Data Requests
CAP Formal Rate Proceeding
Re: PowerPoint Presentation of August 27, 2015
Calpine Corporation

I. In reference to Slide 5: Firm Transmission Service

A. With respect to calculation of O&M for the first two years based on workplan and for the remaining three years based on indexing at 3% annually:

1. Please provide the "workplan" that is the basis of the first two years of O&M Expense.

2. Please provide the historical O&M costs for the last five years using the same format as the "workplan".

- For questions 1 & 2 the O&M Expense worksheets are posted on Western's website at: https://www.wapa.gov/regions/DSW/Rates/Pages/central-arizona-rates.

II. In reference to Slide 6: Rate Determinants

A. With respect to the line item "Western O&M" which is unchanged for the forecast periods 2015-2019 and 2016-2020, please explain this invariance. Specifically explain how your estimate can be based on an escalated (3 percent) workplan and simultaneously invariant.

- The O&M forecast is based on projections. Since it was early in the year when we initially completed the rate calculation for the rate adjustment process we projected the O&M expenses for the remainder of the year based on the most recent information available. Therefore, these projections of the O&M for 2016-2020 are showing no change.

B. With respect to Other Expenses shown, provide a breakdown of major expense items. Are the forecasted amounts shown based on work plans, inflation adjustments, or other determinants?

- The other expenses are broken down on the O&M worksheet provided; these worksheets are posted on the CAP website each rate year. The Major expense portion is the ED2-Saguaro line replacement amount collected in the rate for the year. The overall amount is based on the 10 year plan and the forecasted amounts used in the rate are based on meetings with construction on funding amounts necessary each year. Costs for the ED2-Saguaro line replacement are expected to be spread over a 5- year period and construction started in 2015.

C. With respect to inclusion of projected costs for capital replacements:

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1. Please provide the last five years of "replacement" expenses, which according to the table, have averaged $6.5MM.

    - The replacement expenses are listed individually on each individual rate year's O&M worksheet and the amount varies each year. The 6.5MM is to be collected in the 2015 rate and not a 5 year average of the last five rate years of replacement expenses.

2. Under what accounting standard or method does WAPA determine whether capital replacements are expensed in the current year or capitalized, then depreciated or amortized over the expected life of the asset? Is this same standard or method applied by WAPA with respect to ratemaking for other projects (e.g. Parker Davis)?

    - For CAP, all capital replacements are generally paid for as they occur and not amortized. Since the ED2-Saguaro transmission line replacement is so large, the total cost is being spread over a 5-year period in order to lessen the impact to the CAP rates as much as possible.

    - Generally, Western's capital replacements are funded using appropriated funds and are amortized over the life of the asset. In simple terms, appropriated funds may be thought of as a "loan", with the principal balance paid over a specified period. (P-DP and Intertie capital replacements are funded via prepayments, which, from a repayment standpoint is identical to using appropriations); however, 2 of DSW's rate-setting projects (Central Arizona and Boulder Canyon) do not have appropriations. Therefore, any capital projects for CAP must be funded through the rates charged to users of the system, and essentially "expensed" in order to be able to collect adequate funds to complete the project.

3. Does Western request or receive any federal appropriations for the CAP project capital expenses? If yes, how much does it anticipate in 2016-2020?

    - No federal appropriations are received for CAP.

4. Western requires transmission customers to pre-pay for transmission service. That is, transmission revenues are received in advance of incurred expenses. Does Western use transmission reservation "prepayments" to fund capital replacements? If so, please describe the value of these prepayments and explain the use of and accounting of those funds.

- As mentioned above, the Parker-Davis and Intertie transmission systems in DSW utilize prepayments to fund capital replacements. CAP transmission system users are not required to pre-pay for service; Pre-payments are not used to fund CAP replacements.

5. Of the amounts shown, how much is attributable to replacing the ED2-Saguaro line? Please describe the other replacement projects (and their forecasted construction costs) included in Replacements.

   - 6.5 MM is attributable to replacing the ED2-Saguaro line. There are no other replacement projects included in the 2015-2019 and 2016-2020 rate calculations.

6. Please identify the customer or customers and quantities that hold long-term CAP delivery points (network or P-T-P) at either ED2 or Saguaro.

   - CAWCD- 57,000 kW – Saguaro to ED2

D. With respect to Principal and Interest, describe the methodology used to amortize principal and to charge interest in rates during each year of the Rate Period.

   - Interest expense on the remaining unpaid balance of the original federal investments associated with the CAP 115/230-kV system is calculated annually at 3.342%, per CAP legislation. The principal payment is a specific percentage of the unpaid balance each year. For the years 2016 through 2020, 2% of the unpaid principal balance is the principal payment. For years 2012 through 2027, the required principal will be 2.6% of the unpaid balance and for years 2028 through 2043 (the end of the 50 year repayment period) the required principal portion is 2.7% of the unpaid principal balance. For rate calculation purposes, the required principal payments for the 5 year rate window are summed and averaged over the 5 year period.

III. <u>In reference to Slide 7: Rate Determinants</u>

A. With respect to Other Revenue:

1. Describe each component of Other Revenue, with its forecasted dollar contribution to revenue for the Rate Period and any change in each component's forecasted revenue from the period 2015-2019

   - For the 2015-2019 rate period the Line Loss revenues are the only component of Other Revenues. The estimated revenue contribution for this rate period is indicated on slide #7; it is $5.3MM and for rate period 2016-2020 the forecasted amount was $2.9MM. This is a difference of ($2.4) MM.

2. What are the drivers behind the substantial reduction in total Other Revenue for the period 2015-2019($5.3 million) and the period 2016-2020 ($2.9 million)?

   - Other revenues for the last 3-4 years have been line loss revenue surplus. This was line loss revenues amounts that had not been applied to the benefit of the CAP rate. The reduction in that revenue surplus is the primary factor in the reduction in total Other Revenues. The remainder of the surplus line loss revenues will be applied to the benefit of the CAP rate in the 2016-2020 rate period.

3. Does "Other Revenue" include a forecast of sales of Navajo transmission? Has excess Navajo transmission sold in short-term sales been included in Other Revenue for purposes of existing rates?

   - We do not include the sales of Navajo transmission as other revenues in the rate.

B. With respect to forecasted Over Collection

1. Please explain the basis for including the forecasted over collection into rates.

   - The overcollection is based on a projection. The O&M expenses are based on the data we had at the time of the calculation and according to these estimates we would have an overcollection in the rates for 2016. The amount of over or under collection in the rates can vary from year to year. In this case, based on the available information at the time of the estimate, we did not want to leave the overcollection out of the rate calculation. We feel the calculation as presented would give the customers a closer estimate to what the rate would be for 2016.

2. Please confirm that if Western did not include a forecast of a $1.1MM "Over Collection", that the rate for the forecast period would be approximately $1.35 / kw-mo, or approximately 19.5 percent over current rates.

   - If Western did not include the over collection you are correct the rate would be approximately $1.35/kW-mo.