



**Department of Energy**  
Western Area Power Administration  
150 East Social Hall Avenue, Suite 300  
Salt Lake City, UT 84111-1580

AUG - 4 2009

Dear Colorado River Storage Project Management Center Customer and Interested Parties:

Enclosed is a copy of the Federal Energy Regulatory Commission's Order confirming and approving Rate Order No. WAPA-137 for the Salt Lake City Area Integrated Projects (SLCA/IP) Firm Power and Colorado River Storage Project (CRSP) Transmission and Ancillary Services on a final basis.

As you are aware, the existing firm power Rate Schedule SLIP-F9 has been implemented in two steps. The first step resulted in an overall composite rate of 26.80 mills/kWh effective on October 1, 2008. The firm power rate consists of an energy charge of 11.06 mills/kWh and a capacity charge of \$4.70/kWmonth. On October 1, 2009, the Second Step will become effective and will result in a maximum composite rate of 29.68 mills/kWh, a maximum energy rate of 12.29 mills/kWh, and a maximum capacity rate of \$5.22/kWmonth. The actual rates for the Second Step will be determined using 2008 actual data, updated estimates for purchased power and transmission, as well as other revised estimates that could affect the rate. Western is in the process of finalizing the Second Step and will notify you of the Second Step rates on or before September 1, 2009. These rates will remain in effect through September 30, 2013.

Western will be extending, through September 30, 2013, the formula-based rates for Firm Point-to-Point, Network, and Non-Firm Transmission Services and Ancillary Services that have been offered in both the Desert Southwest and the Rocky Mountain Regions of Western's balancing authorities.

Please contact me if you have any additional questions or concerns at (801) 524-6380 or [loftinc@wapa.gov](mailto:loftinc@wapa.gov).

Sincerely,

**CAROL A. LOFTIN**

Carol A. Loftin  
Rates Manager

Enclosure

127 FERC ¶ 62,220  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

United States Department of Energy -  
Western Area Power Administration  
(Salt Lake City Area Integrated Projects)

Docket No. EF08-5171-000

ORDER CONFIRMING AND APPROVING RATE SCHEDULES  
ON A FINAL BASIS

(June 19, 2009)

Summary:

On September 4, 2008 the Deputy Secretary of Energy (Deputy Secretary) requested final confirmation and approval of Western Area Power Administration's (Western) Rate Schedule SLIP-F9 applicable to the sale of firm power from Western's Salt Lake City Area Integrated Projects (Integrated Projects), SP-PTP7 for firm point-to-point transmission, SP-NW3 for network integration transmission service, SP-NFT6 for non-firm transmission service on the Colorado River Storage Project (CRSP), and SP-SD3, SP-RS3, SP-EI3, SP-FR3, and SP-SSR3 for ancillary services.<sup>1</sup> The Deputy Secretary placed the revised rate schedules into effect on an interim basis effective October 1, 2008,<sup>2</sup> and requests final confirmation and approval of the rates for the period

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<sup>1</sup> Integrated Projects comprise the Colorado River Storage Project (CRSP), the Rio Grande Project and the Collbran Project. These projects, developed to regulate the flow of water for irrigation and other uses, and to generate electric power, are located in Arizona, Colorado, New Mexico, Utah and Wyoming. One of the major components of the CRSP is the Glen Canyon Dam. That facility represents about 70 percent of the combined power output of the Integrated Projects.

<sup>2</sup> Rate Order No. WAPA-137, placing the rate schedules into effect on an interim basis, was issued on September 4, 2008, under authority granted to the Deputy Secretary by Department of Energy Delegation Order Nos. 00-037.00 and 00-001.00A (Delegation Orders).

October 1, 2008 through September 30, 2013.<sup>3</sup> Western states that the proposed rates for the Integrated Projects firm power in Rate Schedule SLIP-F9 will be implemented in two steps. Step one will occur on October 1, 2008 and step two will occur on October 1, 2009. Western further states that annual revenues will increase for the five year rate period by \$90,340,000 from \$828,785,000 to \$919,125,000, or 10.9 percent.

Western maintains that the proposed rates will provide sufficient revenue to pay all annual costs, including interest expense, and repayment of power investment and irrigation aid, within the allowable periods.

Notice of the application was published in the *Federal Register*, 73 Fed. Reg. 54,585 (2008), with comments, protests, or motions to intervene due on or before October 8, 2008. Colorado River Energy Distributors Association, Inc. filed a timely motion to intervene raising no substantive issues. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

#### Standard of Review:

The Secretary of Energy has delegated the authority to confirm and approve Western's rates on a final basis to the Commission.<sup>4</sup> The scope of Commission review is limited to:

- whether the rates are the lowest possible to customers consistent with sound business principles;
- whether the revenue levels generated by the rates are sufficient to recover the costs of producing and transmitting the electric energy including the repayment, within the period of cost recovery permitted by law, of the capital investment allocated to power and costs assigned by Acts of Congress to power for repayment; and
- the assumptions and projections used in developing the rate components that are subject to Commission review.<sup>5</sup>

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<sup>3</sup> The proposed rate schedules supersedes the prior rate schedules which were approved on a final basis in *United States Department of Energy – Western Area Power Administration (Salt Lake City Area Integrated Project)*, 115 FERC ¶ 62,271 (2006).

<sup>4</sup> Section 3 of the Delegation Order.

<sup>5</sup> *Id.*

The Commission is prohibited from reviewing policy judgments and interpretations of laws and regulations made by the power generating agencies.<sup>6</sup> The Commission may reject the rate determinations of Western's Administrator only if it finds them to be arbitrary, capricious, or in violation of the law, if they violate Department of Energy regulations (e.g., Order No. RA 6120.2, which prescribes financial reporting policies, procedures, and methodologies), or if they violate agreements between the Administrator and the applicable power generating agency. The Commission considers its role as that of an appellate body which reviews the record developed by the Administrator. In other words, the Commission does not develop a record on its own. Consequently, the Commission only confirms and approves, or remands, the rates submitted to it for final review.<sup>7</sup>

#### Discussion:

Western states that the proposed rates for the Integrated Projects firm power rate in Rate Schedule SLIP-F9 will be implemented in two steps. Step one will occur on October 1, 2008 and step two will occur on October 1, 2009. Western proposes to increase the energy rate in step one from 10.43 mills per kilowatthour (mills/kWh) to 11.06 mills/kWh and a maximum energy charge of 12.29 mills/kWh in step two. The second step energy rate adjustment results in an overall increase of 17.8 percent from the current rate. The existing capacity rate increases from \$4.43 per kilowattmonth (kWmonth) to \$4.70 per kWmonth in step one with a maximum capacity rate of \$5.22 per kWmonth in step two. The second step capacity rate adjustment results in an overall increase of 17.9 percent from the current rate. The existing firm power composite rate will increase from 25.28mills/kWh to an overall composite rate of 26.80 mills/kWh in step one and will result in a maximum composite rate of 29.68 mills/kWh in step two. The second step composite rate adjustment results in an overall increase of 17.4 percent from the current rate. Based on an annual Power Repayment Study (PRS) for the

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<sup>6</sup> The power generating agencies include the Bureau of Reclamation, the Army Corps of Engineers, and the International Boundary and Water Commission. These agencies build and operate various projects. The Power Marketing Administrations such as Western, market the output of the projects.

<sup>7</sup> See, e.g., *United States Department of Energy - Western Area Power Administration (Boulder Canyon Project)*, 61 FERC ¶ 61,229 at 61,844 (1992), *aff'd in relevant respects*, *Overton Power District No. 5 v. Watkins*, 829 F. Supp. 1523, (D. Nevada 1993), *vacated and remanded with directions to dismiss*, *Overton Power District No. 5 v. O'Leary*, 73 F. 3d 253 (9th Cir. 1996); *United States Department of Energy - Western Area Power Administration (Salt Lake City Area Integrated Projects)*, 59 FERC ¶ 61,058 at 61,240-41 & nn. 17 & 20, *reh'g denied*, 60 FERC ¶ 61,002 (1992).

Integrated Projects, Western proposes to increase revenues for the five year rate period by \$90,340,000 from \$828,785,000 to \$919,125,000, or 10.9 percent. Additionally, Western proposes to continue the Cost Recovery Charge (CRC), which also includes an additional triggering mechanism that is designed to adequately maintain sufficient cash balance in the Upper Colorado River Basin Fund (Basin Fund) in times of financial hardship.<sup>8</sup>

Western states that the cost of transmission service for the Integrated Projects long-term electric service will continue to be included in the Integrated Projects firm power rate. The proposed firm and non-firm transmission rates apply to only transmission customer sales. The present CRSP point-to-point, network, and non-firm transmission rates, under previously approved Rate Schedules SP-PTP6, SP-NW2, and SP-NFT5 became effective on October 1, 2002. On June 29, 2007, the Deputy Secretary of Energy extended the transmission rates until September 1, 2010.<sup>9</sup> Western requests that Rate Schedules SP-PTP6, SP-NW2, and SP-NFT5 remain in effect for this new rate setting period.

Western states that the current transmission rate methodology is an annual fixed charged formula that will be used to determine the revenue requirements to be recovered from firm and non-firm transmission services.<sup>10</sup> This methodology is updated annually using the most recent historical test year data. The revenue requirements are offset by appropriate CRSP transmission system revenues.

Western states that the proposed rate for non-firm CRSP transmission service is based upon the current CRSP firm point-to-point, transmission rate and may be discounted. Western further states that the proposed rate for network transmission service is a formula calculation based on the annual transmission revenue requirement. Western also states that the proposed rates for ancillary services do not include any

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<sup>8</sup> Western explains that the CRC is strictly a Basin Fund cash analysis and is outside of the PRS calculations. Western further explains that each May, it will provide customers with information concerning the anticipated CRC for the upcoming fiscal year. Firm power customers may choose to take less firm energy, and in exchange Western will waive the CRC. In addition to the potential CRC to be implemented each year, Western will also assess the CRC upon a 45 day notice to customers, should the water releases at Glen Canyon Dam be less than 8.23 million acre-feet.

<sup>9</sup> The transmission rates include the cost for scheduling, system control, and dispatch service.

<sup>10</sup> According to Western, the annual transmission revenue requirements include operation and maintenance expenses, administrative and general expenses, and depreciation expense.

changes to the current ancillary service rates, except for a clarification on Rate Schedule SP-SSR3 for spinning and supplemental reserves.

By statute,<sup>11</sup> Western must repay the Federal investment from power revenues within a reasonable period of time, which as a general practice is 50 years. Our review of Western's PRS indicates that revenues to be collected under the proposed rates will be sufficient to recover Western's costs of producing and transmitting the power and energy, including the recovery of the remaining Federal investment, with interest, over the remaining repayment period. Our review also indicates that the PRS was prepared in a manner consistent with Order No. RA 6120.2 which requires that Western's system financial statements must be prepared in accordance with generally accepted accounting principles, as appropriate, and that its PRS be prepared using sound forecasting techniques designed to approximate as closely as possible actual results. Moreover, since the revenues generated by the proposed rates recover no more than Western's annual costs and the remaining Federal investment, the rates are the lowest possible to customers.

The Commission's review indicates the proposed rates will ensure Western will be able to meet its financial obligations. Therefore, the proposed rates are confirmed and approved as requested.

The Director:

Confirms and approves on a final basis Western's proposed Integrated Projects firm power rate, CRSP firm and non-firm transmission rates, and ancillary services rates from Western's Integrated Projects for the period of October 1, 2008, through September 30, 2013.

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<sup>11</sup> 16 U.S.C. § 825s (2006).

Authorities:

This action is taken pursuant to authority delegated to the Director, Division of Tariffs and Market Development - Central, under 18 C.F.R. § 375.307 of the Commission's Regulations. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Sincerely,

Penny S. Murrell, Director  
Division of Tariffs and Market  
Development- Central