PacifiCorp Transmission Rate Case

Customer & Stakeholder Meetings

Portland, March 10, 2011 & Salt Lake City, March 16, 2011
Agenda

• Welcome and Introduction

• Purpose of Meeting and Goal

• Transmission System Update

• Formula Rate Overview

• Formula Rate Protocols

• Next Steps and Closing
Welcome

Sarah Edmonds,
Director, Transmission Strategy & Policy
Welcome

• Safety Moment

• Meeting Logistics

• Standards of Conduct Reminder

• Attendee Introductions
Background

• Current transmission rate
  - Last rate case submitted in October 1995 (as amended December 1995) in Docket No. ER96-8-000, et al.
  - Current rates based on 1994 costs
  - FERC approved “stated rates” included in June 1996 “black box” settlement; rates became effective January 1, 1996
  - “Stated” rate has not changed since that time

• Transmission rates recover operating costs of the transmission system and return on transmission investments

• Since 1994, transmission improvements made to maintain adequate and reliable service

• By managing costs and matching new investment to load growth over the past 16 years, PacifiCorp has avoided requesting a change in transmission rates
Today’s Objectives

• Purpose of the Meeting
  ‣ PacifiCorp will be requesting a change in transmission rates
  ‣ Want to engage and involve transmission customers and other stakeholders in the process

• Timeline
  ‣ March 2011 – May 2011: customer meetings & discussions
    ‣ Possibly hold customer meetings/discussions at least monthly
    ‣ Next meeting tentatively planned for late April 2011
  ‣ By June 1, 2011 – transmission rate filing with FERC
  ‣ By August 1, 2011 – FERC response to filing
  ‣ August 31, 2011 – requested effective date of new rates using formula

• Begin discussion to reach goal
  ‣ Seek to reach agreement with transmission customers related to proposed revisions
  ‣ File a proposed settlement with the FERC to expedite the regulatory process
Transmission System Update
Transmission System

• PacifiCorp system overview
• Transmission system facts and figures
• How we plan the PacifiCorp transmission system
• Where we spend money on transmission
• Significant transmission projects
How we plan the PacifiCorp transmission system

• Annually, perform an assessment and plan looking out ten years, with emphasis on first three to five years
• Plan the system to meet NERC Reliability Standards as well as to meet company planning guidelines
• Perform assessments and studies with other utilities through WECC and other arrangements
Where we spend money on transmission

• Capacity-load growth driven
• System upgrades to integrate new generation
• Reliability and system integrity
  • Upgrades of equipment to deal with performance issues, aging infrastructure, end of life issues
• Transmission service requests
Energy Gateway Transmission Expansion

- **Key Principles**
  - Secure capacity for the long-term benefit of customers
  - Load service needs first, regional needs second
  - Support multiple resource scenarios
  - Secure regulatory and community support
  - Build it

- **Highlights**
  - Approximately 2,000 new line miles
  - Multi-billion dollar investment
  - First segment complete November 2010
  - Designed to provide 3,000 MW (1,500 MW on both Gateway West and Gateway South) of new transmission capacity to serve PacifiCorp customers’ load and growth needs for the long term.
Energy Gateway: Key Segments

• **Gateway Central (Segments B & C)**
  - Populus to Terminal
    - In service November 2010
  - Mona to Oquirrh & Oquirrh to Terminal
    - Scheduled in service 2013 and 2014

• **Gateway West (Segments D & E)**
  - Windstar to Populus
    - Scheduled in service 2015-2017
  - Populus to Hemingway
    - Scheduled in service 2015-2018

• **Gateway South (Segments F & G)**
  - Aeolus to Mona
    - Scheduled in service 2017-2019
  - Sigurd to Red Butte
    - Scheduled in service 2014

• **Westside (Segments A & H)**
  - Wallula to McNary
    - Scheduled in service 2012-2013
  - Hemingway to Captain Jack
    - Alternatives under consideration
Formula Rate Overview
Change in Costs

- Current revenue requirement based on 1994 costs = $242 million

- Primary driver of increase is higher investment in transmission plant: net plant grew from $1.97 billion to $3.34 billion
  - Transmission plant increased approximately 70% over the last 15 years

- Transmission average peak demand has grown from 9,519 MW (1994) to 14,178 MW (2009)
Stated Rate v. Formula Rate

• A stated rate is a fixed charge set in a regulatory process through a rate case based on a test period
  – The fixed rates do not change unless another rate case is filed

• A formula rate is a fixed method for calculating a rate based upon set inputs
  – The formula is the filed rate – not the results in any one year
  – The charges to customer update annually
  – Data input comes from public sources (Form 1) and company data
  – Recalculation of the charges is done pursuant to a set of protocols
  – Forecast elements are subject to refunds/surcharges
**Determination of Revenue Requirements**

- Basic calculation is return on rate base + operating expenses
- Rate base components:
  - Transmission plant balance less accumulated depreciation
    - Excludes generator step up transformers, and interconnection facilities
  - Allocated general and intangible plant less accumulated depreciation
  - Accumulated deferred income taxes associated with items included in revenue requirements
  - Working capital
  - Other rate base adjustments necessary to reflect funds supplied by investors
Determination of Revenue Requirements (continued)

• Return is determined by applying weighted average cost of capital percent to rate base
  – Cost of capital rate incorporates cost of debt and cost of equity (i.e., ROE) weighted in proportion to capital structure
  – Incentive ROE for Energy Gateway

• Operating expenses:
  – Depreciation expense for transmission plant and allocated general/intangible plant
  – O&M expense, including transmission O&M and allocated A&G expense
  – Allocated general tax expense:
    • Property tax, payroll tax, other non-income taxes
  – Income taxes
Determination of Revenue Requirements (continued)

Revenue credits:

- Revenues received that offset costs included in revenue requirements, primarily non-firm and short-term firm revenues for transmission service, and lease payments associated with transmission facilities
Formula Rate

- Determination of revenue requirements is stated as a formula that uses cost inputs from FERC Form 1 and company records
  - The FERC Form 1, a detailed and audited publicly available source of data.
  - Workpapers provide additional detail or data required by the utility, FERC or intervenors
  - Detailed cost support attachment to allow more detailed functionalizations and allocations to better sync with ratemaking.

- The resulting revenue requirement is recomputed annually.
- The annual revenue requirement is divided by calendar year average transmission system peak demand for long-term firm service to determine a rate per kW
- Revenue requirements and rates are billed initially using estimated annual revenue requirements and trued-up to actual revenue requirements when known
Formula Rate

- Revenue requirement used for billing is for a projected test year
- A “true-up” calculation is done each year to compare the actual revenue requirement to the projected
- Any refund or surcharge is an adjustment to the revenue requirement for the next projected period
Advantages of Formula Rate

- Formula transmission rates are encouraged and broadly accepted at FERC, and are used by many companies
- Annual rate adjustment to reflect new investment, load growth, and usage credits
- Right to have data requests answered during the annual review period
- Review input and point out input errors
- Procedures to handle disputes are predetermined through protocols
- Improve transparency by providing data, changes in accounting practices, and customer meetings
- Set forth annual update procedures, dates, timing, etc.
- How to handle data input or accounting errors
- Allow for customers to budget for upcoming rate changes
Ancillary Services

- PacifiCorp is reviewing current ancillary service revenue requirements to determine if sufficient to recover current costs
  - Schedule 1 (Scheduling, System Control, Dispatch)
  - Schedule 2 (Reactive)
  - Schedule 3 (Regulating Reserves)
  - Schedule 5 (Spinning Reserves)
  - Schedule 6 (Non-Spin Reserves)
  - Schedule 10 (Losses)
Formula Rate Protocols
Formula Rate Protocols & Timeline Illustration

• PacifiCorp will implement a formula methodology to calculate its transmission service rates for Network Integration Transmission Service and Point-to-Point Transmission Service

• The revenue requirements and rates will be recalculated annually using the approved formula and in accordance with the established formula protocols. The protocols are separated into the following categories:
  - Annual update process
  - Annual review procedures
  - Resolution of challenges
Annual Update Process

• Each year the Annual Transmission Revenue Requirement ("ATRR") and the PTP transmission rates will be projected based on prior calendar year data. This represents the annual update for the upcoming rate year
  – The annual update will be posted to the OASIS website
  – An informational filing will be made with FERC
  – The date on which these events occur is the publication date

• The annual update will also include the true-up for the prior year ATRR
  – True up amount (including interest) increases or decreases ATRR for upcoming billing period
Proposed Annual Review Procedures

- Each annual update shall be subject to the annual review procedures
- Interested parties will have up to 90 days after the publication date to serve information requests to PacifiCorp (i.e., Discovery Period)
- PacifiCorp will respond to requests within 15 business days in most circumstances
- Any interested party will have up to 120 days after the publication date to review calculations and notify PacifiCorp of any specific challenges
- Preliminary challenges will be posted to the OASIS website
Resolution of Challenges

• PacifiCorp will respond to parties making the preliminary challenges within 30 days after the end of the review period

• For any preliminary challenges to the Annual Update not resolved, the interested party may make a formal challenge with FERC
Next Steps & Closing
Additional Questions

• Questions that have not been answered today or have not been asked should be submitted in writing.
• All questions should go to designated contact
• All responses will be distributed to all who were invited to this meeting
Questions and Discussion