
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Schedule L-F9, would go into effect on January 1, 2010, and would remain in effect through December 31, 2014, or until superseded.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.

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