

Intertie Project

Public Information Forum

June 28, 2012





Meeting Agenda

- Overview of Current Rates
- Proposed Rates and Assumptions
- Rate Determinants
- Repayment Obligations
- Rate Adjustment Schedule
- Questions and Comments



Rate Order No. WAPA-130

- Included Rate Schedules INT-FT4 and INT-NFT3
- Confirmed and approved by the Deputy Secretary of Energy on Sept. 28, 2007
- Placed firm and nonfirm transmission service rates into effect on an interim basis
- Final confirmation and approval of Rate Schedules by FERC on March 18, 2008



Current Rate Schedules

- INT-FT4 applies to long-term and short-term firm point-to-point transmission service
- Long-term rate is \$15.24 per kW-year
- INT-NFT3 applies to nonfirm point-to-point transmission service
- Nonfirm rate is 2.25 mills per kWh
- Both Rate Schedules became effective Oct. 1, 2007, for a 5-year period



Approach to Current Rates

- Developed with a combination of three factors
 - Used certain repayment flexibilities
 - Restructured 500-kV sales assumptions
 - Established single rate for transmission service
- Used certain repayment flexibilities
 - Incurred additional deficits to cover annual expenses and required payments
 - Directed payments to reduce future year balloon payment obligations after deficit repayment



Approach to Current Rates, cont'd

- Restructured 500-kV sales assumptions
 - Extended phase-in period by five years
 - Total sales of 962.5 MW achieved by 2013
- Established single rate for transmission service
 - Eliminated separate rates for the 230/345-kV and 500-kV transmission systems
 - Made service on the 500-kV transmission system more economical to facilitate phase-in sales



Which Leads Us to Today...

- Rate Schedules expire Sept. 30, 2012
- Current rates provide insufficient revenue
- Rate adjustment necessary to ensure recovery of annual costs and timely repayment of project
- Formal process initiated on June 11, 2012
 - Notice of Proposed Rates published in Federal Register
 - Consultation and comment period has begun



Approach to Proposed Rates

- Continue use of repayment flexibilities
 - Direct payments to reduce future year balloon payment obligations after deficit repayment
 - When necessary, incur deficits to cover annual expenses and required payments
- Discontinue phase-in period for 500-kV sales
 - Actual demand for transmission capacity is significantly less than previously anticipated
 - Revenue shortfalls will be avoided and future rate increases mitigated



Rates Comparison

230/345/500-kV Transmission Service	Current Rates	Proposed Rates	Percent Change
Firm Point-to-Point	\$15.24 /kW-yr	\$19.68 /kW-yr	29.1
Nonfirm Point-to-Point	1.74 mills/kWh	2.25 mills/kWh	29.3



Proposed Rates – Assumptions

- Budget data used for O&M costs in FY13 and FY14. Estimates escalated at 2% yearly for FY15–FY17
- Purchase power for the Balancing Authority estimated at \$1.9 million annually and purchase transmission capacity estimated at \$0.4 million annually
- Other costs taken from most recent sources available (i.e., Abandoned Project, Multi-Project, Unfunded Retirement Benefits)



Proposed Rates – Assumptions

- Capitalized costs (investments) were derived from the FY12 Ten-Year Capital Program brochure
- Other revenue estimates are based on a 5-year historical average unless other information is known
- Service agreements were used to determine reservation levels



Rate Determinants

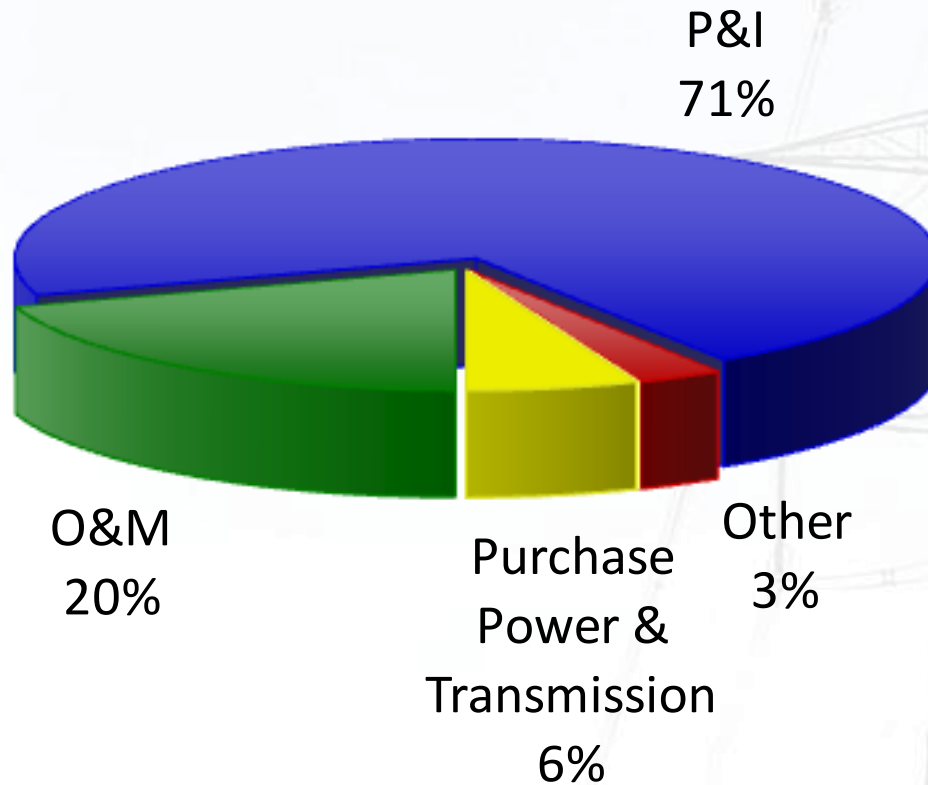
Average Annual Expenses (in millions)

	FY 2013-2017		
	Current Rates	Proposed Rates	Change
O&M	\$6.9	\$7.6	\$0.7
Purchase Power	\$0.0	\$1.9	\$1.9
Purchase Transmission	\$0.4	\$0.4	\$0.0
Other	\$1.3	\$1.3	\$0.0
Principal & Interest	\$25.9	\$27.0	\$1.1
Total	\$34.5	\$38.2	\$3.7



Rate Determinants

Average Annual Expenses (in millions)





Rate Determinants

Average Annual Other Revenue (in millions)

	FY 2013-2017		
	Current Rates	Proposed Rates	Change
Facilities Use Charges	\$1.6	\$2.2	\$0.6
Line Losses	\$1.0	\$1.8	\$0.8
Nonfirm Sales	\$0.7	\$1.0	\$0.3
Multi-Project	\$0.2	\$0.0	(\$0.2)
Total	\$3.5	\$5.0	\$1.5



Rate Determinants

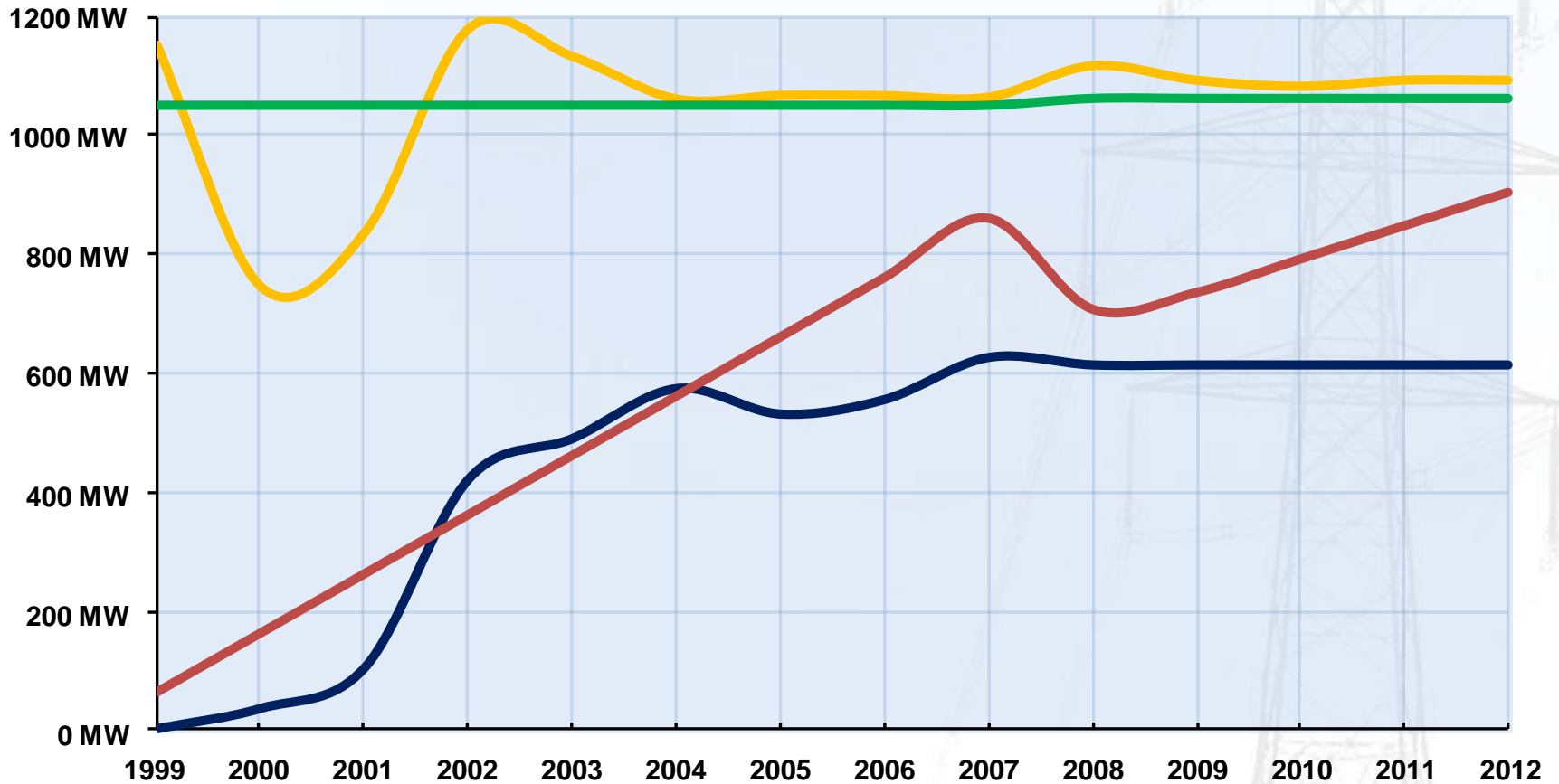
Sales Projections (kW)

Transmission Service	FY 2013-2017		
	Current Rates	Proposed Rates	Change
230/245-kV	1,064,540	1,093,942	29,402
500-kV	962,500	612,000	(350,500)
Total	2,027,040	1,705,942	(321,098)



Historical Long-Term Sales

— 230/345-kV Actual — 230/345-kV Projected — 500-kV Actual — 500-kV Projected





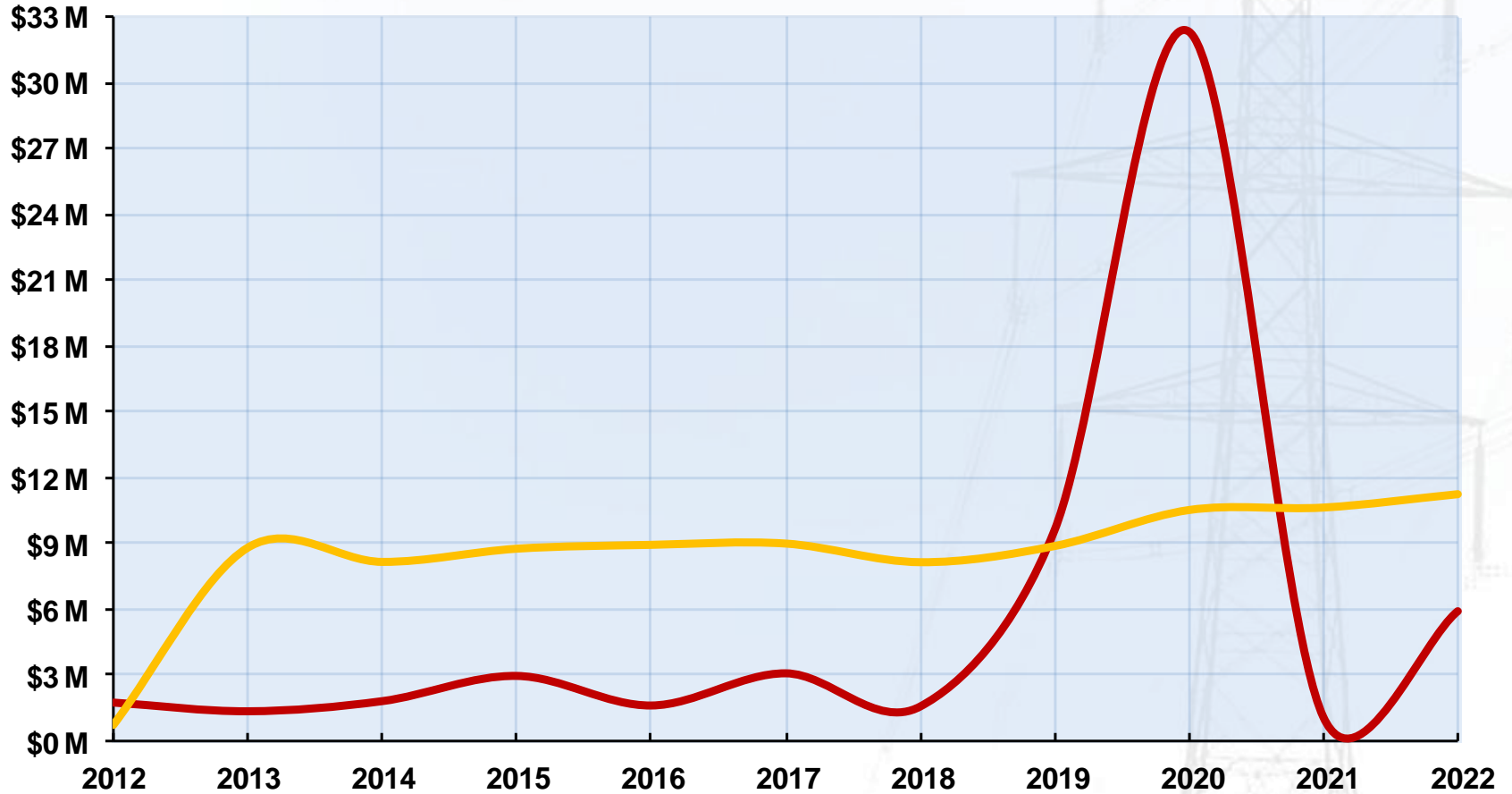
Repayment Obligations

- A majority of the original project investment of \$45.6 million is due in 2020
- All deficits must be repaid before this future balloon payment can be reduced
- Only eight years remain to satisfy these obligations
- Any rate methodology change still requires payment of these debts between 2013-2020
- The proposed rates will collect sufficient revenue to meet these repayment obligations



Principal Payments

— Required — Scheduled





Summary

- Primary factor of the rate increase is the lower-than-projected sales of 500-kV transmission service
- Secondary factor of the rate increase is the higher-than-projected purchase power costs for the Balancing Authority
- A contributing factor of the rate increase is the balloon payment obligations that are due in 2020 and required deficit repayment



Rate Adjustment Schedule

- Rate brochure available on Western's website at:
<http://www.wapa.gov/dsw/pwrmt/Intertie/RateAdjust.htm>
- Public Comment Forum scheduled for July 10, 2012 at 10:00 a.m. MST and the consultation and comment period ends September 10, 2012
- Questions not answered today will be addressed in writing no later than 15 days prior to the end of the consultation and comment period



Rate Extension

- Planning to request an extension of the current rates for one year, through Sept. 30, 2013
- Allows additional time to complete rate adjustment process and consider comments to the proposed rates
- Will supersede the extended rates with new rates in February/March 2012



Comments & Questions

- Send written comments to Darrick Moe, Regional Manager
- Comments may also be faxed to 602-605-2490, Attn: Jack Murray, Rates Manager
- E-mail comments to Darrick Moe, moe@wapa.gov or Jack Murray, jmurray@wapa.gov
- All comments must be received by Sept. 10, 2012 to be considered in Western's decision process