

Oil & Gas Customer Meeting Update

CBM Customer Meeting

Gillette, WY

August 30, 2012

CBM 5 Mill CIAC Surcharge

History

- CBM Line Extension Policy contains a 5 mill per kWh surcharge which is applied to CBM work orders for substations, transmission lines and system improvements.
- Policy took effect in June of 2009.

5 Mill Surcharge Summary

- As of August 30, 2012:
 - Total funds collected: \$18,631,076.84
 - Total work order costs: \$18,307,013.26
 - Difference: \$ 324,063.58
- 15 open work orders at or substantially near completion.
- Final costs determined at W/O close.

Next Steps

- We have ended billing of 5 mill surcharge.
- No longer accepting 5 mill projects.
 - Future substations, transmission lines and system improvements addressed on a case by case basis.
- Expedite close of open work orders as projects are completed and finalize total 5 mill exposure.
- Update CBM group in October

Next Steps

- Notification letter to the Wyoming PSC.
- Prepare a PSC filing to revise the CBM Line Extension policy remove the 5 mill surcharge.
- Schedule PSC Update in Cheyenne.

Present Value of Minimum Billing Demand

History

- The Rate Schedule for Large Power – Coal Bed Methane accounts specifies that:
“A minimum Billing Demand may be established in the contract for service. Billing Demand will in no case be less than fifty (50) kW.”
- The CBM Master Service Agreement States in part 12:
“In the event member wishes to terminate service...member shall pay...the present value of the minimum billing demand charge for the remainder of each service term....”
- Contract lengths were established by contracts:
7 years for contracts made before June 2009
5 years for contracts made in or after June 2009

Early Cancellation Process

When a member requests termination of an account before the contracted time has elapsed:

- Member Service Representative gives Finance the account number, the number of contracted months remaining on the account, and the contracted minimum billing demand.
- Finance completes a Present Value calculation which discounts the stream of payments required by the minimum billing demand (MBD) in the contract.
- The calculation of a present value for the MBD due recognizes that there is a value to a payment received earlier than the contract requires.

Present Value Calculation

- The present value of that stream of payments is less than the sum of all of the monthly payments; the difference between the two is a discount for paying early.
- In other words:
 - \$100 invested today will be worth \$105 in one year if invested at a 5% rate; the future value of \$100 is \$105 in one year at 5%.
 - \$100 received a year from now is worth \$95 today, assuming a 5% interest rate; the present value of \$100 received in one year is \$95.
 - The present value calculation uses a discount rate to reduce the stream of MBD payments to its present value.
- The current discount rate is 1.78% in September 2012
 - It is the average of the Bank Prime Rate and the 3 Year Treasury Rate.

Example Calculation

(Using Microsoft Excel)

Given Information:

CBM Example Company

Account #: 12345678

Months Remaining: 15

MBD: 135kW

Discount Rate: 1.78%

Demand Charge: LP CBM

\$3 for first 50kW

\$7 for any additional kW

	A	B
1		
2	CBM Example Company	
3	Account #:	12345678
4	Months Remaining:	15
5	MBD (in kW)	135
6	Discount Rate:	0.0178
7		
8	Monthly MBD:	$=(3*50)+(7*(B5-50))$
9	PV of MBD:	$=-PV(B6/12,B4,B8,0,0)$
10		

	A	B
1		
2	CBM Example Company	
3	Account #:	12345678
4	Months Remaining:	15
5	MBD (in kW)	135
6	Discount Rate:	1.78%
7		
8	Monthly MBD:	\$ 745.00
9	PV of MBD:	\$11,043.50
10		

Monthly Minimum Billing Demand: $(\$3 \times 50\text{kW}) + (\$7 \times (135\text{kW} - 50\text{kW})) = \745

$\$745 \times 15 \text{ months} = \$11,175$

PV of Minimum Billing Demand:

$= -PV(\text{rate}, \text{number of periods}, \text{payment}, \text{Future Value}, \text{BOM}=1 \text{ or EOM}=0)$

$= -PV(1.78\%/12, 15, \$745, 0, 0) = \mathbf{\$11,043.50}$

Discount:
\$11,175.00
<u>-\$11,043.50</u>
\$131.50

CBM Infrastructure

CBM Plant Allocation

• Total Utility Plant Allocated to CBM:	\$159,923,921
• Less Accumulated Depreciation:	<u>\$ 60,316,673</u>
• Net Plant:	\$ 99,607,248
• Total Utility Plant Directly Allocated to CBM:	\$ 55,779,181
• Less Accumulated Depreciation:	<u>\$ 36,181,813</u>
• Net Plant:	\$ 19,597,368