  - Minimizes yearly cost shifts to Single System customers

## Pros & Cons-Convergence Model (cont'd)

- Cons:
  - Increased costs for some non-pancaked Firm Transmission Customers
  - Increased administrative processes during 5 year implementation period



## Pros & Cons-Convergence Model (cont'd)

- Differences between 1<sup>st</sup> Yr and 5<sup>th</sup> Yr
  - 5<sup>th</sup> Year
    - Additional MWs not available until 5<sup>th</sup> year
    - Pancaking continues until 5<sup>th</sup> year
  - 1<sup>st</sup> Year
    - Additional MWs available in 1<sup>st</sup> year
    - Pancaking eliminated 1<sup>st</sup> year
    - MSTR higher in 1<sup>st</sup> four years

## Methodologies Explored-cont'd

- Detailed information on how various methodologies impact rates can be viewed on DSW website:  
[www.dsw.gov/pwrmkt/mstr](http://www.dsw.gov/pwrmkt/mstr)
- MSTR in 5<sup>th</sup> year converge chosen:  
minimizes negative economic impacts  
while allowing MSTR implementation &  
benefits within 5 years

## MSTR w/convergence in 5<sup>th</sup> year

- “Convergence” is the difference between the individual system rates and the target MSTR
- Over 5 year period, 1/5 of difference (20%) applied each year to rate (add or subtract) to bring all projects to MSTR
- MSTR applied 5<sup>th</sup> year - All pancaking eliminated

## MSTR w/Convergence Apply MSTR 5<sup>th</sup> Year

### Proposed Rates (kW/Mo)

	P-DP	CAP	IP 230/345	IP 500	MSTR
<b>FY04</b>	\$1.08	\$0.82	\$1.00	\$1.44	n/a
<b>FY05</b>	\$1.09	\$0.89	\$1.03	\$1.38	n/a
<b>FY06</b>	\$1.11	\$0.95	\$1.06	\$1.32	n/a
<b>FY07</b>	\$1.12	\$1.02	\$1.09	\$1.27	n/a
<b>FY08</b>	\$1.14	\$1.08	\$1.12	\$1.21	n/a
<b>FY09</b>	\$1.15	\$1.15	\$1.15	\$1.15	1.15

## MSTR Rate Design

- Rate design: Sum of Revenue Requirement (RR) of three projects divided by sum of reservations from three projects
- Target rate determined—lowest possible that provides adequate revenue to cover RR for 5 year evaluation period.

## MSTR Revenue Requirements

	Total	Parker-Davis Project	Central Arizona Project	Intertie Project
FY 2005	\$61,591,782	\$29,786,901	\$3,754,012	\$28,050,869
FY 2006	\$64,609,065	\$31,027,082	\$3,578,651	\$30,003,332
FY 2007	\$66,329,662	\$31,148,038	\$3,744,280	\$31,437,344
FY 2008	\$66,276,001	\$31,148,038	\$3,701,292	\$31,426,671
FY 2009	\$64,303,605	\$31,148,037	\$3,565,003	\$29,590,565
<b>5 Year Average</b>	<b>\$64,658,022</b>	<b>\$30,851,619</b>	<b>\$3,704,646</b>	<b>\$30,101,756</b>

## Impacts to individual projects

- MSTR is for rate making and marketing purposes ONLY.
- Each project will remain financially separate and distinct—expenses accounted for by individual projects, as is current practice

## Intertie RR

- Transmission system only—Total expenses (including P&I) less other revenues (from current PRS) = Net RR.
- Net RR input into MSTR calculations

## Parker-Davis Project RR

- Existing methodology – all costs allocated between Generation and Transmission via “Cost Apportionment Study”.
- Transmission RR is taken from Cost Apportionment Study (Per WAPA 74 methodology)
- Single System Use credit for P-DP – net RR included in MSTR calculation

## CAP RR

- Calculation: Total Expenses, including P&I costs, less revenue credits = RR
- “Revenue Credits”: UNS - contract through 2008 at contract specified rate
- CAWCD use of system for pumping excluded from RR calculation

## Remaining Process Steps

- Public Comment Forum 8/11/04
- Any questions not answered today will be answered no later than 15 days prior to the end of the comment period.
- Comment period ends 9/20/04. Western will receive comments up to this date.

## Comments

- Send Comments to:  
Western Area Power Administration  
P.O. Box 6457  
Phoenix, AZ 85005-6457  
Attn: Tyler Carlson