



PICK-SLOAN MISSOURI BASIN PROGRAM
Eastern Division
CUSTOMER RATE BROCHURE

PROPOSED
FIRM ELECTRIC SERVICE
2010 RATE ADJUSTMENT

July 2009

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Materials Posted on Website

<http://www.wapa.gov/ugp/rates/2010firmrateadjust>

TABLE OF CONTENTS

I. INTRODUCTION	1
Project Description.....	1
II. PICK-SLOAN MISSOURI BASIN PROGRAM POWER REPAYMENT STUDY	2
Impacts to the Rate.....	2
Drought	2
Annual Operating Expense	5
Power Investment.....	6
Deficits and Interest Expense.....	6
III. PICK-SLOAN MISSOURI BASIN PROGRAM--EASTERN DIVISION FIRM	
ELECTRIC SERVICE RATES	7
Proposed P-SMBP--ED Firm Electric Service Rates.....	7
Present Revenue Requirement	7
Proposed Revenue Requirement	7
Rate Design	8
Firm Power Rate Calculations	8
Firm Peaking Rate Calculations.....	9
APPENDIX A – Rate Adjustment Procedures	11
APPENDIX B – Proposed Rate Adjustment Schedule.....	14
EXHIBIT 1 – Pick-Sloan Missouri Basin Program	
2010 Rate Setting Power Repayment Study Executive Summary	16
EXHIBIT 2 – Proposed Rate Schedule P-SED-F11	17
EXHIBIT 3 – Proposed Rate Schedule P-SED-FP11	20
EXHIBIT 4 – Proposed Rate Adjustment <i>Federal Register</i> Notice	23

I. INTRODUCTION

This brochure provides information on Western Area Power Administration's (Western) proposed firm power rate adjustment for the Pick-Sloan Missouri Basin Program--Eastern Division (P-SMBP--ED) under Rate Order No. WAPA-147. The rate adjustment procedures are outlined in Appendix A of this brochure.

Project Description: The Pick-Sloan Missouri Basin Program (P-SMBP) was authorized by Congress in Section 9 of the Flood Control Act of December 22, 1944, commonly referred to as the 1944 Flood Control Act. The multi-purpose program provides flood control, irrigation, navigation, recreation, preservation and enhancement of fish and wildlife, and power generation. Multi-purpose projects have been developed on the Missouri River and its tributaries in Colorado, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

In addition to the multi-purpose water projects authorized by Section 9 of the Flood Control Act of 1944, certain other existing projects have been integrated with the P-SMBP for power marketing, operation, and repayment purposes. The Colorado-Big Thompson, Kendrick, and Shoshone Projects were combined with the P-SMBP in 1954, followed by the North Platte Project in 1959. These projects are referred to as the "Integrated Projects" of P-SMBP.

The Flood Control act of 1944 also authorized the inclusion of the Fort Peck Project in the P-SMBP for operation and repayment purposes. The Riverton Project was integrated into the P-SMBP in 1954, and in 1970 was reauthorized as a unit of P-SMBP.

The P-SMBP is administered by two regions. The Upper Great Plains Region with a regional office in Billings, Montana, markets the Eastern Division of P-SMBP. The Rocky Mountain region with a regional office in Loveland, Colorado, markets the Western Division of P-SMBP. The Upper Great Plains Region markets power in western Iowa, Montana east of the Continental Divide, North Dakota, South Dakota, and the eastern two-thirds of Nebraska. The Rocky Mountain Region markets P-SMBP power in northeastern Colorado, east of the Continental Divide in Wyoming, west of the 101st meridian in Nebraska and northern Kansas. P-SMBP power is marketed to approximately 300 firm power customers by the Upper Great Plains Region and approximately 40 firm power customers by the Rocky Mountain Region.

The Fiscal Year (FY) 2008 repayment analysis for the P-SMBP indicates a need to adjust the existing firm electric service rates. To meet repayment requirements, the P-SMBP--ED and the Loveland Area Projects, which includes Pick-Sloan Missouri Basin Program--Western Division (P-SMBP--WD), have proposed rate adjustments. The Loveland Area Projects rate adjustment has been proposed in a separate public process.

II. PICK-SLOAN MISSOURI BASIN PROGRAM POWER REPAYMENT STUDY

A Power Repayment Study (PRS) for the P-SMBP is prepared annually by Western in cooperation with the Bureau of Reclamation (Reclamation) and the Corps of Engineers (Corps). Basic river basin hydrology, water depletions, power generation, project development data, and cost information are among the contributions made by Reclamation and the Corps. Power repayment studies are prepared in accordance with authorizing legislation and with Department of Energy (DOE) Order No. RA 6120.2 (Power Marketing Administration Financial Reporting).

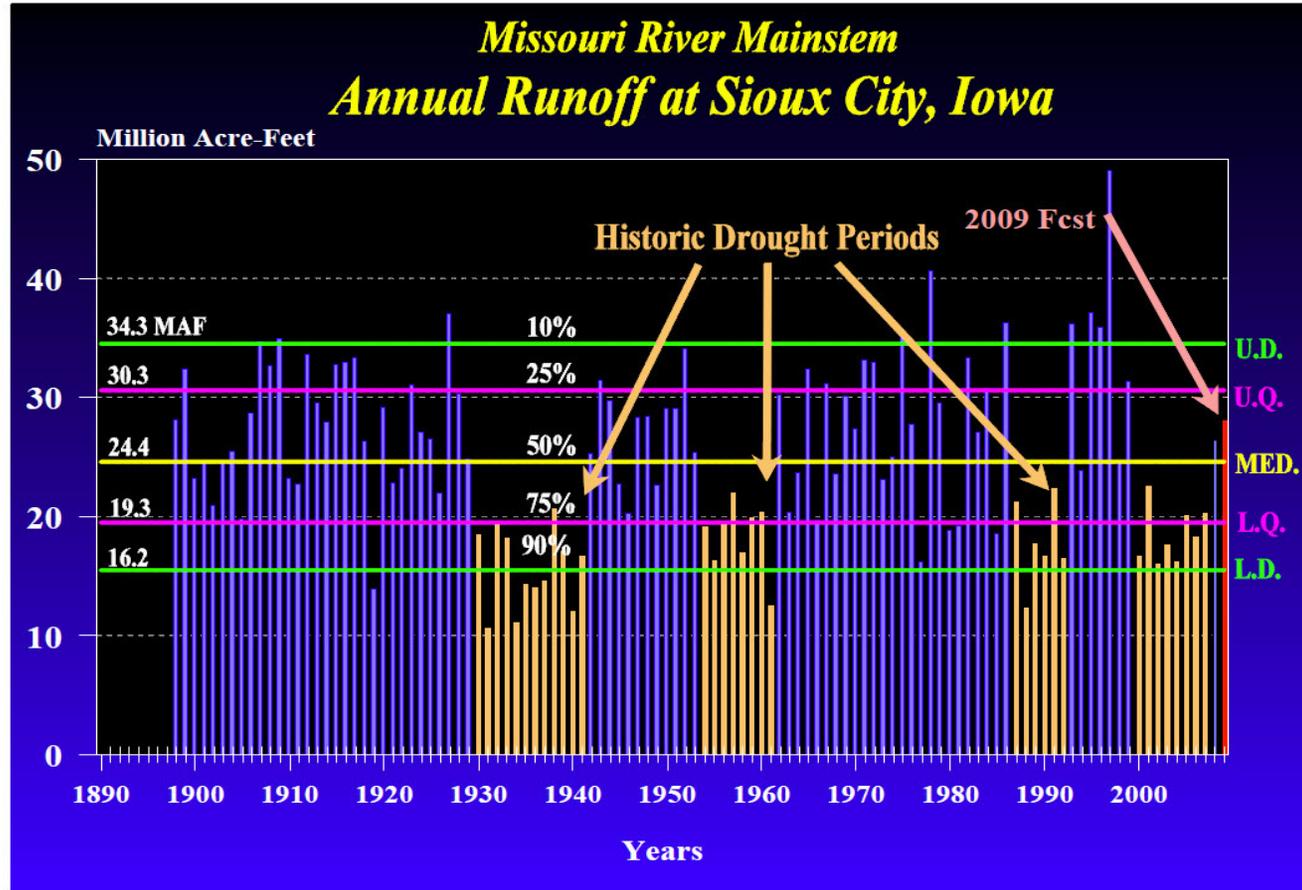
The PRS summarizes historic income, expenses, and investments to be repaid from power revenues. It also estimates income, expenses, and investments for future years. The PRS exhibits the application of revenues, as well as the annual repayment of power system production and transmission costs, and other costs assigned to power for repayment. Total Federal investment remaining to be repaid over the repayment period or service life is also shown. Revenues, expenses, and investments are entered into the PRS from historical data and from short-term, future budget estimates. These figures are then used to estimate long-term projections of revenues and expenses.

The PRS is used to determine if power revenues are sufficient to pay all project costs allocated to power for repayment within the appropriate repayment period. The PRS first applies revenue to payment of total annual operating expense, which includes operation and maintenance (O&M), purchased power and transmission, and interest. The revenues are then applied toward investments in the following order: required principal payments (payments at the end of their repayment period), deficits (capitalized expenses and required payments from years when revenues did not cover all expenses), and discretionary principal payments (payments on investments that are not at the end of their repayment period). Discretionary principal payments are generally made first to investments having the highest interest rate.

Impacts to the Rate: Drought, annual operating expense, power investment, and capitalized deficits and associated interest all impact the firm power rate.

Drought: The P-SMBP has had 8 consecutive years of drought. The result is a reduction of hydropower generation which caused purchased power expense to increase and revenue from non-firm energy sales to decrease. The graph on the following page shows the Missouri Main Stem runoff at Sioux City, Iowa, including the historic drought periods. The most current drought, shown in 2000 through 2008, was the primary basis for Western's 2004, 2006, 2007, 2008, and 2009 rate adjustments, and the proposed 2010 rate adjustment. In general, rate increases are directly related to periods of drought. During periods of drought Western must purchase power on the open market at rates much higher than Western's rates to meet firm power obligations. The Drought Adder portion of the proposed firm power composite rate indicates that 16.67 mills/kWh of the 33.54 mills/kWh composite rate is related to the drought. The following Table 1, prepared by the Corps, highlights current and historical droughts on the Missouri River Mainstem.

Table 1. Missouri River Mainstem Annual Runoff at Sioux City, Iowa



Historically, rate adjustments have been associated with drought conditions in the Pick-Sloan, the following Tables 2 and 3 show the historical P-SMBP--ED rates for firm power and firm peaking power.

Table 2

Pick Sloan Missouri Basin Program Firm Power Rate History					
Rate Schedule	Study Year	Effective Date	Capacity Charge (\$/kW-M)	Energy Charge (m/kWh)	Tip-Up (M/kWh)
MRB-F1		4/1/1950	0.75	3.00	None
MRB-F4		1/1/1954	0.75	3.00	None
MRB-F5		9/1/1965	1.00	3.00	None
UM-F1	FY72	4/1/1974	1.15	3.00	2.00
UM-F2	FY74	6/1/1977	1.20	3.17	2.01
P-SED-F1	FY80	8/1/1982	1.35	3.62	3.38
P-SED-F2	FY82	1/1/1985	1.65	4.41	3.38
P-SED-F3	FY87	10/1/1989	1.85	5.06	3.38
P-SED-F4	FY89	10/1/1990	2.25	5.57	3.38
	Step 1 Step 2		2.35	5.81	3.38
P-SED-F5	FY90	10/1/1991 10/1/1992	2.57	6.49	3.38
	Step 1 Step 2		2.74	7.09	3.38
P-SED-F6	FY92	2/1/1994 10/1/1994	3.00	7.76	3.38
	Step 1 Step 2		3.20	8.32	3.38
P-SED-F7	FY03	2/1/2004 10/1/2004	3.62	9.34	5.21
	Step 1 Step 2		3.72	9.62	5.21
P-SED-F8	FY05	1/1/2006 2/1/2007	4.20	10.69	5.21
	Step 1 Step 2		4.45	11.29	5.21
P-SED-F9 ¹	FY06	1/1/2008	5.65	13.99	None
P-SED-F10	FY07	2/1/2009	6.80	16.71	None

¹ 2008 was the implementation of the Base and Drought Adder components. The Tip-Up rate was eliminated in this public process.

Table 3

Pick Sloan Missouri Basin Program Firm Peaking Power Rate History				
Rate Schedule	Study Year	Effective Date	Capacity Charge (\$/kW-M)	Energy Charge (m/kWh)
MRB-FP1		7/1/1969	1.00	3.00
UM-FP1	FY72	4/1/1974	1.10	3.25
UM-FP3	FY74	6/1/1977	1.20	3.33
P-SED-FP1	FY80	8/1/1982	1.35	3.62
P-SED-FP2	FY82	1/1/1985	1.65	4.41
P-SED-FP3	FY87	10/1/1989	1.85	5.06
	FY89			
P-SED-FP4	Step 1	10/1/1990	2.25	5.57
	Step 2		2.35	5.81
	FY90			
P-SED-FP5	Step 1	10/1/1991	2.57	6.49
	Step 2	10/1/1992	2.74	7.09
	FY 92			
P-SED-FP6	Step 1	2/1/1994	3.00	7.76
	Step 2	10/1/1994	3.20	8.32
	FY 03			
P-SED-FP7	Step 1	2/1/2004	3.62	9.34
	Step 2	10/1/2004	3.72	9.62
	FY05			
P-SED-FP8	Step 1	1/1/2006	4.20	10.69
	Step 2	1/1/2007	4.45	11.29
P-SED-FP9 ¹	FY06	1/1/2008	5.10	13.99
P-SED-FP10	FY07	2/1/2009	6.20	16.71

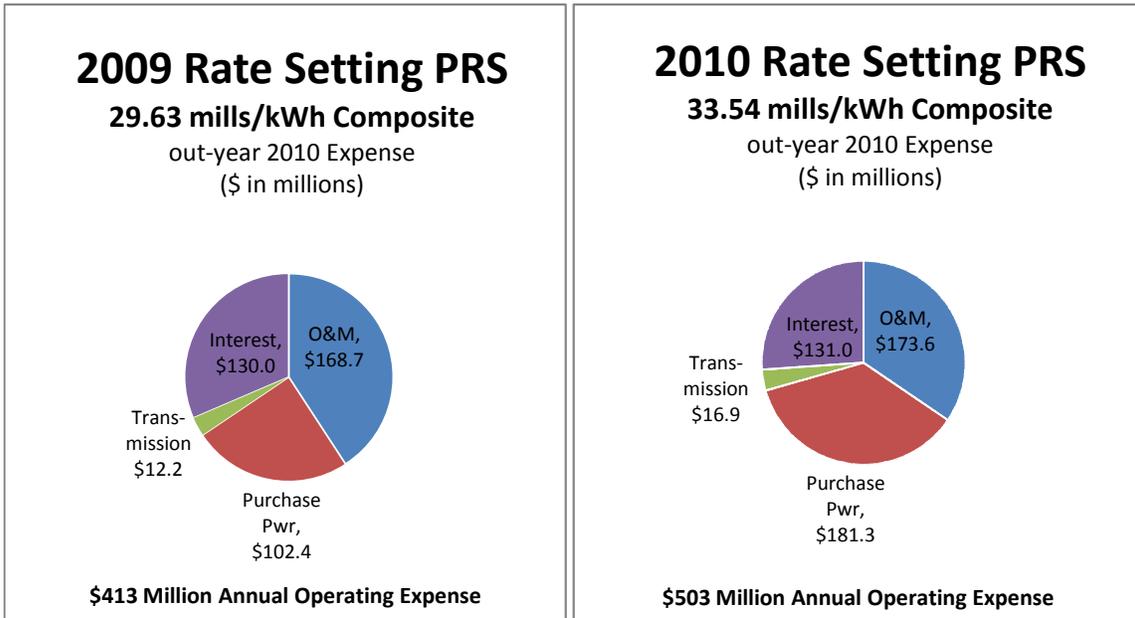
¹ 2008 was the implementation of the Base and Drought Adder components.

Annual Operating Expense: For comparison of the 2009 Rate Setting PRS projected expense and the 2010 Rate Setting PRS it is best to compare the out-year 2010 differences. As shown in Tables 4 & 5, annual operating expense in the out-year 2010 has increased approximately 22 percent over annual operating expense projected in the 2009 Rate Setting PRS. This increase is directly related to the price and volume of purchased power. The purchase price of power is set by supply and demand on the open market. In times of drought, little surplus power is sold and power is purchased at the market price to fulfill contractual commitments. Purchase power projections have increased from \$102.4 million to \$181.3 million for out-year 2010.

From the 2009 Rate Setting PRS to the 2010 Rate Setting PRS there is a \$4.7 million transmission expense increase and \$900,000 interest expense increase. O&M has a \$4.9 million increase, approximately 3 percent, due to expanded work plans submitted by Corps, Western, and Reclamation.

Table 4

Table 5



Power Investment: To compare the 100 year forecast of power investment (replacements and additions) in the 2010 Rate Setting PRS with the power investment in the 2009 Rate Setting PRS, the cumulative investment in the hundredth year out should be compared in both studies. In the 2009 Rate Setting Study, cumulative power investment in 2107 was \$4.935 billion. In the 2010 Rate Setting PRS, cumulative power investment is \$5.135 billion in the year 2108. This 4 percent increase is related to normal inflation and relatively small increases in the amount of capitalized improvements projected in the Corp and Reclamation work plans.

Deficits and Interest Expense: P-SMBP has incurred significant deficits due to the drought increasing purchased power expense and reducing non-firm sales revenue. Approximately \$797.3 million in capitalized deficits have accrued from FY 2001 through FY 2008. Based on current hydrological forecasts, an additional \$147.2 million in deficits is projected to accrue in FY 2009, for cumulative deficits of approximately \$944.5 million. Deficits are capitalized each year at the interest rate in effect that year. The present interest rate is 4.500 percent. In the 2010 Rate Setting Study, in 2009 the total interest expense is projected to be \$123 million, of which approximately \$41 million is related to deficits associated with the current drought. With the projected deficit, the total interest expense increases through 2011 and then decreases as Western repays the deficits. Based on current

projections, it is planned that deficit repayment will begin in FY 2010 and end in FY 2017.

III. PICK-SLOAN MISSOURI BASIN PROGRAM--EASTERN DIVISION FIRM ELECTRIC SERVICE RATES

The current firm power rates, Rate Schedule P-SED-F10, became effective February 1, 2009, and were approved by the Federal Energy Regulatory Commission (FERC) on a final basis on April 28, 2009, FERC Docket No. EF09-5031-000 (127 ¶ FERC 62075). The rates are set to expire on December 31, 2013. The Drought Adder is not adjustable until January 1, 2010, one year after it was implemented.

Proposed P-SMBP--ED Firm Electric Service Rates: The P-SMBP--ED firm electric service rates, Rate Schedule P-SED-F11, were developed from the revenue requirement calculated in the 2010 Rate Setting Power Repayment Study for the Pick-Sloan Missouri Basin Program. The proposed firm electric service rates are \$7.65/kWmo for capacity and 19.05 mills/kWh for energy, and are to be implemented in the first full billing period beginning on or after January 1, 2010.

Present Revenue Requirement: The present annual revenue requirement for P-SMBP--ED firm and firm peaking power is \$283.0 million. With projected energy sales of 8,742 GWh, the study solved at a firm rate of 29.34 mills/kWh (Rate Schedule P-SED-F10). That revenue requirement is further increased \$11.1 million that must be added to cover the 5 percent discount, bringing the gross revenue requirement to \$294.1 million.

Proposed Revenue Requirement: The 2010 Rate Setting PRS annual revenue requirement necessary to meet repayment obligations for P-SMBP--ED firm and firm peaking power is \$320.2 million plus a 5 percent discount revenue requirement of \$12.6 million. The gross P-SMBP--ED revenue requirement is \$332.8 million. With projected energy sales of 8,742 GWh, the P-SMBP--ED has a firm composite rate of 33.25 mills/kWh (Rate Schedule P-SED-F11).

The proposed P-SMBP--ED revenue requirement is formula based. P-SMBP--ED total revenue requirement = Base component revenue requirement + Drought Adder revenue requirement. For the proposed rate adjustment: P-SMBP--ED total revenue requirement = \$166 million + \$166.8 million = \$332.8 million. The components are comprised as follows:

- i. Base component revenue requirement = operation and maintenance expense + investments and replacements + interest on investments and replacements + normal timing purchase power + transmission costs. Any proposed change in the Base component will trigger a public process for rate adjustment.
- ii. Drought Adder component revenue requirement = purchase power above timing purchases + previous purchase power drought

deficits + interest on the purchase power drought deficits. The Drought Adder component may be increased on an annual basis up to 2 mills/kWh. However, for any incremental increase above 2 mills/kWh a public process is initiated.

Although adjustments to the Drought Adder component may be either incremental or decremental based on hydrological conditions, the Drought Adder revenue requirement cannot go below zero.

The Drought Adder component may be increased on an annual basis up to 2 mills/kWh. However, for any incremental increase above 2 mills/kWh a public process is initiated.

Although adjustments to the Drought Adder component may be either incremental or decremental based on hydrological conditions, the Drought Adder revenue requirement cannot go below zero.

There are two additional revenue requirements in the total PSMBP--ED revenue requirement. The first is the 5 percent voltage discount, which is approximately \$12.6 million. This is calculated by multiplying 5 percent by the percentage of gross revenue that is discounted (86.8 percent) by the firm revenue requirement of \$290.7 million. The second is the firm peaking revenue requirement which is \$29.5 million. This is calculated by multiplying the firm peaking power billing units per year by the proposed peaking capacity rate of \$6.90/kWmo. The total P-SMBP--ED revenue requirement is approximately \$332.8 million.

Rate Design: The proposed P-SMBP--ED firm electric service rate is designed to recover 50 percent of the revenue requirement from the capacity rate and 50 percent from the energy rate. The capacity rate of \$7.65/ kWmo is calculated by dividing 50 percent of the total annual revenue requirement by the number of billing units (kWmo) in a year. The energy rate of 19.05 mills/kWh is calculated by dividing 50 percent of the total annual revenue requirement by the annual energy sales. The capacity rate is applied to both firm power and firm peaking power. The energy rate is applied to firm energy sales and any firm peaking energy that is not returned to Western in accordance with customer contract arrangements.

Firm Power Rate Calculations:

Monthly Rates: The Eastern Division has historically and will continue to round the capacity rates to the nearest nickel. This causes a slight difference in the actual dollars collected between the capacity and energy. Though capacity and energy dollars are not exactly equal, capacity and energy each recover 50 percent of the revenue requirement. The capacity revenue requirement is 50 percent of the total annual revenue requirement less the dollars collected for peaking capacity. The calculation for the capacity and energy charges for firm power service are as follows:

Capacity Charge:
 $\frac{\$136.6 \text{ million}}{17,876,078 \text{ kW-mo/yr}} = \$7.65/\text{kWmo}$

Energy Charge:
 $\frac{\$166.7 \text{ million}}{8,742 \text{ GWh}} = 19.05 \text{ mills/kWh}$

Charge Components for Proposed Rate: Using the Base and Drought Adder, the calculations for the firm power service capacity and energy charges are as follows:

Base Component

Capacity:
 $\frac{\$67,929,096}{17,876,078 \text{ kW}} = \$3.80/\text{kWmo}$

Energy:
 $\frac{\$83,335,337}{8,742 \text{ GWh}} = 9.53 \text{ mills/kWh}$

Drought Adder Component

Capacity:
 $\frac{\$68,822,900}{17,876,078 \text{ kW}} = \$3.85/\text{kWmo}$

Energy:
 $\frac{\$83,230,884}{8,742 \text{ GWh}} = 9.52 \text{ mills/kWh}$

Firm Peaking Rate Calculations: Historically the P-SMBP--ED firm peaking rate has been equal to the capacity charge for the firm power rate. The customer pays the capacity rate on their total firm peaking Contract Rate of Delivery (CROD) each month rather than firm peaking delivered each month. Contract terms vary among firm peaking customers with respect to return of peaking energy. One customer returns all peaking energy, while the other peaking customers may pay for 20 percent to 40 percent of the peaking energy they use and return the rest to Western. When a peaking customer does not return peaking energy, they are billed at the firm energy rate.

Western's firm peaking rate design uses the sum of the total allocated seasonal CRODs for both firm electric capacity and firm peaking capacity. Western's rate design for firm electric capacity and firm peaking capacity are representative of the different products. The proposed firm peaking capacity rate is \$6.90/kWmo. The revenue requirement for firm peaking capacity is calculated by multiplying the firm peaking power billing units per year by the proposed capacity rate of \$6.90/kWmo. The proposed rate adjustment has a firm peaking revenue requirement of \$29.5 million.

Firm Peaking Power Rate Calculations:

Monthly Rates: The calculation for the capacity and energy charges for firm peaking power service are as follows:

Capacity Charge:
 $\frac{\$166,443,731}{24,108,888 \text{ kW}} = \$6.90/\text{kWmo}$

Energy Charge¹:
19.05 mills/kWh

Charge Components: Using the proposed Base and Drought Adder components, the calculations for the firm peaking power service capacity and energy charges are as follows:

Base Component

Capacity:
 $\frac{\$14,738,400}{4,272,000 \text{ kW}} = \$3.45/\text{kWmo}$

Energy¹:
9.53 mills/kWh

Drought Adder Component

Capacity:
 $\frac{\$14,738,400}{4,272,000 \text{ kW}} = \$3.45/\text{kWmo}$

Energy¹:
9.52 mills/kWh

¹ Firm peaking energy is normally returned. This rate will be assessed in the event firm peaking energy is not returned.

APPENDIX A

RATE ADJUSTMENT PROCEDURES

Western's rate adjustment procedures are governed by the "Procedures for Public Participation in Power and Transmission Rate Adjustments and Extensions" published in the Federal Register at 10 CFR Part 903. These procedures give interested parties an opportunity to participate in the development of power rates.

- I. Notice of Proposed Rate and Consultation and Comment Period: Initially, a notice of the Proposed Rate and official time for public participation must be published in the Federal Register. The notice of Proposed Rates for Pick-Sloan Missouri Basin Program--Eastern Division, establishes a consultation and comment period. The period begins on the publication date of the Federal Register notice which was July 14, 2009 and closes 90 days later on October 13, 2009. During this period, interested parties may consult with and obtain information from Western's representatives. They may also examine data used in the power repayment studies and suggest changes. Specific details for providing comments are included in the Federal Register notice.
 - A. Public Information Forum: Western's representatives present the Proposed Rate changes and answer questions. Those questions not answered at the public information forum receive written responses at least 15 days prior to the end of the consultation and comment period.
 - B. Public Comment Forum: This forum provides a formal opportunity for interested parties to submit either written or oral comments to be shared with other attendees and Western representatives. Usually, Western does not respond to comments at this forum. However, comments are considered in developing the final rate.
 - C. Written Comments: Interested parties may submit written comments and inquiries to Western during the consultation and comment period.
 - D. Revision of Proposed Rate: After the close of the consultation and comment period, Western will review and consider comments. If appropriate, the Proposed Rate will be revised. If the Administrator determines that further public comment should be invited or is necessary, interested parties will be given a period of at least 30 days to submit additional comments concerning the Proposed Rate.
 - E. Preliminary Decision on Interim Rate: Following the end of the consultation and comment period, the Administrator will develop provisional rates. The Deputy Secretary of Energy for the Department of Energy (DOE) has the authority to confirm, approve, and place this rate into effect on an interim basis. The decision, together with an explanation of the principal factors leading to the decision, will be published in the Federal Register.

F. Final Approval of Interim Rate: The Deputy Secretary will submit information concerning the interim rate to the Federal Energy Regulatory Commission (FERC) and request final approval. The response of FERC will be to:

1. give final confirmation and approval to the interim rate,
2. disapprove the interim rate, or
3. remand the matter to Western for further study.

The interim rate does not become final until it is approved by FERC.

APPENDIX B

PROPOSED RATE ADJUSTMENT SCHEDULE

- Informal Customer Meetings took place April 15-16, 2009
- Public Process
 - FRN published July 14, 2009
 - 90 day comment period began July 14, 2009 and ends October 13, 2009
 - Public Information Forums
 - August 18, 2009, 9-10:30 a.m. MDT
Ramada Plaza Hotel
10 East 120th Avenue
Northglenn, CO
 - August 19, 2009, 9-10:30 a.m. CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
 - Public Comment Forums
 - August 18, 2009, 11 a.m.-12 noon MDT
Ramada Plaza Hotel
10 East 120th Avenue
Northglenn, CO
 - August 19, 2009, 11 a.m.-12 noon CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
- Record of Decision mid-November
- Implement rate January 1, 2010

EXHIBIT 1

2010 Rate Setting Power Repayment Study Executive Summary

Posted at:

<http://www.wapa.gov/ugp/rates/2010FirmRateAdjust/Default.htm>

EXHIBIT 2

**UNITED STATES DEPARTMENT OF ENERGY
WESTERN AREA POWER ADMINISTRATION**

**PICK-SLOAN MISSOURI BASIN PROGRAM--EASTERN DIVISION
MONTANA, NORTH DAKOTA, SOUTH DAKOTA, MINNESOTA, IOWA,
NEBRASKA**

SCHEDULE OF RATES FOR FIRM POWER SERVICE

Effective: The first day of the first full billing period beginning on or after January 1, 2010, through December 31, 2014.

Available: Within the marketing area served by the Eastern Division of the Pick-Sloan Missouri Basin Program.

Applicable: To the power and energy delivered to customers as firm power service.

Character: Alternating current, 60 hertz, three phase, delivered and metered at the voltages and points established by contract.

Monthly Rate:

CAPACITY CHARGE: \$7.65 for each kilowatt per month (kWmo) of billing capacity.

ENERGY CHARGE: 19.05 mills for each kilowatthour (kWh) for all energy delivered as firm power service.

BILLING CAPACITY: The billing capacity will be as defined by the power sales contract.

Charge Components:

Base: A fixed revenue requirement that includes operation and maintenance expense, investments and replacements, interest on investments and replacements, normal timing purchase power (purchases due to operational constraints, not associated with drought), and transmission costs

$$\text{Base Capacity} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Metered Billing Units}} = \$3.80/\text{kWmo}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 9.53 \text{ mills/kWh}$$

Drought Adder: A formula-based revenue requirement that includes future purchase power above timing purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits.

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Metered Billing Units}} = \$3.85/\text{kWmo}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 9.52 \text{ mills/kWh}$$

Process:

Any proposed change to the Base component will require a public process.

The Drought Adder may be adjusted annually using the above formulas for any costs attributed to drought of less than or equal to the equivalent of 2 mills/kWh to the Power Repayment Study composite rate. Any planned incremental adjustment to the Drought Adder greater than the equivalent of 2 mills/kWh to the PRS composite rate, will require a public process.

Adjustments:

For Character and Conditions of Service:

Customers who receive deliveries at transmission voltage may in some instances be eligible to receive a 5-percent discount on capacity and energy charges when facilities are provided by the customer that results in a sufficient savings to Western to justify the discount. The determination of eligibility for receipt of the voltage discount shall be exclusively vested in Western.

For Billing of Unauthorized Overruns:

For each billing period in which there is a contract violation involving an unauthorized overrun of the contractual firm power and/or energy obligations, such overrun shall be billed at 10 times the above rate.

For Power Factor:

None. The customer will be required to maintain a power factor at the point of delivery between 95-percent lagging and 95-percent leading.

EXHIBIT 3

**UNITED STATES DEPARTMENT OF ENERGY
WESTERN AREA POWER ADMINISTRATION**

**PICK-SLOAN MISSOURI BASIN PROGRAM—EASTERN DIVISION
MONTANA, NORTH DAKOTA, SOUTH DAKOTA, MINNESOTA, IOWA,
NEBRASKA**

SCHEDULE OF RATES FOR FIRM PEAKING POWER SERVICE

Effective:

The first day of the first full billing period beginning on or after January 1, 2010, through December 31, 2014.

Available:

Within the marketing area served by the Eastern Division of the Pick-Sloan Missouri Basin Program, to our customers with generating resources enabling them to use firm peaking power service.

Applicable:

To the power sold to customers as firm peaking power service.

Character:

Alternating current, 60 hertz, three phase, delivered and metered at the voltages and points established by contract.

Monthly Rate:

CAPACITY CHARGE:

\$6.90 for each kilowatt per month (kWmo) of the effective contract rate of delivery for peaking power or the maximum amount scheduled, whichever is greater.

ENERGY CHARGE:

19.05 mills for each kilowatthour (kWh) for all energy scheduled for delivery without return.

Charge Components:

Base: A fixed revenue requirement that includes operation and maintenance expense, investment and replacements, normal timing purchase power (purchases due to operational constraints, not associated with drought), and transmission

$$\text{Base Capacity} = \frac{\text{Base Peaking Capacity Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$3.45/\text{kWmo}$$

Drought Adder: A formula-based revenue requirement that includes future purchase power above timing purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits.

$$\text{Drought Adder} = \frac{\text{Drought Adder Peaking Capacity Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$3.45/\text{kWmo}$$

Process:

Any proposed change to the Base component will require a public process.

The Drought Adder may be adjusted annually using the above formula for any costs attributed to drought of less than or equal to the equivalent of 2 mills/kWh to the Power Repayment Study composite rate. Any planned incremental adjustment to the Drought Adder greater than the equivalent of 2 mills/kWh to the PRS composite rate, will require a public process.

BILLING CAPACITY:

The billing capacity will be the greater of (1) the highest 30-minute integrated capacity measured during the month up to, but not in excess of, the delivery obligation under the power sales contract, or (2) the contract rate of delivery.

Adjustments:

Billing for Unauthorized Overruns:

For each billing period in which there is a contract violation involving an unauthorized overrun of the contractual obligation for peaking capacity and/or energy, such overrun shall be billed at 10 times the above rate.

EXHIBIT 4

Proposed Rate Adjustment *Federal Register* Notice

Posted at:

<http://www.wapa.gov/ugp/rates/2010FirmRateAdjust/Default.htm>