



Western
Area Power
Administration

Parker-Davis Project

Amortizing Reclamation Replacements



Supplemental Information for
Rate Meeting held June 7, 2018

Amortizing Reclamation Replacements

In an effort to minimize the increase to the generation charge for FY 2019, WAPA is proposing to amortize Bureau of Reclamation (Reclamation) replacements.

- To facilitate the AOF contract, Reclamation replacements have historically been recorded in the PRS with a 1-year repayment period
- Customers are required under the AOF to be fully credited for advances within two years of the funding year
- Although we choose to repay the replacements immediately, they are actually due at the end of their 40-year service life (50 years for irrigation assets)
- Amortizing replacements over their service life would eliminate the FY 2019 generation charge increase of 8%



Amortizing Reclamation Replacements

Why now?

- WAPA stopped receiving advances under the AOF in 2009. As such, credits for advances made to Reclamation are small enough to be fully applied within two years of the funding year.
- Greater purchase power costs and fewer credits for WAPA advances have resulted in a larger net service bill
- The larger net service bill allows for replacements to be amortized while still providing the full credits for advances

Examples are provided in the following slides



Larger Net Service Bill

(Sample Bill, \$ in millions)

	Pre-2009	Current
BOR O&M	\$3.1	\$3.1
BOR Replacements	\$4.1	\$4.1
WAPA O&M	\$1.0	\$1.0
Purchase Power/Other	\$1.0	\$3.0
Total Charges	\$9.2	\$11.2
Credit BOR Advances	\$(7.2)	\$(7.2)
Credit WAPA Advances	\$(1.0)	-
Net Service Bill	\$1.0	\$4.0



Net Service Bill with Amortization

(Sample Bill, \$ in millions)

	Current	Amortized
BOR O&M	\$3.1	\$3.1
BOR Replacements	\$4.1	\$0.2
WAPA O&M	\$1.0	\$1.0
Purchase Power/Other	\$3.0	\$3.0
Total Charges	\$11.2	\$7.3
Credit BOR Advances	\$(7.2)	\$(7.2)
Credit WAPA Advances	-	-
Net Service Bill	\$4.0	\$0.1



Amortizing Reclamation Replacements

Is crediting still a limitation?

- Yes, each year this technique is used we will need to ensure that AOF Participants can still be fully credited within two years of the funding year

Is there a cost for amortizing?

- Yes, amortizing creates a difference between the amount of revenue collected per year and the amount of credits provided to the AOF Participants
- Interest is due on the difference until the additional revenue is collected



Amortizing Reclamation Replacements

Benefits

- Lower Charges:

Increasing the period over which replacements are recovered reduces the annual charge

- More Flexibility:

Making the change does not lock in this repayment technique. In the future we may choose to make minimal principal payments, defer, or accelerate repayment.

Adopting this technique enhances our ability to moderate future charge increases



Amortizing Reclamation Replacements

Comparison of Current and Amortized Repayment Using Data from Informal Rate Meeting

(\$ in millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
Current	\$3.03	\$2.64	\$0.66	\$2.12	\$1.71	-	\$10.17
Amortized	-	\$0.11	\$0.21	\$0.24	\$0.32	\$0.38	\$1.26
Savings	\$3.03	\$2.53	\$0.45	\$1.88	\$1.39	\$(0.38)	\$8.91

The interest cost of amortizing replacements currently in the rate window over a 40-year service life would be approximately \$6m



Amortizing Reclamation Replacements

Comparison of FY 2019 Charges

	FY 2019 Charge Current	Change from FY 2018		FY 2019 Charge Amortized	Change from FY 2018	
Energy (mills/kWh)	6.25	0.47	8%	5.78	0.00	0%
Capacity (kW-Month)	\$2.74	\$0.21	8%	\$2.53	\$0.00	0%
Composite w/o Transmission (mills/kWh)	12.49	0.94	8%	11.55	0.00	0%



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