



PICK-SLOAN MISSOURI BASIN PROGRAM
Eastern Division
CUSTOMER RATE BROCHURE

PROPOSED
FIRM ELECTRIC SERVICE
2009 RATE ADJUSTMENT

August 2008

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Materials Posted on Website

<http://www.wapa.gov/ugp/rates/2009firmrateadjust>

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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-140. The rate adjustment procedures are outlined in Appendix A to this brochure.

The Fiscal Year (FY) 2007 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.

With the rates effective January 1, 2008, Western began identifying its firm electric service revenue requirements using a Base component (Base) and Drought Adder component (Drought Adder). The firm power customers noted that by breaking out the components of the firm electric service revenue requirement in this manner, Western could recognize drought impacts in the P-SMBP and demonstrate a proactive approach to repay incurred costs related to the drought. During informal discussions in April 2008, customers stated that they would like to continue seeing the rate identified in the two components.

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 are 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 meet 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. Using a balloon payment methodology, the Drought Adder is designed to repay Western's drought debt within 10 years of the year the debt was incurred. For example, the drought debt incurred by Western in 2007 will be paid off by 2017.

Western is proposing rate schedules for firm electric service (P-SED-F10) and firm peaking service (P-SED-FP10). The projected annual revenue requirement under these schedules is allocated equally between capacity and energy. These rate schedules also reflect rate adjustments based on the Pick-Sloan revenue requirement derived from the 2007 Power Repayment Study (PRS). The PRS sets the annual P-SMBP--ED revenue requirement for firm and firm peaking in 2008 at \$283.0 million.

Table 1

Firm Electric Service	Existing Rates	Proposed Rates (Jan. 1, 2009)	Percent Change
P-SMBP--ED Firm and Firm Peaking Revenue Requirement	\$235.9 million	\$283.0 million	19.9%
Plus Revenue to Offset 5% Discount	\$9.3 million	\$11.1 million	19.4%
Gross Annual Revenue Requirement	\$245.2 million	\$294.1 million	19.9%
Composite Rate	24.49 mills/kWh	29.34 mills/kWh	19.8%
Firm Capacity Rate	\$5.65/kWmo	\$6.80/kWmo	20.4%
Firm Energy Rate	13.99 mills/kWh	16.71 mills/kWh	19.4%
Firm Peaking Capacity Rate	\$5.10/kWmo	\$6.20/kWmo	21.6%
Firm Peaking Energy Rate ^{1/}	13.99 mills/kWh	16.71 mills/kWh	19.4%

^{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-F10, the composite rate will increase 19.8 percent. The firm energy rate will increase to 16.71 mills/kWh, or 19.4 percent and the firm capacity rate will increase to \$6.80 kW per month, or 20.4 percent.

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

2009 gross annual revenue requirement equals \$294.1 million and is comprised of a Base revenue requirement of \$163.5 million plus a Drought Adder revenue requirement of \$130.6 million. Both the Base and Drought Adder recover portions of the firm power revenue requirement, firm peaking power, and the associated 5 percent discount revenue necessary to equal the

P-SMBP--ED annual revenue requirement. A comparison of the current and proposed rate components are listed in Table 1.

The firm peaking capacity charge is 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. Western notes that the firm electric capacity and firm peaking capacity rates combined continue to make up one-half of P-SMBP--ED annual revenue requirement.

As set forth in Table 1, under the proposed Rate Schedule P-SED-FP10, the firm peaking capacity rate will increase to \$6.20 per kWmo or 21.6 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 will increase to 16.71 mills/kWh or 19.4 percent.

Western reviews its firm electric service rates annually. Western reviews 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 then initiates 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 PRS and, if so, whether an adjustment, either incremental or decremental, to the Drought Adder rate component is necessary. Western will notify customers by letter each 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 rate 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.

During informal discussions with its customers prior to the commencement of this rate adjustment process, Western discussed the possibility of implementing a two-step rate adjustment for the Base rate component to address operational and maintenance costs, as well as, normal inflationary costs that would be entered into the PRS from the FY 2010 work plans. Western has reevaluated the benefits of a two-step rate adjustment and concluded with the unpredictability of the hydrological conditions, rising fuel costs and proposed changes in the

electric transmission industry, it is more prudent to forego a two-step rate adjustment and continue the annual customer consultations and possible annual rate adjustments. Therefore, Western is not proposing a two-step rate adjustment in this public process.

Due to continuing below normal hydropower generation in the P-SMBP--ED, Western may need to use the Continuing Fund (Emergency Fund) to pay for unanticipated purchase power and wheeling expenses necessary to meet its contractual obligations for the sale and delivery of power to its customers. Should Western utilize this funding mechanism, Western will replenish the Continuing Fund (Emergency Fund) in accordance with law and Western's associated repayment policy, dated March 15, 2007¹.

¹ Western's Continuing Fund (Emergency Fund) Policy can be found at www.wapa.gov/powerm/pdf/repaypolicy.pdf.

II. PICK-SLOAN MISSOURI BASIN PROGRAM POWER REPAYMENT STUDY

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

The PRS summarizes historic income, expenses, and investments to be repaid from power revenues. It also estimates income, expenses, and investments for future years. The PRS exhibits the application of revenues, as well as, the annual repayment of power system production and transmission costs, and other costs assigned to power for repayment. Total Federal investment remaining to be repaid over the repayment period or service life is also shown.

Revenues, expenses, and investments are entered into the PRS from historical data and from short-term, future budget estimates. These figures are then used to estimate long-term projections of revenues and expenses.

The PRS is used to determine if power revenues are sufficient to pay all project costs allocated to power for repayment within the appropriate repayment period. The PRS first applies revenue to payment of total annual operating expense (operation and maintenance (O&M), purchased power and transmission, and interest). The revenues are then applied toward investments in the

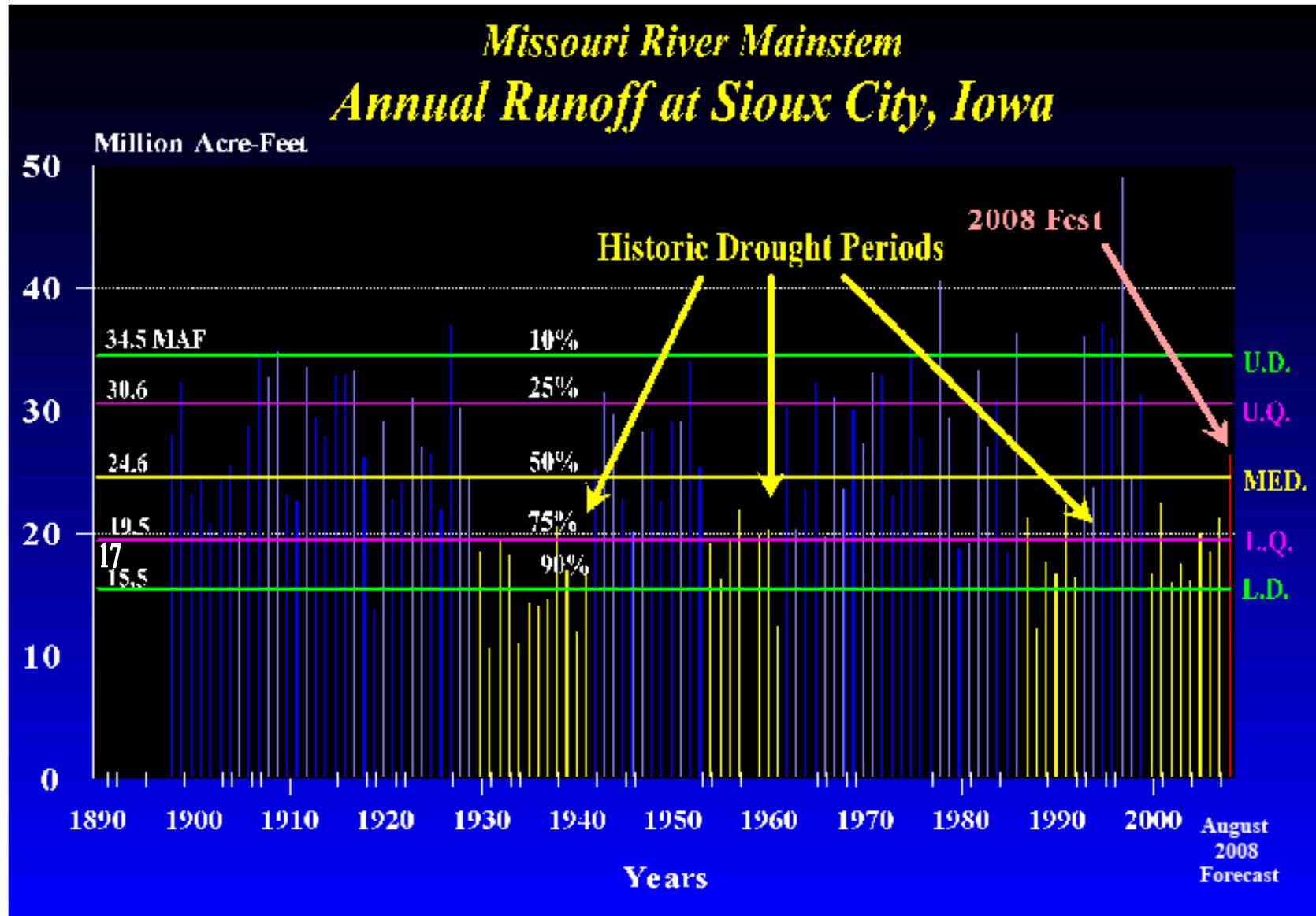
following order: required principal payments (payments at the end of their repayment period), deficits (capitalized expenses and required payments from years when revenues did not cover all expenses), and discretionary principal payments (payments on investments that are not at the end of their repayment period). Discretionary principal payments are generally made first to investments having the highest interest rate.

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

1. Drought: The Missouri River Main Stem, which is the portion of the river basin associated with the P-SMBP--ED, is in its 9th 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, 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 Western's 2004, 2006, and 2008 rate adjustments, and the proposed 2009 rate adjustment. In general, rate increases are directly related to periods of drought. During periods of drought Western must purchase power on the open market at rates much higher than Western's rates to meet firm power obligations. The Drought Adder of the proposed firm power rate indicates that 13.01 mills/kWh of the composite rate is related to the

drought. The following Table 2, prepared by the Corps, highlights current and historical droughts on the Missouri River Mainstem.

Table 2. Missouri River Mainstem Annual Runoff at Sioux City, Iowa



Historically, rate adjustments have been associated with drought conditions in the Pick-Sloan, the following Tables 3 and 4 show the historical P-SMBP--ED rates for firm power and firm peaking power.

Table 3

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

^{1/} 2008 was the implementation of the Base and Drought Adder components.

Table 4

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

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

2. Annual Operating Expense: For comparison of the 2008 Rate Setting PRS projected expense and the 2009 Rate Setting PRS it is best to compare the out-year 2009 differences. As shown in Table 5 & Table 6 below, annual operating expense in the out-year 2009 has increased approximately 35 percent over annual operating expense projected in the 2008 Rate Setting PRS. This increase is directly related to the price and volume of purchased power. The purchase price of power is set by supply and

capacity on the open market. In times of drought, little surplus power is sold and power is purchased at the market price to fulfill contractual commitments. Purchase power projections have increased from \$69.5 million to \$189.7 million for out-year 2009.

From the 2008 Rate Setting PRS to the 2009 Rate Setting PRS there is a \$6.2 million increase in transmission expense and a \$19.8 million increase in interest expense. O&M has an \$18.6 million decrease due to reduced work plans submitted by Corps, Western, and Reclamation.

Table 5

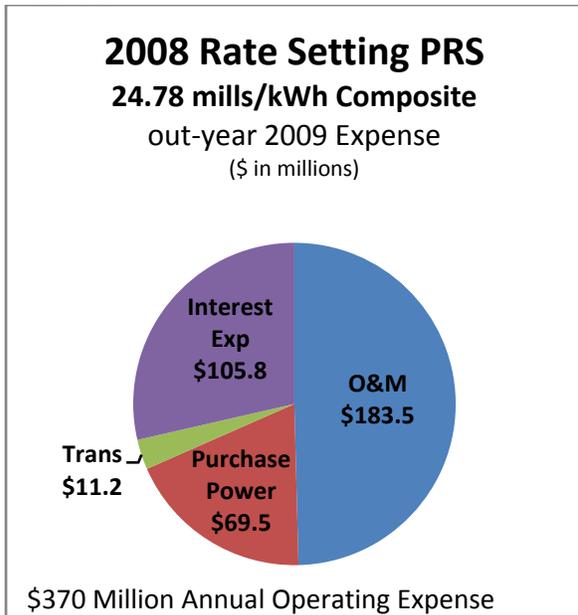
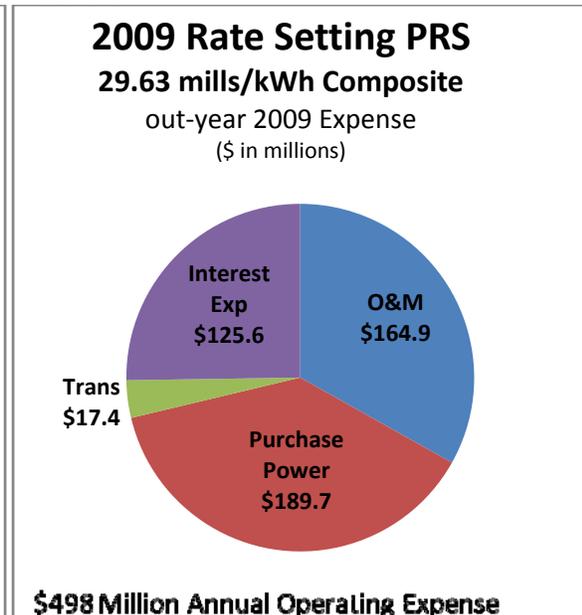


Table 6



3. Power Investment: To compare power investment (replacements and additions) in the 2009 Rate Setting PRS with the power investment in the 2008 Rate Setting PRS, the cumulative investment in the year 2106 should be compared in both studies since that was the last year in the 2008 Rate Setting PRS. In the 2008 Rate Setting Study,

cumulative power investment in 2106 was \$4.672 billion. In the 2009 Rate Setting PRS, cumulative power investment is \$4.913 billion in the year 2106. This 5 percent increase is related to normal inflation and relatively small increases in the amount of capitalized improvements projected in the Corp and Reclamation work plans.

4. Deficits and Interest Expense: P-SMBP has incurred significant deficits due to the drought increasing purchased power expense and reducing non-firm sales revenue. Approximately \$631.5 million in capitalized deficits have accrued from FY 2001 through FY 2007. Based on current hydrological forecasts, an additional \$174.2 million in deficits is projected to accrue in FY 2008, for cumulative deficits of approximately \$805.7 million. Deficits are capitalized each year at the interest rate in effect that year, and at the present interest rate of 4.875 percent. In the 2009 Rate Setting Study, the 2008 interest expense is projected to be \$116.3 million, of which approximately \$35 million is related to the deficits associated with the current drought. With the projected deficit, the total interest expense increases through 2010 and then decreases as Western repays the deficits. It is projected that deficit repayment will begin in FY 2009 and end in FY 2017.

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

The current firm power rates, Rate Schedule P-SED-F9, became effective January 1, 2008, and was approved by the Federal Energy Regulatory Commission (FERC) on a final basis on April 14, 2008, FERC Docket No. EF08-5031-000 (123 FERC 62,048). The rates are set to expire on December 31, 2012. The Drought Adder is not adjustable until January 1, 2009, one year after it was implemented. 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 to be implemented by January 1, 2007.

Proposed P-SMBP--ED Firm Electric Service Rates: The P-SMBP--ED firm electric service rates, Rate Schedule P-SED-F10, were developed from the revenue requirement calculated in the 2009 Rate Setting Power Repayment Study for the Pick-Sloan Missouri Basin Program. The proposed firm electric service rates are \$6.80/kWmo for capacity and 16.71 mills/kWh for energy, and are to be implemented in the first full billing period beginning on or after January 1, 2009.

- A. Revenue Requirement: The present annual revenue requirement for P-SMBP--ED firm and firm peaking power is \$235.9 million. With projected energy sales of 8,742 GWh, the study solved at a firm rate of 24.49 mills/kWh (Rate Schedule P-SED-F9). That revenue requirement is further increased \$9.3 million that must be added to cover the 5 percent discount, bringing the gross revenue requirement to \$245.2 million.

The 2009 Rate Setting PRS annual revenue requirement necessary to meet repayment obligations for P-SMBP--ED firm and firm peaking power is \$283.0 million plus a 5 percent discount revenue requirement of \$11.1 million. The gross P-SMBP--ED revenue requirement is approximately \$294.1 million. With projected energy sales of 8,742 GWh, the study solved at a firm rate of 29.34 mills/kWh (Rate Schedule P-SED-F10).

- a. The proposed P-SMBP--ED revenue requirement is formula based. P-SMBP--ED total revenue requirement = Base component revenue requirement + Drought Adder revenue requirement. For the proposed rate adjustment: P-SMBP--ED total revenue requirement = \$163.5 million + \$130.6 million = \$294.1 million.

The components are comprised as follows:

- i. Base component revenue requirement = operation and maintenance expense + investments and replacements + interest on investments and replacements + normal timing purchase power + transmission costs. Any proposed change in the Base component will trigger a public process for rate adjustment.
- ii. Drought Adder component revenue requirement = purchase power above timing purchases + previous purchase power drought deficits + interest on the purchase power drought deficits. The Drought Adder component may be increased on an annual basis up to 2 mills/kWh. However, for any incremental increase above 2 mills/kWh a public process is initiated. Although adjustments to the Drought Adder component may be either

incremental or decremental based on hydrological conditions, the Drought Adder revenue requirement cannot go below zero.

- b. There are two additional revenue requirements in the total PSMBP--ED revenue requirement. The first is the 5 percent voltage discount, which is approximately \$11.1 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 \$256.5 million. The second is the firm peaking revenue requirement which is \$26.5 million. This is calculated by multiplying the firm peaking power billing units per year by the proposed capacity rate of \$6.20/kWmo. The total P-SMBP--ED revenue requirement is approximately \$294.1 million.

B. Rate Design: The proposed P-SMBP--ED firm electric service rate is designed to recover 50 percent of the revenue requirement from the capacity rate and 50 percent from the energy rate. The capacity rate of \$6.80 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 16.71 mills/kWh is calculated by dividing 50 percent of the total annual revenue requirement by the annual energy sales. The capacity rate is applied to both firm power and firm peaking power. The energy rate is applied to firm energy sales and any firm peaking energy that is not returned to Western in accordance with customer contract arrangements.

1. Firm Power Rate Calculations:

Monthly Rates:

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

Capacity Charge:

$$\frac{\$148.0 \text{ million} - \$26.5 \text{ million}}{17,876,078 \text{ kW}} = \$6.80/\text{kWmo}$$

Energy Charge:

$$\frac{\$146.1 \text{ million}}{8,742 \text{ GWh}} = 16.71 \text{ mills/kWh}$$

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

Base Component

Capacity:

$$\frac{\$67.9 \text{ million}}{17,876,078 \text{ kW}} = \$3.80/\text{kWmo}$$

Energy:

$$\frac{\$81.1 \text{ million}}{8,742 \text{ GWh}} = 9.27 \text{ mills/kWh}$$

Drought Adder Component

Capacity:

$$\frac{\$53.6 \text{ million}}{17,876,078 \text{ kW}} = \$3.00/\text{kWmo}$$

Energy:

$$\frac{\$65.0 \text{ million}}{8,742 \text{ GWh}} = 7.44 \text{ mills/kWh}$$

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

Western's firm peaking rate design uses the sum of the total allocated seasonal CRODs for both firm electric capacity and firm peaking capacity. Western's rate

design for firm electric capacity and firm peaking capacity are representative of the different products. The proposed firm peaking capacity rate is \$6.20/kWmo. The revenue requirement for firm peaking capacity is calculated by multiplying the firm peaking power billing units per year by the proposed capacity rate of \$6.20/kWmo. The proposed rate adjustment has a firm peaking revenue requirement of \$26.5 million.

Firm Peaking Power Rate Calculations:

Monthly Rates:

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

Capacity Charge:

$$\frac{\$148.9 \text{ million}}{24,108,888 \text{ kW}} = \$6.20/\text{kWmo}$$

Energy Charge¹: = 16.71 mills/kWh

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

Base Component

Capacity:

$$\frac{\$14.5 \text{ million}}{4,272,000 \text{ kW}} = \$3.40/\text{kWmo}$$

Energy¹: = 9.27 mills/kWh

Drought Adder Component

Capacity:

$$\frac{\$12.0 \text{ million}}{4,272,000 \text{ kW}} = \$2.80/\text{kWmo}$$

Energy¹: = 7.44 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 August 15, 2008 and closes 90 days later on November 13, 2008. During this period, interested parties may consult with and obtain information from Western's representatives. They may also examine data used in the power repayment studies and suggest changes. Specific details for providing comments are included in the Federal Register notice.
 - A. Public Information Forum: Western's representatives present the Proposed Rate changes and answer questions. Those questions not answered at the public information forum receive written responses at least 15 days prior to the end of the consultation and comment period.
 - B. Public Comment Forum: This forum provides a formal opportunity for interested parties to submit either written or oral comments to be shared with other attendees and Western representatives. Usually, Western does not respond to comments at this forum. However, comments are considered in developing the final rate.
 - C. Written Comments: Interested parties may submit written comments and inquiries to Western during the consultation and comment period.
 - D. Revision of Proposed Rate: After the close of the consultation and comment period, Western will review and consider comments. If appropriate, the Proposed Rate will be revised. If the Administrator determines that further public comment should be invited or is necessary, interested parties will be given a period of at least 30 days to submit additional comments concerning the Proposed Rate.
 - E. Preliminary Decision on Interim Rate: Following the end of the consultation and comment period, the Administrator will develop provisional rates. The Deputy Secretary of Energy for the Department of Energy (DOE) has the authority to confirm, approve, and place this rate into effect on an interim basis. The decision, together with an explanation of the principal factors leading to the decision, will be published in the Federal Register.

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

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

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

APPENDIX B

PROPOSED RATE ADJUSTMENT SCHEDULE

- Informal Customer Meetings took place April 29-30, 2008
- Public Process
 - FRN published August 15, 2008
 - 90 day comment period began August 15, 2008 and ends November 13, 2008
 - Public Information Forums
 - September 9, 2008, 9:00-10:30 a.m. MDT
Ramada Plaza Hotel
10 East 120th Avenue
Northglenn, CO
 - September 10, 2008, 8:00-9:30 a.m. CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
 - Public Comment Forums
 - September 9, 11:30-12:30 p.m. MDT
Ramada Plaza Hotel
10 East 120th Avenue
Northglenn, CO
 - September 10, 10:30-12:00 p.m. CDT
Holiday Inn
100 West 8th Street
Sioux Falls, SD
- Record of Decision November 13, 2008 (90 days allowed)
- Implement rate January 1, 2009

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

(Insert PRS Executive Summary)

Posted at:

<http://www.wapa.gov/ugp/rates/2009FirmRateAdjust/Default.htm>

EXHIBIT 2

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

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

SCHEDULE OF RATES FOR FIRM POWER SERVICE

Effective: The first day of the first full billing period beginning on or after January 1, 2009, through December 31, 2013.

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

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

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

Monthly Rate:

CAPACITY CHARGE: \$6.80 for each kilowatt per month (kWmo) of billing capacity.

ENERGY CHARGE: 16.71 mills for each kilowatthour (kWh) for all energy delivered as firm power service.

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

Charge Components:

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

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

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 9.27 \text{ mills/kWh}$$

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

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Metered Billing Units}} = \$3.00/\text{kWmo}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 7.44 \text{ mills/kWh}$$

Process:

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

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

Adjustments:

For Character and Conditions of Service:

Customers who receive deliveries at transmission voltage may in some instances be eligible to receive a 5-percent discount on capacity and energy charges when facilities are provided by the customer that 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, 2009, through December 31, 2013.

Available:

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

Applicable:

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

Character:

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

Monthly Rate:

CAPACITY CHARGE:

\$6.20 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:

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

Charge Components:

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

$$\text{Base Capacity} = \frac{\text{Base Peaking Capacity Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$3.40/\text{kWmo}$$

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

$$\text{Drought Adder} = \frac{\text{Drought Adder Peaking Capacity Revenue Requirement}}{\text{Peaking CROD Billing Units}} = \$2.80/\text{kWmo}$$

Process:

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

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

BILLING CAPACITY:

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

Adjustments:

Billing for Unauthorized Overruns:

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