

DEPARTMENT OF ENERGY

Western Area Power Administration

Boulder Canyon Project-Base Charge and its components

AGENCY: Western Area Power Administration, DOE.

ACTION: Notice of Base Charge and its components.

SUMMARY: Notice is given of the confirmation and approval by the Deputy Secretary of the Department of Energy (DOE) placing the provisional Base Charge and its components (Base Charge) for the Boulder Canyon Project (BCP) firm power into effect for the fourth rate year under the current rate methodology pursuant to Rate Schedule BCP-F5 as approved by the Federal Energy Regulatory Commission (FERC) on April 19, 1996 (Rate Order No. WAPA-70). In accordance with Section 13.13 of the BCP Implementation Agreement, the rate methodology and calculated rates for the first rate year and each fifth fiscal year (FY) shall become effective provisionally upon approval by the Deputy Secretary of Energy, subject to final approval by the FERC. The rates for all other FYs (second FY, third FY, and fourth FY) shall become effective on a final basis upon approval by the Deputy Secretary of Energy. The provisional FY 1999 Base Charge represents the charges for the fourth FY since FERC approval of the current rate methodology. The provisional Base Charge will provide sufficient revenue to pay all annual costs, including interest expense, and repayment of required investment within the allowable period.

DATES: The provisional Base Charge will be placed into effect on October 1, 1998, and will be in effect through September 30, 1999.

FOR FURTHER INFORMATION CONTACT: Mr. Anthony H. Montoya, Power Marketing Manager, Western Area Power Administration, Desert Southwest Customer Service Region, 615 South 43rd Avenue, Phoenix, AZ 85009-5313, (602) 352-2789, or Mr. Timothy J. Meeks, Power Marketing Liaison Office, Room 8G-027, 1000 Independence Avenue SW., Washington, DC 20585, (202) 586-5581.

SUPPLEMENTARY INFORMATION: The Deputy Secretary of Energy approved the existing Base Charge for firm power service on September 19, 1997. The existing Base Charge was calculated in accordance with the methodology approved under Rate Order WAPA-70. The Procedures for Public Participation in Power and Transmission Rate Adjustments and Extensions, 10 CFR Part 903, have been followed by the Western Area Power Administration (Western) in determining the Base Charge. The FY 1999 provisional Base Charge for BCP firm power is based on an Annual Revenue Requirement of \$48,842,126. The provisional Base Charge consists of an energy revenue requirement of \$25,208,831, a forecasted energy rate of 4.86 mills/kWh, a capacity revenue requirement of \$23,633,296, and a forecasted capacity rate of \$1.01 per kilowattmonth (kWmonth).

The following summarizes the steps taken by Western to ensure involvement of all

interested parties in the determination of the Base Charge:

1. On March 30, 1998, a letter was mailed from Western's Desert Southwest Customer Service Region to all BCP customers and other interested parties announcing the informal customer meeting and the public information and public comment forums.
2. A Federal Register notice (FRN) was published on April 21, 1998 (63 FR 19722), announcing the proposed Base Charge adjustment process, initiating the public consultation and comment period, announcing the public information and public comment forums, and presenting procedures for public participation.
3. Discussion of the proposed Base Charge was initiated at an informal BCP contractor meeting held on May 6, 1998, in Phoenix, Arizona. At this informal meeting, representatives from Western and the Bureau of Reclamation (Reclamation) explained the basis for estimates used in the calculation of the Base Charge. A question and answer session was convened for those persons attending.
4. At the public information forum held on May 14, 1998, in Phoenix, Arizona, Western and Reclamation representatives explained the proposed Base Charge for Rate Year 1999 in greater detail. A question and answer session was convened for those persons attending.
5. A public comment forum was held on June 11, 1998, in Phoenix, Arizona, to give the public an opportunity to comment for the record. Three persons representing customers and customer groups made oral comments.
6. Twelve comment letters were received during the 90-day consultation and comment

period. The consultation and comment period ended July 20, 1998. Although all formally submitted comments were not specifically pertinent to the Base Charge adjustment, they have been considered in the preparation of this FRN. Most of the comments received during the public meetings, or in the written correspondence, dealt with agency processes, specific cost components, and the power repayment study (PRS) comparisons. All comments were considered in developing the Base Charge for FY 1999. Written comments were received from the following sources:

- Metropolitan Water District of Southern California (California)
- Utility Resource Services (Arizona)
- Arizona Power Authority (Arizona)
- Ryley, Carlock & Applewhite (Arizona)
- Harquahala Valley Power District (Arizona)
- Roosevelt Irrigation District (Arizona)
- Electrical District Number Five (Arizona)
- Irrigation & Electrical Districts Association of Arizona (Arizona)
- Maricopa-Stanfield Irrigation & Drainage District (Arizona)
- Electrical District Number Four (Arizona)
- Electrical District Number Eight (Arizona)
- McMullen Valley Water Conservation & Drainage District (Arizona)

The comments and responses, paraphrased for brevity, are presented below.

Agency Processes

Comment: A commentor stated that Reclamation needs to change its budgeting process from escalating estimates for future years to using actual data. It was suggested that Reclamation begin budgeting on a zero-based budget concept. Zero-based budgeting requires justification for every position and every process.

Response: Reclamation will continue to improve its justification process for all facets of

the budget. Estimates are based on the latest actual data available at the time of budget formulation. This data is analyzed and modified based on anticipated changes in workload, personnel and various requirements necessary for the budget period.

Comment: A commentor suggested that Reclamation reevaluate its organizational structure and develop an organization that is effective for Reclamation and its customers.

Response: Reclamation agrees that an organization must be effective for the future. Reclamation continues to evaluate its organization and make changes as appropriate, recognizing that its core mission remains fairly stable. Reclamation's goal is to satisfy water and water related demands while optimizing power generation.

Comment: A few commentors expressed concern that all participants on the Engineering and Operating Committee and 10-Year Operating Plan Committee need to renew their commitment to allow these committees to function as planned, and all participants need to provide the necessary resources.

Response: Western and Reclamation agree that all participants should renew their commitment in order for the processes to be successful.

Comment: A commentor has expressed concern over the high number (143) of Bureau Full Time Equivalents (FTE) charged to administrative and general expense (support services) in FY 1997.

Response: Hoover Dam has responsibilities, well beyond power generation, which include flood control, irrigation, security, visitors and maintaining the structure. Most of

the 143 FTEs work to carry out these functions. The 1997 “Hydroelectric Generation Benchmarking Program” Report shows that Hoover’s support costs are well below average. This indicates a positive result, in that other like-size hydro powerplants are much higher in their support service costs. Reclamation recognizes that improvements can be made and will continue to work towards that end.

Specific Cost Components

Comment: Several commentors stated concern that there is no existing legal authority by which Western can collect and transfer funds for the post-retirement benefit costs from the Colorado River Dam Fund to the Office of Personnel Management. Based on these concerns, many of the contractors are requesting Western to exclude the post-retirement benefit costs in this rate process.

Response: In a memorandum dated July 1, 1998, the Department of Energy’s General Counsel concluded that Western has the authority to collect in rates an amount that would offset the United States Government’s full costs of post-retirement benefits. Accordingly, in this rate process, Western is collecting its post-retirement benefit costs and these funds will be deposited into the Colorado River Dam Fund.

Comment: A commentor expressed concern that the proposed rates only reflect Western’s post-retirement benefit costs and not Reclamation’s portion. Also, the commentor stated that these costs should have been presented and disclosed in the 10-year planning process prior to being implemented in the rate process.

Response: Western first disclosed the issue of the unfunded portion of the post-

retirement benefit costs, and the plan for implementation of these costs at a March 5, 1998, Engineering and Operating Committee meeting. On May 6, 1998, and May 14, 1998, Western identified its portion of these costs and again disclosed that the costs would be included in the current rate process. Although Reclamation has not allocated its post-retirement benefit costs, upon doing so, Western will include the costs in the power rates.

Comment: A commentor expressed concern for the cost picture of the BCP resource and stated that the BCP costs cannot remain static and still remain competitive. The commentor requested Reclamation and Western open a dialogue with their customers regarding what the competitive future looks like in the southwest, and where this resource fits in.

Response: Western and Reclamation believe that appropriate forums are already in place which allow for dialogue with the customers to discuss the future costs of the BCP resource and the competitive market. Western, Reclamation, and all BCP contractors are represented on a 10-Year Operating Plan Committee, and an Engineering and Operating Committee where this type of dialogue is held. Western and Reclamation encourage the BCP contractors to share the meeting minutes of these two committees with their customers, and also encourage the need for more open dialogue among the BCP contractors, their customers and consultants.

Comment: A commentor requested justification of Visitor Center costs. The commentor stated that he does not understand how temporary employees are included

in the budget or how fringe benefits are calculated. Also, the commentor requested an explanation and justification for spending almost \$500,000 a year on janitorial services.

Response: Classification and staffing requirements change in regard to workload needs. In planning for future years' workload, temporary employees may be budgeted for, rather than allocating a permanent full-time employee. The Hoover Public Services uses a variety of staffing classifications in order to best accommodate increased workload in an efficient manner.

Benefits are accrued based on work appointment status (classification) and length of work schedule. Permanent full time employees receive full benefits. Temporary employees receive benefits when they have worked longer than 1 year and benefits for part-time employees are prorated based on hours actually worked.

Janitorial Services

The Visitor Center, Parking Garage and Tour Route include 425,049 square feet of area. Janitorial services for this area were performed by in-house staff for the first 6 months of operation. At that time, a review determined these services could best be performed by a private contract.

A contract was awarded for \$417,957 in May 1996 to the lowest qualified bidder. Modifications have since been made to the contract to cover cleaning of the Exhibit Level, Theater Area, an additional area in the Parking Garage, and Department of Labor wage increases.

Comment: A commentor expressed concern that the Visitor's Center is not producing

all the revenues projected by Reclamation.

Response: In a September 1996 report to the Senate Appropriations Committee, Reclamation outlined its commitments: "...to, within the best of its ability and legal authorities, establish and maintain user fees sufficient to fund all of the visitor program's operation, maintenance, and replacement (OM&R) costs, as well as a portion of the annual debt service." The goal was to "establish a visitor program that will produce \$9 million in revenues annually." This revenue level would cover the visitor program's estimated \$4 million annual OM&R cost, and provide \$5 million for debt service repayment, thus reducing the ratepayer's burden by approximately 50 percent.

The management of the Public Services Office is continually reviewing operational costs. Revenue enhancing opportunities are also being explored, evaluated, and implemented where advantageous. These activities are necessary to ensure efficient operation and a quality of service that meets customers' expectations. They are also necessary in order to meet Reclamation's goal of repaying approximately 50 percent of the debt service.

Expenditures for FY 1996 were \$3,988,000; revenues were \$4,913,000. The amount available for debt service was \$925,000. In FY 1997, expenditures were \$4,367,000; revenues were \$6,736,000. The amount available for debt service was \$2,369,000. Based on FY 1998 actual expenditures and revenues to date, the amount available for debt service is \$3,719,000 through June.

Power Repayment Study

Comment: A commentor stated that the appropriate comparison of the PRS for the public process would have been to compare the current proposed May 1998 PRS to the

final February 1998 BCP 10-Year Operating Plan PRS.

Response: The PRS comparison presented at the informal and public process rate meetings comparing the previous ratebase PRS with the current ratebase PRS is the most appropriate comparison between the PRSs. Western and Reclamation have previously stated that the PRS included in the annual final 10-year plan has no purpose other than to give the customers a point-in-time look at the costs, and the impact to the power rates and revenue requirements at that particular time period. There are other factors such as year end actuals, crosswalk adjustments, and updated budget numbers which impact a rate year that are not included in the annual Final 10-Year Operating Plan PRS. Therefore, utilizing the 10-Year Operating Plan PRS during the rate process will provide an inaccurate characterization of the real impact on the proposed Base Charge.

By Amendment No. 3 to Delegation Order No. 0204-108, published November 10, 1993 (58 FR 59716), the Secretary of Energy (Secretary) delegated (1) the authority to develop long-term power and transmission rates on a nonexclusive basis to the Administrator of Western; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove such rates to FERC. Existing DOE procedures for public participation in power rate adjustments (10 CFR Part 903) became effective on September 18, 1985 (50 FR 37835).

These charges and rates are established pursuant to section 302(a) of the DOE Organization Act, 42 U.S.C. 7152(a), through which the power marketing functions of

the Secretary of the Interior and Reclamation under the Reclamation Act of 1902, 43 U.S.C. 371 et seq., as amended and supplemented by subsequent enactments, particularly section 9(c) of the Reclamation Project Act of 1939, 43 U.S.C. 485h(c), and other acts specifically applicable to the project system involved, were transferred to and vested in the Secretary.

Dated: September 18, 1998

Elizabeth A. Moler
Deputy Secretary