



Informal Discussions
Proposed 2009 Rate Adjustments
Pick-Sloan Missouri River Basin Program
And
Loveland Area Projects

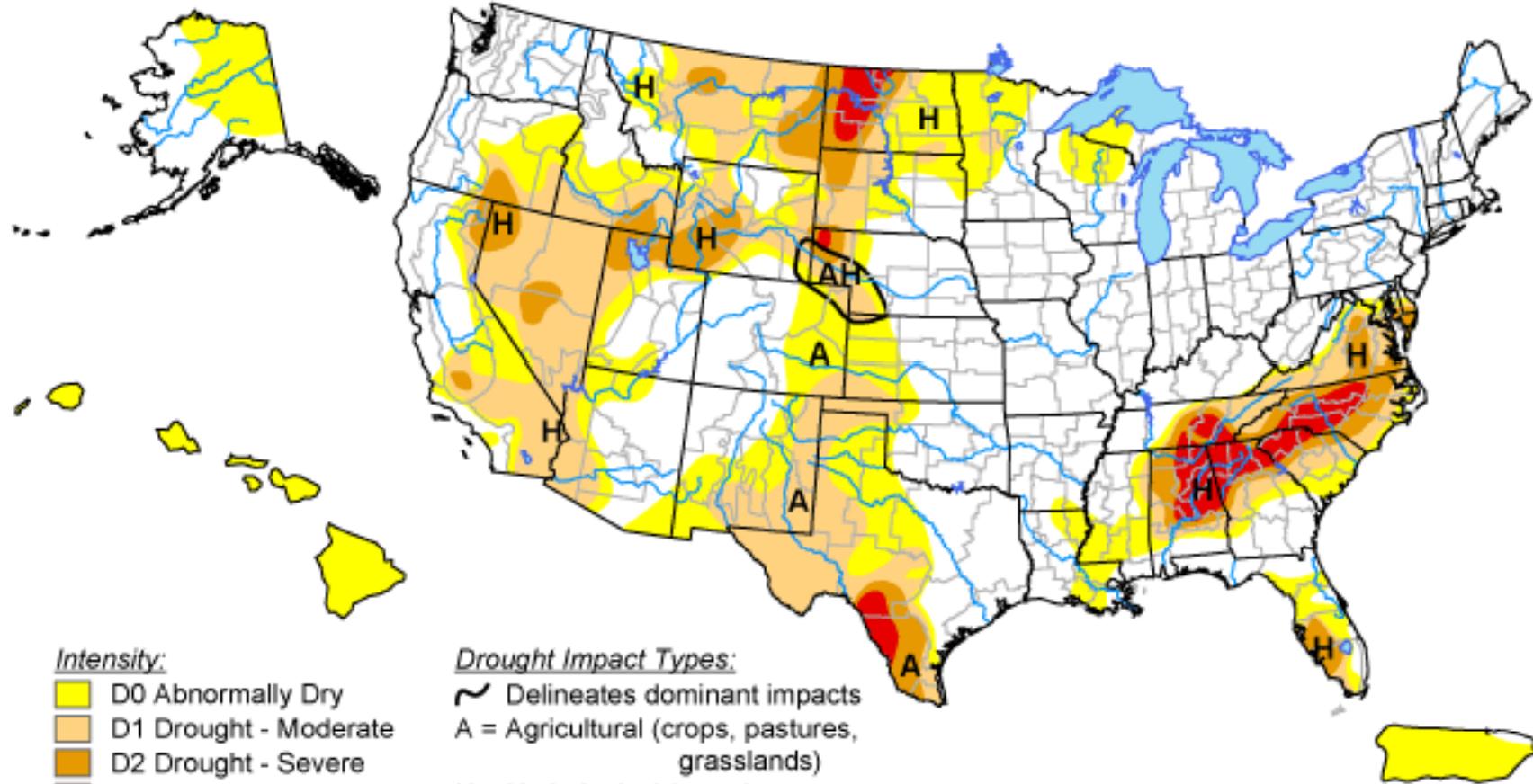
Jody Sundsted
Linda Cady-Hoffman
Sheila Cook

April 2008

- Drought Conditions
- Purchase Power (PP)
- Timing
- Drought Adder Cap
- Repayment
- Final FY 2007 Pick-Sloan PRS
- Final FY 2007 Fry-Ark PRS
- Rate Adjustment Proposals
- Proposed Schedule

U.S. Drought Monitor

April 1, 2008
Valid 8 a.m. EDT



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

Drought Impact Types:

-  Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

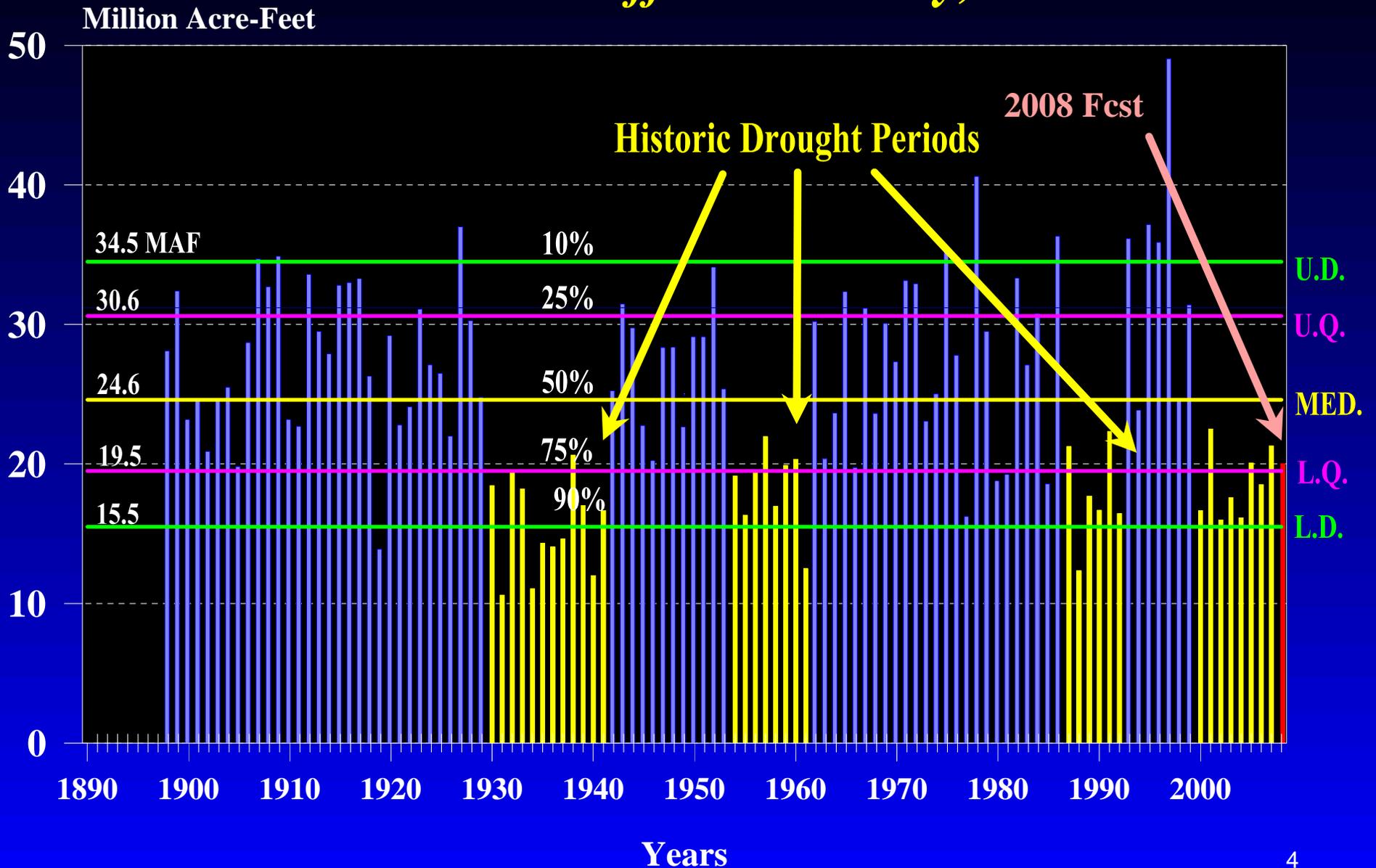
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>



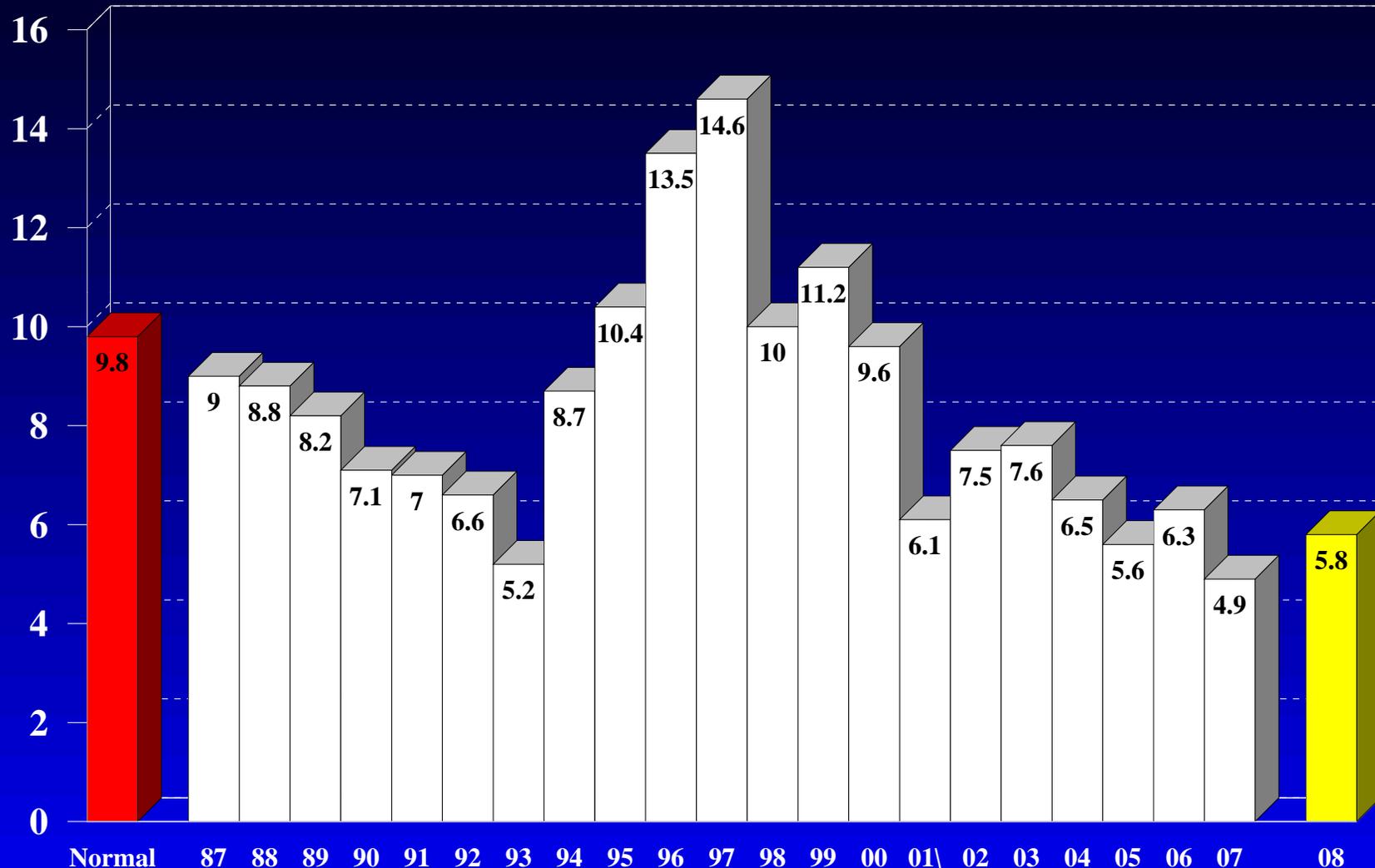
Released Thursday, April 3, 2008
Author: Rich Tinker, Climate Prediction Center, NOAA

Missouri River Mainstem Annual Runoff at Sioux City, Iowa



Mainstem System Generation

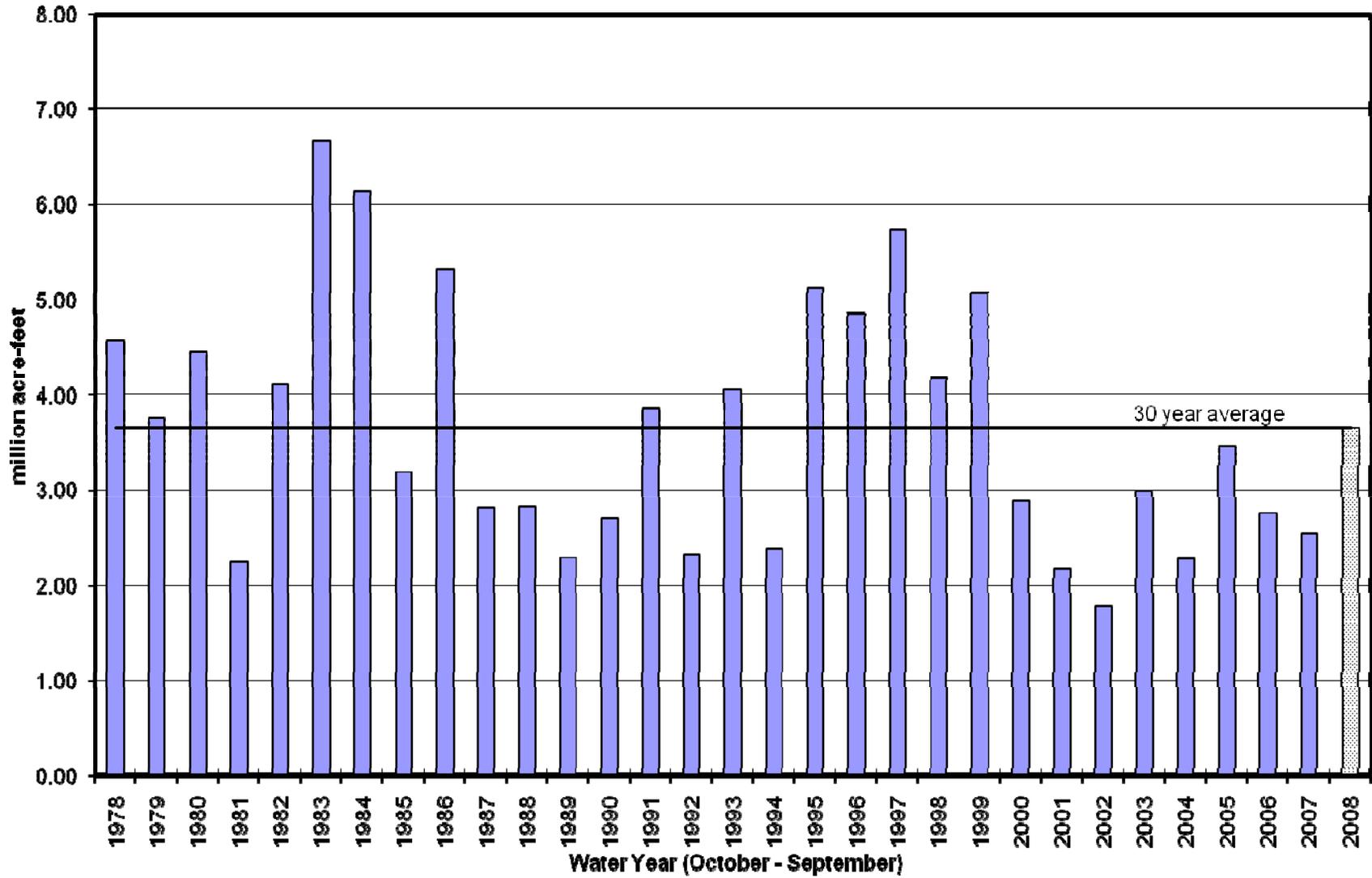
Million Megawatt Hours



April
Forecast

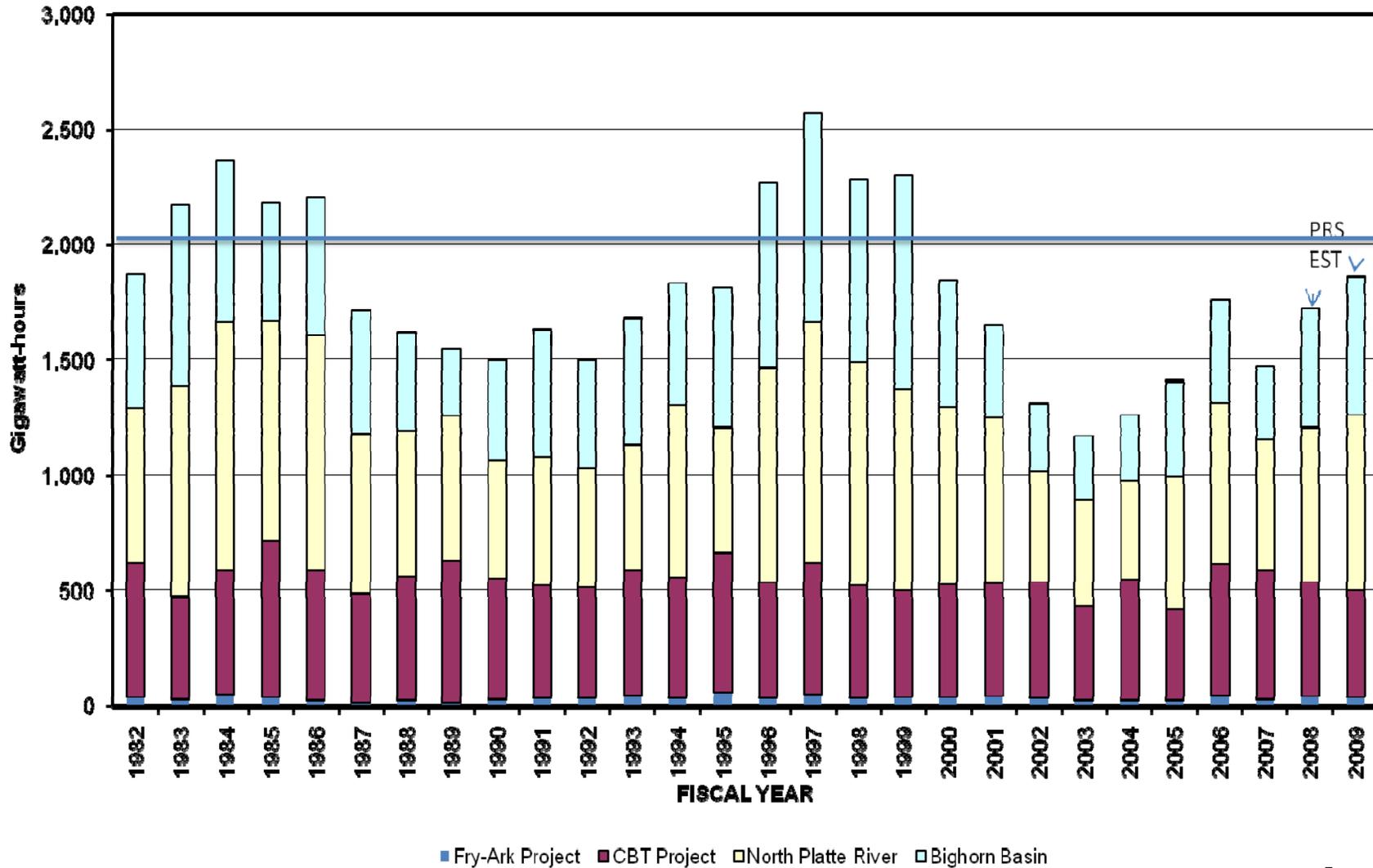


ANNUAL LAP RESERVOIR INFLOW with projected FY08



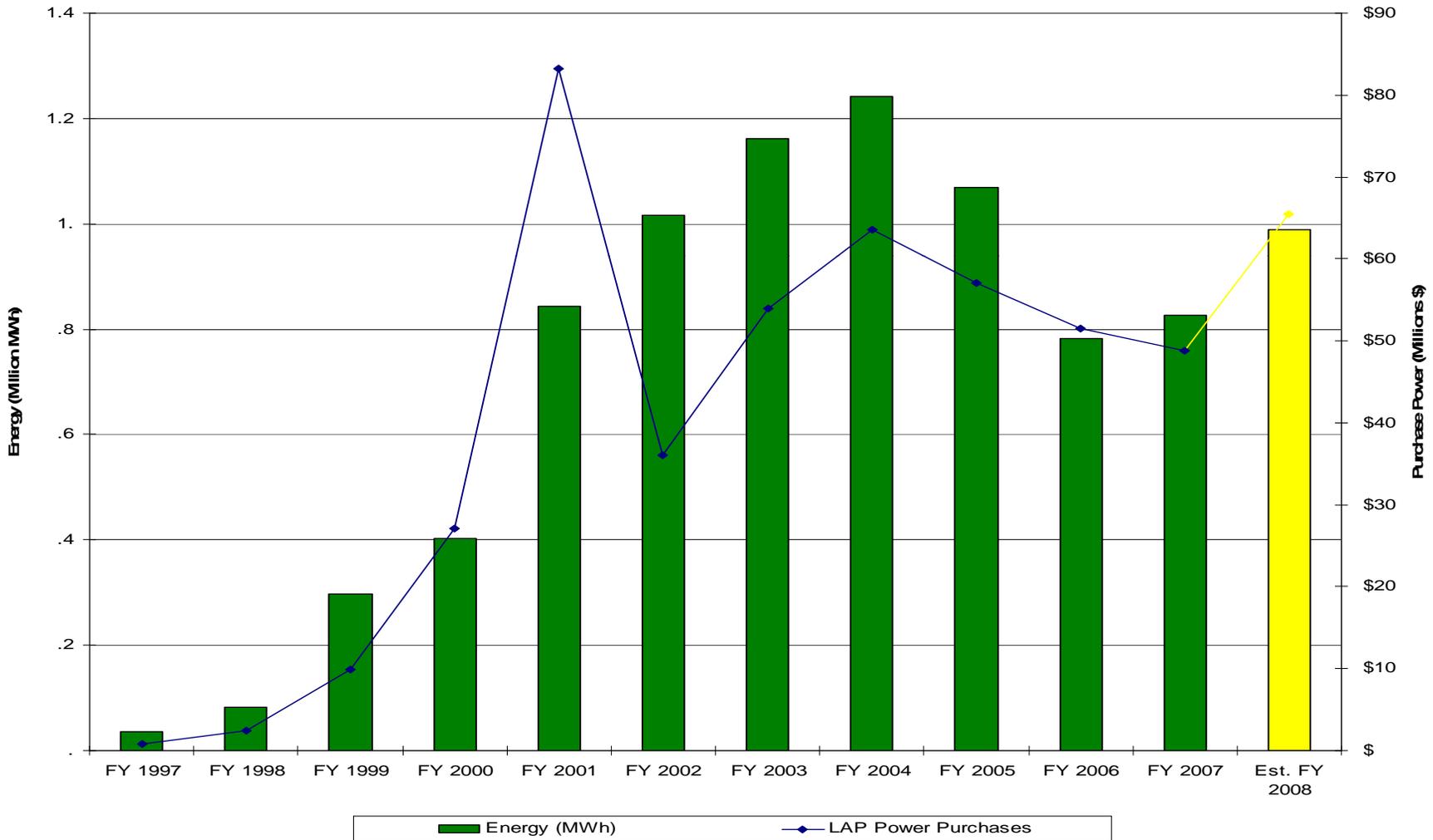


LAP GROSS GENERATION AT PLANT with projected FYs08-09



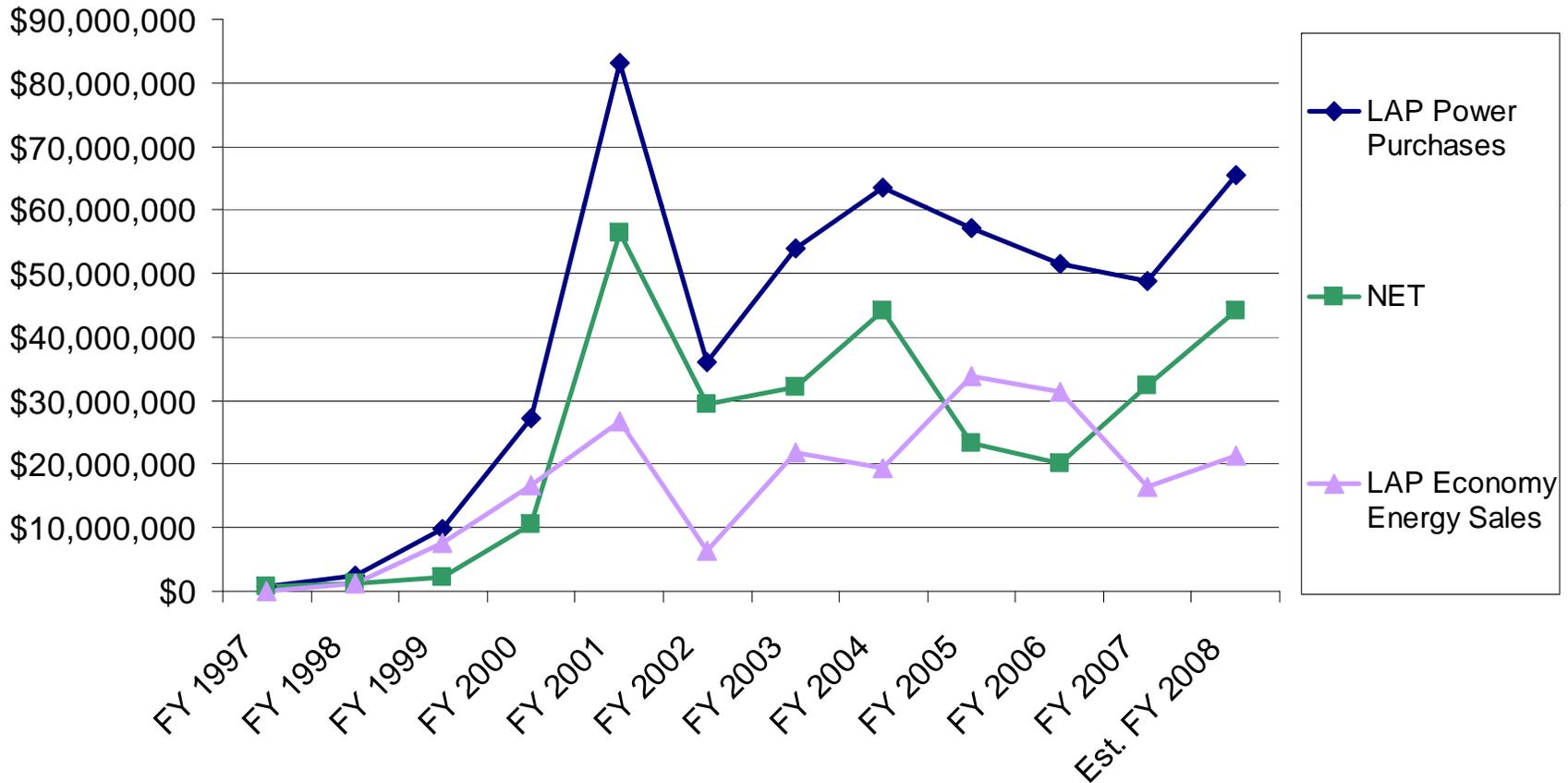


LAP Purchases vs. Energy



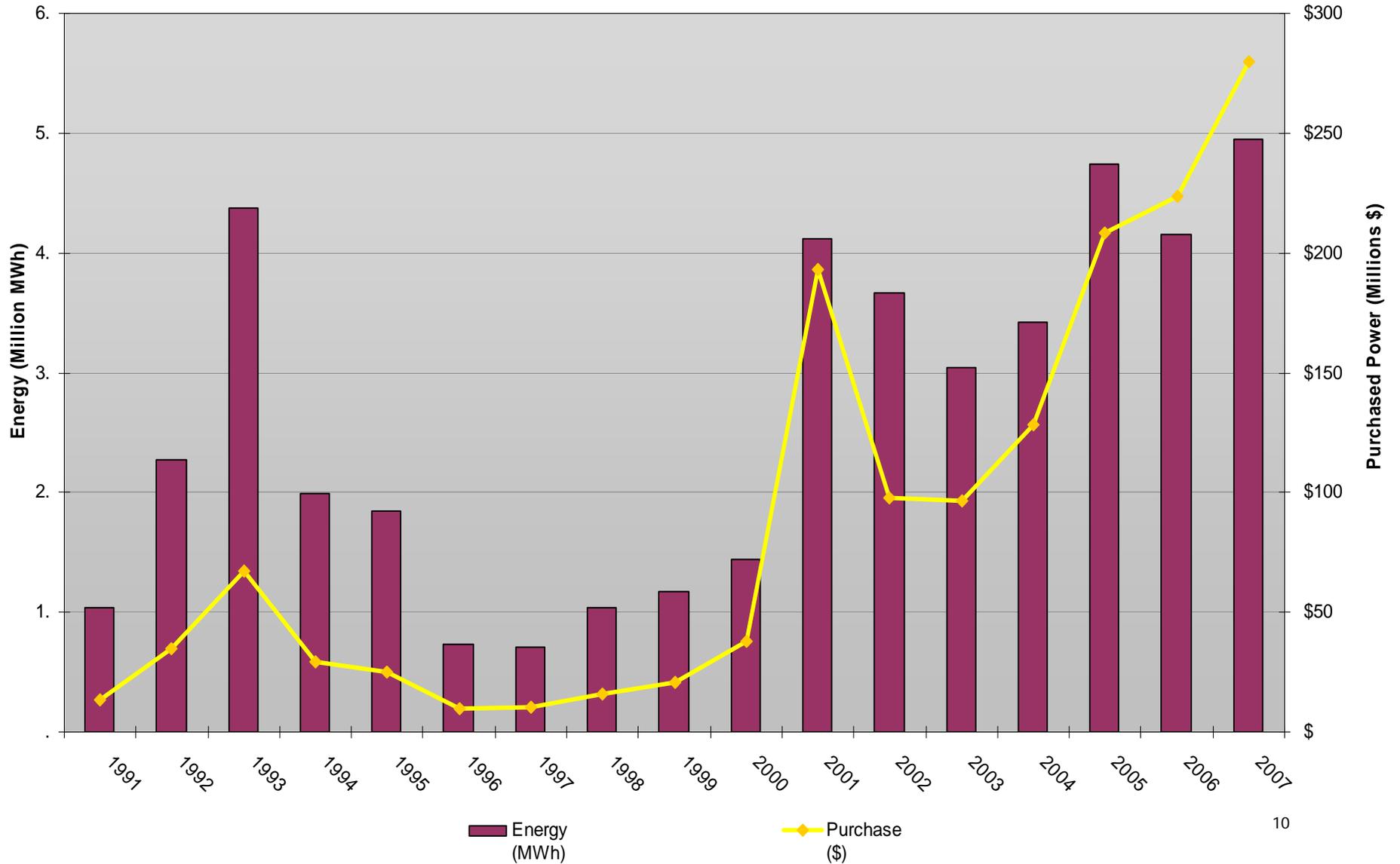


LAP Power Purchases and Sales



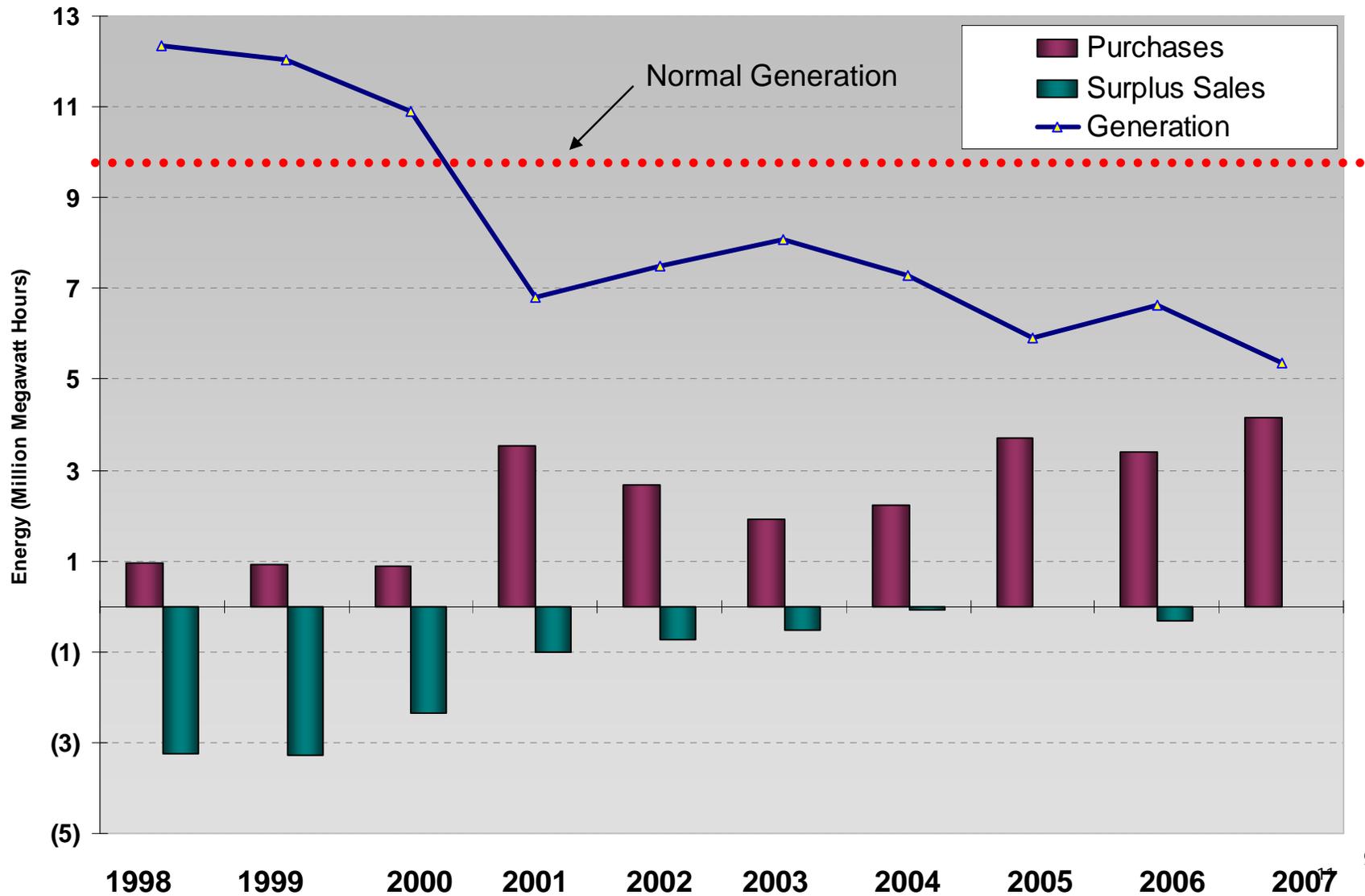


P-SMBP- Firming Purchases (Energy and Expense)

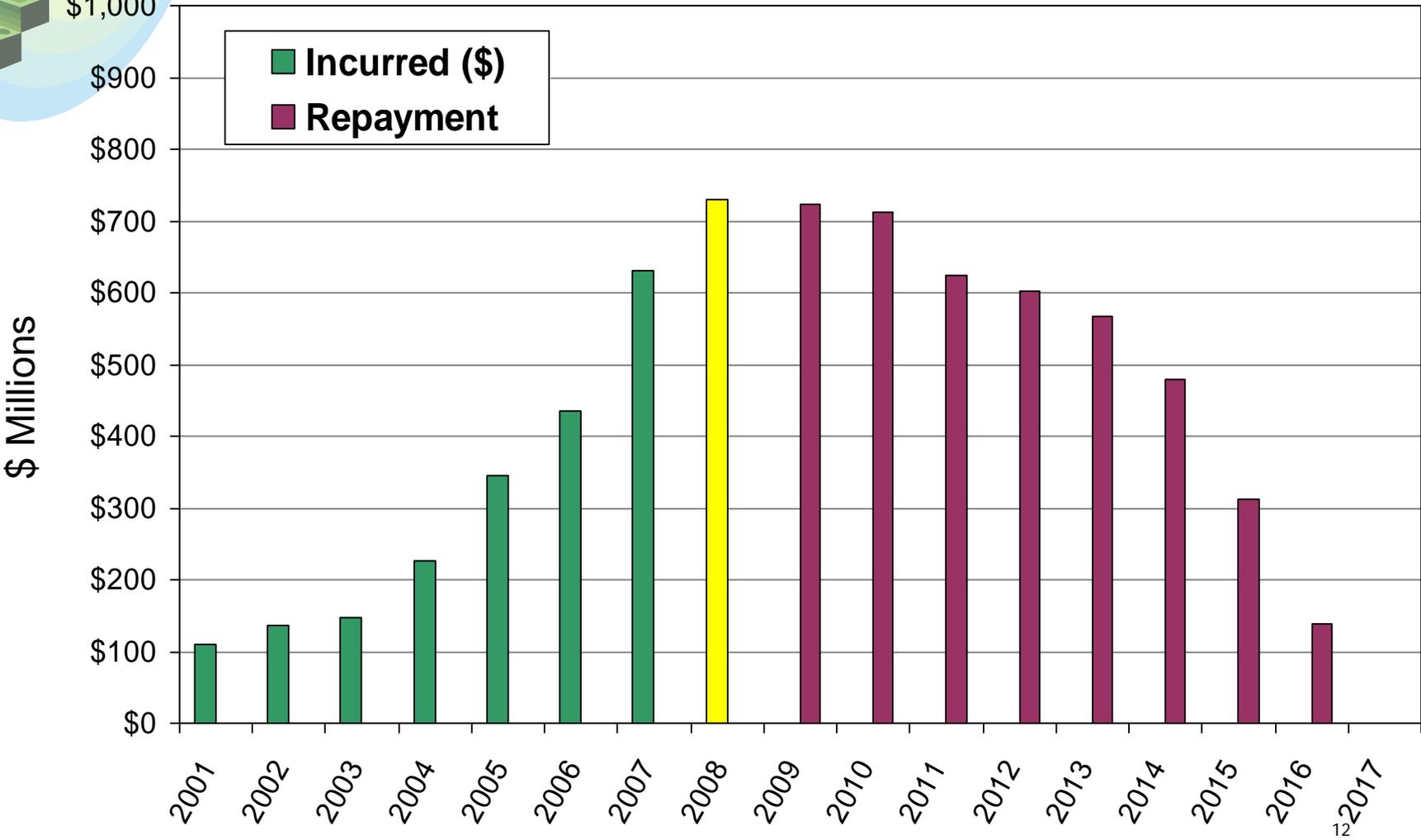
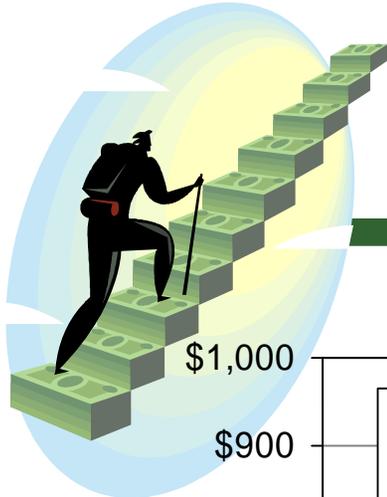




P-SMBP--Eastern Division Firming Energy

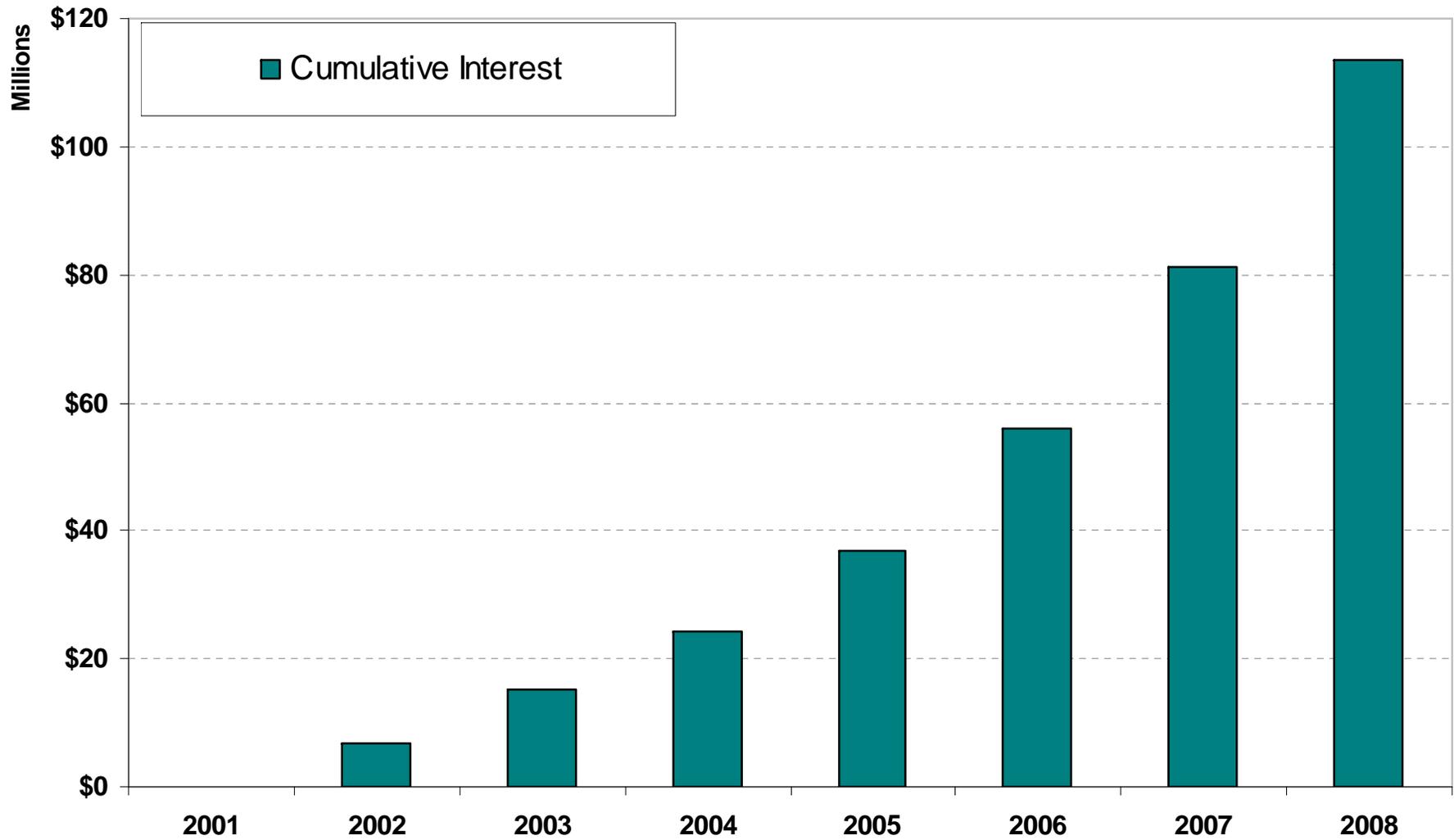


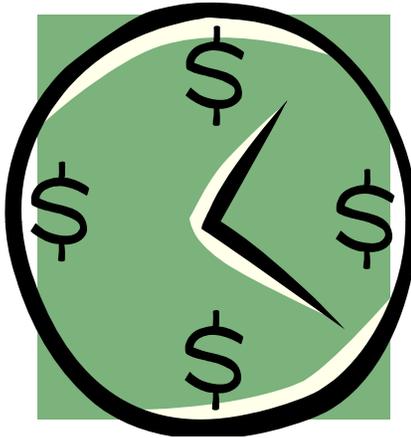
P-SMBP Drought Deficit





Cumulative Interest Deficit





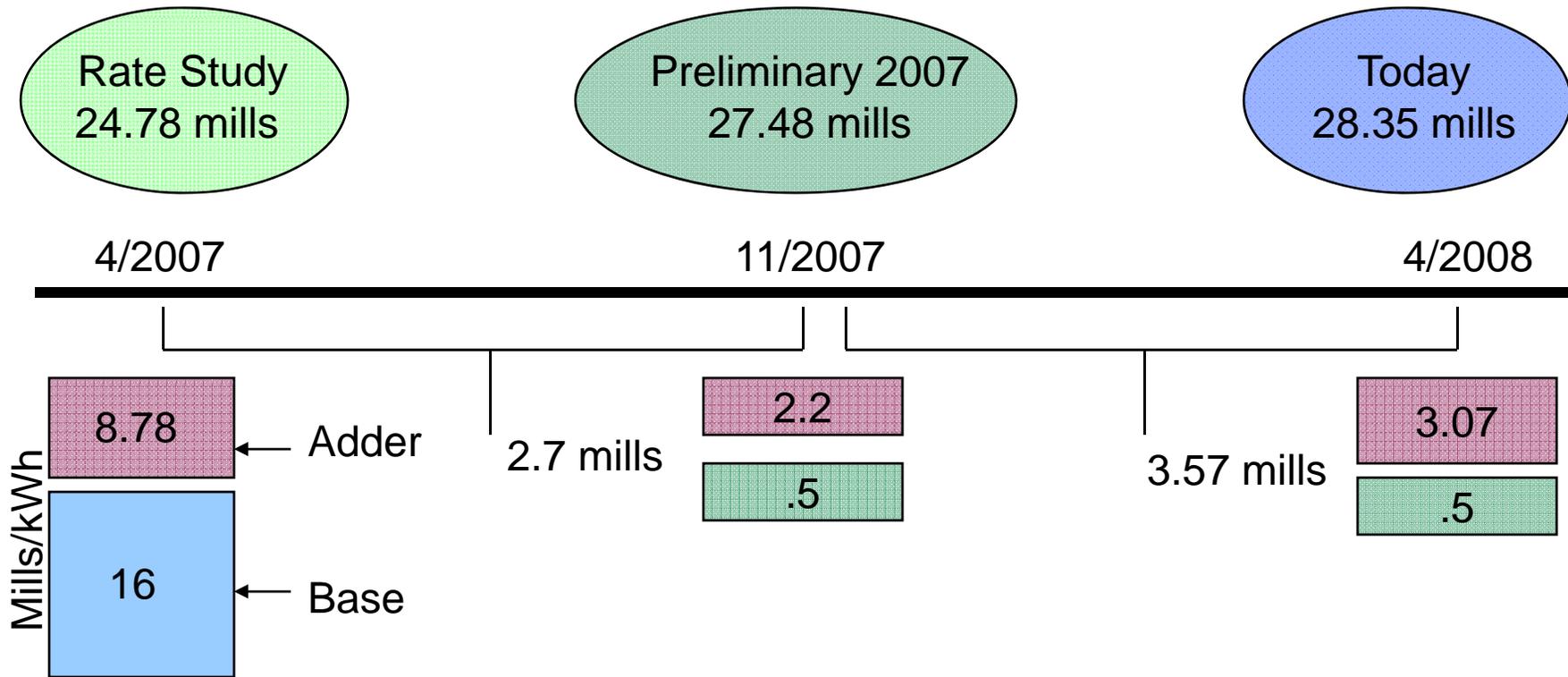
Rate

- **Base Rate**
 - Normal Rate Process Timing

- **Drought Adder**
 - Accelerate



Timing

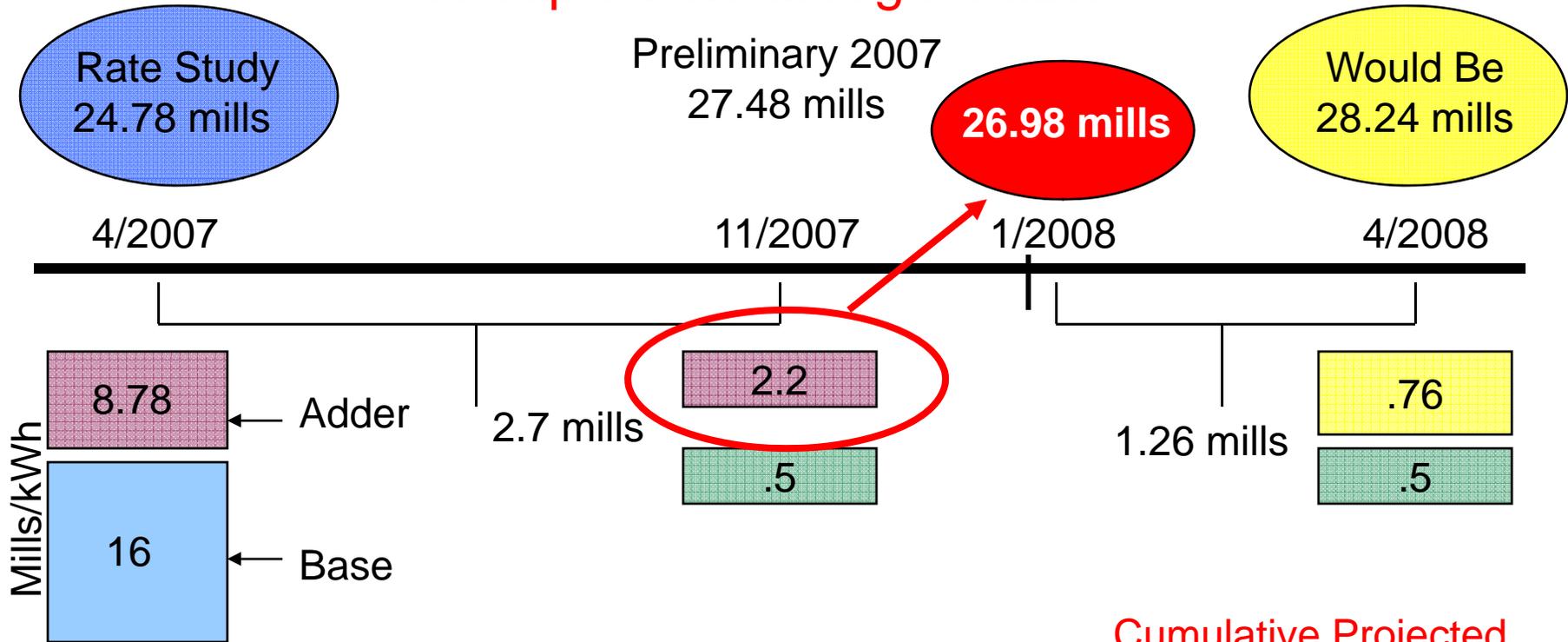


Cumulative Projected Deficit
\$572 FY 2007

Projected FY 2008
Cumulative Deficit
\$730 M

Accelerate the Adder

- Capture timing delay 1st of the year
- No cap on the drought adder

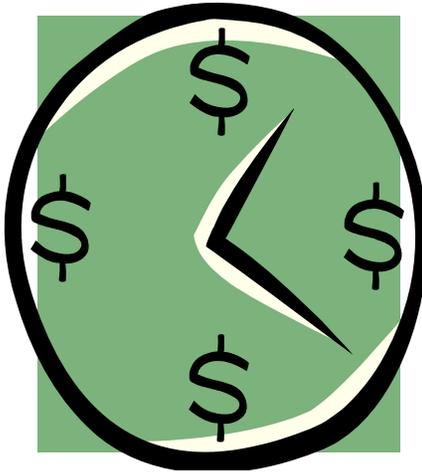


Cumulative Projected Deficit
\$572 FY 2007

Cumulative Projected
Deficit \$706 M FY 2008

Interest over 10 years
reduced \$13 M

Benefits of Accelerating Adder



- Less New Drought Deficit
- Interest Expense on Deficit is Lower
- Better Deficit Management
- Prompt Drought Payments



Criteria for Repayment

Flood Control Act of 1944

“Power is to be sold at the “lowest possible rates to consumers consistent with sound business principles.”

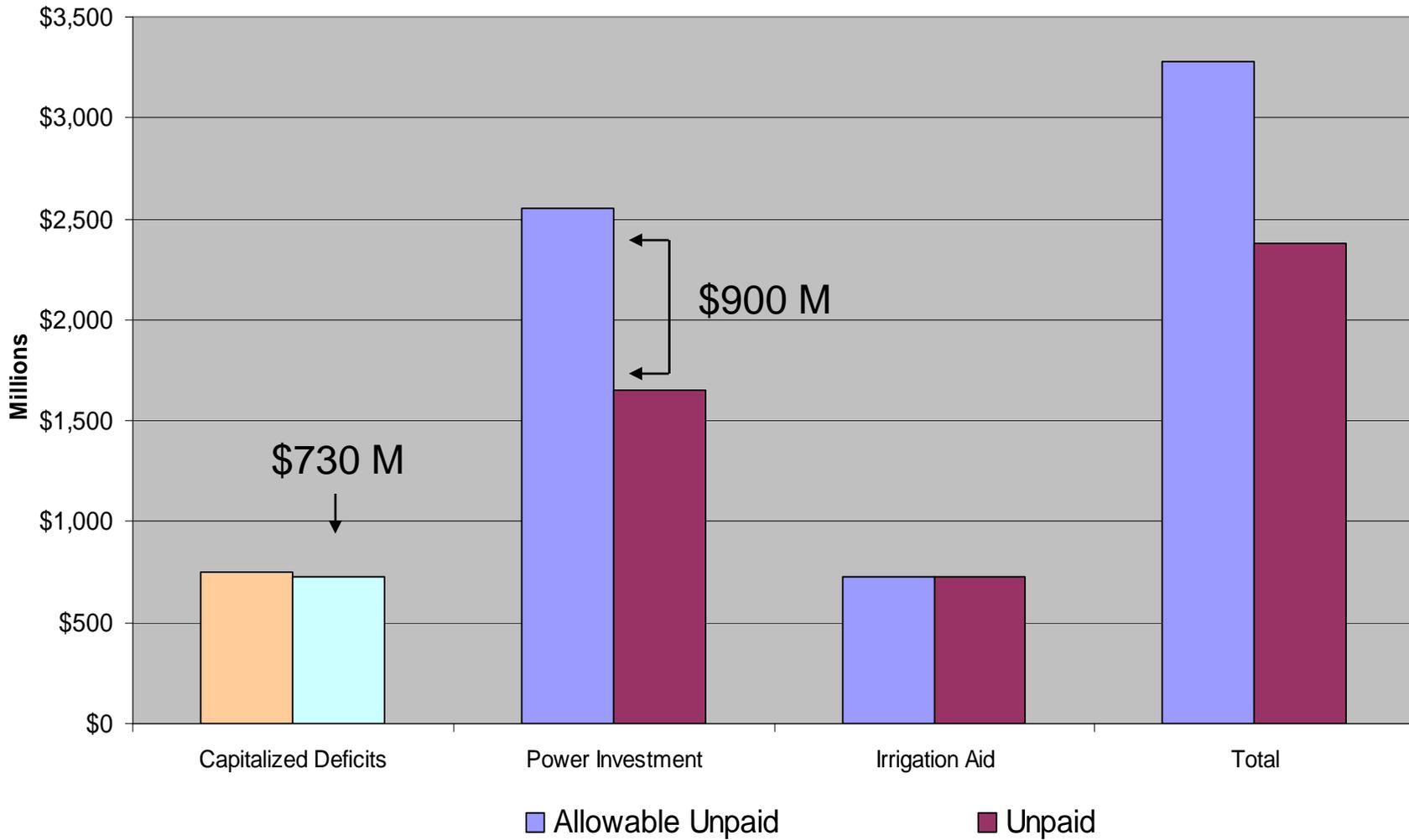
- Annual Costs
- Capital Costs
 - Required principal payments
 - Deficits
 - Highest interest-bearing investment (discretionary principal payments)
- Balloon payment methodology
 - Payments on capital costs are due at the end of their repayment period

What is “Paid Ahead”?

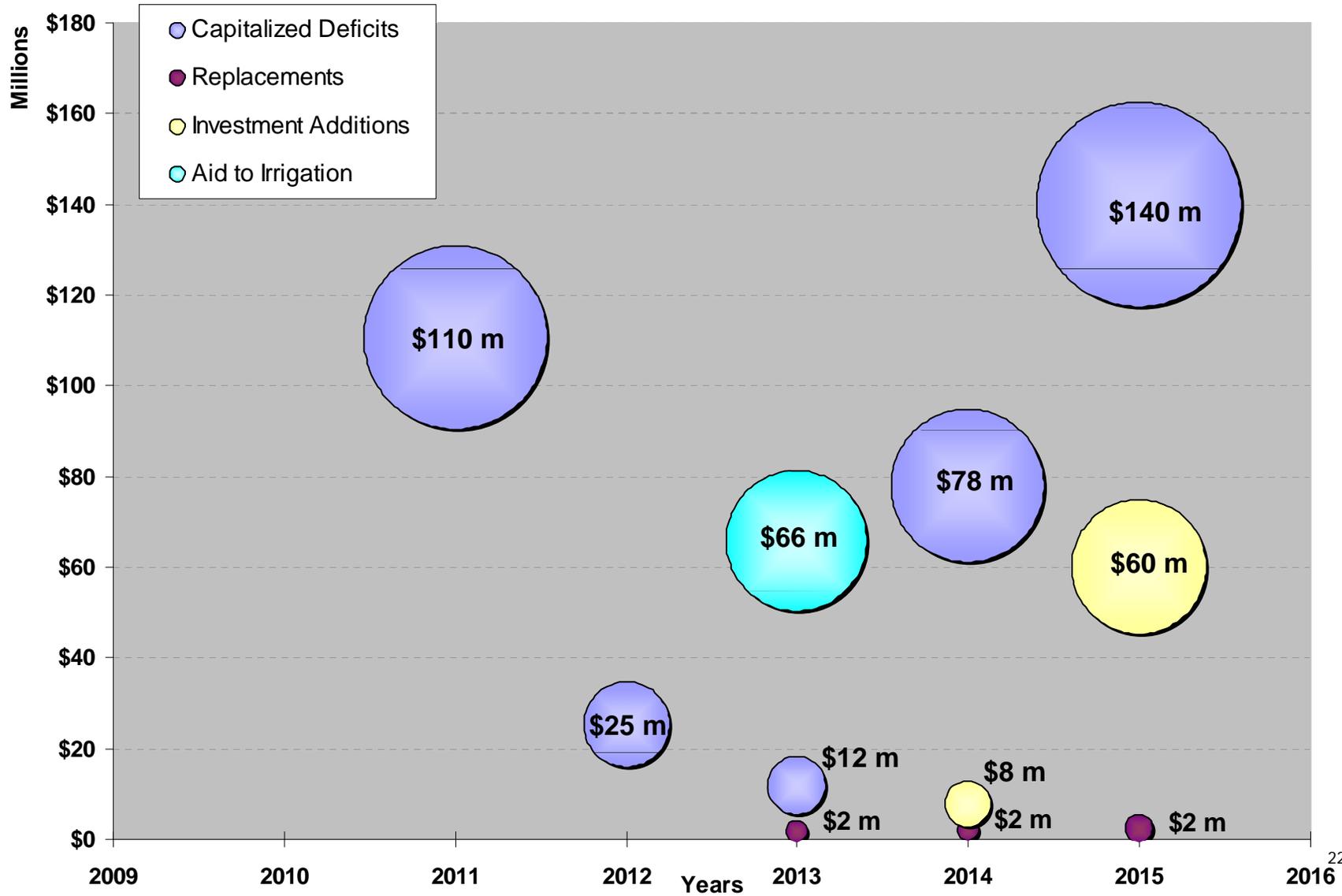
- In order to solve for the *lowest rate* in the future, the PRS applies discretionary dollars to investments between year of rate solution and the pinch point.
 - The difference between the Allowable Unpaid and the Unpaid is “Paid Ahead”.
- Paying ahead allows for *rate stability, within the balloon payment methodology of the PRS.*



Projected 2008 Investments and Deficits



Required Payments





Western's Rate Proposals Pick-Sloan & Fry-Ark

- Rate Solved at 28.35 mills/kWh
- Current Cumulative Deficit at \$632 M
- Projecting additional 2008 deficit of \$98 M
- Purchase Power is driving the rate 1st year out in the study (FY2009)
- Un-audited data
- Includes November 2007 Water projections (Corps and BOR)

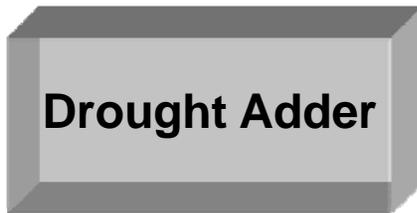


Fryingpan-Arkansas Project Final 2007 PRS

- Solved with a Revenue Requirement of \$14.6 million (\$230k or 1.6% increase)
- Includes BOR and Western 2009 work plans
- Includes most probable generation projection as of February 2008
- No deficits
- 2034 pinch-point

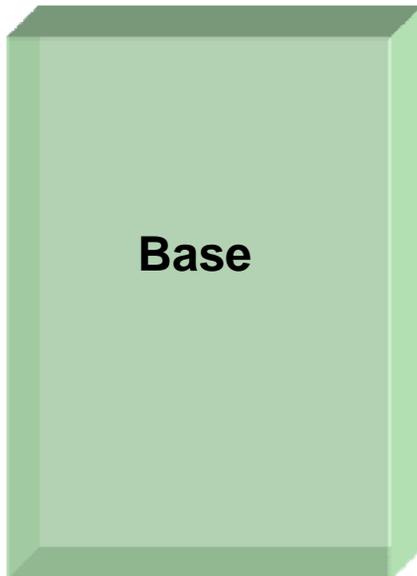
Pick-Sloan and Fry-Ark Rate Components

Overview of Rate Components



→ **Drought \$**

- Recovers \$ Associated with the Drought
 - Purchase Power related to drought
 - Interest on Drought Debt
 - Historical Drought Debt

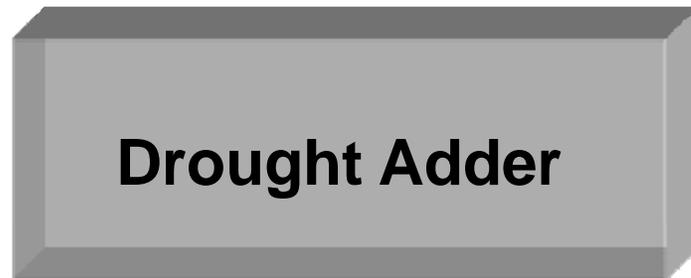


↗ **O&M \$**

→ **Capital \$**

↘ **Interest \$**

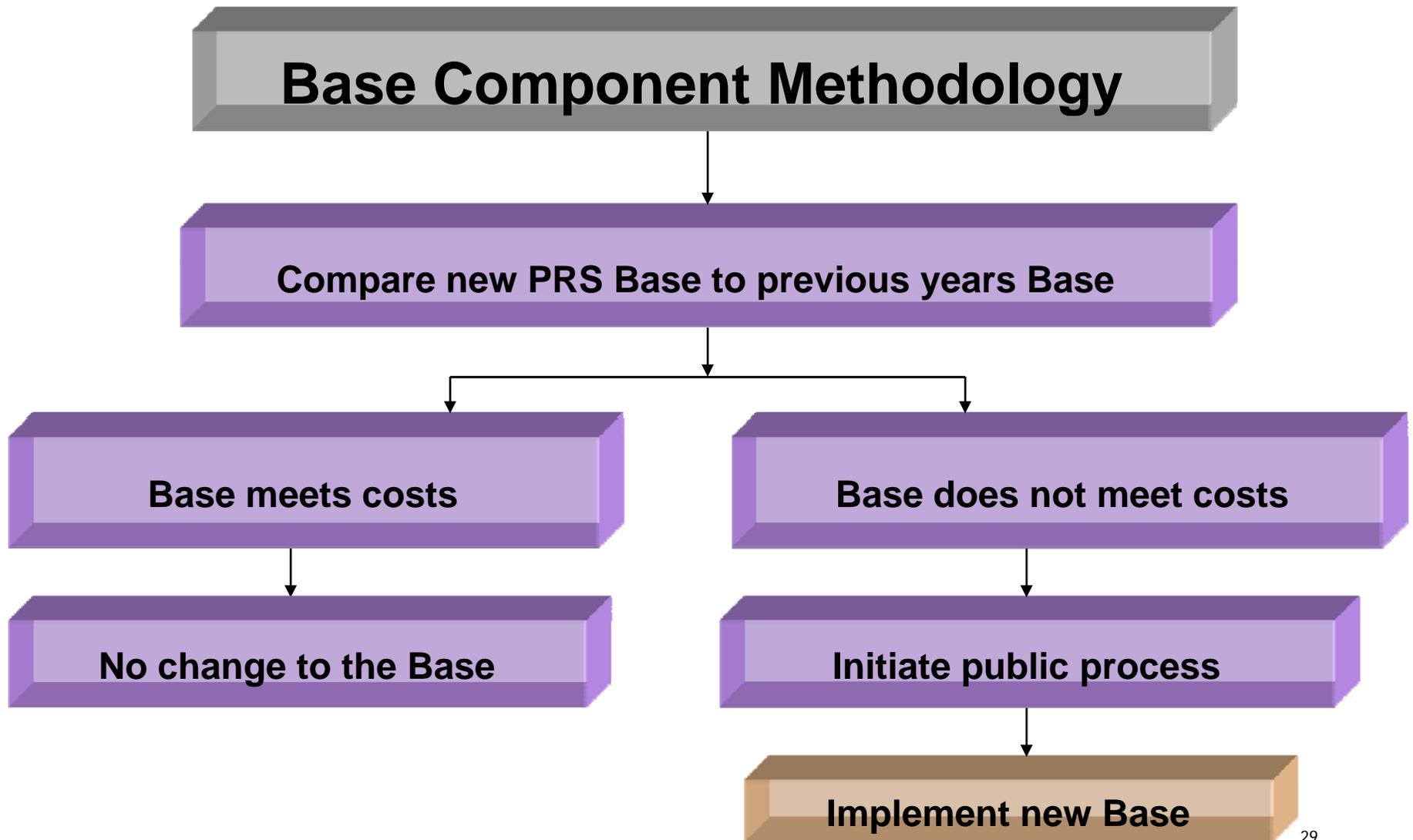
- Annual O&M
- Investments - Additions and Replacements
- Annual Interest on Investment
- Inflation
- Normal Purchases
- Transmission Costs



**Adjusted Annually by Formula
or by Public Process**



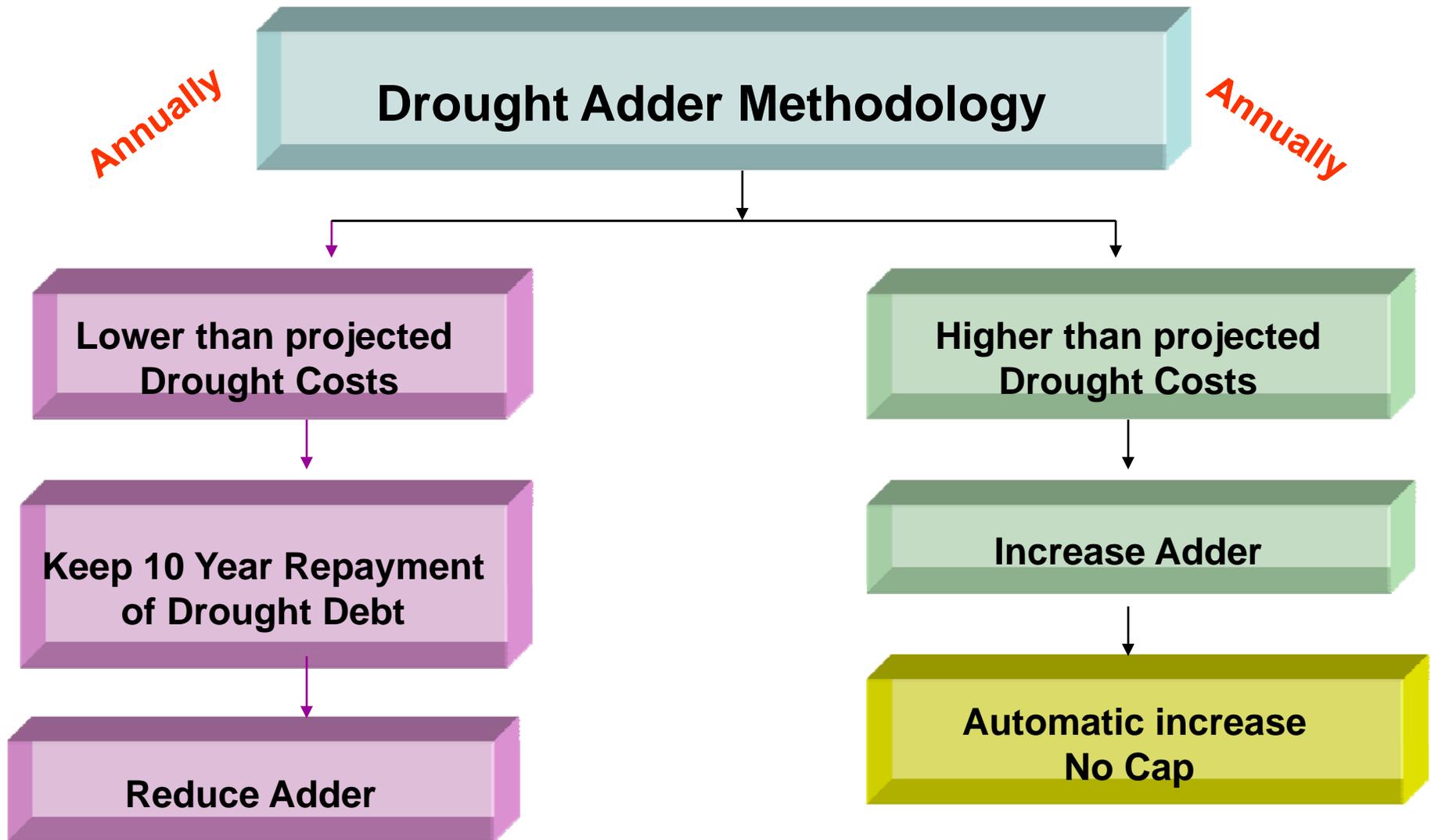
**Adjusted only by Public
Process**





Base Rate Adjustments

- 2007 Final PRSs showed need to adjust the Base Rates
 - Corps, BOR and Western 2009 work plans
 - Impact is steady with inflation of 3%
- April 2010 work plans were rolled out
 - Pick-Sloan impact estimated under 1 mill/kWh
 - Fry-Ark impact estimated slight decrease
- Propose 2nd step on the Base Rates





Drought Adder Modifications

- Preliminary PRS (Final PPW late Summer)
- No Cap on Drought Adder
- Send customers notice of change (October ?)
- Rate adjusted annually with January billing period



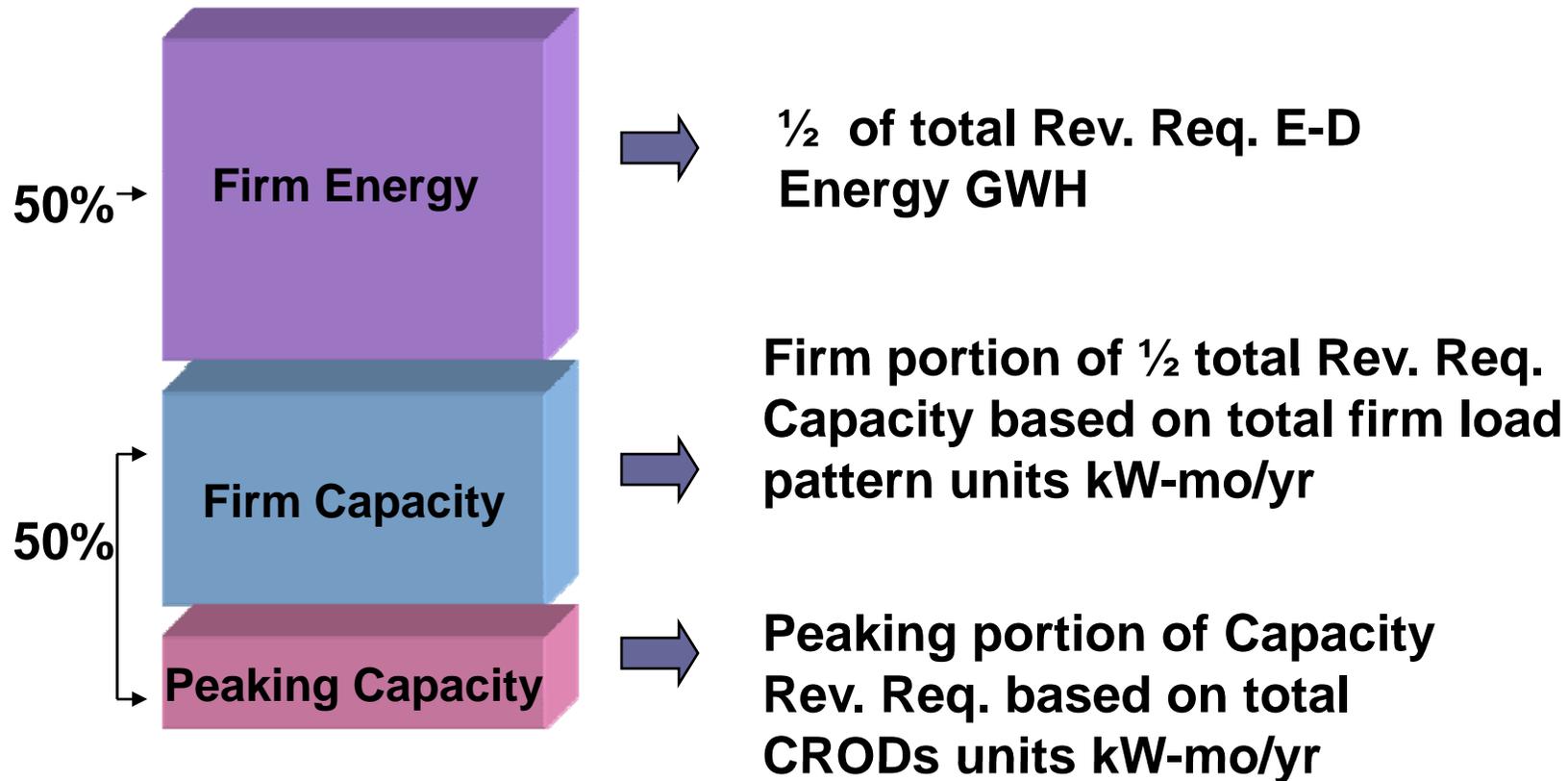
Pick-Sloan E-D Rate Design



Eastern Division Rate Design

- Firm capacity based on Metered Capacity Billing Units of 17,876 MW-mo/year
- 8,742 GWH of Firm Energy
- 356 MW of Peaking capacity recovered in the 50/50 capacity and energy split
- Peaking capacity based on CROD billing units of 4,272 MW-mo/year

50/50 Capacity/Energy Split





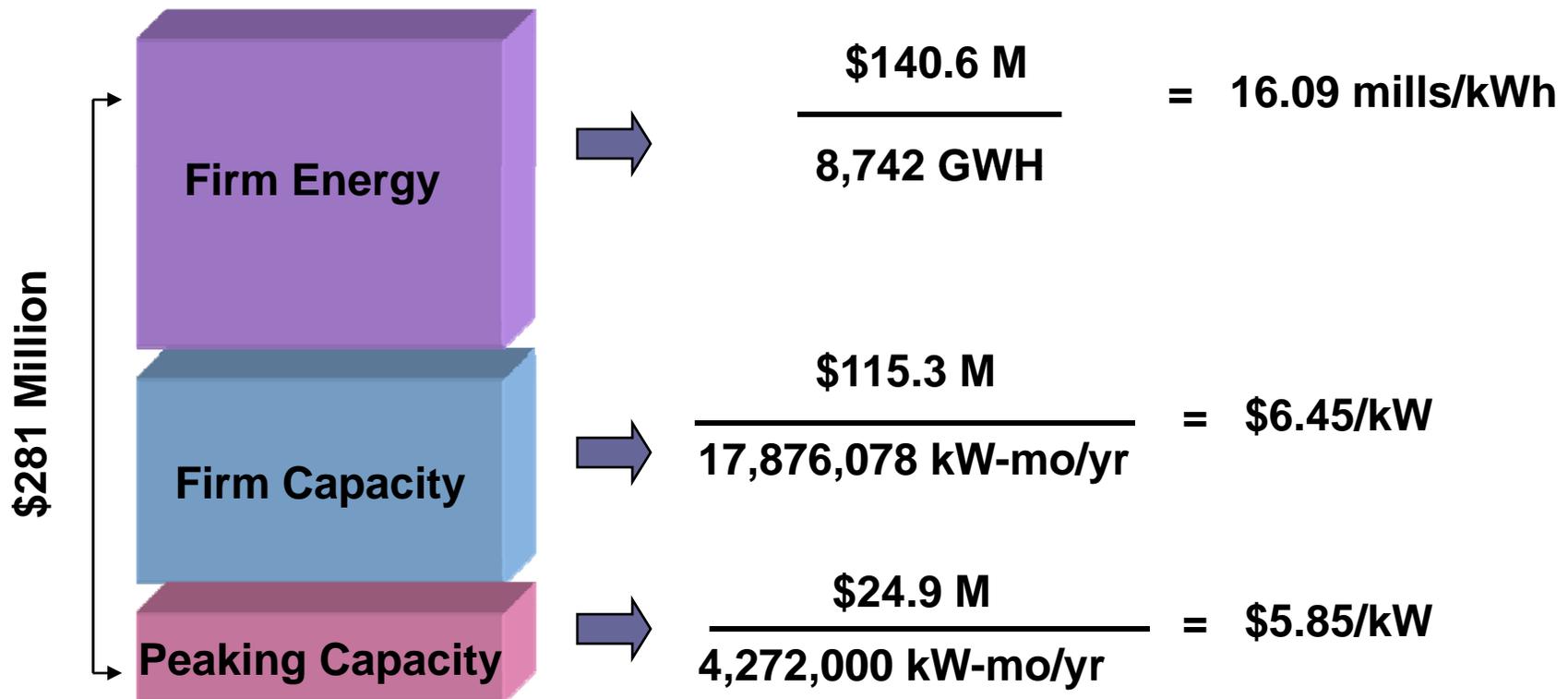
50/50 Design

Eastern Division rate is 50/50 design where 50% of the revenue is recovered from the capacity rate and 50% is recovered from the energy rate:

Firm Power Rev Req.	\$ 245.3 Million
Peaking Revenue	\$24.9 Million
5% Discount	<u>\$10.6 Million</u>
Gross Revenue	\$ 280.8 Million

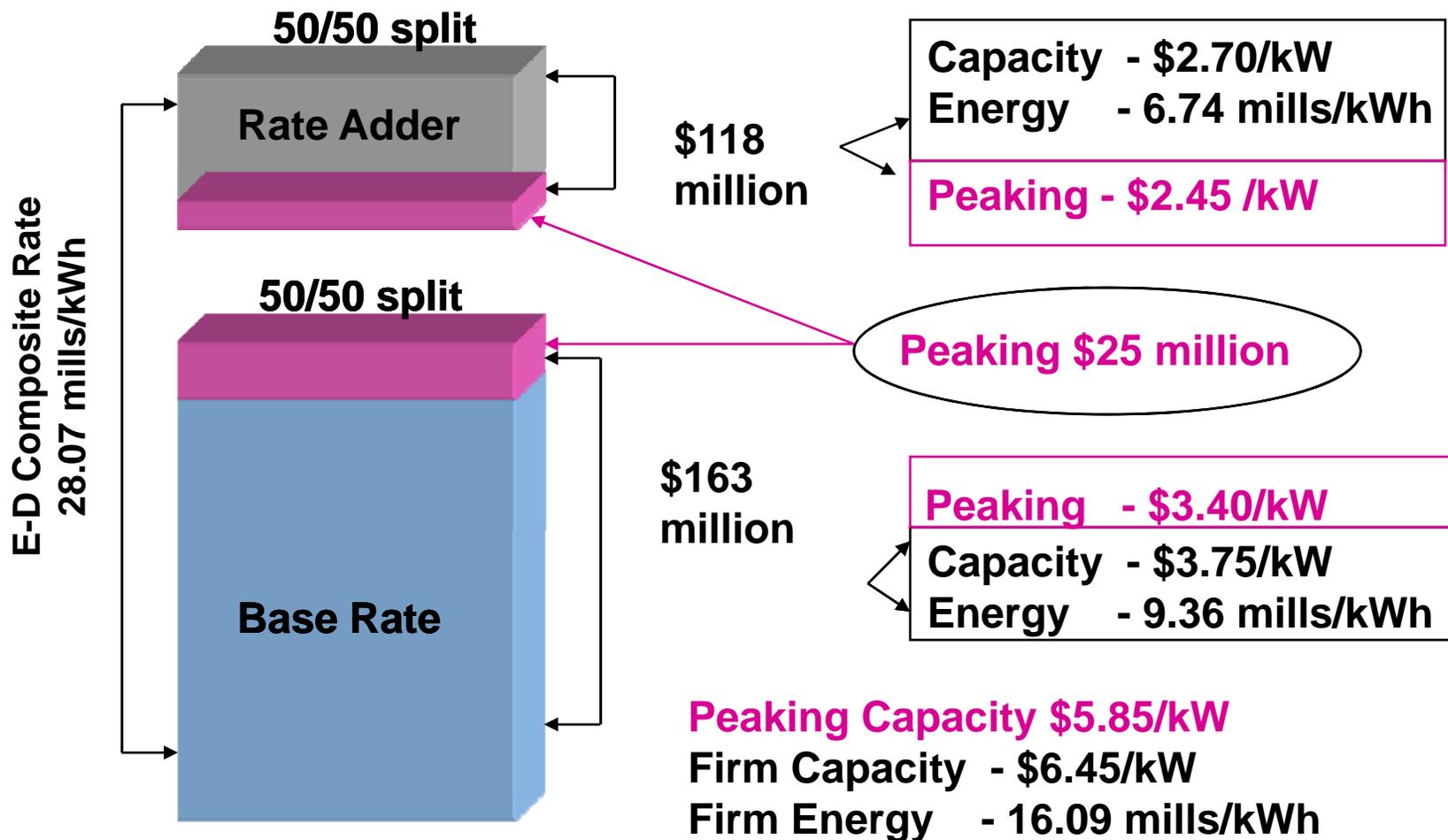
Proposed E-D Rate Design

50/50 Capacity/Energy Split



Note: Nickel rule for capacity rounding

\$ 281 Million Revenue Requirement





Loveland Area Projects Rate Design



Loveland Area Projects

- Although operationally and contractually integrated, Fry-Ark and P-SMBP-WD retain separate financial status
- A Separate PRS is prepared annually for each project
 - Fry-Ark completed by Rocky Mountain Region
 - P-SMBP completed by Upper Great Plains Region with input from the Rocky Mountain Region
- Revenue requirements from both projects are combined to develop the LAP revenue requirement
- Rate is designed to return 50 percent of the revenue from the capacity component and 50 percent from the energy component
 - Capacity component is based on a monthly billing of the seasonal contract rate of delivery
 - Energy component is based on the annual contracted energy

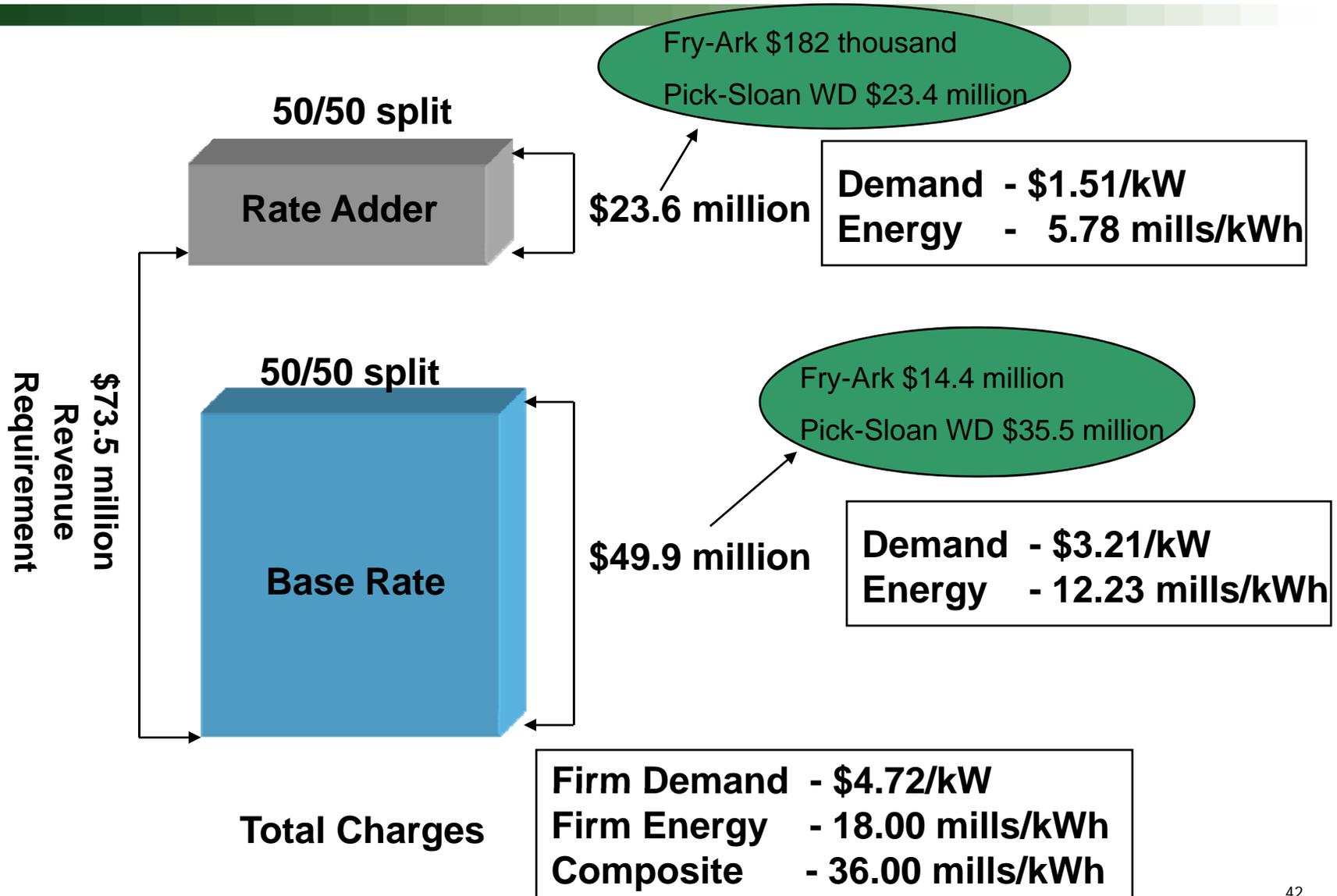


Loveland Area Projects

Revenue requirements from both projects are combined to develop the LAP revenue requirement:

Fry-Ark	\$14.6 Million
Pick-Sloan	<u>\$58.9 Million</u>
Total LAP	\$73.5 Million

LAP Rate Design





Proposed Rate Adjustment



Proposed Rate Adjustment

- Continue Base and Drought Adder components
- Possible 2 step on the Base to capture 2010 Work plans
- Accelerate Drought Adder
- Remove Cap on Drought Adder



Drought Adder Probability

- Setting a rate for 2009 without good expectation of what Purchases are going to be.
- Likely Purchase Power will exceed current projections for 2009
- How do we meet this continued cost increase?
 - Don't wait to adjust the Drought Adder
- Expect Drought Adder Formula to be utilized in January 2009 to keep shortage from escalating
- Notification of Drought Adder in Late Fall (October)



Pick-Sloan 2009 Rate Adjustment

	Composite Rate (mills/kWh)	Percent Increase	Pick-Sloan Firm Power Rev. Req. (millions)	Western Division Firm Rev Req. (millions)	Eastern Division Firm Rev Req. (millions)	Eastern Division Firm Plus Peaking. Rev. Req. (millions)
Current Rates January 2008	24.78	25%	\$265.9	\$51.8	\$214.1	\$235.9
Proposed Rates January 2009	28.35	14.4%	\$304.1	\$58.9	\$245.3	\$270.3



Eastern Division Proposed Rates

Firm Power Service	Current Rates Effective January 1, 2008	Proposed Rates Effective January 1, 2009
E-D Firm plus Firm Peaking Rev. Req.	\$235.9 million	\$270.3 million
E-D Composite Rate	24.49 mills/kWh	28.07 mills/kWh
Firm Capacity	\$5.65 kW-month	\$6.45kW-month
Firm Energy	13.99 mills/kWh	16.09 mills/kWh
Firm Peaking Capacity	\$5.10 kW-month	\$5.85 kW-month
Firm Peaking Energy	13.99 mills/kWh	16.09 mills/kWh



LAP 2009 Rate Adjustment

	Composite Rate (mills/kWh)	Percent Increase	Effective Date	Fry-Ark Rev Req. (millions)	Western Division Rev Req. (millions)	LAP Firm Power Rev. Req. (millions)
Current Rates (2nd Step)	32.42	19%	January 2008	\$14.3	\$51.8	\$66.1
Proposed Rates	36.00	11%	January 2009	\$14.6	\$58.9	\$73.5

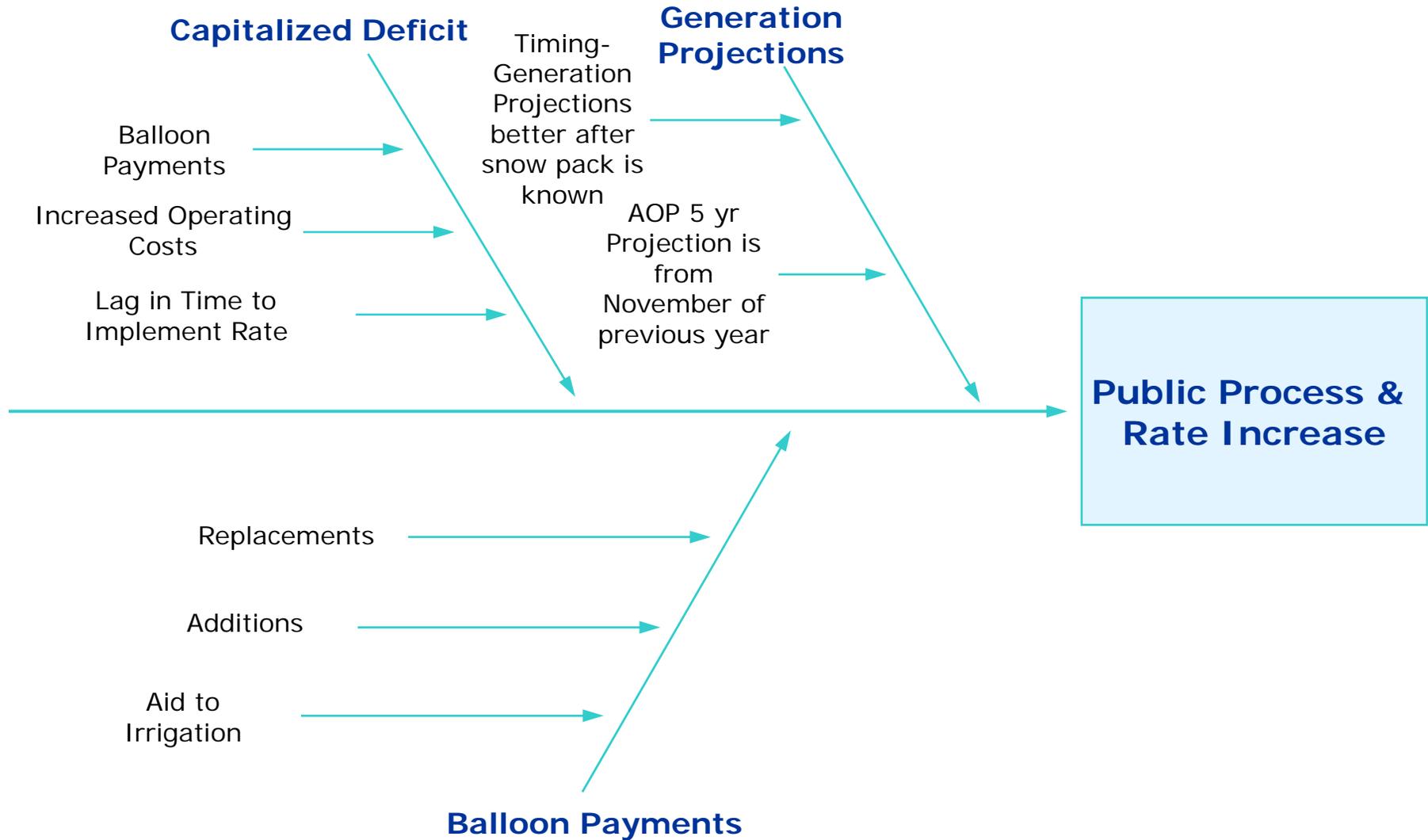


LAP Proposed Rates

Firm Power Service	Current Rates Effective January 1, 2008	Proposed Rates Effective January 1, 2009
Fry-Ark Rev. Req.	\$14.3	\$14.6
Pick-Sloan W-D Rev. Req.	\$51.8	\$58.9
Composite Rate	32.42 mills/kWh	36.00 mills/kWh
Firm Energy	16.21 mills/kWh	18.00 mills/kWh
Firm Capacity	\$4.25/kW	\$4.72/kW



Impacts to Rate





Proposed Rate Adjustment

- Continue Base and Drought Adder components
- Possible 2 step on the Base to capture 2010 work plans
- Accelerate Drought Adder
- Remove Cap on Drought Adder



Proposed Schedule for Rate Processes

- Informal Meetings
 - April 29th Denver, CO
 - April 30th Sioux Falls, SD
- Public Process (90 Days)
- Federal Register Announcement
 - End of June 2008
 - Information Forums
 - July 29th Denver, CO
 - July 30th Sioux Falls, SD
 - Comment Forums
 - August 27rd Denver, CO
 - August 28th Sioux Falls, SD
- Close of Comment Period
 - End of September (90 Days after the FRN is Published)
- Implementation of New Rates
 - January 1, 2009



LAP Rate Process Other Information

Materials will be posted on Website:

<http://www.wapa.gov/rm/ratesRM/2009>

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Western Area Power Administration

Rocky Mountain Region

PO Box 3700

Loveland, CO 80539



Pick-Sloan E-D Rate Process Other Information

Materials will be posted on Website:

<http://www.wapa.gov/ugp/rates/2009firmrateadjust>

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Discussion