



# **Loveland Area Projects Customer Brochure**

**Proposed  
Firm Electric Service  
2009 Rate Adjustment**

**August 2008**



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## Materials Posted on Website

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<http://www.wapa.gov/rm/ratesRM/2009/default.htm>

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## **I. INTRODUCTION**

This brochure provides information on Western Area Power Administration's (Western) proposed firm electric service rate adjustment for the Loveland Area Projects (LAP) under Rate Order No. WAPA-142. The rate adjustment procedures are outlined in Appendix A to this brochure.

The Fiscal Year (FY) 2007 repayment analysis for LAP, which includes the Pick-Sloan Missouri Basin Program--Western Division (P-SMBP--WD) and the Fryingpan-Arkansas Project (Fry-Ark), indicates that the existing firm electric service rates do not meet repayment requirements. To fulfill those requirements, the Rocky Mountain Region (RMR) and the Upper Great Plains Region (UGPR) have proposed rate adjustments for LAP and the Pick-Sloan Missouri Basin Program--Eastern Division (P-SMBP--ED). The P-SMBP--ED rate adjustment has been proposed in a separate public process.

Beginning with the current rate (LF-7), which was effective January 1, 2008, Western identifies its Firm Electric Service revenue requirement using a Base component (Base) and Drought Adder component (Drought Adder). Some firm power customers requested this, noting that by identifying the components of the Firm Electric Service revenue requirement in this manner, Western could identify drought impacts in the regions covered by the LAP and the P-SMBP--ED (individually called Project and collectively called Projects) and demonstrate a proactive approach to repaying incurred costs related to the drought. During informal discussions in April 2008, customers stated that they would like to continue seeing the rate identified in the two components.

## **II. RATE PROPOSAL FOR 2009**

This proposed rate adjustment reflects a rate increase based on the Fry-Ark and Pick-Sloan--Western Division (P-SMBP--WD) revenue requirements derived from the Fiscal Year 2007 Power Repayment Studies (PRSs). The PRSs set the LAP revenue requirement for 2009 for firm electric service at \$75.9 million, which is a 14.9 percent increase. The current firm composite 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. Given the need for a Base rate component increase and the size of the Drought Adder rate component increase, Western is required to initiate a formal public process. Under the current Rate Schedule, Western had the option of increasing the Drought Adder rate component by up to 2 mills/kWh outside of a formal public process, and only initiating the formal public process for the Base rate component increase and the incremental increase of the Drought Adder rate component above 2 mills/kWh. Instead, Western has opted to initiate the formal public process for this rate increase. Western has prepared the proposed rate schedule for firm electric service (L-F-8) 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-F8 are listed in Table 1.

**Table 1 – Proposed Firm Electric Service Revenue Requirement and Rates**

| <b>Firm Electric Service</b> | <b>Existing Rates<br/>As of 2008<br/>(L-F7)</b> | <b>Proposed Rates<sup>1</sup><br/>(January 1, 2009)<br/>(L-F8)</b> | <b>Percent<br/>Change</b> |
|------------------------------|---|--|---------------------------|
| LAP Revenue Requirement      | \$66.1 million                                  | \$75.9 million   | 14.9%                     |
| LAP Composite Rate           | 32.42 mills/kWh                                 | 37.24 mills/kWh  | 14.9%                     |
| Firm Energy Rate             | 16.21 mills/kWh                                 | 18.62 mills/kWh  | 14.9%                     |
| Firm Capacity Rate           | \$4.25/kW-month                                 | \$4.88/kW-month  | 14.9%                     |

<sup>1</sup> The proposed rates are subject to adjustment prior to publication in the final Notice of Order Concerning Power Rates. Adjustments, if any, would be based on revisions to the Drought Adder rate component due to changes in hydrological conditions.

Under Rate Schedule L-F8, 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 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 rate component is a formula-based revenue

requirement that includes costs attributable to the present drought conditions. The Drought Adder rate component includes costs associated with future non-timing purchases of additional power to meet firm obligations not covered with available system generation due to the drought, previously incurred deficits due to purchased power debt that resulted from non-timing power purchases made during this drought, and the interest associated with the previously incurred and future drought debt. The Drought Adder rate component is designed to repay Western's drought debt within 10 years from the time the debt was incurred, using balloon-payment methodology. For example, the drought debt incurred by Western in 2007 will be repaid by 2017.

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, 2009, the LAP revenue requirement equals \$75.9 million and is comprised of a Base revenue requirement of \$49.9 million plus a Drought Adder revenue requirement of \$26 million. A comparison of the current rate components and the proposed rate components are listed in Table 2.

**Table 2 – Summary of LAP Components**

|                      | <b>Existing Rates<br/>As of 2008<br/>L-F7</b> |                      | <b>Proposed Rates<sup>1</sup><br/>(January 1, 2009)<br/>L-F8</b> |                      |
|----------------------|---|----------------------|--|----------------------|
|                      | <b>Firm Energy</b>                            | <b>Firm Capacity</b> | <b>Firm Energy</b>   | <b>Firm Capacity</b> |
| <b>Base</b>          | 11.92 mills/kWh                               | \$3.13/kWmonth       | 12.23 mills/kWh  | \$3.21/kWmonth       |
| <b>Drought Adder</b> | 4.29 mills/kWh                                | \$1.12/kWmonth       | 6.39 mills/kWh   | \$1.67/kWmonth       |
| <b>Total LAP</b>     | 16.21 mills/kWh                               | \$4.25/kWmonth       | 18.62 mills/kWh  | \$4.88/kWmonth       |

<sup>1</sup> The proposed rates are subject to adjustment prior to publication in the final Notice of Order Concerning Power Rates. Adjustments, if any, would be based on revisions to the Drought Adder rate component due to changes in hydrological conditions.

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

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 cost that would be entered into the PRSs from the FY 2010 work plans. Western has reevaluated the benefits of the two-step rate adjustment and concluded that due to 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 continued below normal hydropower generation, Western may need to request use of the Continuing Fund (Emergency Fund) to pay for unanticipated purchased 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, 2007.

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

### III. LOVELAND AREA PROJECTS FIRM ELECTRIC SERVICE RATES

The current rates, \$4.25 per kilowatt-month (kWmonth) and 16.21 mills per kilowatthour (mills/kWh) were placed into effect in the January 2008 billing period and approved by FERC on a final basis on May 16, 2008, under Federal Energy Regulatory Commission (FERC) Docket No. EF06-5181-000 (123 FERC ¶ 62,137). These rates are set to expire on December 31, 2012.

A. Proposed LAP Firm Electric Service Rates: The LAP firm electric service rates were developed by combining the revenue requirements calculated from the 2009 Rate Setting PRSs for both Pick-Sloan and Fry-Ark. The proposed rates are \$4.88/kWmonth for firm capacity and 18.62 mills/kWh for firm energy. These rates are to be implemented in the first full billing period beginning on or after January 1, 2009.

1. LAP Revenue Requirement:

PRESENT REVENUE REQUIREMENT: \$66,132,440

PROPOSED INCREASE:

|                              |                     |
|------------------------------|---------------------|
| Jan 09 – 4.82 mills/kWh      | \$ 9,821,800        |
| Proposed Revenue Requirement | <u>\$75,954,240</u> |

a. Pick-Sloan Missouri Basin Program--Western Division: The present annual revenue requirement for P-SMBP--WD firm power is \$51,767,520, and is based on the current firm P-SMBP--WD composite rate of 26.04 mills/kWh and projected energy sales of 1,988 GWh.

PRESENT REVENUE REQUIREMENT:

|                                     |              |
|-------------------------------------|--------------|
| 26.04 mills/kWh x 1,988,000,000 kWh | \$51,767,520 |
|-------------------------------------|--------------|

PROPOSED INCREASE-Jan 09

|                                       |             |                     |
|---------------------------------------|-------------|---------------------|
| Base Rate: 0.62 mills/kWh x 1,988 GWh | \$1,232,560 |                     |
| Dr. Adder: 4.23 mills/kWh x 1988 GWh  | \$8,409,240 | <u>\$ 9,641,800</u> |

|  |                     |
|--|---------------------|
| Proposed Revenue Requirement               |                     |
| 26.04 + 4.85 = 30.89 mills/kWh x 1,988 GWh | <u>\$61,409,320</u> |

- b. Fryingpan-Arkansas Project: The present annual revenue requirement for Fry-Ark is \$14,364,920, and is based on the projected sale of 200 MW of capacity and 52 GWh of energy.

PRESENT REVENUE REQUIREMENT: \$14,364,920

PROPOSED INCREASE—Jan 09:

|                              |           |                     |
|------------------------------|-----------|---------------------|
| Base Component               | \$ 48,000 |                     |
| Drought Adder Component      | \$132,000 | <u>\$ 180,000</u>   |
| Proposed Revenue Requirement |           | <u>\$14,544,920</u> |

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

|                                  |                     |
|----------------------------------|---------------------|
| Base Component                   | \$49,900,360        |
| Drought Adder Component          | <u>\$26,053,880</u> |
| Proposed LAP Revenue Requirement | <u>\$75,954,240</u> |

The components are comprised as follows:

- a. Base component revenue requirement = operation and maintenance expense + investments and replacements + interest on investments and replacements + normal timing purchase power + transmission costs.
  - b. Drought Adder component revenue requirement = future purchase power above timing purchases + previous purchase power drought deficits + interest on the purchase power drought deficits.
  - c. Any proposed change in the Base component will trigger a public process.
  - d. 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, the 2 mills/kWh will be implemented in the following January and a public process will be triggered for the increment above 2 mills/kWh.
  - e. Although adjustments to the Drought Adder component may be either incremental or decremental based on hydrological conditions, the Drought Adder revenue requirement cannot go below zero.
2. Rate Design: The proposed LAP firm electric service rate is designed to return 50 percent of the revenues from the firm capacity component and 50 percent from the firm energy component. The capacity component is based on a monthly billing of the seasonal contract rate of delivery. The energy component is based on the annual contracted energy.

**Monthly Rates:**

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

Capacity Charge:

$$\frac{(\$75,954,240/2) = \$37,977,120}{(690.8 \text{ MW} + 605.3 \text{ MW}) (6) (1,000)} = \$4.88/\text{kWmonth}$$

Energy Charge:

$$\frac{(\$75,954,240/2) = \$37,977,120}{2,040 \text{ GWh} (1,000)} = 18.62 \text{ mills/kWh}$$

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

**Base Component**

Capacity:

$$\frac{(\$49,900,360/2) = \$24,950,180}{(690.8 \text{ MW} + 605.3 \text{ MW}) (6) (1,000)} = \$3.21/\text{kWmonth}$$

Energy:

$$\frac{(\$49,900,360/2) = \$24,950,180}{2,040 \text{ GWh} (1,000)} = 12.23 \text{ mills/kWh}$$

**Drought Adder Component**

Capacity:

$$\frac{(\$26,053,880/2) = \$13,026,940}{(690.8 \text{ MW} + 605.3 \text{ MW}) (6) (1,000)} = \$1.67/\text{kWmonth}$$

Energy:

$$\frac{(\$26,053,880/2) = \$13,026,940}{2,040 \text{ GWh} (1,000)} = 6.39 \text{ mills/kWh}$$

Total LAP Capacity Charge \$4.88/kWmonth  
Total LAP Energy Charge 18.62 mills/kWh

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

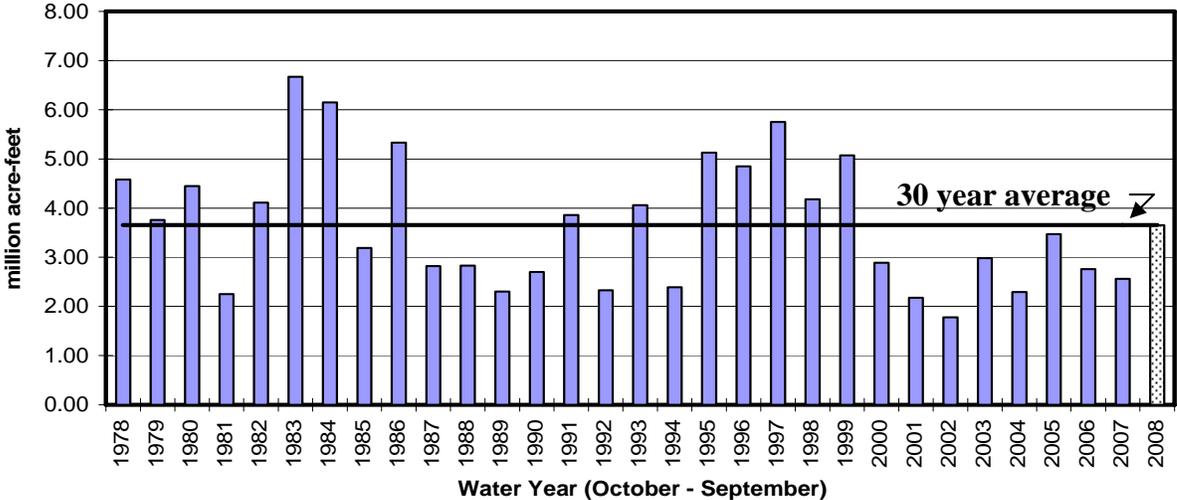
1. Drought :

- a. P-SMBP--WD: Drought conditions persist in parts of the P-SMBP--WD but, as a whole, are less severe than in recent years. Drought conditions still prevail in Eastern Colorado and Southwestern Wyoming. Reservoir inflows have been above normal in the P-SMBP--WD so far this year; 117 percent of average for C-BT, 118 percent for the North Platte Basin, and 105 percent in the Bighorn Basin. The combined P-SMBP--WD reservoir inflow has been 112 percent of average. The resulting P-SMBP--WD reservoir storage at the end of June 2008 was 92 percent of average, up from 81 percent last year. Assuming normal precipitation and temperatures in the P-SMBP--WD for the remainder of FY 2008, the reservoir inflows for FY 2008 will be 114 percent of average and the resulting P-SMBP--WD reservoir storage should be 96 percent of average at the end of September 2008.
- b. Fry-Ark: Drought conditions persist in the Fry-Ark Project but are not as severe as in recent years. The reservoir inflow from October 2007 through June 2008 was 113 percent of average. The reservoir storage was 103 percent of average at the end of June 2008. The average annual Boustead Tunnel import has been 48.7 thousand acre-feet and the FY 2008 import has already totaled 84.6 thousand acre-feet as of July 23rd.

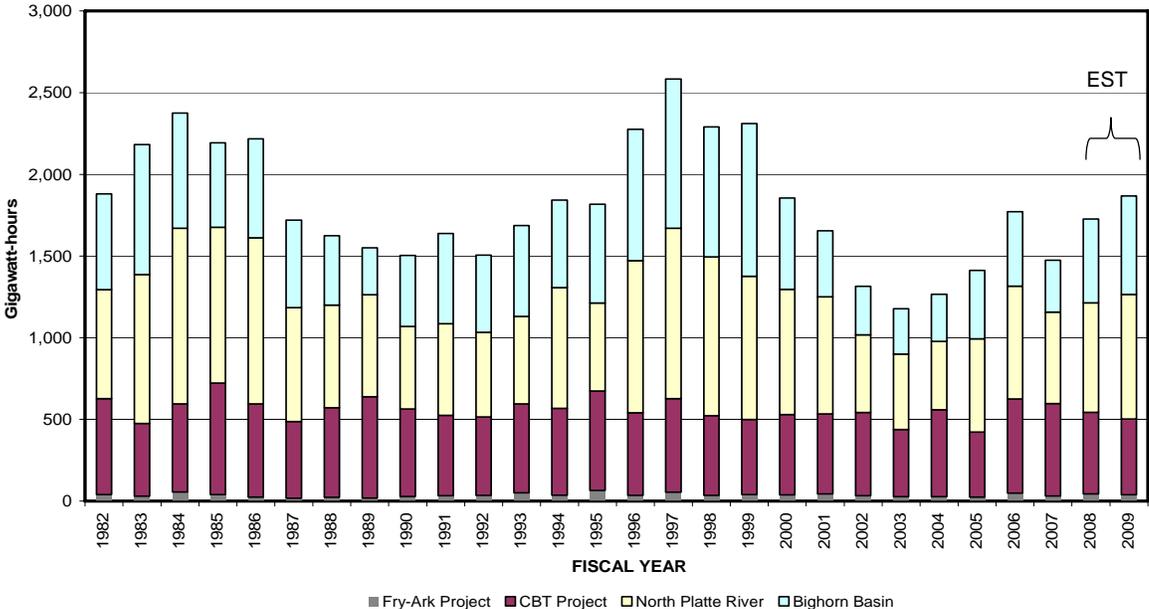
The LAP is in its 9<sup>th</sup> year of drought, which has resulted in reduced hydro-power generation. Reduced generation causes purchased power expense to increase and revenue from non-firm energy sales to decrease. The current drought and rising purchase power prices were the primary basis for our 2004, 2006, and 2008 rate adjustments and will drive the proposed 2009 rate adjustment. In general, rate increases are directly related to periods of drought where Western must purchase power on the open market at rates much higher than our rates to meet our firm obligations.

The following charts highlight the current and historical droughts in the Rocky Mountain Region:

**ANNUAL LAP RESERVOIR INFLOW**  
with projected FY08



**LAP GROSS GENERATION AT PLANT**  
with projected FYs 08-09



The following chart shows the LAP rate history from 1989 through 2008 and the projected LAP rate, as proposed, for 2009.

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

2. Power Repayment Studies: A PRS for Pick-Sloan is prepared annually by Western with the cooperation of Reclamation and the Corps of Engineers (Corps). Basic river basin hydrology, water depletions, power generation, and project development data and cost information are supplied by Reclamation and the Corps. The annual Fry-Ark PRS is prepared by Western and coordinated with Reclamation for project development data and cost information. PRSs are prepared in accordance with authorizing legislation and with Department of Energy (DOE) Order No. RA 6120.2 (Power Marketing Administration Financial Reporting).

The PRS summarizes historic income, expenses, and investment to be repaid from power revenues. It also estimates income, expenses, and investments for future years, as well as calculating the application of revenues, the annual repayment of power system production and transmission costs, and displaying other costs assigned to power for repayment. The PRS also calculates the total Federal investment remaining to be repaid over the repayment period.

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

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

- a. Resources and Annual Revenues: In the PRS for Pick-Sloan, future available energy resources (based on the latest hydrology, depletions, and marketing projections) are multiplied by a composite energy yield to

determine annual revenue estimates. In the PRS for Fry-Ark, flow-through energy is valued at the current LAP energy rate. The remaining revenue is attributed to capacity sales.

For the Pick-Sloan 2009 Rate Set PRS, future P-SMBP--WD annual firm energy sales are based on an annual energy amount of 1,988 GWh and capacity sales are based on actual LAP contract commitments (491 MW for summer season and 405 MW for winter season). For the 2009 Fry-Ark Rate Set PRS, capacity sales are based on marketing the available 200 MW of capacity and 52 GWh of flow-through energy. In addition, the PRS for each project includes other revenues, such as economy energy, ancillary services, and transmission revenues.

- b. Annual Revenue Deductions or Expenses: Unless required payments are due, revenues are normally first applied to repayment of annual expenses which include:
- O&M costs, purchased power, and transmission costs; and
  - Yearly interest expenses on investments.

These expenses are discussed below.

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

- (a) Historical O&M expenses are based on accounting records through September 30, 2007. Projected O&M expenses are based on the FY 2009 budget documents.

For Fry-Ark, the routine O&M in the “out year” in the current PRS increased approximately 17 percent over the routine O&M in the “out year” that set the January 1, 2008, rate. This increase in O&M between the 2008 Rate Setting PRS and the 2009 Rate Setting PRS is related to the realignment of base budget costs for Reclamation as well as to normal inflation.

For Pick-Sloan WD, the routine O&M in the “out-year” in the current PRS has increased approximately 2 percent over the routine O&M in the “out-year” in the PRS that set the January 1, 2008, rate. This increase in O&M between the 2008 Rate Setting PRS and the 2009 Rate Setting PRS is related to normal inflation.

(b) LAP Purchased power costs are projected for 2 future years. The projections are based on Reclamation's Generation Projections for FYs 08-09. Purchases for energy imbalance, losses, and timing are also projected. Some of these purchases are offset by projected revenues that are to be received from providing the service(s).

(c) Transmission expenses are included in the Fry-Ark PRS through 2013; assuming an estimated timeframe to negotiate another transmission contract. Transmission expenses are included in the Pick-Sloan PRS for the full 100 years of the study.

(2) Interest Expenses: The yearly interest expenses are paid next. Historical interest expenses in each PRS are based on accounting records through September 30, 2007. Projected interest expenses reflect the various interest rates applicable to the unpaid balances of outstanding investments.

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

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

(1) Category 1 – A deferred interest expense deficit

(2) Category 2 – A deferred annual cost deficit

Pick-Sloan expenses exceeded revenues by \$196 million in FY 2007. Primarily drought related, the deficits resulted from increased purchased power expenditures and decreased revenue from surplus sales. This resulted in both "Category 1" and "Category 2" deficits. The total deficits recorded through FY 2007 are \$631 million and, based on current hydrologic forecasts; an additional \$175 million in deficits is projected for FY 2008, for a total cumulative deficit amount of \$806 million. In the current PRS, it is projected that deficit repayment will begin in FY 2009 and end in FY 2017.

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

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

(1) Replacements and Additions:

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

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

The historical replacements in the rate setting PRSs are based on accounting records through September 30, 2007. Replacements within the 5-year budget period (2008-2012) are based on the FY 2009 budget documents. Beyond the budget period, each PRS estimates replacements by units of property and service life factors based on data from "Replacements Units, Service Lives, and Factors" published by Reclamation and Western in May 1989, and updated in May 2006.

To compare the power investment (replacements and additions) in the current PRS with the power investment from the Rate Setting PRS, Western compared the cumulative investment in the last year in the 2008 Rate Setting PRS with the same year in the 2009 Rate Setting PRS.

In the Fry-Ark 2008 Rate Setting PRS, the cumulative power investment in 2056 was \$198.5 million. In the current 2009 Rate Setting PRS, the cumulative power investment through 2056 is \$188.6 million, a decrease of almost 5 percent. The decrease in power investment is related primarily to the reduction of planned capital replacements at Mt. Elbert by the Bureau of Reclamation.

For Pick-Sloan, Western compared 2106, the last year in the FY 2008 Rate Setting PRS. In the 2008 Rate Setting PRS, cumulative power investment in 2106 was \$4.672 billion. In the current 2009 Rate Setting PRS, cumulative power investment is \$4.826 billion in the year 2106. The increase is due a slight increase in planned capital expenditures in the 5-year projection window.

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

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

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

## APPENDIX A

# Rate Adjustment Procedures

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Western's rate adjustment procedures are governed by the "Procedures for Public Participation in Power and Transmission Rate Adjustments and Extensions" (10 CFR part 903). These procedures give interested parties an opportunity to participate in the development of power rates.

- I. Notice of Proposed Rate and Consultation and Comment Period: Initially, a notice of the Proposed Rate and official time for public participation must be published in the Federal Register. This notice is referred to as the Proposed Rates for Loveland Area Projects Firm Electric Service, and establishes a consultation and comment period. This period begins on the publication date of the Federal Register notice and closes not less than 90 days later. During this period, interested parties may consult with and obtain information from Western's representatives. They may also examine data used in the power repayment studies and suggest changes. Specific details for providing comments are included in the Federal Register notice.
  - A. Public Information Forum: Western's representatives explain the Proposed Rate changes and answer questions. Those questions not answered at the information forum receive written responses at least 15 days prior to the end of the consultation and comment period.
  - B. Public Comment Forum: This forum provides a formal opportunity for interested parties to submit either written or oral comments to be shared with other attendees and Western representatives. Usually, Western does not respond to comments at this forum. However, comments are considered in developing the final rate.
  - C. Written Comments: Interested parties may submit written comments and inquiries to Western during the consultation and comment period.
  - D. Revision of Proposed Rate: After the close of the consultation and comment period, Western will review and consider comments. If appropriate, the Proposed Rate will be revised. If the Administrator determines that further public comment should be invited or is necessary, interested parties will be given a period of at least 30 days to submit additional comments concerning the Proposed Rate.
  - E. Preliminary Decision on Provisional Rate: Following the end of the consultation and comment period, the Administrator will develop 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 Provisional Rate: The Deputy Secretary will submit information concerning the provisional rate to the Federal Energy Regulatory Commission (FERC) and request final approval. The response of FERC will be to:
1. give final confirmation and approval to the provisional rate,
  2. disapprove the provisional rate, or
  3. remand the matter to Western for further study.

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

## APPENDIX B

# **Environmental Evaluation**

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In compliance with the National Environmental Policy Act of 1969 (NEPA) (42 U.S.C. 4321, et seq.); 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), Western is in the process of determining whether an environmental assessment or an environmental impact statement should be prepared or if this action can be categorically excluded from those requirements.

## APPENDIX C

### **Proposed Schedule**

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- Informal Customer Meetings took place on April 29-30, 2008
- Public Process
  - FRN – Published August 15, 2008
  - 90 Day Comment Period (closes November 13, 2008)
  - Information Forum
    - September 9, 2008, 9 a.m. - 10:30 a.m. MDT  
Ramada Plaza and Conference Center  
10 East 120<sup>th</sup> Avenue  
Northglenn, CO
    - September 10, 2008, 8 a.m. – 9:30 a.m., CDT  
Holiday Inn  
100 West 8<sup>th</sup> Street  
Sioux Falls, SD
  - Comment Forum
    - September 9, 2008, 11:30 a.m. – 12:30 p.m. MDT  
Ramada Plaza and Conference Center  
10 East 120<sup>th</sup> Avenue  
Northglenn, CO
    - September 10, 2008, 10:30 a.m. – Noon CDT  
Holiday Inn  
100 West 8<sup>th</sup> Street  
Sioux Falls, SD
- Address Comments
- Record of Decision (mid-November)
- Rate Announcement (December)
- Implement Rate—January 1, 2009

## APPENDIX D

### **Project Descriptions**

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#### **Pick-Sloan Missouri Basin Program--Western Division**

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

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

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

#### **Fryingpan-Arkansas Project**

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

The project has six dams and five reservoirs with a total storage of 741,000 acre-feet of water, 70 miles of tunnels and canals and a pumped-storage powerplant at Mount

Elbert. Its two generating units have an installed capacity of 200 MW. While the majority of project capacity depends on water pumped during off-peak hours and water releases for power production when needed, some generation is attributed to flow-through water. Authorization for the first 100 MW unit of the powerplant was granted on August 16, 1962. The second unit was authorized on October 27, 1974. Work on these two units was completed in 1984.

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

### **Loveland Area Projects**

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

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

Exhibit 1



FRYINGPAN-ARKANSAS PROJECT  
Power Repayment Study  
FY 2007 Final FY 09 Rate Set  
(S)

Study ID: FA-FY07 Final - FY 09 Rate Set

|   |            |
|---|------------|
| Sales Rate (10/01/06 - 9/30/07)         | \$65.9500  |
| Sales Rate (10/01/07 - 9/30/08)         | \$67.6100  |
| Sales Rate (10/01/08 - to end of study) | \$68.5100  |
| FY 05 Rev Req                           | 12,855,560 |
| FY 06 Rev Req                           | 13,505,120 |
| FY 07 Rev Req                           | 13,901,360 |
| FY 08 Rev Req                           | 14,364,920 |
| FY 09 Rev Req                           | 14,544,920 |

|         |  |
|---------|--|
| Change  |  |
| \$1.82  |  |
| \$1.66  |  |
| \$0.90  |  |
| 649,560 |  |
| 396,240 |  |
| 463,560 |  |
| 180,000 |  |
| 1.25%   |  |

| (1)                 | (2)         | (3)-(7) EXPENSES                 |                        |                      |                  |                | (8)       | (9)         | (10)-(14) CAPITALIZED DEFICITS |                               |                   |                |                          | (15)-(19) REPLACEMENTS |                        |                   |                |                          | (20)-(24) ORIGINAL INVESTMENT AND ADDITIONS |                        |                   |                |                          | (25)-(29) AID TO IRRIGATION |                        |                   |                |                          | (30) |                     |
|---------------------|-------------|----------------------------------|------------------------|----------------------|------------------|----------------|-----------|-------------|--------------------------------|-------------------------------|-------------------|----------------|--------------------------|------------------------|------------------------|-------------------|----------------|--------------------------|---|------------------------|-------------------|----------------|--------------------------|-----------------------------|------------------------|-------------------|----------------|--------------------------|------|---------------------|
|                     |             | Operations & Maintenance Expense | Purchase Power Expense | Transmission Expense | Interest Expense | Total Expenses |           |             | Prior Year Adjustments         | Revenue After Annual Expenses | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance     | Incremental Investment | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance                          | Incremental Investment | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance          | Incremental Investment | Principal Payment | Unpaid Balance | Allowable Unpaid Balance |      | Cumulative Balance  |
| 1983                | 1,003,101   | 2,938,927                        | 0                      | 0                    | 29,483           | 2,968,410      | 0         | (1,965,309) | 0                              | 1,965,309                     | 1,965,309         | 1,965,309      | 1,965,309                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1983 |                     |
| 1984                | 1,182,450   | 1,455,442                        | 0                      | 0                    | 3,798,264        | 5,253,706      | 0         | (4,071,256) | 0                              | 6,036,565                     | 6,036,565         | 6,036,565      | 4,071,256                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1984 |                     |
| 1985                | 1,088,856   | 1,974,320                        | 0                      | 0                    | 6,456,958        | 8,431,278      | 0         | (7,342,422) | 0                              | 13,378,987                    | 13,378,987        | 13,378,987     | 7,342,422                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1985 |                     |
| 1986                | 5,312,563   | 1,921,812                        | 0                      | 0                    | 7,145,536        | 9,067,348      | 0         | (3,754,785) | 0                              | 17,133,772                    | 17,133,772        | 17,133,772     | 3,754,785                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1986 |                     |
| 1987                | 6,906,056   | 1,897,553                        | 0                      | 0                    | 7,466,320        | 9,363,873      | 0         | (2,457,817) | 0                              | 19,591,589                    | 19,591,589        | 19,591,589     | 2,457,817                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1987 |                     |
| 1988                | 9,993,280   | 1,783,677                        | 0                      | 0                    | 7,540,756        | 9,324,433      | 0         | 668,847     | 668,847                        | 18,922,742                    | 19,591,589        | 19,591,589     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1988 |                     |
| 1989                | 8,046,821   | 3,080,887                        | 0                      | 0                    | 7,716,755        | 10,797,642     | 0         | (2,750,821) | (2,750,821)                    | 21,673,563                    | 22,342,410        | 22,342,410     | 2,750,821                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1989 |                     |
| 1990                | 8,415,927   | 2,372,754                        | 406,189                | 0                    | 7,918,415        | 10,697,358     | 0         | (2,281,431) | (2,281,431)                    | 23,954,995                    | 24,623,842        | 24,623,842     | 2,281,432                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1990 |                     |
| 1991                | 12,126,298  | 2,870,238                        | 2,375,602              | 0                    | 8,126,662        | 13,372,502     | (43,237)  | (1,202,967) | (1,202,967)                    | 25,157,962                    | 25,826,809        | 25,826,809     | 1,202,967                | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1991 |                     |
| 1992                | 14,597,710  | 3,049,285                        | 3,302,735              | 0                    | 8,162,495        | 14,514,515     | 0         | 83,195      | 83,195                         | 25,074,767                    | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1992 |                     |
| 1993                | 14,468,486  | 3,658,827                        | 2,511,400              | 0                    | 8,261,500        | 14,431,727     | 0         | 36,759      | 36,759                         | 25,038,008                    | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1993 |                     |
| 1994                | 14,461,458  | 2,818,649                        | 2,725,512              | (12,638,144)         | 8,261,500        | 14,431,727     | 0         | 21,555,441  | 21,555,441                     | 26,124,430                    | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1994 |                     |
| 1995                | 13,005,711  | 3,035,479                        | 2,635,854              | 0                    | 4,721,948        | 10,393,281     | 0         | 2,612,430   | 2,612,430                      | 870,136                       | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 1995 |                     |
| 1996                | 14,326,089  | 2,960,771                        | 3,119,252              | 0                    | 4,561,166        | 10,641,189     | 0         | 3,684,900   | 3,684,900                      | 0                             | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 1996                |
| 1997                | 13,194,951  | 2,506,904                        | 3,401,472              | 0                    | 4,332,904        | 10,241,280     | 0         | 2,953,671   | 2,953,671                      | 0                             | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 1997                |
| 1998                | 13,892,641  | 2,502,079                        | 3,507,871              | 0                    | 4,958,118        | 10,968,068     | 0         | 2,924,573   | 2,924,573                      | 0                             | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 1998                |
| 1999                | 13,021,526  | 3,329,113                        | 3,460,727              | 0                    | 4,196,367        | 10,986,207     | (1,126)   | 2,036,445   | 2,036,445                      | 0                             | 25,826,809        | 25,826,809     | 0                        | 0                      | 0                      | 0                 | 0              | 0                        | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 1999                |
| 2000                | 13,954,258  | 3,292,230                        | 6,302,028              | 0                    | 4,147,841        | 13,742,099     | 0         | 212,159     | 212,159                        | 0                             | 25,826,809        | 25,826,809     | 0                        | 212,160                | 326,465                | 538,625           | 538,625        | 538,625                  | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2000                |
| 2001                | 11,747,598  | 4,318,026                        | 4,020,048              | 0                    | 4,197,604        | 12,535,678     | (688,518) | (99,562)    | (99,562)                       | 99,562                        | 25,926,371        | 25,926,371     | 99,562                   | 0                      | 657,989                | 870,149           | 870,149        | 331,524                  | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2001                |
| 2002                | 13,919,886  | 3,763,716                        | 943,741                | 4,550,781            | 4,247,469        | 13,505,707     | 0         | 414,179     | 414,179                        | 99,562                        | 25,926,371        | 25,926,371     | 0                        | 314,617                | 905,207                | 1,431,984         | 1,431,984      | 561,835                  | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2002                |
| 2003                | 14,390,997  | 4,440,463                        | 1,243,331              | 3,948,156            | 4,245,943        | 13,877,893     | 127,678   | 385,426     | 385,426                        | 0                             | 99,562            | 25,926,371     | 0                        | 385,426                | 2,694,836              | 3,607,039         | 3,607,039      | 2,175,055                | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2003                |
| 2004                | 14,655,166  | 4,913,550                        | 1,339,892              | 4,580,125            | 4,400,384        | 15,233,951     | 0         | (5,778,785) | (5,778,785)                    | 578,785                       | 678,347           | 26,505,156     | 578,785                  | 0                      | 3,206,405              | 4,118,608         | 4,118,608      | 511,569                  | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2004                |
| 2005                | 17,739,845  | 4,846,784                        | 1,659,767              | 3,989,503            | 4,547,229        | 15,043,283     | (4,216)   | (2,700,778) | (2,700,778)                    | 578,785                       | 678,347           | 26,505,156     | 0                        | 1,633,685              | 3,016,645              | 5,562,533         | 5,562,533      | 1,443,925                | 488,308                                     | 177,942,091            | 189,159,852       | 189,159,852    | 7,234                    | 0                           | 0                      | 0                 | 0              | 0                        | 2005 |                     |
| 2006                | 16,133,063  | 5,012,629                        | 1,202,153              | 4,124,659            | 4,323,338        | 14,662,779     | (598,371) | 2,068,655   | 2,068,655                      | 0                             | 678,347           | 26,505,156     | 0                        | 1,738,189              | 2,946,229              | 7,230,306         | 7,230,306      | 1,667,773                | 330,466                                     | 177,611,631            | 189,159,858       | 189,159,858    | 6                        | 0                           | 0                      | 0                 | 0              | 0                        | 2006 |                     |
| 2007                | 16,096,699  | 5,446,581                        | 1,286,296              | 4,080,342            | 4,318,224        | 15,131,443     | 0         | 965,256     | 965,256                        | 0                             | 678,347           | 26,505,156     | 0                        | 965,256                | 2,893,788              | 8,143,121         | 8,143,121      | 912,815                  | 0   | 0                      | 0                 | 0              | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2007                |
| PRIOR YEAR ADJ.     | 731,755     | 122,336                          | 0                      | 0                    | (598,371)        | (476,035)      | 1,207,790 | 0           | 0                              | 0                             | 0                 | 0              | 0                        | 0                      | (344,650)              | (344,650)         | (344,650)      | (344,650)                | 0   | 0                      | (40,417,712)      | (40,417,712)   | (40,417,712)             | (40,417,712)                | 0                      | 0                 | 0              | 0                        | 0    | PRIOR YEAR ADJ.     |
| HISTORICAL SUBTOTAL | 284,413,191 | 80,313,032                       | 45,443,870             | 25,273,566           | 116,585,164      | 267,615,632    | 1,207,790 | 16,797,559  | 26,505,156                     | 0                             | 678,347           | 26,505,156     | 26,505,156               | 5,249,333              | 2,549,138              | 7,798,471         | 7,798,471      | 7,798,471                | 11,548,227                                  | 137,405,104            | 148,953,331       | 148,953,331    | 148,953,331              | 0                           | 0                      | 0                 | 0              | 0                        | 0    | HISTORICAL SUBTOTAL |
| 2008                | 16,790,216  | 5,760,765                        | 1,556,198              | 4,113,597            | 4,469,150        | 15,899,710     | 0         | 890,507     | 890,507                        | 0                             | 678,347           | 26,505,156     | 0                        | 890,507                | 4,169,125              | 10,308,965        | 10,308,965     | 2,510,494                | 0   | 0                      | 137,405,104       | 148,953,331    | 148,953,331              | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2008                |
| 2009                | 16,871,557  | 5,813,153                        | 1,289,943              | 4,113,597            | 4,477,876        | 15,694,568     | 0         | 1,176,988   | 1,176,988                      | 0                             | 678,347           | 26,505,156     | 0                        | 1,176,988              | 2,992,136              | 10,308,965        | 10,308,965     | 0                        | 0   | 0                      | 137,405,104       | 148,953,331    | 148,953,331              | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2009                |
| 2010                | 16,137,313  | 5,573,166                        | 36,006                 | 3,978,451            | 4,344,456        | 13,932,079     | 0         | 2,205,234   | 2,205,234                      | 0                             | 678,347           | 26,505,156     | 0                        | 2,076,690              | 915,446                | 10,308,965        | 10,308,965     | 0                        | 128,544                                     | 137,276,560            | 148,953,331       | 148,953,331    | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2010                |
| 2011                | 15,340,794  | 5,814,116                        | 36,006                 | 3,978,451            | 4,214,929        | 14,043,502     | 0         | 1,251,599   | 1,251,599                      | 0                             | 578,785           | 26,505,156     | 0                        | 915,446                | 0                      | 10,308,965        | 10,308,965     | 0                        | 381,845                                     | 136,894,715            | 148,953,331       | 148,953,331    | 0                        | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2011                |
| 2012                | 15,340,794  | 5,920,848                        | 36,006                 | 3,978,451            | 4,153,531        | 14,088,835     | 0         | 1,251,599   | 1,251,599                      | 0                             | 578,785           | 26,505,156     | 0                        | 0                      | 0                      | 10,308,965        | 10,308,965     | 0                        | 1,251,959                                   | 135,649,356            | 148,959,931       | 148,959,931    | 6,600                    | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2012                |
| 2013                | 15,292,308  | 5,746,504                        | 0                      | 3,977,780            | 4,192,222        | 13,916,506     | 0         | 1,375,802   | 1,375,802                      | 0                             | 578,785           | 26,505,156     | 0                        | 1,375,802              | 1,504,597              | 13,189,364        | 13,189,364     | 2,880,399                | 0   | 0                      | 135,649,356       | 148,959,931    | 148,959,931              | 0                           | 0                      | 0                 | 0              | 0                        | 0    | 2013                |
| 2014                | 15,292,308  | 5,746,502                        | 0                      | 0                    | 4,133,472        | 9,879,975      | 0         | 5,412,334   |                                |                               |                   |                |                          |                        |                        |                   |                |                          |   |                        |                   |                |                          |                             |                        |                   |                |                          |      |                     |



| Fiscal Year | EXPENSES      |                                  |                         |                              |               |                     |                  |                |                        | Capitalized Deficits          |                   |                |                          | Replacements/Retirements |                        |                   |                | Investment Additions     |                    |                         |                   | Aid to Irrigation |                          |                    |                         | Fiscal Year |                   |                |                          |                    |
|-------------|---------------|----------------------------------|-------------------------|------------------------------|---------------|---------------------|------------------|----------------|------------------------|-------------------------------|-------------------|----------------|--------------------------|--------------------------|------------------------|-------------------|----------------|--------------------------|--------------------|-------------------------|-------------------|-------------------|--------------------------|--------------------|-------------------------|-------------|-------------------|----------------|--------------------------|--------------------|
|             | Total Revenue | Operations & Maintenance Expense | Purchased Power Expense | Transmission Service Expense | Other Expense | Integrated Projects | Interest Expense | Total Expenses | Prior Year Adjustments | Revenue After Annual Expenses | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance       | Incremental Investment | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance | Incremental Investments | Principal Payment | Unpaid Balance    | Allowable Unpaid Balance | Cumulative Balance | Incremental Investments |             | Principal Payment | Unpaid Balance | Allowable Unpaid Balance | Cumulative Balance |
| 2056        | 448,343,269   | 169,308,716                      | 0                       | 11,232,873                   | 0             | 0                   | 180,541,589      | 0              | 267,801,680            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 12,695,987             | 0                 | 619,579,090    | 1,389,232,927            | 12,695,987         | 0                       | 153               | 306,585,967       | 2,644,461,197            | 0                  | 65,306,000              | 0           | 1,956,579,800     | 2,755,177,036  | 65,306,000               | 2056               |
| 2057        | 448,334,969   | 169,308,716                      | 0                       | 11,232,873                   | 0             | 0                   | 180,541,589      | 0              | 267,793,380            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 21,013,645             | 0                 | 628,469,940    | 1,410,246,372            | 21,013,645         | 0                       | 153               | 221,048,286       | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,021,885,800     | 2,820,483,036  | 65,306,000               | 2057               |
| 2058        | 448,484,369   | 169,308,716                      | 0                       | 11,232,873                   | 0             | 0                   | 180,541,589      | 0              | 267,942,780            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 10,921,666             | 0                 | 627,823,309    | 1,421,167,638            | 10,921,666         | 0                       | 153               | 161,906,709       | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,087,191,800     | 2,885,789,036  | 65,306,000               | 2058               |
| 2059        | 448,476,069   | 169,308,716                      | 0                       | 11,232,873                   | 0             | 0                   | 180,541,589      | 0              | 267,934,480            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 13,653,357             | 0                 | 628,471,386    | 1,434,820,995            | 13,653,357         | 0                       | 153               | 88,539,711        | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,152,497,800     | 2,951,095,036  | 65,306,000               | 2059               |
| 2060        | 429,604,925   | 169,308,716                      | 0                       | 10,797,683                   | 0             | 0                   | 180,106,399      | 0              | 249,498,526            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 13,867,756             | 0                 | 626,242,882    | 1,448,688,751            | 13,867,756         | 0                       | 153               | 56,950,676        | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,217,803,800     | 3,016,401,036  | 65,306,000               | 2060               |
| 2061        | 429,898,985   | 169,308,716                      | 0                       | 10,787,724                   | 0             | 0                   | 180,096,440      | 0              | 249,802,545            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 17,965,818             | 0                 | 632,144,476    | 1,466,654,569            | 17,965,818         | 0                       | 153               | 16,076,977        | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,283,109,800     | 3,081,707,036  | 65,306,000               | 2061               |
| 2062        | 430,190,545   | 169,308,716                      | 0                       | 10,777,766                   | 0             | 0                   | 180,086,482      | 0              | 250,104,063            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 9,546,953              | 0                 | 631,363,998    | 1,476,201,522            | 9,546,953          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,348,415,800     | 3,147,013,036  | 65,306,000               | 2062               |
| 2063        | 430,450,837   | 169,308,716                      | 0                       | 10,770,795                   | 0             | 0                   | 180,079,511      | 0              | 250,371,326            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 13,722,280             | 0                 | 631,363,998    | 1,489,923,802            | 13,722,280         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,413,721,800     | 3,212,319,036  | 65,306,000               | 2063               |
| 2064        | 430,703,897   | 169,308,716                      | 0                       | 10,760,837                   | 0             | 0                   | 180,069,553      | 0              | 250,634,344            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 15,081,919             | 0                 | 631,363,998    | 1,505,005,721            | 15,081,919         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,479,027,800     | 3,277,625,036  | 65,306,000               | 2064               |
| 2065        | 431,013,945   | 169,308,716                      | 0                       | 10,752,869                   | 0             | 0                   | 180,061,585      | 0              | 250,952,360            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 12,579,221             | 0                 | 631,363,998    | 1,517,584,942            | 12,579,221         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,544,333,800     | 3,342,931,036  | 65,306,000               | 2065               |
| 2066        | 431,308,005   | 169,308,716                      | 0                       | 10,742,911                   | 0             | 0                   | 180,051,627      | 0              | 251,256,378            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 9,153,621              | 0                 | 631,363,998    | 1,526,738,563            | 9,153,621          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,609,639,800     | 3,408,237,036  | 65,306,000               | 2066               |
| 2067        | 431,561,065   | 169,308,716                      | 0                       | 10,732,952                   | 0             | 0                   | 180,041,668      | 0              | 251,519,397            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 28,039,902             | 0                 | 631,363,998    | 1,554,778,465            | 28,039,902         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,674,945,800     | 3,473,543,036  | 65,306,000               | 2067               |
| 2068        | 431,821,357   | 169,308,716                      | 0                       | 10,725,981                   | 0             | 0                   | 180,034,697      | 0              | 251,786,649            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 3,505,649              | 0                 | 631,363,998    | 1,558,284,114            | 3,505,649          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,740,251,800     | 3,538,849,036  | 65,306,000               | 2068               |
| 2069        | 432,112,918   | 169,308,716                      | 0                       | 10,716,022                   | 0             | 0                   | 180,024,738      | 0              | 252,088,180            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 3,675,003              | 0                 | 631,363,998    | 1,561,959,117            | 3,675,003          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,805,557,800     | 3,604,155,036  | 65,306,000               | 2069               |
| 2070        | 432,384,466   | 169,308,716                      | 0                       | 10,708,056                   | 0             | 0                   | 180,016,772      | 0              | 252,367,694            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 2,218,121              | 0                 | 631,363,998    | 1,564,177,238            | 2,218,121          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,870,863,800     | 3,669,461,036  | 65,306,000               | 2070               |
| 2071        | 432,637,526   | 169,308,716                      | 0                       | 10,698,098                   | 0             | 0                   | 180,006,814      | 0              | 252,630,712            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 20,939,345             | 0                 | 631,363,998    | 1,585,116,583            | 20,939,345         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 2,936,169,800     | 3,734,767,036  | 65,306,000               | 2071               |
| 2072        | 432,936,318   | 169,308,716                      | 0                       | 10,691,126                   | 0             | 0                   | 179,999,842      | 0              | 252,936,476            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 7,300,377              | 0                 | 631,363,998    | 1,592,416,960            | 7,300,377          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,001,475,800     | 3,800,073,036  | 65,306,000               | 2072               |
| 2073        | 433,230,378   | 169,308,716                      | 0                       | 10,681,168                   | 0             | 0                   | 179,989,884      | 0              | 253,240,494            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 47,706,966             | 0                 | 631,363,998    | 1,640,123,926            | 47,706,966         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,066,781,800     | 3,865,379,036  | 65,306,000               | 2073               |
| 2074        | 433,483,438   | 169,308,716                      | 0                       | 10,671,209                   | 0             | 0                   | 179,979,925      | 0              | 253,503,513            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 20,398,612             | 0                 | 631,363,998    | 1,660,522,538            | 20,398,612         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,132,087,800     | 3,930,685,036  | 65,306,000               | 2074               |
| 2075        | 433,713,986   | 169,308,716                      | 0                       | 10,663,242                   | 0             | 0                   | 179,971,958      | 0              | 253,742,028            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 9,287,610              | 0                 | 631,363,998    | 1,669,810,148            | 9,287,610          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,197,393,800     | 3,995,991,036  | 65,306,000               | 2075               |
| 2076        | 434,087,546   | 169,308,716                      | 0                       | 10,653,284                   | 0             | 0                   | 179,962,000      | 0              | 254,125,546            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 5,279,227              | 0                 | 631,363,998    | 1,675,089,375            | 5,279,227          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,262,699,800     | 4,061,297,036  | 65,306,000               | 2076               |
| 2077        | 434,306,838   | 169,308,716                      | 0                       | 10,646,313                   | 0             | 0                   | 179,955,029      | 0              | 254,351,809            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 70,664,321             | 0                 | 631,363,998    | 1,745,753,696            | 70,664,321         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,328,005,800     | 4,126,603,036  | 65,306,000               | 2077               |
| 2078        | 434,559,898   | 169,308,716                      | 0                       | 10,636,354                   | 0             | 0                   | 179,945,070      | 0              | 254,614,828            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 11,669,771             | 0                 | 631,363,998    | 1,757,423,467            | 11,669,771         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,393,311,800     | 4,191,909,036  | 65,306,000               | 2078               |
| 2079        | 434,812,958   | 169,308,716                      | 0                       | 10,626,396                   | 0             | 0                   | 179,935,112      | 0              | 254,877,846            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 18,814,854             | 0                 | 631,363,998    | 1,776,238,321            | 18,814,854         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,458,617,800     | 4,257,215,036  | 65,306,000               | 2079               |
| 2080        | 434,838,785   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 254,156,621            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 27,314,082             | 0                 | 631,363,998    | 1,803,552,403            | 27,314,082         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,523,923,800     | 4,322,521,036  | 65,306,000               | 2080               |
| 2081        | 434,868,985   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 245,186,821            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 10,629,410             | 0                 | 631,363,998    | 1,814,181,813            | 10,629,410         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,589,229,800     | 4,387,827,036  | 65,306,000               | 2081               |
| 2082        | 434,859,385   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 245,177,221            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 46,042,741             | 0                 | 631,363,998    | 1,860,224,554            | 46,042,741         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,654,535,800     | 4,453,133,036  | 65,306,000               | 2082               |
| 2083        | 434,930,585   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 245,248,421            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 4,912,890              | 0                 | 631,363,998    | 1,865,137,444            | 4,912,890          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,719,841,800     | 4,518,439,036  | 65,306,000               | 2083               |
| 2084        | 434,963,285   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 245,281,121            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 12,708,264             | 0                 | 631,363,998    | 1,877,845,708            | 12,708,264         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,785,147,800     | 4,583,745,036  | 65,306,000               | 2084               |
| 2085        | 434,992,185   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 245,310,021            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 8,313,897              | 0                 | 631,363,998    | 1,886,159,605            | 8,313,897          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,850,453,800     | 4,649,051,036  | 65,306,000               | 2085               |
| 2086        | 434,573,885   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 244,891,721            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 8,419,821              | 0                 | 631,363,998    | 1,894,579,426            | 8,419,821          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,915,759,800     | 4,714,357,036  | 65,306,000               | 2086               |
| 2087        | 434,231,285   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 244,549,121            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 9,695,896              | 0                 | 631,363,998    | 1,904,275,322            | 9,695,896          | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 3,981,065,800     | 4,779,663,036  | 65,306,000               | 2087               |
| 2088        | 433,812,985   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 244,130,821            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 11,510,877             | 0                 | 631,363,998    | 1,915,786,199            | 11,510,877         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 4,046,371,800     | 4,844,969,036  | 65,306,000               | 2088               |
| 2089        | 433,431,885   | 169,308,716                      | 0                       | 10,373,448                   | 0             | 0                   | 179,682,164      | 0              | 243,749,721            | 0                             | 0                 | 0              | 996,356,532              | 0                        | 12,257,797             | 0                 | 631,363,998    | 1,928,043,996            | 12,257,797         | 0                       | 153               | 0                 | 2,644,461,197            | 0                  | 65,306,000              | 0           | 4,111,677,800     | 4,910          |                          |                    |

EXHIBIT 3

**Proposed Rate Schedule L-F8**  
(Supersedes Schedule L-F7)  
January 1, 2009

UNITED STATES DEPARTMENT OF ENERGY  
WESTERN AREA POWER ADMINISTRATION

LOVELAND AREA PROJECTS  
COLORADO, KANSAS, NEBRASKA, WYOMING

SCHEDULE OF RATES FOR FIRM ELECTRIC SERVICE  
(Approved Under Rate Order No. WAPA-142)

Effective:

Beginning on the first day of the first full billing period on or after January 1, 2009, through December 31, 2013.

Available:

Within the marketing area served by the Loveland Area Projects.

Applicable:

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

Character:

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

Monthly Rates:

CAPACITY CHARGE: \$4.88 per kilowatt of billing capacity.

ENERGY CHARGE: 18.62 mills per kilowatthour (kWh) of monthly entitlement.

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

Charge Components:

Base: A fixed revenue requirement that includes operation and maintenance expense, investments and replacements, interest on investments and replacements, normal timing purchase power (purchases due to operational constraints, not associated with drought), and transmission costs. The Base revenue requirement is \$49.9 million.

$$\text{Base Capacity} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Billing Capacity}} = 3.21/\text{kWmonth}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 12.23 \text{ mills/kWh}$$

Drought Adder: A formula-based revenue requirement that includes future purchase power above timing purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits. For this period, the Drought Adder revenue requirement is \$26 million.

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Billing Capacity}} = \$1.67/\text{kWmonth}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 6.39 \text{ mills/kWh}$$

Process:

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

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

Adjustments:

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

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

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

**DEPARTMENT OF ENERGY****Western Area Power Administration****Loveland Area Projects—Rate Order  
No. WAPA-142**

**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 (Pick-Sloan)—Western Division, which were integrated for marketing and rate-making purposes in 1989. Current rates, under Rate Schedule L-F7, expire on December 31, 2012, but are not sufficient to meet LAP revenue requirements. The proposed rates will provide sufficient revenue to pay all annual costs, including interest expenses, and repay the required investment within the allowable period. Western will prepare and make available a brochure that provides detailed information on the proposed rates. The proposed rates, under Rate Schedule L-F8, are scheduled to go into effect on January 1, 2009, and will remain in effect through December 31, 2013, 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 November 13, 2008. Western will present a detailed explanation of the proposed rates at public information forums. Public Information forum dates are:

1. September 9, 2008, 9 a.m. to 10:30 a.m. MDT, Denver, CO.
2. September 10, 2008, 8 a.m. to 9:30 a.m. CDT, Sioux Falls, SD.

Western will accept oral and written comments at public comment forums. Public comment forums will be held on the following dates:

1. September 9, 2008, 11:30 a.m. to 12:30 p.m. MDT, Denver, CO.
2. September 10, 2008, 10:30 a.m. to 12 p.m. CDT, Sioux Falls, SD.

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 Mr. James D. Keselburg, Regional Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986, or e-mail at [lapfirmadj@wapa.gov](mailto:lapfirmadj@wapa.gov). Western will post information about the rate process on its Web site at <http://www.wapa.gov/rm/ratesRM/2009/default.htm>. Western will post comments received via letter and e-mail to its Web site after the close of the comment period. Western must receive written comments by the end of the consultation and comment period to ensure they are considered in Western's decision process.

Public information and comment forum locations are:

1. Denver—Ramada Plaza Hotel, 10 East 120th Avenue, Northglenn, CO.
2. Sioux Falls—Holiday Inn, 100 West 8th Street, Sioux Falls, SD.

**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](mailto:lapfirmadj@wapa.gov) or [scook@wapa.gov](mailto: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, and other expenses. The projected annual revenue requirement for firm electric service is allocated equally between capacity and energy.

Rate Schedule L-F7 for firm electric service was approved for a 5-year period beginning January 1, 2008, and ending December 31, 2012.<sup>1</sup> Under the current Rate Schedule L-F7 for 2008, the composite rate is 32.42 mills per kilowatthour (mills/kWh), the firm energy rate is 16.21 mills/kWh, and the firm capacity rate is \$4.25 per kilowattmonth (kWmonth). This Rate Schedule is formula based, providing for an increase in the Drought Adder

<sup>1</sup> WAPA-134 was approved by the Deputy Secretary of Energy on November 1, 2007 (72 FR ¶ 64,061), and confirmed and approved by FERC on a final basis on May 16, 2008, in Docket No. EF08-5181-000 (123 FERC ¶ 62,137).

rate component of up to 2 mills/kWh without a formal public process.

This proposed rate adjustment reflects a rate increase based on the Fry-Ark and Pick-Sloan—Western Division (P-SMBP—WD) revenue requirements derived from the Fiscal Year 2007 Power Repayment Studies (PRs). The PRs set the LAP revenue requirement for 2009 for firm electric service at \$75.9

million, which is a 14.9 percent increase. The current firm composite 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. 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.<sup>2</sup> Western has prepared the proposed rate schedule for firm electric service (LF-8) 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-F8 are listed in Table 1.

TABLE 1—PROPOSED LAP FIRM ELECTRIC SERVICE REVENUE REQUIREMENT AND RATES

| Firm electric service     | Existing rates as of 2008 L-F7 | Proposed rates <sup>1</sup> (January 1, 2009) L-F8 | Percent change |
|---------------------------|--------------------------------|--|----------------|
| Revenue Requirement ..... | \$66.1 million                 | \$75.9 million                                     | 14.9           |
| Composite Rate .....      | 32.42 mills/kWh                | 37.24 mills/kWh                                    | 14.9           |
| Firm Energy Rate .....    | 16.21 mills/kWh                | 18.62 mills/kWh                                    | 14.9           |
| Firm Capacity Rate .....  | \$4.25/kWmonth                 | \$4.88/kWmonth                                     | 14.9           |

<sup>1</sup> The proposed rates are subject to adjustment prior to publication in the final Notice of Order Concerning Power Rates. Adjustments, if any, would be based on revisions to the Drought Adder rate component due to changes in hydrological conditions.

Under Rate Schedule L-F8, 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 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 rate component is a formula-based revenue requirement that includes costs attributable to the present drought conditions. The Drought Adder rate component includes costs associated with future non-timing purchases of additional power to meet firm obligations not covered with available system generation due to the drought, previously incurred deficits due to purchased power debt that resulted from non-timing power purchases made during this drought, and the interest associated with the previously incurred and future drought debt. The Drought Adder rate component is designed to repay Western's drought debt within 10 years from the time the debt was

incurred, using balloon-payment methodology. For example, the drought debt incurred by Western in 2007 will be repaid by 2017.

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, 2009, the LAP revenue requirement equals \$75.9 million and is comprised of a Base revenue requirement of \$49.9 million plus a Drought Adder revenue requirement of \$26 million. A comparison of the current rate components and the proposed rate components are listed in Table 2.

TABLE 2—SUMMARY OF LAP RATE COMPONENTS

|                     | Existing rates as of 2008 L-F7 |                | Proposed rates <sup>1</sup> (January 1, 2009) L-F8 |                |
|---------------------|--------------------------------|----------------|--|----------------|
|                     | Firm energy                    | Firm capacity  | Firm energy  | Firm capacity  |
| Base .....          | 11.92 mills/kWh                | \$3.13/kWmonth | 12.23 mills/kWh                                    | \$3.21/kWmonth |
| Drought Adder ..... | 4.29 mills/kWh                 | \$1.12/kWmonth | 6.39 mills/kWh                                     | \$1.67/kWmonth |
| Total LAP .....     | 16.21 mills/kWh                | \$4.25/kWmonth | 18.62 mills/kWh                                    | \$4.88/kWmonth |

<sup>1</sup> The proposed rates are subject to adjustment prior to publication in the final Notice of Order Concerning Power Rates. Adjustments, if any, would be based on revisions to the Drought Adder rate component due to changes in hydrological conditions.

<sup>2</sup> 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 this rate increase.

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 PRS is 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 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 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 cost that would be entered into the PRSs from the FY 2010 work plans. Western has reevaluated the benefits of the two-step rate adjustment and concluded that due to 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 continued below normal hydropower generation, Western may need to use the Continuing Fund (Emergency Fund) to pay for unanticipated purchased 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, 2007.<sup>3</sup>

#### Legal Authority

Since the proposed rates constitute a major adjustment as defined by 10 CFR part 903, Western will hold public information forums and public comment forums. 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; 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);

<sup>3</sup> Western's Continuing Fund (Emergency Fund) Policy can be found at <http://www.wapa.gov/powerm/pdf/repaypolicy.pdf>.

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 the 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, e-mail, 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/2009/default.htm>.

#### Ratemaking Procedure Requirements

##### *Environmental Compliance*

In compliance with the National Environmental Policy Act of 1969 (NEPA) (42 U.S.C. 4321, *et seq.*); 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), 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: August 5, 2008.

**Timothy J. Meeks,**  
Administrator.

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