



Loveland Area Projects Customer Brochure

Proposed Firm Electric Service 2010 Rate Adjustment

August 2009



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<http://www.wapa.gov/rm/ratesRM/2010/default.htm>

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I. INTRODUCTION

This brochure provides information on Western Area Power Administration's (Western) proposed firm electric service rate adjustment for the Loveland Area Projects (LAP) under Rate Order No. WAPA-146. The rate adjustment procedures are outlined in Appendix A to this brochure.

The Fiscal Year (FY) 2008 repayment analysis for LAP, which includes the Pick-Sloan Missouri Basin Program--Western Division (P-SMBP--WD) and the Fryingpan-Arkansas Project (Fry-Ark), indicates that the existing firm electric service rates do not meet repayment requirements. To fulfill those requirements, the Rocky Mountain Region (RMR) and the Upper Great Plains Region (UGPR) have proposed rate adjustments for LAP and the Pick-Sloan Missouri Basin Program--Eastern Division (P-SMBP--ED). The P-SMBP--ED rate adjustment has been proposed in a separate public process under Rate Order No. WAPA-147.

Western will continue to determine its Firm Electric Service revenue requirement using a Base rate component (Base) and Drought Adder rate component (Drought Adder). This allows Western to identify drought impacts in the regions covered by the LAP and the P-SMBP--ED (individually called Project and collectively called Projects) and demonstrate a proactive approach to repaying incurred costs related to the drought.

II. Rate Proposal for 2010

This proposed rate adjustment reflects a rate increase based on the Fry-Ark and P-SMBP--WD revenue requirements derived from the FY 2008 Power Repayment Studies (PRSs). The PRSs set the LAP annual revenue requirement for 2010 for firm electric service at \$84.5 million, which is a 11.2 percent increase (1.6 percent Base and 9.6 percent Drought Adder).

The 1.6 percent increase from the Base rate component is due to a slight increase in operation and maintenance (O&M) costs, as well as the inclusion of additional transmission costs associated with the wheeling of Mount Elbert generation in the Fry-Ark PRS. Previously, these transmission cost projections were only included through 2010, the expiration date of Western's contract with the transmission provider. In the 2004 rate adjustment process, it was decided that the Fry-Ark PRS would include three additional years of transmission cost projections, through 2013. In the current rate adjustment, Western is proposing to include transmission cost projections through 2024, the end of LAP's Marketing Plan. Transmission service will be needed beyond 2013, so it is appropriate to include those costs at least through the term of the LAP contracts. The additional transmission costs are partially offset by increases in projected ancillary service revenues. The 9.6 percent increase from the Drought Adder rate component is due to increased drought related costs.

Given the need for a Base rate component increase and the size of the Drought Adder rate component increase, Western is required to initiate a formal public process. Under the current Rate Schedule, Western had the option of increasing the Drought Adder rate component by up to 2 mills/kWh outside of a formal public process, and only initiating the formal public process for the Base rate component increase and the incremental increase of the Drought Adder rate component above 2 mills/kWh. Instead, Western has opted to initiate the formal public process for the entire rate increase. Western has prepared the proposed rate schedule for firm electric service (LF-9) for consideration and comment during this public process. A comparison of the existing revenue requirement and rates and the proposed revenue requirement and rates under L-F9 is listed in Table 1.

Table 1 – LAP Firm Electric Service Revenue Requirement and Rates

Firm Electric Service	Existing Rates February 1, 2009 (L-F8)	Proposed Rates January 1, 2010 (L-F9)	Percent Change
Revenue Requirement	\$75.9 million	\$84.5 million	11.2%
Composite Rate	37.24 mills/kWh	41.42 mills/kWh	11.2%
Firm Energy Rate	18.62 mills/kWh	20.71 mills/kWh	11.2%
Firm Capacity Rate	\$4.88/kW-month	\$5.43/kW-month	11.2%

Under Rate Schedule L-F9, Western is proposing to continue to identify its firm electric service revenue requirement using Base and Drought Adder rate components and provide for an annual increase in the Drought Adder rate component of up to 2 mills/kWh. The Base rate component is a revenue requirement that includes annual O&M expenses, investment repayment and associated interest, normal timing power purchases, and transmission costs. Western’s normal timing power purchases are due to operational constraints (e.g., management of endangered species habitat, water quality, navigation, etc.) and are not associated with the current drought. The Drought Adder rate component is a formula-based revenue requirement that includes costs attributable to drought conditions. The Drought Adder rate component includes costs associated with future non-timing purchases of additional power to meet firm obligations not covered with available system generation due to the drought, previously incurred deficits due to purchased power debt that resulted from non-timing power purchases made during this drought, and the interest associated with the previously incurred and future drought debt. The Drought Adder rate component is designed to repay Western’s drought debt within 10 years from the time the debt was incurred, using balloon-payment methodology. For example, the drought debt incurred by Western in 2008 will be repaid by 2018.

The annual revenue requirement calculation will continue to be summarized by the following formula: Annual Revenue Requirement = Base Revenue Requirement + Drought Adder Revenue Requirement. Under this proposal, effective January 1, 2010, the LAP revenue requirement equals \$84.5 million and is comprised of a Base revenue requirement of \$51.2 million plus a Drought Adder revenue requirement of \$33.3 million. A comparison of the current and proposed rate components is listed in Table 2.

Table 2 – Summary of LAP Components

	Existing Rates February 1, 2009		Proposed Rates January 1, 2010	
	Firm Energy	Firm Capacity	Firm Energy	Firm Capacity
Base	12.23 mills/kWh	\$3.21/kWmonth	12.54 mills/kWh	\$3.29/kWmonth
Drought Adder	6.39 mills/kWh	\$1.67/kWmonth	8.17 mills/kWh	\$2.14/kWmonth
Total	18.62 mills/kWh	\$4.88/kWmonth	20.71 mills/kWh	\$5.43/kWmonth

Continuing to identify the firm electric service revenue requirement using Base and Drought Adder rate components will assist Western in the presentation of the impacts of the drought, demonstrate repayment of the drought related costs in the PRSs, and allow Western to be more responsive to changes in drought related expenses. Western will continue to charge and bill its customers firm electric service rates for energy and capacity, which are the sum of the Base and Drought Adder rate components.

Western reviews its firm electric service rates annually. Western will review the Base rate component after the annual PRSs are completed, generally in the first quarter of the calendar year. If an adjustment to the Base rate component is necessary, Western will initiate a public process pursuant to 10 CFR part 903 prior to making an adjustment.

In accordance with the original implementation of the Drought Adder rate component, Western will continue to review the Drought Adder rate component each September to determine if drought costs differ from those projected in the PRSs, and, if so, whether an adjustment, either incremental or decremental, to the Drought Adder rate component is necessary. Western will notify customers by letter in October of the planned incremental or decremental adjustment and implement the adjustment in the January billing cycle. Although decremental adjustments to the Drought Adder rate component will occur as drought costs are repaid, the adjustments cannot result in a negative Drought Adder rate component. To give customers advanced notice, Western will conduct a preliminary review of the Drought Adder rate component in early summer and notify customers by letter of the estimated change to the Drought Adder rate component for the following January, with the final Drought Adder component adjustment verified with notification in the October letter to the customers. Implementing the Drought Adder rate component adjustment on January 1 of each year will help keep the drought deficits from escalating as quickly, will lower the interest expense due to drought deficits, will demonstrate responsible deficit management, and will provide prompt drought deficit repayments.

As a part of the current and proposed rate schedules, Western provided for a formula-based adjustment of the Drought Adder of up to 2 mills/kWh. The 2 mills/kWh cap is intended to place a limit on the amount the Drought Adder formula can be adjusted relative to associated drought costs without having to initiate a public process to recover costs attributable to the Drought Adder formula rate for any one-year cycle.

The major factors contributing to the proposed rate adjustment are the economic impact of the drought, increased O&M and other annual expenses, increased investments, and increased interest expense associated with deficits. Detailed discussions of these factors are included in Section III.B of this brochure.

III. LOVELAND AREA PROJECTS FIRM ELECTRIC SERVICE RATES

The current rates, \$4.88 per kilowatt-month (kWmonth) and 18.62 mills per kilowatthour (mills/kWh) were placed into effect in the February 2009 billing period and approved by FERC on a final basis on June 26, 2009, under Federal Energy Regulatory Commission (FERC) Docket No. EF09-5181-000 (127 FERC ¶ 62,245). These rates are set to expire on December 31, 2013.

A. Proposed LAP Firm Electric Service Rates: The LAP firm electric service rates were developed by combining the revenue requirements calculated from the 2010 Rate Setting PRSs for both Pick-Sloan and Fry-Ark. The proposed rates are \$5.43/kWmonth for firm capacity and 20.71 mills/kWh for firm energy. These rates are to be implemented in the first full billing period beginning on or after January 1, 2010.

1. LAP Revenue Requirement:

PRESENT REVENUE REQUIREMENT: \$75,954,240

PROPOSED INCREASE:

Jan 10 – 4.18 mills/kWh	\$ 8,556,400
Proposed Revenue Requirement	<u>\$84,510,640</u>

a. Pick-Sloan Missouri Basin Program--Western Division: The present annual revenue requirement for P-SMBP--WD firm power is \$61,409,320, and is based on the current firm P-SMBP--WD composite rate of 30.89 mills/kWh and projected energy sales of 1,988 GWh.

PRESENT REVENUE REQUIREMENT:

30.89 mills/kWh x 1,988,000,000 kWh	\$61,409,320
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PROPOSED INCREASE-Jan 2010

Base Rate: 0.25 mills/kWh x 1,988 GWh	\$ 497,000	
Dr. Adder: 3.66 mills/kWh x 1988 GWh	\$7,276,080	<u>\$ 7,773,080</u>

Proposed Revenue Requirement		
30.89 + 3.91 = 34.80 mills/kWh x 1,988 GWh		<u>\$69,182,400</u>

- b. Fryingpan-Arkansas Project: The present annual revenue requirement for Fry-Ark is \$14,544,920, and is based on the projected sale of 200 MW of capacity and 52 GWh of energy.

PRESENT REVENUE REQUIREMENT: \$14,544,920

PROPOSED INCREASE—Jan 2010:

Base Component	\$773,320	
Drought Adder Component	\$ 10,000	<u>\$ 783,320</u>
Proposed Revenue Requirement		<u>\$15,328,240</u>

The proposed LAP rate is formula based. The formula for each project is: PRS Composite Rate Solution equals Base component plus Drought Adder component. It follows that the LAP total revenue requirement is then composed of a Base component revenue requirement and a Drought Adder component revenue requirement that will be reviewed annually. The calculation is as follows:

Base Component	\$51,170,680
Drought Adder Component	<u>\$33,339,960</u>
Proposed LAP Revenue Requirement	<u>\$84,510,640</u>

The components are comprised as follows:

- a. Base component revenue requirement = O&M expense + investments and replacements + interest on investments and replacements + normal timing purchase power + transmission costs.
 - b. Drought Adder component revenue requirement = future purchase power above timing purchases + previous purchase power drought deficits + interest on the purchase power drought deficits.
 - c. Any proposed change in the Base component will trigger a public process.
 - d. Western has the option of increasing the Drought Adder rate component by up to 2 mills/kWh outside of a formal public process, and only initiating the formal public process for the Base rate component increase and the incremental increase of the Drought Adder rate component above 2 mills/kWh. Instead, Western has opted to initiate the formal public process for the entire rate increase.
 - e. 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.
2. Rate Design: The proposed LAP firm electric service rate is designed to return 50 percent of the revenues from the firm capacity component and 50 percent from the firm energy component. The capacity component is based on a monthly billing of

the seasonal contract rate of delivery. The energy component is based on the annual contracted energy.

Monthly Rates:

The calculations for the Total Capacity and Energy charges are as follows:

Capacity Charge:

$$\frac{(\$84,510,640/2) = \$42,255,320}{(690.8 \text{ MW} + 605.3 \text{ MW}) \times (6) \times (1,000)} = \$5.43/\text{kWmonth}$$

Energy Charge:

$$\frac{(\$84,510,640/2) = \$42,255,320}{2,040 \text{ GWh} \times (1,000)} = 20.71 \text{ mills/kWh}$$

Charge Components: Using the proposed Base and Drought Adder components, the calculations for the Capacity and Energy charges are as follows:

Base Component

Capacity:

$$\frac{(\$51,170,680/2) = \$25,585,340}{(690.8 \text{ MW} + 605.3 \text{ MW}) \times (6) \times (1,000)} = \$3.29/\text{kWmonth}$$

Energy:

$$\frac{(\$51,170,680/2) = \$25,585,340}{2,040 \text{ GWh} \times (1,000)} = 12.54 \text{ mills/kWh}$$

Drought Adder Component

Capacity:

$$\frac{(\$33,339,960/2) = \$16,669,980}{(690.8 \text{ MW} + 605.3 \text{ MW}) \times (6) \times (1,000)} = \$2.14/\text{kWmonth}$$

Energy:

$$\frac{(\$33,339,960/2) = \$16,669,980}{2,040 \text{ GWh} \times (1,000)} = 8.17 \text{ mills/kWh}$$

Total LAP Capacity Charge	\$5.43/kWmonth
Total LAP Energy Charge	20.71 mills/kWh

B. Supporting Information: Drought information and statistics related to this rate process are detailed below.

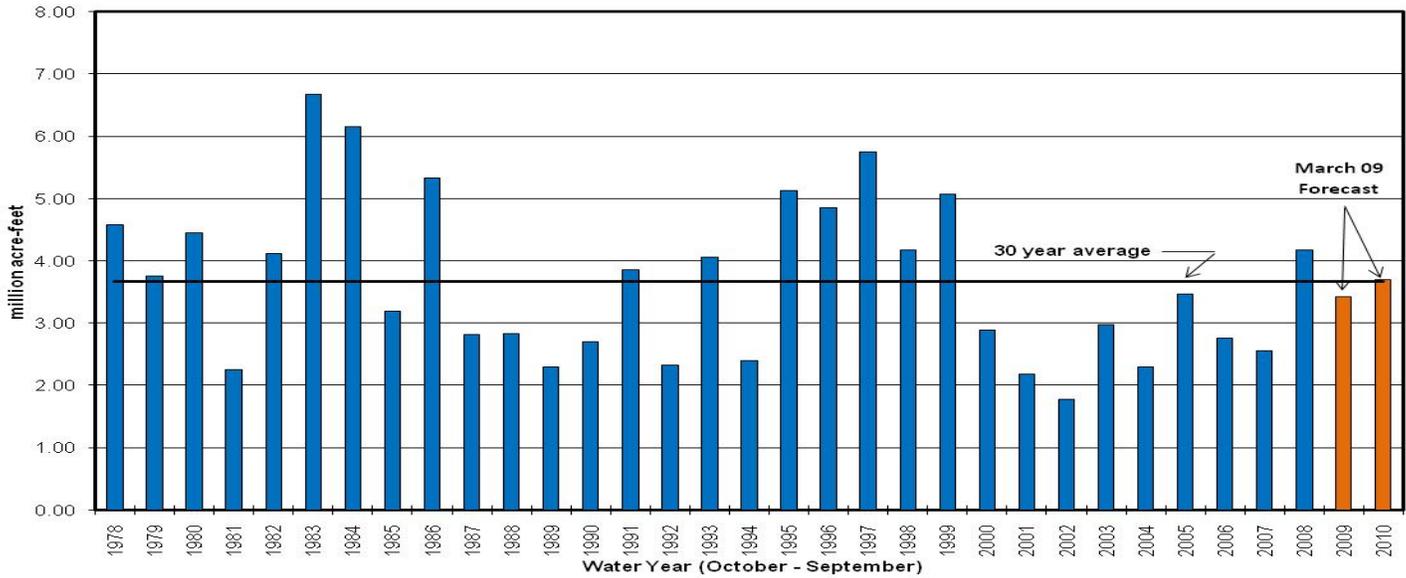
1. Drought

- a. P-SMBP--WD: As of March 2009, drought conditions have improved since last year but moderate drought conditions persist in southeastern Colorado and southwestern Wyoming. Moderate drought conditions now also prevail along the northern Front Range of Colorado. Reservoir inflows have been above normal in the P-SMBP--WD so far this year; 117 percent of average for Colorado-Big Thompson (C-BT), 109 percent for the North Platte Basin, and 87 percent in the Bighorn Basin. The combined P-SMBP--WD reservoir inflow has been 98 percent of average. The resulting P-SMBP--WD reservoir storage at the end of February was 96 percent of average, up from 76 percent of average last year. Assuming normal precipitation and temperatures in the P-SMBP--WD for the remainder of FY 2009, the annual reservoir inflows will be 93 percent of average and the resulting P-SMBP--WD reservoir storage should be 97 percent of average at the end of September 2009.
- b. Fry-Ark: Since the Mount Elbert Powerplant is a pumped-storage powerplant, the operation is relatively unaffected by hydrologic conditions and much more dependant on unit availability.

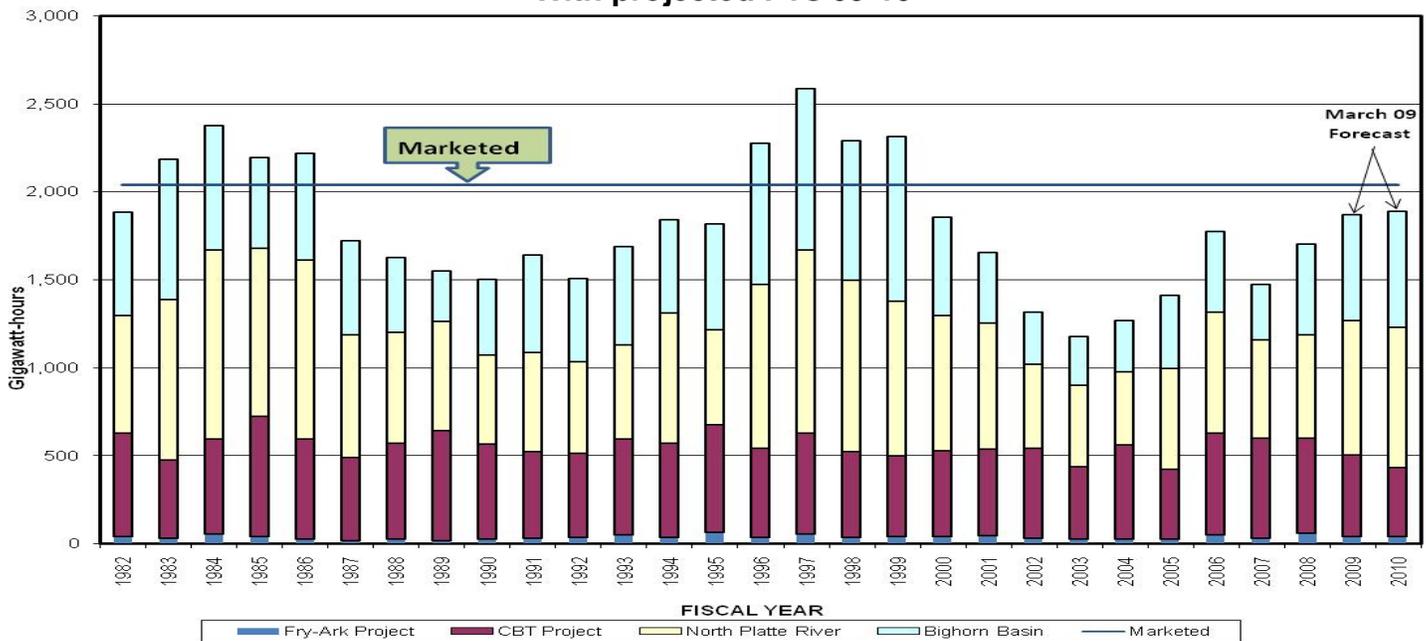
The LAP will experience a tenth year of drought if the upcoming spring runoff is below average. The reservoir storage in the North Platte basin is still well below average and winter reservoir releases will remain at minimum levels until storage returns to normal. There will be significant generation shortfalls in the upcoming winter season. Extended maintenance outages may further reduce C-BT generation next winter. Reduced generation during the drought caused purchased power expenses to increase and revenue from non-firm energy sales to decrease. The drought and resulting power purchases were the primary basis for our 2004, 2006, 2008, and 2009 rate adjustments, and are driving the proposed 2010 adjustment. In general, rate increases are directly related to periods of drought where Western must purchase power on the open market at rates much higher than the firm electric service rates.

The following charts highlight the current and historical droughts in the RMR:

ANNUAL LAP RESERVOIR INFLOW With projected FYs 09-10



LAP GROSS GENERATION AT PLANT With projected FYs 09-10



The following chart shows the LAP rate history from 1989 through 2009 and the projected LAP rate, as proposed, for 2010.

Loveland Area Projects Rate History					
	<u>Year</u>	<u>Composite Rates</u>			
■	1989	14.30			
■	1990	Step 1	16.78	Step 2	17.20
■	1991	Step 1	19.18	Step 2	20.06
■	1994	Step 1	20.66	Step 2	21.70
■	2004	Step 1	23.44	Step 2	23.90
■	2006	Step 1	26.12	Step 2	27.36
■	2008	32.42			
■	2009	37.24			
■	2010	41.42			

2. Power Repayment Studies: A PRS for Pick-Sloan is prepared annually by Western with the cooperation of Reclamation and the Corps of Engineers (Corps). Basic river basin hydrology, water depletions, power generation, and project development data and cost information are supplied by Reclamation and the Corps. The annual Fry-Ark PRS is prepared by Western and coordinated with Reclamation for project development data and cost information. PRSs 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 investment to be repaid from power revenues. It also estimates income, expenses, and investments for future years, as well as calculating the application of revenues, the annual repayment of power system production and transmission costs, and displaying other costs assigned to power for repayment. The PRS also calculates the total Federal investment remaining to be repaid over the repayment period.

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 purpose of a PRS is to determine the ability of power rates to generate sufficient revenue for repayment of project investments and costs during the project's repayment period. A PRS contains the following components:

- a. Resources and Annual Revenues: In the PRS for Pick-Sloan, future available energy resources (based on the latest hydrology, depletions, and marketing projections) are multiplied by a composite energy yield to determine annual revenue estimates. In the PRS for Fry-Ark, flow-through energy is valued at the current LAP energy rate. The remaining revenue is attributed to capacity sales.

For the Pick-Sloan 2010 Rate Set PRS, future P-SMBP--WD annual firm energy sales are based on an annual energy amount of 1,988 GWh and capacity sales are based on actual LAP contract commitments (491 MW for summer season and 405 MW for winter season). For the 2010 Fry-Ark Rate Set PRS, capacity sales are based on marketing the available 200 MW of capacity and 52 GWh of flow-through energy. In addition, the PRS for each project includes other revenues, such as economy energy, ancillary services, and transmission revenues.

- b. Annual Revenue Deductions or Expenses: Unless required payments are due, revenues are normally first applied to repayment of annual expenses which include:

- O&M costs, purchased power, and transmission costs; and
- Yearly interest expenses on investments.

These expenses are discussed below.

- (1) Annual Expenses: O&M expenses shown in each PRS reflect the costs associated with the operation of powerplants, substations, and transmission lines, as well as labor and supplies associated with maintenance. O&M expenses also reflect costs for nonrecurring maintenance and administrative overhead. The cost of purchased power and transmission required for firm contractual obligations is also included in annual expenses.

- (a) Historical O&M expenses are based on accounting records through September 30, 2008. Projected O&M expenses are based on the FY 2010 budget documents.

For Fry-Ark, the routine O&M in the “out year” in the current PRS decreased approximately 10 percent over the routine O&M in the “out year” that set the February 1, 2009, rate. This decrease in O&M between the 2009 Rate Setting PRS and the 2010 Rate Setting PRS is related to the realignment of base budget costs for Reclamation.

For Pick-Sloan WD, the routine O&M in the “out-year” in the current PRS has increased approximately 10 percent over the routine O&M in the “out-year” in the PRS that set the February 1, 2009, rate. This increase in O&M between the 2009 Rate Setting PRS and the 2010 Rate Setting PRS is related to an increase in facility maintenance as well as to normal inflation.

(b) LAP Purchased power costs are projected for two future years. The projections are based on Reclamation's generation projections for FYs 09-10. Purchases for energy imbalance, losses, and timing are also projected. Some of these purchases are offset by projected revenues that are to be received from providing the service(s).

(c) Transmission expenses are included in the Fry-Ark PRS through 2024, the end of LAP's marketing plan. Transmission expenses are included in the Pick-Sloan PRS for the full 100 years of the study.

(2) Interest Expenses: The yearly interest expenses are paid next. Historical interest expenses in each PRS are based on accounting records through September 30, 2008. Projected interest expenses reflect the various interest rates applicable to the unpaid balances of outstanding investments.

The interest rates of unpaid balances in the Pick-Sloan PRS vary from 0 to 11.07 percent. The interest rates of unpaid balances in the Fry-Ark PRS vary from 3.046 to 8.270 percent.

c. Deficit Repayment: Project deficits (expenses exceeding revenues), or a portion thereof, are normally paid after annual expenses have been paid. These deficits are capitalized at current interest rates and classified into two categories:

- 1) Category 1 – A deferred interest expense deficit
- 2) Category 2 – A deferred annual cost deficit

Pick-Sloan expenses exceeded revenues by \$175 million in FY 2008. Primarily drought related, the deficits resulted from increased purchased power expenditures and decreased revenue from surplus sales. This resulted in both "Category 1" and "Category 2" deficits. The total unpaid deficits recorded through FY 2008 are \$797 million and, based on current hydrologic forecasts, an additional \$147 million in deficits is projected for FY 2009, for a total cumulative deficit amount of \$945 million. In the current PRS, it is projected that deficit repayment will begin in FY 2010 and end in FY 2017.

There are no deficits being projected in the Fry-Ark Rate Setting PRS.

d. Investment Repayment: Investments are normally repaid on the basis of the highest interest-bearing investment being paid first. However, if the repayment of a period of a low interest-bearing investment is about to expire, the low interest investment may take repayment precedence. The investment(s) to be repaid are described below.

(1) Replacements and Additions:

Replacements are defined as features or equipment that needs to be replaced to ensure project performance. Replacements carry current interest rates, and are required to be repaid within each unit's estimated service life (not to exceed 50 years). The total electric plant investment for a project is used in computing the estimated future replacement costs for the project.

Additions are defined as a project feature or facility that is not included in the original authorizing legislation.

The historical replacements in the rate setting PRSs are based on accounting records through September 30, 2008. Replacements within the 5-year budget period (2009-2013) are based on the FY 2010 budget documents. Beyond the budget period, each PRS estimates replacements by units of property and service life factors based on data from "Replacements Units, Service Lives, and Factors" published by Reclamation and Western in May 1989, and updated in May 2006.

To compare the power investment (replacements and additions) in the current PRS with the power investment from the prior Rate Setting PRS, Western compared the cumulative investment in the last year in the 2009 Rate Setting PRS with the same year in the 2010 Rate Setting PRS.

In the Fry-Ark 2009 Rate Setting PRS, the cumulative power investment in 2057 was \$188.8 million. In the current 2010 Rate Setting PRS, the cumulative power investment through 2057 is \$188.7 million.

For Pick-Sloan, Western compared 2107, the last year in the FY 2009 Rate Setting PRS. In the 2009 Rate Setting PRS, cumulative power investment in 2107 was \$4.935 billion. In the current 2010 Rate Setting PRS, cumulative power investment is \$5.114 billion in the year 2107.

(2) Project Investments: Project investments are the original Federal investments authorized by legislation. The interest rate which applies to these investments is defined as the project interest rate. Portions of the project's multipurpose features which are allocated to power are included in project investments.

The project interest rates in the Pick-Sloan PRS are 2.5 percent and 3.0 percent. The project interest rate in the Fry-Ark PRS is 3.046 percent.

(3) Irrigation Assistance: Generally, power users are required to pay irrigation investment that is beyond the irrigators' ability to repay. Interest is not accrued on irrigation investments. Pick-Sloan currently includes irrigation investments in the PRS; Fry-Ark does not have any irrigation assistance assigned to power at this time.

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" (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. This notice is referred to as the Proposed Rates for Loveland Area Projects Firm Electric Service, and establishes a consultation and comment period. This period begins on the publication date of the Federal Register notice and closes not less than 90 days later. 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 explain the Proposed Rate changes and answer questions. Those questions not answered at the 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 Provisional Rate: Following the end of the consultation and comment period, the Administrator will develop a provisional rate. 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 Provisional Rate: The Deputy Secretary will submit information concerning the provisional 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 provisional rate,
2. disapprove the provisional rate, or
3. remand the matter to Western for further study.

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

APPENDIX B

Environmental Compliance

In compliance with the National Environmental Policy Act of 1969 (NEPA) (42 U.S.C. 4321-4347); the Council on Environmental Quality Regulations (40 CFR parts 1500-1508); and DOE NEPA Regulations (10 CFR part 1021), Western is in the process of determining whether an environmental assessment or an environmental impact statement should be prepared or if this action can be categorically excluded from those requirements.

APPENDIX C

Proposed Schedule

- Informal Customer Meetings took place on April 15-16, 2009, in Northglenn, Colorado, and Sioux Falls, South Dakota

- Public Process
 - FRN – Published July 14, 2009
 - 90 Day Comment Period (closes October 12, 2009)
 - Information Forum
 - August 18, 2009, 9 a.m. - 10:30 a.m. MDT
Ramada Plaza and Conference Center
10 East 120th Avenue
Northglenn, Colorado

 - Comment Forum
 - August 18, 2009, 11:00 a.m. – 12:00 p.m. MDT
Ramada Plaza and Conference Center
10 East 120th Avenue
Northglenn, Colorado

- Address Comments

- Record of Decision (mid-November 2009)

- Rate Announcement (December 2009)

- Implement Rate—January 1, 2010

APPENDIX D

Project Descriptions

Pick-Sloan Missouri Basin Program--Western Division

The initial stages of the Missouri River Basin Project were authorized by section 9 of the Flood Control Act of December 22, 1944 (58 Stat. 877, Public Law 534, 78th Congress, 2nd session). The Missouri River Basin Project has been under construction since 1944. It was later renamed the Pick-Sloan Missouri Basin Program to honor its two principal authors. The Pick-Sloan encompasses a comprehensive program, with the following authorized functions: flood control, navigation improvement, irrigation, municipal and industrial water development, and hydroelectric production for the entire Missouri River Basin. Multipurpose projects have been developed on the Missouri river and its tributaries in Colorado, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

The Colorado-Big Thompson (C-BT), Kendrick, and Shoshone projects were administratively combined with Pick-Sloan in 1954, followed by the North Platte Project in 1959. These projects are known as the “Integrated Projects” of the Pick-Sloan. The Riverton Project was reauthorized as a unit of Pick-Sloan in 1970.

Western Division generating resources include five units of the Pick-Sloan and four other Reclamation projects authorized before Pick-Sloan, but that are integrated with Pick-Sloan for repayment purposes. The Boysen, Glendo, Kortez, Riverton, and Yellowtail Pick-Sloan units include the Boysen, Glendo, Fremont Canyon, Kortez, Pilot Butte, and Yellowtail powerplants. The C-BT, Kendrick, North Platte, and Shoshone projects include the Green Mountain, Marys Lake, Estes, Pole Hill, Flatiron, Big Thompson, Seminole, Alcova, Guernsey, Shoshone, Buffalo Bill, Heart Mountain, and Spirit Mountain powerplants. Reclamation operates and maintains all Western Division powerplants. The Western Division’s powerplants’ combined installed capability is 630 MW.

Fryingpan-Arkansas Project

Fry-Ark is a transmountain diversion project in central and southeastern Colorado which was authorized by the Act of August 16, 1962 (Public Law 87-590, 76 Stat. 399, as amended by Title XI of the Act of October 27, 1974, Public Law 93-493, 88 Stat. 1487). Fry-Ark diverts water from the Fryingpan River and other tributaries of the Roaring Fork River to the Arkansas River on the East Slope of the Continental Divide. The Fryingpan and Roaring Fork Rivers are part of the Colorado River Basin, on the West Slope of the Rocky Mountains. The water diverted from the West Slope, together with regulated Arkansas River water, provides supplemental irrigation, municipal and industrial water supplies and hydroelectric power production. Flood control, fish and wildlife enhancement, and recreation are also supported by these water diversions.

The project has six dams and five reservoirs with a total storage of 741,000 acre-feet of water, 70 miles of tunnels and canals and a pumped-storage powerplant at Mount Elbert. Its two generating units have an installed capacity of 200 MW. While the majority of project capacity

depends on water pumped during off-peak hours and water releases for power production when needed, some generation is attributed to flow-through water. Authorization for the first 100 MW unit of the powerplant was granted on August 16, 1962. The second unit was authorized on October 27, 1974. Work on these two units was completed in 1984.

The pumped-storage capability of the Mount Elbert power plant has become increasingly valuable to Western and its customers. With high prices for power during peak periods, customers have been maximizing their use of the pumped-storage capability under their contracts by taking delivery during the day (on-peak) and returning energy at night (off-peak) to pump water back into the forebay at the powerplant.

Loveland Area Projects

The “Post-1989 General Power Marketing and Allocation Criteria” (Criteria) was published in the Federal Register on January 31, 1986 (51 FR 4012), and effectively integrated the operations, resources, and contracts of the P-SMBP--WD and Fry-Ark. The integration of these projects, which are now known as Loveland Area Projects (LAP), increased marketable resources, simplified contract administration, and established a consolidated rate for LAP power sales. The Criteria also authorized the development of other services such as transmission service.

Although operationally and contractually integrated, P-SMBP--WD and Fry-Ark retain separate financial status. For this reason, separate PRSs are prepared annually for each project. These PRSs are used to determine the ability of the power rates to generate sufficient revenue to repay project investments and costs during each project’s prescribed repayment period. To develop one rate for LAP firm electric service, the revenue requirements for Fry-Ark and P-SMBP--WD are combined.

Exhibit 2

FICK-SLOAN MISSOURI BASIN PROGRAM 2010 Final Rate Setting Study April 6, 2009

10/1/94 to 9/30/02 @ 14.54 m/kWh
1/1/04 to 9/30/04 @ 16.33 m/kWh
10/1/04 to 1/06 @ 16.80 m/kWh
1/06 to 1/07 @ 18.76 m/kWh
1/07 to 1/08 @ 19.83 m/kWh
1/08 to 1/10 @ 24.78 m/kWh
1/10 to end of study @ 29.63 m/kWh
1/10 to end of study @ 33.54 m/kWh

Fiscal Year	EXPENSES										Capitalized Deficits					Replacements/Retirements					Investment Additions					Aid to Irrigation					Fiscal Year
	Total Revenue	Operations & Maintenance Expense	Purchased Power Expense	Transmission Service Expense	Other Expense	Integrated Projects	Interest Expense	Total Expenses	Prior Year Adjustments	After Annual Expenses	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investment	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investments	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investments	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investments	
1944	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1944
1945	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1945	
1946	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1946	
1947	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1947	
1948	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1948	
1949	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1949	
1950	4,032,802	1,718,811	62,415	0	343,100	0	630,866	2,755,192	1,277,610	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1950	
1951	4,031,546	637,603	615,995	0	115,039	0	91,961	(2,555)	483,030	0	0	0	0	0	0	0	0	0	0	0	4,277,610	5,466,295	6,743,905	6,743,905	6,743,905	5,656,000	5,656,000	5,656,000	5,656,000	1951	
1952	2,371,956	995,025	2,349	0	226,107	0	416,075	1,640,456	(14,070)	717,424	0	0	0	0	0	0	0	0	0	0	7,174,242	28,292,025	30,870,033	30,870,033	15,240,298	22,145,000	22,145,000	16,489,000	1952		
1953	6,404,960	1,944,342	397,234	0	433,174	2,033,340	851,761	5,659,851	(28,897)	716,212	0	0	0	0	0	0	0	0	0	0	7,162,212	51,354,530	54,848,806	54,848,806	23,678,713	22,597,000	22,597,000	4,532,000	1953		
1954	8,201,212	2,429,876	312,303	0	551,812	4,070,899	1,540,636	8,905,526	(4,375)	(708,689)	0	0	0	0	0	0	0	0	0	0	(708,689)	111,025,578	113,511,165	113,511,165	58,962,359	23,697,000	23,697,000	1,100,000	1954		
1955	11,464,055	3,287,766	509,408	0	830,987	3,993,835	3,330,767	11,952,763	(61,236)	(549,934)	0	0	0	0	0	0	0	0	0	0	(4,934,934)	200,633,933	201,969,586	201,969,586	88,458,421	25,210,000	25,210,000	1,513,000	1955		
1956	14,883,175	3,993,721	942,728	0	1,064,791	4,640,456	6,001,018	16,642,714	(69,873)	(2,129,412)	0	0	0	0	0	0	0	0	0	0	(12,219,412)	340,225,713	340,031,954	340,031,954	138,062,968	47,606,000	47,606,000	23,396,000	1956		
1957	18,605,674	4,755,824	1,548,986	0	1,646,302	4,687,690	10,176,258	22,815,120	(157,367)	(4,366,813)	0	0	0	0	0	0	0	0	0	0	(4,366,813)	358,305,378	353,744,806	353,744,806	137,812,852	85,267,000	85,267,000	37,661,000	1957		
1958	21,381,943	5,514,715	1,285,583	0	1,532,389	5,077,549	9,326,383	22,735,619	572,419	(777,257)	0	0	0	0	0	0	0	0	0	0	(777,257)	396,590,114	391,242,285	391,242,285	129,940,559	91,816,000	91,816,000	6,549,000	1958		
1959	21,686,893	6,372,603	1,457,697	0	1,532,389	5,077,549	9,326,383	22,735,619	572,419	(777,257)	0	0	0	0	0	0	0	0	0	0	(4,264,492)	397,907,246	398,305,025	398,305,025	(2,937,260)	96,352,000	96,352,000	4,536,000	1959		
1960	22,261,696	6,640,686	1,558,908	0	1,706,602	5,534,783	11,937,220	26,731,191	315	(3,009,189)	0	0	0	0	0	0	0	0	0	0	(5,909,330)	421,977,332	427,985,831	427,985,831	15,680,800	162,837,000	162,837,000	66,503,000	1960		
1961	25,237,540	7,072,309	1,669,522	0	1,401,148	4,977,077	12,644,520	28,064,976	(101,813)	(2,989,339)	0	0	0	0	0	0	0	0	0	0	(4,454,350)	577,126,232	556,386,357	556,386,357	58,985,174	169,921,000	169,921,000	7,064,000	1961		
1962	27,283,525	7,503,695	2,777,545	0	1,541,614	4,905,245	15,417,031	31,745,041	7,157	(4,454,359)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1962		
1963	29,093,437	8,218,813	3,617,532	0	8,305,674	5,950,035	16,423,889	39,458,163	19,898,222	10,343,496	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1963		
1964	33,945,191	9,330,627	4,617,848	0	9,211,431	5,710,035	20,360,687	44,260,628	20,579,302	263,865	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1964		
1965	38,498,293	10,379,471	498,395	0	9,070,934	5,421,253	20,920,684	46,940,737	9,543,602	1,100,618	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1965		
1966	45,553,123	11,673,832	691,346	0	8,152,350	4,712,528	19,728,389	44,452,465	7,756,144	8,858,802	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1966		
1967	48,934,452	12,208,793	1,440,664	0	4,628,800	2,134,129	45,144,843	4,556,681	8,346,290	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1967		
1968	56,163,293	12,717,962	1,437,697	0	4,955,440	4,605,168	22,098,051	45,834,338	4,041,600	14,370,555	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1968		
1969	60,471,540	14,861,608	1,776,635	0	5,220,924	4,815,777	22,031,304	48,887,993	5,575,774	17,399,294	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1969		
1970	67,751,201	15,630,039	2,279,489	0	5,205,900	5,605,760	21,730,603	50,451,791	5,529,894	23,335,301	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1970		
1971	75,285,588	17,309,204	2,107,587	0	5,128,872	5,607,865	21,092,425	51,245,953	3,855,391	27,996,026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1971		
1972	81,476,861	18,936,186	1,638,588	0	5,176,184	6,148,026	20,646,341	52,545,225	5,633,400	34,494,476	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1972		
1973	75,926,400	20,980,605	3,022,655	0	(78,694,643)	6,009,053	20,285,737	(28,197,183)	(72,694,532)	32,029,051	0	0	0	0	0	0	0	0	0	0	9,012,728	220,613,233	93,149,021	93,149,021	961,844	266,421,000	266,421,000	266,421,000	1973		
1974	79,465,446	21,338,537	4,675,896	0	6,470,029	19,619,122	33,923,394	303,199	25,845,251	1,034,986	0	0	0	0	0	0	0	0	0	0	10,047,714	10,047,714	1,034,986	1,034,986	26,812,000	266,421,000	266,421,000	266,421,000	1974		
1975	91,429,189	23,905,035	6,431,330	0	7,304,375	20,140,565	35,881,325	97,397	35,645,261	710,141	0	0	0	0	0	0	0	0	0	0	34,935,120	760,673,532	968,248,764	968,248,764	3,536,632	266,421,000	266,421,000	266,421,000	1975		
1976	157,438,009	33,134,748	1,664,373	0	9,623,785	23,336,715	67,759,621	403,671	90,082,859	443,598	0	0	0	0	0	0	0	0	0	0	89,639,261	673,794,722	971,609,215	971,609,215	3,360,541	266,421,000	266,421,000	266,421,000	1976		
1977	105,537,823	29,626,412	4,951,931	0	6,447,664	16,848,869	37,870,876	728,682	48,395,629	1,026,682	0	0	0	0	0	0	0	0	0	0	47,368,948	629,541,184	974,724,625	974,724,625	3,115,410	266,421,000	266,421,000	266,421,000	1977		
1978	116,303,032	37,416,972	13,238,438	0	9,327,303	16,705,795	75,888,708	(473,530)	39,940,974	1,346,230	0	0	0	0	0	0	0	0	0	0	38,594,744	609,001,874	992,780,039	992,780,039	18,055,434	268,717,000	268,717,000	2,296,000	1978		
1979	126,310,976	38,077,976	21,254,632	0	5,714,076	16,538,183	60,352,777	2,856,345	68,803,832	1,465,927	0	0	0	0	0	0	0	0	0	0	67,337,904	549,231,574	994,357,663	994,357,663	1,577,604	268,717,000	268,717,000	268,717,000	1979		
1980	109,670,691	40,350,271	10,210,911	0	5,129,234	14,702,																									

Fiscal Year	EXPENSES								Prior Year Adjustments	Capitalized Deficits					Replacements/Retirements					Investment Additions					Aid to Irrigation					Fiscal Year	
	Total Revenue	Operations & Maintenance Expense	Purchased Power Expense	Transmission Service Expense	Other Expense	Integrated Projects	Interest Expense	Total Expenses		Revenue After Annual Expenses	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investment	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investment	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance	Incremental Investment	Principal Payment	Unpaid Balance	Allowable Unpaid Balance	Cumulative Balance		Incremental Investment
2047	491,856,569	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,242,747	0	0	1,135,217,888	0	3,350,950	0	666,826,775	1,224,924,612	3,350,950	0	0	2	653,718,735	2,612,819,631	0	65,306,000	0	1,546,888,496	2,167,973,238	65,306,000	2047
2048	491,831,469	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,217,647	0	0	1,135,217,888	0	74,299,480	0	665,305,419	1,299,234,092	74,299,480	0	0	2	633,047,012	2,612,819,631	0	65,306,000	0	1,560,601,448	2,233,279,238	65,306,000	2048
2049	491,888,769	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,274,947	0	0	1,135,217,888	0	8,322,120	0	656,542,196	1,307,546,212	8,322,120	0	0	2	608,981,145	2,612,819,631	0	65,306,000	0	1,625,907,448	2,298,585,238	65,306,000	2049
2050	491,863,669	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,249,847	0	0	1,135,217,888	0	16,914,236	0	657,058,113	1,324,460,448	16,914,236	0	0	2	574,495,063	2,612,819,631	0	65,306,000	0	1,690,165,117	2,363,891,238	65,306,000	2050
2051	491,918,069	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,304,247	0	0	1,135,217,888	0	21,992,561	0	638,621,021	1,346,453,009	21,992,561	0	0	2	546,646,631	2,612,819,631	0	65,306,000	0	1,719,623,005	2,429,197,238	65,306,000	2051
2052	491,975,369	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,361,547	0	0	1,135,217,888	0	19,546,452	0	655,063,745	1,365,599,461	19,546,452	0	0	2	518,802,179	2,612,819,631	0	65,306,000	0	1,784,929,065	2,494,593,238	65,306,000	2052
2053	491,950,269	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,336,447	0	0	1,135,217,888	0	54,931,110	0	646,334,935	1,409,612,572	54,931,110	0	0	2	497,329,233	2,612,819,631	0	65,306,000	0	1,847,951,731	2,559,899,238	65,306,000	2053
2054	492,046,069	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,432,247	0	0	1,135,217,888	0	18,966,619	0	634,232,391	1,418,979,191	18,966,619	0	0	2	465,604,307	2,612,819,631	0	65,306,000	0	1,928,755,731	2,625,115,238	65,306,000	2054
2055	492,061,569	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,448,147	0	0	1,135,217,888	0	38,924,103	0	627,895,488	1,457,903,294	38,924,103	0	0	2	378,959,184	2,612,819,631	0	65,306,000	0	1,998,710,000	2,690,421,238	65,306,000	2055
2056	492,036,869	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,423,047	0	0	1,135,217,888	0	16,818,974	0	608,922,667	1,474,722,267	16,818,974	0	0	2	274,820,268	2,612,819,631	0	65,306,000	0	1,964,016,000	2,755,727,238	65,306,000	2056
2057	492,053,169	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,439,347	0	0	1,135,217,888	0	23,553,540	0	601,645,581	1,498,275,880	23,553,540	0	0	2	262,493,197	2,612,819,631	0	65,306,000	0	2,029,322,000	2,821,033,238	65,306,000	2057
2058	492,148,569	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,534,747	0	0	1,135,217,888	0	12,154,272	0	597,483,548	1,510,430,080	12,154,272	0	0	2	205,898,654	2,612,819,631	0	65,306,000	0	2,094,628,000	2,886,339,238	65,306,000	2058
2059	492,164,869	175,255,655	0	11,338,167	0	0	0	186,613,822	0	305,551,047	0	0	1,135,217,888	0	14,850,755	0	603,179,701	1,525,280,835	14,850,755	0	0	2	138,334,703	2,612,819,631	0	65,306,000	0	2,159,994,000	2,951,645,238	65,306,000	2059
2060	470,055,731	175,255,655	0	10,930,944	0	0	0	186,186,599	0	283,869,132	0	0	1,135,217,888	0	15,083,961	0	598,873,057	1,540,364,796	15,083,961	0	0	2	105,461,750	2,612,819,631	0	65,306,000	0	2,225,240,000	3,016,691,238	65,306,000	2060
2061	470,235,902	175,255,655	0	10,922,976	0	0	0	186,178,631	0	284,117,331	0	0	1,135,217,888	0	19,341,434	0	606,616,358	1,559,906,230	19,341,434	0	0	2	57,646,534	2,612,819,631	0	65,306,000	0	2,290,546,000	3,082,237,238	65,306,000	2061
2062	470,548,377	175,255,655	0	10,913,018	0	0	0	186,168,673	0	284,379,704	0	0	1,135,217,888	0	9,873,040	0	606,664,400	1,569,779,270	9,873,040	0	0	2	30,044,103	2,612,819,631	0	65,306,000	0	2,355,832,000	3,147,563,238	65,306,000	2062
2063	470,803,291	175,255,655	0	10,903,059	0	0	0	186,158,714	0	284,644,577	0	0	1,135,217,888	0	14,608,271	0	604,984,105	1,584,387,542	14,608,271	0	0	2	2,612,819,631	2,612,819,631	0	65,306,000	0	2,421,158,000	3,212,869,238	65,306,000	2063
2064	470,955,181	175,255,655	0	10,896,089	0	0	0	186,151,744	0	284,843,437	0	0	1,135,217,888	0	15,549,679	0	604,984,105	1,599,937,220	15,549,679	0	0	2	0	2,612,819,631	0	65,306,000	0	2,486,464,000	3,278,175,238	65,306,000	2064
2065	471,288,596	175,255,655	0	10,886,130	0	0	0	186,141,785	0	285,106,811	0	0	1,135,217,888	0	16,365,031	0	604,984,105	1,616,302,251	16,365,031	0	0	2	0	2,612,819,631	0	65,306,000	0	2,551,770,000	3,343,481,238	65,306,000	2065
2066	471,528,827	175,255,655	0	10,878,163	0	0	0	186,133,818	0	285,395,009	0	0	1,135,217,888	0	21,798,054	0	604,984,105	1,638,100,360	21,798,054	0	0	2	0	2,612,819,631	0	65,306,000	0	2,617,076,000	3,408,787,238	65,306,000	2066
2067	471,742,742	175,255,655	0	10,868,205	0	0	0	186,123,860	0	285,618,882	0	0	1,135,217,888	0	31,142,429	0	604,984,105	1,669,242,735	31,142,429	0	0	2	0	2,612,819,631	0	65,306,000	0	2,682,382,000	3,474,093,238	65,306,000	2067
2068	471,956,656	175,255,655	0	10,858,246	0	0	0	186,113,901	0	285,842,755	0	0	1,135,217,888	0	6,901,347	0	604,984,105	1,676,144,082	6,901,347	0	0	2	0	2,612,819,631	0	65,306,000	0	2,747,688,000	3,539,399,238	65,306,000	2068
2069	472,228,046	175,255,655	0	10,851,275	0	0	0	186,106,930	0	286,121,116	0	0	1,135,217,888	0	3,997,302	0	604,984,105	1,680,141,384	3,997,302	0	0	2	0	2,612,819,631	0	65,306,000	0	2,812,994,000	3,604,705,238	65,306,000	2069
2070	472,482,961	175,255,655	0	10,841,316	0	0	0	186,096,971	0	286,385,990	0	0	1,135,217,888	0	2,410,896	0	604,984,105	1,682,552,280	2,410,896	0	0	2	0	2,612,819,631	0	65,306,000	0	2,878,300,000	3,670,011,238	65,306,000	2070
2071	472,682,193	175,255,655	0	10,833,350	0	0	0	186,089,005	0	286,593,188	0	0	1,135,217,888	0	22,774,686	0	604,984,105	1,705,526,966	22,774,686	0	0	2	0	2,612,819,631	0	65,306,000	0	2,943,606,000	3,735,317,238	65,306,000	2071
2072	472,896,107	175,255,655	0	10,823,391	0	0	0	186,079,046	0	286,811,061	0	0	1,135,217,888	0	7,938,100	0	604,984,105	1,713,265,065	7,938,100	0	0	2	0	2,612,819,631	0	65,306,000	0	3,008,912,000	3,800,623,238	65,306,000	2072
2073	473,208,497	175,255,655	0	10,816,430	0	0	0	186,072,075	0	287,136,422	0	0	1,135,217,888	0	51,990,283	0	604,984,105	1,765,165,349	51,990,283	0	0	2	0	2,612,819,631	0	65,306,000	0	3,074,218,000	3,865,939,238	65,306,000	2073
2074	473,422,412	175,255,655	0	10,806,462	0	0	0	186,062,117	0	287,560,295	0	0	1,135,217,888	0	22,181,341	0	604,984,105	1,787,346,690	22,181,341	0	0	2	0	2,612,819,631	0	65,306,000	0	3,139,524,000	3,931,235,238	65,306,000	2074
2075	473,636,336	175,255,655	0	10,796,503	0	0	0	186,052,158	0	287,984,168	0	0	1,135,217,888	0	10,098,297	0	604,984,105	1,797,444,886	10,098,297	0	0	2	0	2,612,819,631	0	65,306,000	0	3,204,830,000	3,996,541,238	65,306,000	2075
2076	473,915,058	175,255,655	0	10,788,536	0	0	0	186,044,191	0	288,370,867	0	0	1,135,217,888	0	5,613,972	0	604,984,105	1,803,058,958	5,613,972	0	0	2	0	2,612,819,631	0	65,306,000	0	3,270,136,000	4,061,847,238	65,306,000	2076
2077	474,169,972	175,255,655																													

EXHIBIT 3

Proposed Rate Schedule L-F9
(Supersedes Schedule L-F8)
January 1, 2010

UNITED STATES DEPARTMENT OF ENERGY
WESTERN AREA POWER ADMINISTRATION

LOVELAND AREA PROJECTS
COLORADO, KANSAS, NEBRASKA, WYOMING

SCHEDULE OF RATES FOR FIRM ELECTRIC SERVICE
(Approved Under Rate Order No. WAPA-146)

Effective:

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

Available:

Within the marketing area served by the Loveland Area Projects.

Applicable:

To the wholesale power customers for firm electric service supplied through one meter at one point of delivery, or as otherwise established by contract.

Character:

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

Monthly Rates:

CAPACITY CHARGE: \$5.43 per kilowatt of billing capacity.

ENERGY CHARGE: 20.71 mills per kilowatthour (kWh) of monthly entitlement.

BILLING CAPACITY: Unless otherwise specified by contract, the billing capacity will be the seasonal contract rate of delivery.

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. The Base revenue requirement is \$51.2 million.

$$\text{Base Capacity} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Billing Capacity}} = 3.29/\text{kWmonth}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 12.54 \text{ mills/kWh}$$

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. For this period, the Drought Adder revenue requirement is \$33.3 million.

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Billing Capacity}} = 2.14/\text{kWmonth}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 8.17 \text{ mills/kWh}$$

Process:

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

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

Adjustments:

For Drought Adder: Adjustments due to the Drought Adder component will be included in a revision to this rate schedule.

For Transformer Losses: If delivery is made at transmission voltage but metered on the low-voltage side of the substation, the meter readings will be increased to compensate for transformer losses as provided for in the contract.

For Power Factor: None. The customer will be required to maintain a power factor at all points of measurement between 95-percent lagging and 95-percent leading.

DEPARTMENT OF ENERGY**Western Area Power Administration****Loveland Area Projects—Rate Order
No. WAPA-146**

AGENCY: Western Area Power Administration, DOE.

ACTION: Notice of proposed power rates.

SUMMARY: The Western Area Power Administration (Western) is proposing revised rates for Loveland Area Projects (LAP) firm electric service. LAP consists of the Fryingpan-Arkansas Project (Fry-Ark) and the Pick-Sloan Missouri Basin Program—Western Division (Pick-Sloan—WD), which were integrated for marketing and rate-making purposes in 1989. Current rates, under Rate

Schedule L-F8, extend through December 31, 2013, but are not sufficient to meet LAP revenue requirements. The proposed rates will provide sufficient revenue to pay all annual costs, including interest expense, and repay investments within the allowable periods. Western will prepare and make available a brochure that provides detailed information on the proposed rates. The proposed rates, under Rate Schedule L-F9, would go into effect on January 1, 2010, and would remain in effect through December 31, 2014, or until superseded. Publication of this **Federal Register** notice begins the formal process for the proposed rate adjustment.

DATES: The consultation and comment period begins today and will end October 13, 2009. Western will present a detailed explanation of the proposed rates at a public information forum. The public information forum will be held on August 18, 2009, from 9 a.m. to 10:30 a.m. MDT, in Northglenn, Colorado. Western will accept oral and written

comments at a public comment forum. The public comment forum will be held on August 18, 2009, from 11 a.m. to no later than 12 p.m. MDT, in Northglenn, Colorado. Western will accept written comments any time during the consultation and comment period.

ADDRESSES: Written comments and/or requests to be informed of Federal Energy Regulatory Commission (FERC) actions concerning the rates submitted by Western to FERC for approval should be sent to the Regional Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538–8986, or e-mail to lapfirmadj@wapa.gov. Western will post information about the rate process on its Web site at <http://www.wapa.gov/rm/ratesRM/2010/default.htm>. Western will post comments received via letter and e-mail to its Web site after the close of the comment period. Written comments must be received by the end of the consultation and comment period to be considered by Western in its decision process. The location of the public information and comment forums is the Ramada Plaza Hotel, 10 East 120th Avenue, Northglenn, Colorado.

FOR FURTHER INFORMATION CONTACT: Ms. Sheila D. Cook, Rates Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538–8986, telephone (970) 461–7211, e-mail lapfirmadj@wapa.gov or scook@wapa.gov.

SUPPLEMENTARY INFORMATION: The proposed rates for LAP firm electric

service are designed to recover an annual revenue requirement that includes investment repayment, interest, purchase power, operation and maintenance (O&M), and other expenses. The projected annual revenue requirement for firm electric service is allocated equally between capacity and energy.

The Acting Deputy Secretary of Energy approved existing Rate Schedule L-F8 for firm electric service on an interim basis on January 8, 2009 (74 FR 3015, January 16, 2009), for a 5-year period beginning on February 1, 2009, and ending December 31, 2013, or until superseded. Under Rate Schedule L-F8, the composite rate is 37.24 mills per kilowatthour (mills/kWh), the firm energy rate is 18.62 mills/kWh, and the firm capacity rate is \$4.88 per kilowattmonth (kWmonth). This Rate Schedule is formula based, providing for an increase in the Drought Adder rate component of up to 2 mills/kWh without a formal public process.

The current rate, including a 2 mills/kWh increase provided for under the Drought Adder formula rate component, is not sufficient to meet the LAP revenue requirement. As a result, Western is entering into this rate adjustment process. The proposed rate adjustment reflects a rate increase based on the Fry-Ark and Pick-Sloan—WD revenue requirements derived from the Fiscal Year 2008 Power Repayment Studies (PRSs). The PRSs set the LAP annual revenue requirement for 2010 for firm electric service at \$84.5 million, which is an 11.2 percent increase (1.6

percent Base and 9.6 percent Drought Adder).

The 1.6 percent increase from the Base rate component is due to a slight increase in O&M costs, as well as the inclusion of additional transmission costs associated with the wheeling of Mt. Elbert generation in the Fry-Ark PRS. Previously, these transmission cost projections were only included through 2010, the expiration date of Western’s contract with the transmission provider. In the 2004 rate adjustment process, it was decided that the Fry-Ark PRS would include three additional years of transmission cost projections, through 2013. In the current rate adjustment, Western is proposing to include transmission cost projections through 2024, the end of LAP’s Marketing Plan. Transmission service will be needed beyond 2013, so it is appropriate to include those costs at least through the term of the LAP contracts. The additional transmission costs are partially offset by increases in projected ancillary service revenues. The 9.6 percent increase from the Drought Adder rate component is due to increased drought related costs.

Given the need for a Base rate component increase and the size of the Drought Adder rate component increase, Western is required to initiate a formal public process.¹ Western has prepared the proposed rate schedule for firm electric service (LF–9) for consideration and comment during this public process. A comparison of the existing revenue requirement and rates and the proposed revenue requirement and rates under L-F9 is listed in Table 1.

TABLE 1—LAP FIRM ELECTRIC SERVICE REVENUE REQUIREMENT AND RATES

Firm electric service	Existing rates February 1, 2009	Proposed rates January 1, 2010	Percent change
Revenue Requirement	\$75.9 million	\$84.5 million	11.2
Composite Rate	37.24 mills/kWh	41.42 mills/kWh	11.2
Firm Energy Rate	18.62 mills/kWh	20.71 mills/kWh	11.2
Firm Capacity Rate	\$4.88/kWmonth	\$5.43/kWmonth	11.2

Under Rate Schedule L–F9, Western is proposing to continue to identify its firm electric service revenue requirement using Base and Drought Adder rate components and provide for an annual increase in the Drought Adder rate component of up to 2 mills/kWh. The Base rate component is a revenue requirement that includes annual operation and maintenance expenses, investment repayment and

associated interest, normal timing power purchases, and transmission costs. Western’s normal timing power purchases are due to operational constraints (e.g., management of endangered species habitat, water quality, navigation, etc.) and are not associated with the current drought. The Drought Adder rate component is a formula-based revenue requirement that includes costs attributable to drought

conditions. The Drought Adder rate component includes costs associated with future non-timing purchases of additional power to meet firm obligations not covered with available system generation due to the drought, previously incurred deficits due to purchased power debt that resulted from non-timing power purchases made during this drought, and the interest associated with the previously incurred

¹ Under the current Rate Schedule, Western had the option of increasing the Drought Adder rate component by up to 2 mills/kWh outside of a

formal public process, and only initiating the formal public process for the Base rate component increase and the incremental increase of the

Drought Adder rate component above 2 mills/kWh. Instead, Western has opted to initiate the formal public process for the entire rate increase.

and future drought debt. The Drought Adder rate component is designed to repay Western's drought debt within 10 years from the time the debt was incurred, using balloon-payment methodology. For example, the drought debt incurred by Western in 2008 will be repaid by 2018.

The annual revenue requirement calculation will continue to be summarized by the following formula: Annual Revenue Requirement = Base Revenue Requirement + Drought Adder Revenue Requirement. Under this proposal, effective January 1, 2010, the LAP annual revenue requirement equals

\$84.5 million and is comprised of a Base revenue requirement of \$51.2 million plus a Drought Adder revenue requirement of \$33.3 million. A comparison of the current and proposed rate components is listed in Table 2.

TABLE 2—SUMMARY OF LAP RATE COMPONENTS

	Existing rates February 1, 2009		Proposed rates January 1, 2010	
	Firm energy	Firm capacity	Firm energy	Firm capacity
Base	12.23 mills/kWh	\$3.21/kWmonth	12.54 mills/kWh	\$3.29/kWmonth.
Drought Adder	6.39 mills/kWh	\$1.67/kWmonth	8.17 mills/kWh	\$2.14/kWmonth.
Total LAP	18.62 mills/kWh	\$4.88/kWmonth	20.71 mills/kWh	\$5.43/kWmonth.

Continuing to identify the firm electric service revenue requirement using Base and Drought Adder rate components will assist Western in the presentation of the impacts of the drought, demonstrate repayment of the drought related costs in the PRSs, and allow Western to be more responsive to changes in drought related expenses. Western will continue to charge and bill its customers firm electric service rates for energy and capacity, which are the sum of the Base and Drought Adder rate components.

Western reviews its firm electric service rates annually. Western will review the Base rate component after the annual PRSs are completed, generally in the first quarter of the calendar year. If an adjustment to the Base rate component is necessary, Western will initiate a public process pursuant to 10 CFR part 903 prior to making an adjustment.

In accordance with the original implementation of the Drought Adder rate component, Western will continue to review the Drought Adder rate component each September to determine if drought costs differ from those projected in the PRSs, and, if so, whether an adjustment, either incremental or decremental, to the Drought Adder rate component is necessary. Western will notify customers by letter in October of the planned incremental or decremental adjustment and implement the adjustment in the January billing cycle. Although decremental adjustments to the Drought Adder rate component will occur as drought costs are repaid, the adjustments cannot result in a negative Drought Adder rate component. To give customers advance notice, Western will conduct a preliminary review of the Drought Adder rate component in early summer and notify customers by letter

of the estimated change to the Drought Adder rate component for the following January, with the final Drought Adder component adjustment verified with notification in the October letter to the customers. Implementing the Drought Adder rate component adjustment on January 1 of each year will help keep the drought deficits from escalating as quickly, will lower the interest expense due to drought deficits, will demonstrate responsible deficit management, and will provide prompt drought deficit repayments.

As a part of the current and proposed rate schedules, Western provides for a formula-based adjustment of the Drought Adder rate component of up to 2 mills/kWh. The 2 mills/kWh cap is intended to place a limit on the amount the Drought Adder formula can be adjusted relative to associated drought costs without having to go through a public process to recover costs attributable to the Drought Adder formula rate for any one-year cycle.

Legal Authority

Since the proposed rates constitute a major adjustment as defined by 10 CFR part 903, Western will hold a public information forum and a public comment forum. Western will review all timely public comments and make amendments or adjustments to the proposal as appropriate. Proposed rates will be forwarded to the Deputy Secretary of Energy for approval on an interim basis.

Western is establishing firm electric service rates for LAP under the Department of Energy Organization Act (42 U.S.C. 7152); the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent laws, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)); section 5 of the Flood Control Act of 1944 (16 U.S.C.

825s); and other acts that specifically apply to the projects involved.

By Delegation Order No. 00-037.00, effective December 6, 2001, the Secretary of Energy delegated: (1) The authority to develop power and transmission rates to Western's Administrator; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary of Energy; 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 Department of Energy (DOE) procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985.

Availability of Information

All brochures, studies, comments, letters, memorandums, or other documents that Western initiates to develop the proposed rates are available for inspection and copying at the Rocky Mountain Regional Office, located at 5555 East Crossroads Boulevard, Loveland, Colorado. Many of these documents and supporting information are also available on Western's Web site under the "Rates" section located at <http://www.wapa.gov/rm/ratesRM/2010/default.htm>.

Ratemaking Procedure Requirements

Environmental Compliance

In compliance with the National Environmental Policy Act (NEPA) of 1969 (42 U.S.C. 4321-4347); the Council on Environmental Quality Regulations (40 CFR parts 1500-1508); and DOE NEPA Regulations (10 CFR part 1021), Western is in the process of determining whether an environmental assessment or an environmental impact statement should be prepared or if this action can

be categorically excluded from those requirements.

*Determination Under Executive Order
12866*

Western has an exemption from centralized regulatory review under Executive Order 12866; accordingly, no clearance of this notice by the Office of Management and Budget is required.

Dated: June 29, 2009.

Timothy J. Meeks,

Administrator.

[FR Doc. E9-16689 Filed 7-13-09; 8:45 am]

BILLING CODE 6450-01-P

