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Gentlemen:

The Mid-West Electric Consumers Association ("Mid-West") appreciates the opportunity to comment on the Western Area Power Administration's ("Western") proposed increase in firm electric service rates for the Pick-Sloan Missouri Basin Program Eastern Division and the Loveland Area Projects (Fryingpan-Arkansas and Pick-Sloan Missouri Basin Program Western Division) as published in the July 14, 2009 Federal Register (pages 34012-34014 and 34009-34012 respectively).

It is axiomatic that no one likes rate increases. This proposed increase in firm power rates is driven not so much by increased federal agency costs, but by the continuing drought, which has dramatically reduced generation at U.S. Army Corps of Engineers and U.S. Bureau of Reclamation multi-purpose projects. The drought of the last ten years has required that Western purchase power to fulfill its contractual obligations to its firm power customers. The rate increases that firm power customers have witnessed over that time are largely driven by those purchase power costs. Virtually half of the proposed firm power rate is drought costs (purchased power).

Pick-Sloan Missouri Basin Program firm power customers take their repayment obligations to the U.S. Treasury seriously. Even with the rate increases over the past ten years, The Pick-Sloan Missouri Basin Program is running a deficit. Mid-West and its members worked with Western to develop a rate structure for Pick-Sloan that separates the firm power rate into two components: a Base rate and a Drought Adder. The Base rate includes "annual operation and maintenance expenses,

investment repayment and associated interest, normal timing power purchases, and transmission costs.” (July 14, 2009 FR, p. 340113) The Drought Adder includes those costs “attributable to past and present drought conditions.” (Ibid.) Mid-West agrees with this rate structure as an effective means of ensuring timely repayment of drought-related costs.

Recent forecasts on Pick-Sloan generation suggest improved revenues over conditions forecast when Western began the public process on this proposed rate increase. Nevertheless, Mid-West does not think it appropriate for Western to attempt to adjust its proposed rate in the middle of the public process. Forecasts and actual generation are constantly changing during the nine months of public process necessary to implement a new rate. Changing the proposed rate could require Western to begin the public process all over again, further delaying the rate increase and increasing Pick-Sloan deficits.

Should generation and revenues witness a dramatic improvement, Western has the capability to adjust the Drought Adder to accommodate this change in conditions without necessarily going through a full public process. That Western can adjust the Drought Adder up to two mills (either up or down) without a full public process provides sufficient flexibility to address this sort of issue in the future.

Mid-West and its members look forward to the day when the Drought Adder will be reduced to zero.

Sincerely,



Thomas P. Graves
Executive Director