DEPARTMENT OF ENERGY

Western Area Power Administration

Loveland Area Projects—Rate Order No. WAPA–179

AGENCY: Western Area Power Administration, DOE.

ACTION: Notice of proposed firm electric service and Sale of Surplus Products rates.

SUMMARY: The Western Area Power Administration (WAPA) is proposing revised rates for the Loveland Area Projects (LAP) firm electric service and modifications to the existing rate schedule for Sale of Surplus Products. Current firm electric service rates, under Rate Schedule L–F10, are in effect through December 31, 2019, and the formula rate for the sale of surplus products, under Rate Schedule L–M1, is in effect through September 30, 2021. LAP consists of the Fryingpan-Arkansas Project (Fry-Ark) and the Pick-Sloan Missouri Basin Program (P–SMBP)—Western Division (WD), which were integrated for marketing and rate-making purposes in 1989.

WAPA is proposing to lower the overall LAP firm electric service charges by 14 percent, as a result of rebalancing the charge components in formula-based Rate Schedule L–F10 by reducing the drought adder component and increasing the base component. The proposed rates will provide sufficient revenue to pay all annual costs, including interest expense, and repay investments within the allowable periods. In addition, WAPA is proposing to modify Rate Schedule L–M1, which allows for the sale of generation and generation-related products in excess of LAP's firm electric service obligations, to add "energy" as a surplus product. WAPA will prepare a brochure providing detailed information on these proposed rates prior to the public information forums listed below. This brochure will be posted to WAPA's Web site at: *https://www.wapa.gov/regions/RM/rates/Pages/2018-Rate-Adjustment---Firm-Power.aspx.* If approved, the proposed rates under Rate Schedules L–F11 and L–M2 would become effective on January 1, 2018, and would remain in effect through December 31, 2022, or until superseded. Publication of this **Federal Register** notice begins the formal process for the proposed rate adjustment and proposed rate modifications.

DATES: The consultation and comment period will begin July 3, 2017 and end October 2, 2017. WAPA will present a detailed explanation of the proposed rates and other modifications at public information forums on the following dates and times:

1. August 22, 2017, 9:00 a.m. to 10:30 a.m. MDT, Denver, Colorado.
2. August 23, 2017, 9:00 a.m. to 10:30 a.m. CDT, Sioux Falls, South Dakota.

WAPA will accept oral and written comments at public comment forums on the following dates and times:

1. August 22, 2017, 11:00 a.m. to no later than 12 noon MDT, Denver, Colorado.
2. August 23, 2017, 11:00 a.m. to no later than 12 noon CDT, Sioux Falls, South Dakota.

WAPA will accept written comments anytime during the consultation and comment period.

ADDRESSES: Written comments and requests to be informed of Federal Energy Regulatory Commission (FERC) actions concerning the proposed rates submitted by WAPA to FERC for approval should be sent to: Michael D. McElhany, Acting Regional Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538–8986 or email *lapfirmadj@wapa.gov.* Information regarding the rate process is posted on WAPA's Web site at: *https://www.wapa.gov/regions/RM/rates/Pages/2018-Rate-Adjustment---Firm-Power.aspx.* WAPA will post official comments received via letter and email to its Web site after the close of the comment period. WAPA must receive written comments by the end of the consultation and comment period to ensure they are considered in WAPA's decision process.

Public information and comment forum locations are:

1. Denver—Embassy Suites, 7001 Yampa Street, Denver, Colorado.
2. Sioux Falls—Holiday Inn, 100 West 8th Street, Sioux Falls, South Dakota.

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

SUPPLEMENTARY INFORMATION:

Firm Electric Service

On December 2, 2014, the Deputy Secretary of Energy approved, on an interim basis, Rate Schedule L–F10 under Rate Order No. WAPA–167 for the period beginning January 1, 2015, and ending December 31, 2019 (79 FR 72663–72670 (Dec. 8, 2014)).[1] This Rate Schedule is formula-based, providing for downward adjustments to the drought adder component.[2] On January

[1] FERC confirmed and approved Rate Order WAPA–167 on a final basis on June 25, 2015, in Docket No. EF15–4–000. See *United States Department of Energy, Western Area Power Administration (Loveland Area Projects),* 151 FERC ¶ 62,222.

[2] The drought adder component is 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. *See* 72 FR 64061 (November 14, 2007). The drought adder was added as a component to the energy and capacity rates in Rate Order No. WAPA–134, which was approved by the Deputy Secretary on an interim basis on November 14, 2007, (72 FR 64061). FERC confirmed and approved Rate Order WAPA–134 on a final basis on May 16, 2008, in Docket No. EF08–5181. See *United States Department of Energy, Western Area Power Administration (Loveland Area Projects),* 123 FERC ¶ 62,137. Western reviews the drought adder each September to determine if drought costs differ from those projected in the Power Repayment Study and whether an adjustment to the drought adder is necessary. *See* 72 FR at 64065. The drought adder may be adjusted downward using the approved annual drought adder adjustment process, whereas an incremental upward adjustment to the drought adder component greater than the equivalent of 2 mills/kWh requires a public rate process. *See* 72 FR at 64065.

1, 2017, the drought adder component of the LAP effective rate schedule was adjusted downward recognizing repayment of drought costs included in the drought adder component of the approved formula rates. The formula-based drought adder component needs to be adjusted down to zero in 2018. Such adjustment can be made using the approved annual drought adder adjustment process; however, since any adjustment to the base component must be done through a public rate process, WAPA now proposes to adjust both the base and drought adder components in Rate Schedule L–F10 through a rate adjustment process. WAPA proposes to adjust the formula-based drought adder component down to zero in 2018, while the base component will be adjusted upward to address present costs. The Fry-Ark and P–SMBP Fiscal Year 2016 Power Repayment Studies (PRS) revenue requirements and current water conditions are the determining factors for this proposed rate adjustment.

The proposed annual revenue requirement for LAP firm electric service is $64.1 million. The existing charges in the current rate schedule are being reduced, as indicated in Table 1:

TABLE 1—SUMMARY OF CURRENT AND PROPOSED REVENUE REQUIREMENT AND RATES

Firm electric service	Current—under L–F10 with adjusted drought adder as of January 1, 2017	Proposed—under L–F11 as of January 1, 2018	Percent change
LAP Revenue Requirement (million $)	$74.5	$64.1	−14
LAP Composite Rate (mills/kWh)	36.56	31.44	−14
Firm Energy Rate (mills/kWh)	18.28	15.72	−14
Firm Capacity Rate ($/kWmonth)	$4.79	$4.12	−14

Under the current rate methodology, rates for LAP firm electric service are designed to recover an annual revenue requirement that includes investment repayment, interest, purchase power, operation and maintenance, and other expenses within the allowable period. The annual revenue requirement continues to be allocated equally between capacity and energy.

WAPA is proposing to place Rate Schedule L–F11 into effect for the 5-year period beginning January 1, 2018, through December 31, 2022. The proposed adjustment updates the base component with present costs and reduces the drought adder component to zero, as the drought-related debts are projected to be fully repaid in 2018.

Base component costs for the P–SMBP—WD have increased primarily due to inflationary annual and capital cost increases associated with incorporating three new out-year projections into the 5-year cost evaluation period into the current rate-setting PRS. Additional details of the P–SMBP PRS are explained in the P–SMBP—Eastern Division Rate Order No. WAPA–180.

Base component costs for Fry-Ark have decreased, even though the three new out-year projections for annual expenses and capital costs within the 5-year cost evaluation period include inflation. This decrease is caused by the annual expense projections in the current Fry-Ark rate-setting PRS being an average of $0.3 million per year lower than the annual expense projections in the previous rate-setting PRS. In addition to lower annual expenses, ancillary service revenue projections have also increased an average of $1.1 million per year over the previous projections; resulting in a net revenue increase of approximately $1.4 million per year. This net revenue helps offset the revenue requirement for firm electric service.

The net effect of these adjustments to the drought adder and base components results in an overall decrease to the LAP rate. A comparison of the current and proposed revenue requirements is shown in Table 2:

TABLE 2—SUMMARY OF CURRENT AND PROPOSED REVENUE REQUIREMENTS

Firm electric service	Current—under L–F10 with adjusted drought adder as of January 1, 2017	Proposed—under L–F11 as of January 1, 2018	Percent change
LAP Revenue Requirement (million $)	$74.5	$64.1	−14
Pick-Sloan—WD	59.2	50.8	−14
Fry-Ark	15.3	13.3	−13

As a part of the current and proposed rate schedules, WAPA provides for a formula-based adjustment of the drought adder component of up to 2 mills/kWh. The 2 mills/kWh cap places a limit on the amount the drought adder component can be adjusted relative to associated drought costs to recover costs attributable to the drought adder formula rate for any one-year cycle. Continuing to identify the firm electric service revenue requirement using base and drought adder components will assist WAPA in the presentation of future impacts of droughts, demonstrate repayment of drought-related costs in the PRSs, and allow WAPA to be more responsive to changes caused by drought-related expenses. WAPA 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 components. A comparison of the current and proposed components is shown in Table 3:

TABLE 3—SUMMARY OF LAP CHARGE COMPONENTS

	Existing charges under rate schedule L–F10 with adjusted drought adder as of January 1, 2017			Proposed charges under rate schedule L–F11 as of January 1, 2018			Percent change
	Base component	Drought adder component	Total charge	Base component	Drought adder component	Total charge	
Firm Capacity (/kWmonth)	$3.92	$0.87	$4.79	$4.12	$0	$4.12	−14
Firm Energy (mills/kWh)	14.95	3.33	18.28	15.72	0	15.72	−14

Sale of Surplus Products

On August 12, 2016, the Deputy Secretary of Energy approved, on an interim basis, Rate Schedule L–M1 under Rate Order No. WAPA–174, for the period beginning October 1, 2016, and ending September 30, 2021 (81 FR 56632–56652 (August 22, 2016)).[3] This Rate Schedule is formula-based, providing for LAP Marketing to sell LAP surplus energy and capacity products. If LAP surplus products are available, as specified in the rate schedule, the charge will be based on market rates plus administrative costs. The customer will be responsible for acquiring transmission service necessary to deliver the product(s) for which a separate charge may be incurred. The rate schedule currently allows for the sale of reserves, regulation, and frequency response. WAPA is proposing to add "energy" as a fourth surplus product offered under this rate schedule. WAPA is proposing to place Rate Schedule L–M2 into effect for the 5-year period beginning January 1, 2018, through December 31, 2022.

Legal Authority

The proposed rates constitute a major rate adjustment, as defined by 10 CFR 903.2(e); therefore, WAPA will hold public information and public comment forums for this rate adjustment, pursuant to 10 CFR 903.15 and 903.16. WAPA will review all timely public comments and make amendments or adjustments to the proposals as appropriate. Proposed rates will be forwarded to the Deputy Secretary of Energy for approval on an interim basis.

WAPA is establishing firm electric service rates and sale of surplus products formula rates under the Department of Energy (DOE) Organization Act (42 U.S.C. 7152); the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent enactments, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) and section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s); and other acts specifically applicable to the projects involved.

By Delegation Order No. 00–037.00B, effective November 19, 2016, the Secretary of Energy delegated: (1) The authority to develop power and transmission rates to WAPA'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 DOE procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985 (50 FR 37835).

Availability of Information

All brochures, studies, comments, letters, memorandums, or other documents WAPA initiates or uses to develop the proposed rates will be available for inspection and copying at the Rocky Mountain Regional Office located at 5555 East Crossroads Boulevard, Loveland, Colorado. These documents and supporting information will be posted on WAPA's Web site as they become available under the "2018 Rate Adjustment—Firm Power" section located at: *https://www.wapa.gov/regions/RM/rates/Pages/2018-Rate-Adjustment---Firm-Power.aspx.*

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 for implementing NEPA (40 CFR parts 1500–1508); and DOE NEPA Implementing Procedures and Guidelines (10 CFR part 1021), WAPA 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

WAPA 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 27, 2017.

Mark A. Gabriel,

Administrator.

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[3] FERC confirmed and approved Rate Order WAPA–174 on a final basis on March 9, 2017, in Docket Nos. EF16–5–000 and EF16–5–001. See *United States Department of Energy, Western Area Power Administration (Loveland Area Projects),* 158 FERC ¶ 62,181.