Evaluation of the Financial and Economic Impacts of Experimental Flows

At the request of the TWG, Western completed an evaluation of the financial impacts of the Scenario 1. That analysis was contained in the March 25th document you received from the GCMRC. In the analysis, the scope of the study is explained and it was stated that it was not complete and would be supplemented. Western believes a more extensive analysis is required which would supplement the information contained. In addition, the statement made in the cover letter “The experimental treatment being proposed for WY 2002 - 2003 has been analyzed for its impact on power and its risk to other resources. It is believed that there are no significant negative effects from this proposal” was a premature assessment and, under certain circumstances, explained below, is not accurate.

The scope of Western’s financial analysis contained in the reference document, is quite narrow, it is merely the impact to Western on an accounting basis, of power sales revenues collected and expanded by Western during this test. Given the time allowed for the completion of this work, our analysis is “quick and dirty”. We nevertheless believe that it is an accurate depiction of the magnitude and direction of the impacts to Western on an accounting basis.

Regarding impacts to CRSP power customers, it is important to understand that customer impacts are dependent in part on how Western delivers CRSP resources. Western is contractually obligated to deliver all CRSP resources to its firm power customers. If the CRSP generation is limited due to a test, Western’s contractual obligation does not change; it would then have an obligation to purchase resources in order to deliver its contractually obligated amounts to its customers. During past tests, Western has made its contractual deliveries under a “no-test” arrangement. We make commitments to our firm power customers based on how water would have been released through Glen Canyon Dam as if no test was being conducted. This statement however, presumes that Western has the cash reserves available to “make up” for the difference between our “no-test” contractual obligations and actual generation at the CRSP powerplants. During the LSSF test conducted during the Summer, 2000, the combination of this test, dry hydrological conditions and historically-high market prices for supplemental electrical energy, the CRSP resources were severely depleted. This caused Western to make some changes in how it conducted business and this, in turn has had an adverse impact on Western’s CRSP customers. The cost of purchasing supplemental electrical power to meet the “no-test” contractual commitments to CRSP customers was estimated at $21 million dollars. So, it’s easy to see how the costs of a test, like the LSSF, can have an effect on Western’s cash reserves.

The possibility that Western’s cash reserves could be drawn down to precariously low levels is real. This is especially true in conditions of drought and with the currently volatile electrical energy market. Therefore, if Western must expend funds to support its contractual obligations during a test, these costs may be passed on financially to customers in the form of a rate hike.

We believe that a complete economic analysis, with a broader scope than the “quick and dirty” done by Western, ought to be prepared. A longer-term test would have significantly greater impacts to CRSP power customers. Again, the importance of this turns on long-term implementation of Scenario 1. If the proposal became part of the standard operation of Glen Canyon Dam and Western modified the distribution of its monthly commitments accordingly, CRSP customers would be affected. It is important to understand that customer impacts are dependent in part on how Western delivers CRSP resource. The question of whether the lower hydropower resource during the fall would be offset by higher electrical availability in the winter/early spring would have to be evaluated using customer replacement costs, changing market conditions and prices, transmission constraints and current and projected hydrology.