



**PICK-SLOAN MISSOURI BASIN PROGRAM
CUSTOMER RATE BROCHURE**

**PROPOSED
FIRM ELECTRIC SERVICE
2008 RATE ADJUSTMENT**

June 2007

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Materials Posted on Website

<http://www.wapa.gov/ugp/rates/2008firmrateadjust>

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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 (P-SMBP) under Rate Order No. WAPA-135. The rate adjustment procedures are outlined in Appendix A to this brochure.

The Fiscal Year (FY) 2006 repayment analysis for the P-SMBP indicates a need to adjust the existing firm electric service rates. To meet those requirements, the Pick-Sloan Missouri Basin Program--Eastern Division (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.

During informal discussions prior to the commencement of this rate adjustment process, Western received requests from firm power customers to identify its firm electric service revenue requirements using a Base component (Base) and Drought Adder component (Drought Adder). The firm power customers noted that by identifying the components of the firm electric service revenue requirement in this manner, Western could identify drought impacts in the P-SMBP and demonstrate a proactive approach to repay incurred costs related to the drought.

Western also received requests from customers to eliminate the tiered rate. The tiered rate charge was implemented in the mid-1970's for loads in excess of 60 percent monthly

load factor. Customers believe that continuing the tiered rate charge discourages load management. Moreover, eliminating the tiered rate from the P-SMBP--ED firm electric service Schedule is consistent with the administration of firm electric service rates in the P-SMBP--WD, which does not assess a tiered rate charge.

Western also received customer requests to redesign its revenue recovery methodology for firm peaking service. Western presently provides both firm electric and firm peaking service to customers using a seasonal contract rate of delivery (CROD). Western's firm peaking demand rate is equal to the firm power demand rate, which is calculated by dividing one-half of the P-SMBP--ED revenue requirement by the sum of the metered billing units for firm electric service and the seasonal CROD modeled as monthly billing units for firm peaking service. During informal discussions, several customers stated that Western's rate design for firm electric demand and firm peaking demand should be representative of the different products. Customers recommended that Western use the sum of the total allocated seasonal CROD's for both firm electric demand and firm peaking demand and model them as the billing units for calculating the firm peaking demand rate. It was noted in these discussions that any change to the peaking power demand revenue requirement methodology also affects the P-SMBP total firm power demand revenue requirement in the P-SMBP power repayment study (PRS) which is recovered by both eastern and western divisions of the P-SMBP.

In response to these suggestions, Western prepared proposed rate schedules for firm electric service (P-SED-F9) and firm peaking service (P-SED-FP9) for consideration and

comment during this public process. The projected annual revenue requirement under these schedules is allocated equally between demand and energy. These proposed rate schedules also reflect rate adjustments based on the Pick-Sloan revenue requirement derived from the 2006 PRS. The PRS sets the total annual P-SMBP--ED revenue requirement for firm and firm peaking in 2008 at \$235.9 million.

Table 1

Firm Electric Service	Existing Rates	Proposed Rates (Jan. 1, 2008)	Percent Change
P-SMBP--ED Firm and Firm Peaking Revenue Requirement	\$189.9 million	\$235.9 million	24.2%
P-SMBP--ED Composite Rate	19.54 mills/kWh	24.49 mills/kWh	25.3%
Firm Demand	\$4.45/kWmo	\$5.65/kWmo	27.0%
Firm Energy	11.29 mills/kWh	13.99 mills/kWh	23.9%
Tiered > 60 Percent Load Factor	5.21 mills/kWh	--	--
Firm Peaking Demand	\$4.45/kWmo	\$5.10/kWmo	14.6
Firm Peaking Energy <u>1/</u>	11.29 mills/kWh	13.99 mills/kWh	23.9%

1/ Firm Peaking Energy is normally returned. This rate will be assessed in the event Firm Peaking Energy is not returned.

Under proposed Rate Schedule P-SED-F9, the composite rate will increase 25.3 percent.

The firm energy rate will increase to 13.99 mills/kWh, or 23.9 percent and the firm demand rate will increase to \$5.65 kW per month, or 27.0 percent.

Additionally, under Rate Schedule P-SED-F9, Western is proposing to identify its firm electric service revenue requirement using a Base and Drought Adder. The Base is a revenue requirement that includes annual operation and maintenance expenses,

investment repayment and associated interest, normal timing power purchases, and transmission costs. Normal timing purchases are purchases due to operational constraints (e.g., management of endangered species habitat, water quality, navigation, etc.) and not associated with the current drought.

The Drought Adder is a formula-based revenue requirement that includes costs attributable to the present drought conditions within the Pick-Sloan Program. The Drought Adder includes costs associated with future non-timing purchases of additional power to firm obligations not covered with available system generation due to the drought, previously incurred deficits due to purchased power debt incurred from non-timing purchases made during this drought, and the interest associated with the previously incurred and future drought debt. The Drought Adder is designed to repay Western's drought debt within 10 years of the year the debt was incurred, using a balloon payment methodology. For example, the drought debt incurred by Western in 2006 will be paid off by 2016.

The annual revenue requirement calculation can be summarized by the following formula: Annual Revenue Requirement = Base + Drought Adder. Under this proposal, the P-SMBP--ED annual revenue requirement equals approximately \$245 million and is comprised of a Base revenue requirement of \$157 million plus a Drought Adder revenue requirement of \$88 million. Both the Base and Drought Adder recover portions of the firm power revenue requirement, firm peaking power, and associated 5 percent discount revenue necessary to equal the P-SMBP--ED annual revenue requirement.

Western's proposal for identifying its firm electric service rates using a Base and Drought Adder will help Western present the impacts of the drought within the Pick-Sloan Project, demonstrate repayment of those costs in the PRS, 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 demand, which are the sum of the Base and Drought Adder.

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

Western will review the Drought Adder each September to determine if drought costs differ from those projected in the PRS, and if so, whether an adjustment to the Drought Adder is necessary. For any adjustment, attributed to drought cost, of less than or equal to the equivalent of 2 mills/kWh to the PRS composite rate, Western will notify customers by letter, in October, of the planned adjustment. Western will implement the adjustment in the January billing cycle. For the portion of any planned adjustment greater than the equivalent of 2 mills/kWh to the PRS composite rate, Western will engage in a public process pursuant to 10 CFR part 903 prior to making that portion of the adjustment. Although decremental adjustments to the Drought Adder will occur, the adjustment cannot result in the Drought Adder being a negative number. Western will conduct a preliminary review of the Drought Adder in early summer to give customers

advanced written notice of any estimated adjustment in the following January.

Customers will be advised of the final Drought Adder adjustment in the October letter to the customers.

Under Rate Schedule P-SED-F9, Western also proposes eliminating the tiered rate in the P-SMBP--ED. Western agrees with customers that continuing a tiered rate charge for loads in excess of their 60 percent monthly load factor discourages load management. Elimination of the tiered rate from the P-SMBP--ED firm electric service schedule is consistent with the administration of firm electric service rates in the P-SMBP--WD.

Western also proposes redesigning its revenue recovery methodology for firm peaking service. Under proposed Rate Schedule P-SED-FP9, the firm peaking demand charge will be calculated by dividing one-half of the P-SMBP--ED revenue requirement by the sum of the total allocated seasonal CRODs modeled as monthly billing units for both firm electric and firm peaking service. While Western redesigning its methodology for calculating the firm peaking demand rate, it notes that the firm electric demand and firm peaking demand rates combined will continue to make up one-half of P-SMBP--ED annual revenue requirement.

As set forth in Table 1, above, under proposed Rate Schedule P-SED-FP9, the firm peaking demand rate will increase to \$5.10 per kWmo, or 14.6 percent. Peaking energy is either returned to Western or paid for in accordance with the terms of the contract

between Western and the peaking power customer. The firm peaking energy rate is set forth in Table 1, above.

The major factors contributing to the proposed rate adjustment are the economic impact of the drought and increased interest expense associated with deficits. Detailed discussions of these factors are included in Section II below.

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, and 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 expenses (operation and maintenance (O &

M), purchased power and transmission, and interest). The revenues are then applied toward investments in the following order: required 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.

The following is a discussion of the factors putting upward pressure on the firm power rate.

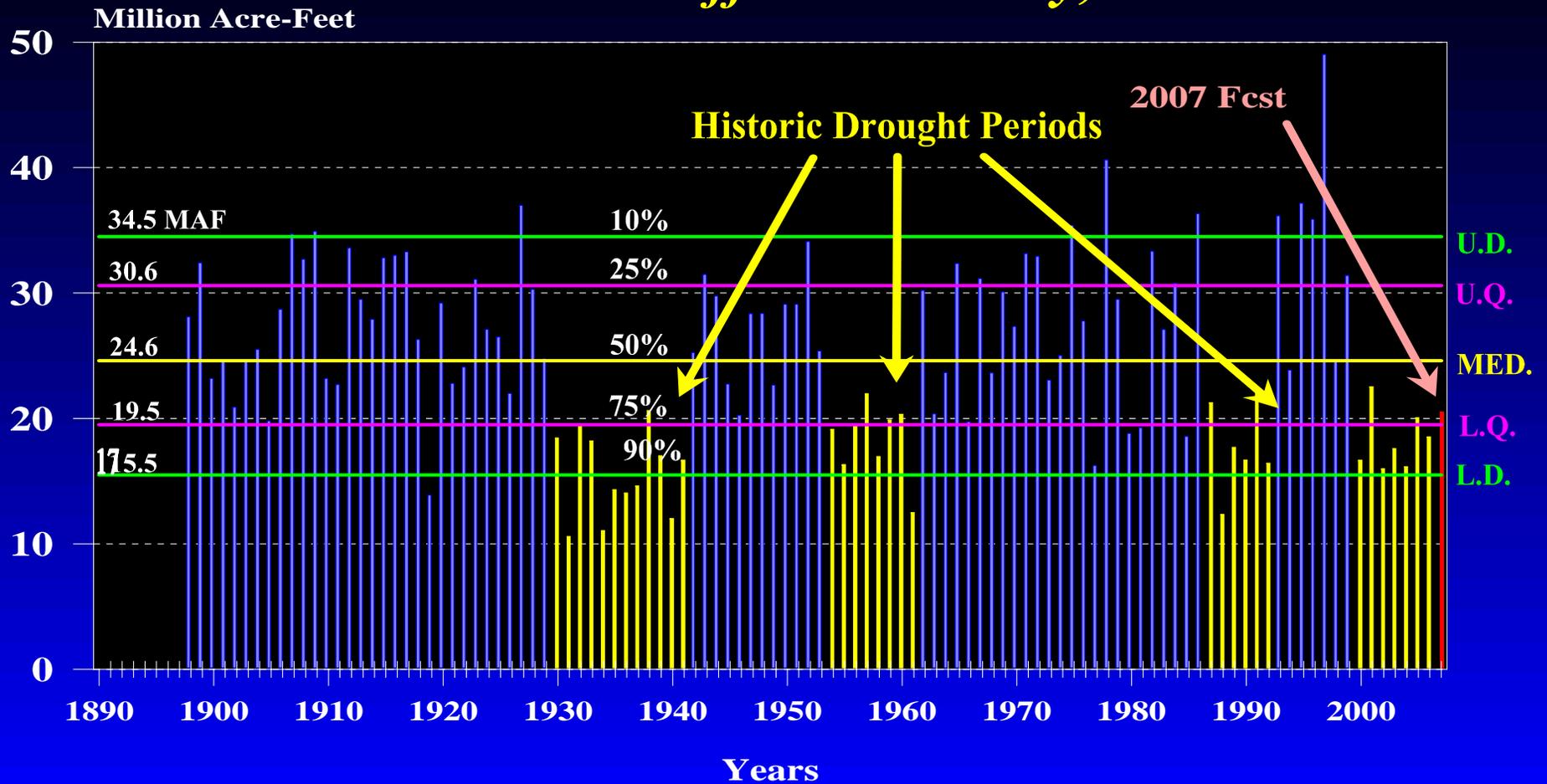
A. Drought

The Missouri River Main Stem, which is the portion of the river basin associated with the P-SMBP--ED, is in its 8th year of drought. The result is a reduction of hydro-power 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. Note that the last drought period was from 1987 through 1992. There were P-SMBP rate increases every year from 1989 through 1992, and another in 1994. The current drought was the primary basis for our 2004 and 2006 rate adjustments, and the proposed 2008 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 our rates to meet our firm obligations. The Drought Adder of the proposed firm power rate indicates that 8.78 mills/kWh of the proposed rate is related to the

drought. The following table highlights the current and historical droughts on the Missouri River Main Stem:

Missouri River Main Stem Annual Runoff at Sioux City, Iowa

Missouri River Mainstem Annual Runoff at Sioux City, Iowa



Historically rate adjustments have been associated with drought conditions in the Pick-Sloan, the following chart shows the historical P-SMBP--ED rates:

Pick-Sloan Missouri Basin Program Firm Power Rate History

Rate Schedule	Study Year	Effective Date	Demand 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	Step 1	10/1/1990	2.25	5.57	3.38
			2.35	5.81	3.38
	FY90				
P-SED-F5	Step 1	10/1/1991	2.57	6.49	3.38
			2.74	7.09	3.38
	FY92				
P-SED-F6	Step 1	2/1/1994	3.00	7.76	3.38
			3.20	8.32	3.38
	FY03				
P-SED-F7	Step 1	2/1/2004	3.62	9.34	5.21
			3.72	9.62	5.21
	FY05				
P-SED-F8	Step 1	1/1/2006	4.20	10.69	5.21
			4.45	11.29	5.21
	Step 2	2/1/2007			

Pick-Sloan Missouri Basin Program Firm Peaking Power Rate History

Schedule	Study Year	Effective Date	Demand 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

B. Operation and Maintenance and Other Annual Expenses

The routine O&M in the “out-year” in the current PRS has increased approximately 4 percent over the routine O&M in the “out-year” in the PRS that set the January 1, 2007, rate. This increase in O&M between the 2006 Rate Setting PRS and the 2008 Rate Setting PRS is related to normal inflation.

C. Power Investment

To compare power investment (replacements and additions) in the current PRS with the power investment in the last rate setting PRS, the cumulative investment in the year 2104 should be compared in both studies since that was the last year in the FY 2006 Rate Setting PRS. In the 2006 rate setting study, cumulative power investment in 2104 was \$5.019 billion. In the current rate setting PRS, cumulative power investment is \$4.576 billion in the year 2104. The decrease is due mainly to the change in service lives of some replacement items.

D. Deficits and Interest Expense

P-SMBP has incurred significant deficits due to the drought increasing purchased power expense and decreasing non-firm sales revenue. Approximately \$438 million in capitalized deficits have accrued from FY 2001 through FY 2006. Based on current hydrological forecasts, an additional \$135 million in deficits is projected to accrue in FY 2007, for cumulative deficits of approximately \$573 million. Deficits are capitalized each year at the interest rate in effect in that year, and at the present interest rate of 4.875 percent in the year 2007 to the end of the study. In the current PRS, the P-SMBP incurs approximately \$91.3 million in interest expense annually, of which \$19 million is related to the deficits associated with the current drought. With the

projected deficit, this interest expense increases through 2007 and then decreases as Western repays the deficits. In the current PRS, it is projected that deficit repayment will begin in FY 2008 and end in FY 2017.

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

The current firm power rates of \$4.45 per kilowatt month (kWmo) and 11.29 mills per kilowatthour (mills/kWh), placed in effect in the January 2007 billing period, and were approved by the Federal Energy Regulatory Commission (FERC) on a final basis on April 26, 2006, FERC Docket No. EF06-5031-000 (115 FERC 62,107). The rates are set to expire on December 31, 2010. The 2008 Rate Setting Power Repayment Study included a projected deficit in the year 2007 as it was not possible to pursue a rate increase through the public process in time to implement a new rate for 2007. Should water conditions worsen in the coming year an additional deficit may be incurred for 2008. The Drought Adder cannot be adjusted until January 2009, one year after the proposed rates are implemented. However, should water conditions improve significantly our proposed rate is not going to be over-recovering.

- A. Proposed P-SMBP--ED Firm Electric Service Rates: The P-SMBP--ED firm electric service rates were developed from the revenue requirement calculated in the 2008 Rate Setting Power Repayment Study for the Pick-Sloan Missouri Basin Program. The proposed firm electric service rates are \$5.65 per kWmo for demand and 13.99 mills/kWh for energy, and are to be implemented in the first full billing period beginning on or after January 1, 2008.

1. Revenue Requirement: The present annual revenue requirement for P-SMBP--ED firm and firm peaking power of \$189.9 million, is based on the current firm P-SMBP--ED composite rate of 19.54 mills/kWh and projected energy sales of 8,742 GWh. The 2006 PRS annual revenue requirement necessary to meet repayment requirements for P-SMBP--ED firm and firm peaking power adjustment is \$235.9 million plus a 5 percent discount revenue requirement of \$9.3 million. The total P-SMBP--ED revenue requirement is approximately \$245 million, based on the proposed firm P-SMBP--ED composite rate of 24.49 mills/kWh and projected energy sales of 8,742 GWh.

a. The proposed P-SMBP rate is formula based. The formula is:
P-SMBP PRS Composite Rate Solution equals a Base component plus a Drought Adder component. The P-SMBP--ED total revenue requirement is then composed of a Base component revenue requirement and a Drought Adder revenue requirement that will be reviewed annually. 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 = \$157 million + \$88 million = \$245 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.

- ii. Drought Adder component revenue requirement = purchase power above timing purchases + previous purchase power drought deficits + interest on the purchase power drought deficits.
 - iii. Any proposed change in the Base component will trigger a public process for a rate adjustment.
 - iv. 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 will be initiated.
 - v. 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.
- b. There are two additional revenue requirements in the total P-SMBP--ED revenue requirement. The first is the 5 percent voltage discount, which is approximately \$9.3 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 \$214.1 million. The second is the firm peaking revenue requirement which is \$21.8 million. This is calculated by multiplying the firm peaking power billing units per year by the proposed demand rate of \$5.10/kWmo. The total P-SMBP--ED revenue requirement is approximately \$245 million.

2. Rate Design: The proposed P-SMBP--ED firm electric service rate is designed to recover 50% of the revenue requirement from the demand rate and 50 percent from the energy rate. The demand rate of \$5.65 per 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 13.99 mills/kWh is calculated by dividing 50 percent of the total annual revenue requirement by the annual energy sales. The demand 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 demand rates to the nearest nickel. This causes a slight difference in the actual dollars collected between the demand and energy. Though demand and energy dollars are not exactly equal, demand and energy each recover 50 percent of the revenue requirement. The demand revenue requirement is 50 percent of the total annual revenue requirement less the dollars collected for peaking demand. The calculation for the demand and energy charges for firm power service are as follows:

Demand Charge:

$$\frac{\$122.7 \text{ million} - \$21.8 \text{ million}}{17,876,078 \text{ kW}} = \$5.65/\text{kWmo}$$

Energy Charge:

$$\frac{\$122.3 \text{ million}}{8,742 \text{ GWh}} = 13.99 \text{ mills/kWh}$$

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

Base Component

Demand:

$$\frac{\$65.2 \text{ million}}{17,876,078 \text{ kW}} = \$3.65/\text{kWmo}$$

Energy:

$$\frac{\$78.1 \text{ million}}{8,742 \text{ GWh}} = 8.93 \text{ mills/kWh}$$

Drought Adder Component

Demand:

$$\frac{\$35.7 \text{ million}}{17,876,078 \text{ kW}} = \$2.00/\text{kWmo}$$

Energy:

$$\frac{\$44.2 \text{ million}}{8,742 \text{ GWh}} = 5.06 \text{ mills/kWh}$$

3. Firm Peaking Rate: Historically the P-SMBP--ED firm peaking rate has been equal to the demand charge for the firm power rate. The customer pays the demand rate on their total firm peaking 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.

Previously, Western used the sum of the metered billing units for firm electric service and the seasonal CROD modeled as monthly billing units for firm peaking service.

Western proposes a change in the methodology for the firm peaking rate design to use the sum of the total allocated seasonal CRODs for both firm electric demand and firm peaking demand. Western proposes this change in response to customer recommendations that Western's rate design for firm electric demand and firm peaking demand should be representative of the different products. The proposed firm peaking demand rate is \$5.10/kWmo. The revenue requirement for firm peaking demand is calculated by multiplying the firm peaking power billing units per year (4,272,000 kWmo/year) by the proposed demand rate of \$5.10/kWmo. The proposed rate adjustment has a firm peaking revenue requirement of \$21.8 million.

Firm Peaking Power Rate Calculations:

Monthly Rates:

The calculation for the demand and energy charges for firm peaking power service are as follows:

Demand Charge:

$$\frac{\$122.7 \text{ million}}{24,108,888 \text{ kW}} = \$5.10/\text{kWmo}$$

Energy Charge¹: = 13.99 mills/kWh

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

Base Component

Demand:

$$\frac{\$13.9 \text{ million}}{4,272,000 \text{ kW}} = \$3.25/\text{kWmo}$$

Energy¹: = 8.93 mills/kWh

Drought Adder Component

Demand:

$$\frac{\$7.9 \text{ million}}{4,272,000 \text{ kW}} = \$1.85/\text{kWmo}$$

Energy¹: = 5.06 mills/kWh

¹Firm 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 May 31, 2007 and closes 90 days later on August 29, 2007. 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 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 SCHEDULE

- Informal Customer Meetings took place April 9-11, 2007
- Public Process
 - FRN published May 31, 2007
 - 90 day comment period began May 31, 2007, and ends August 29, 2007
 - Public Information Forums
 - June 18, 2007, 10 a.m. MDT
Radisson Stapleton Plaza
3333 Quebec Street
Denver, CO
 - June 19, 2007, 9 a.m. CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
 - Public Comment Forums
 - July 23, 2007, 10 a.m. MDT
Radisson Stapleton Plaza
3333 Quebec Street
Denver, CO
 - July 24, 2005, 9 a.m. CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
- Record of Decision (November 2007)
- Implement rate January 1, 2008

APPENDIX C

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.

EXHIBIT 1

Executive Summary

EXHIBIT 2

Proposed Rate Schedule P-SED-F9
(Supersedes Schedule P-SED-F8)
January 1, 2008

**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
(Approved Under Rate Order No. WAPA-135)

Effective: The first day of the first full billing period beginning on or after January 1, 2008, through December 31, 2012.

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:

DEMAND CHARGE: \$5.65 for each kilowatt per month (kWmo) of billing demand.

ENERGY CHARGE: 13.99 mills for each kilowatthour (kWh) for all energy delivered as firm power service.

BILLING DEMAND: The billing demand 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

$$\text{Base Demand} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Metered Billing Units}} = \$3.65/\text{kWmo}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 8.93 \text{ mills/kWh}$$

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.

$$\text{Drought Adder Demand} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Metered Billing Units}} = \$2.00/\text{kWmo}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 5.06 \text{ mills/kWh}$$

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 demand and energy charges when facilities are provided by the customer that result 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, 2008, through December 31, 2012.

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:

DEMAND CHARGE:

\$5.10 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:

13.99 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

$$\text{Base Demand} = \frac{\text{Base Peaking Demand Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$3.25/\text{kWmo}$$

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.

$$\text{Drought Adder Demand} = \frac{\text{Drought Adder Peaking Demand Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$1.85/\text{kWmo}$$

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 DEMAND:

The billing demand will be the greater of (1) the highest 30-minute integrated demand 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 demand and/or energy, such overrun shall be billed at 10 times the above rate.