Department of Energy
Western Area Power Administration
Rocky Mountain Customer Service Region
P.O Box 3700
Loveland, CO 80539-3003

JAN 2 0 2009

Dear Firm Power Customer and Other Interested Parties:

Enclosed is a copy of the Federal Register notice (FRN) published January 16, 2009 (Volume 74, FR No. 11, pages 3015-3022). The FRN documents that Rate Order WAPA-142 (Rate Order) was approved by the Acting Deputy Secretary, United States Department of Energy. The Rate Order approves the provisional rates for firm electric service set forth in the Loveland Area Projects Schedule of Rates for Firm Electric Service, Rate Schedule L-F8 (L-F8), effective February 1, 2009, through December 31, 2013 The updated rates are listed in the enclosed copy of L-F8.

To summarize, the rates under L-F8 are detailed in the following table:

	Capacity ($/kWmonth)	Energy (mills/kWh)
Base Component	$3.21	12.23
Drought Adder	$1.67	6.39
Total	$4.88	18.62

If you have any questions concerning these rates, please telephone Sheila Cook, Rocky Mountain Region Rates Manager, at (970) 461-7211

Sincerely,

Sheila D. Cook

for David Neumayer
Federal Power Programs Manager

2 Enclosures

DEPARTMENT OF ENERGY

Western Area Power Administration

Loveland Area Projects—Rate Order No. WAPA–142

AGENCY: Western Area Power Administration, DOE

ACTION: Notice of order concerning firm electric rates.

SUMMARY: The Acting Deputy Secretary of Energy has confirmed and approved Rate Order No. WAPA–142 and Rate Schedule L–F8, placing firm electric service rates from the Loveland Area Projects (LAP) of the Western Area Power Administration (Western) into effect on an interim basis. The Provisional Rates will be in effect until the Federal Energy Regulatory Commission (FERC) confirms, approves, and places them into effect on a final basis or until they are replaced by other rates. The Provisional Rates will provide sufficient revenue to pay all annual costs, including interest expense, and repayment of power investment and irrigation aid within the allowable periods.

DATES: Rate Schedule L–F8 will be placed into effect on an interim basis on the first day of the first full billing period beginning on or after February 1, 2009, and will remain in effect until FERC confirms, approves, and places the rate schedule in effect on a final basis ending December 31, 2013, or until the rate schedule is superseded.

FOR FURTHER INFORMATION CONTACT: Mr. James D. Keselburg, Regional Manager, Rocky Mountain Customer Service Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538–8986, telephone (970) 461–7201, or Mrs. Sheila D. Cook, Rates Manager, Rocky Mountain Customer Service Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538–8986, telephone (970) 461–7211, e-mail *scook@wapa.gov*.

SUPPLEMENTARY INFORMATION: The Deputy Secretary of Energy approved existing Rate Schedule L-F7 for firm electric service on an interim basis on November 1, 2007 (72 FR 64061, November 14, 2007) for a 5-year period beginning on January 1, 2008, and ending December 31, 2012.[1]

The LAP firm electric service rates must be increased due to the economic impacts of the ongoing drought. The drought is causing a decrease in hydropower generation, leading to an increase in purchase power expenses and a decrease in revenue from non-firm energy sales.

Rate Schedule L–F7 is being superseded by Rate Schedule L–F8. Under Rate Schedule L–F7, 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). Under Rate Schedule L–F8, the Provisional Rates for firm electric service will result in a combined composite rate of 37.24 mills/kWh. The firm energy rate will be 18.62 mills/kWh (a Base component of 12.23 mills/kWh and a Drought Adder component of 6.39 mills/kWh) and the capacity rate will be $4.88/kWmonth (a Base component of $3.21/kWmonth and a Drought Adder component of $1.67/kWmonth). This is a 14.9 percent increase when compared to the LAP firm electric rates under Rate Schedule L–F7.

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 the Administrator of Western; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary of Energy; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove such rates to FERC. Existing Department of Energy procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985.

Under Delegation Order Nos. 00–037.00 and 00–001.00C, 10 CFR part 903, and 18 CFR part 300, I hereby confirm, approve, and place Rate Order No. WAPA–142, the proposed LAP firm electric service rates, into effect on an interim basis.

The new Rate Schedule L–F8 will be promptly submitted to FERC for confirmation and approval on a final basis.

Jeffrey F. Kupfer,

Acting Deputy Secretary of Energy.

Department of Energy Deputy Secretary

In the matter of: Western Area Power Administration Rate Adjustment for the, Loveland Area Projects; Rate Order No. WAPA–142; Order Confirming, Approving, and Placing the Loveland Area Projects Firm Electric Service Rates Into Effect on an Interim Basis

These rates for the Loveland Area Projects were established in accordance with section 302 of the Department of Energy (DOE) Organization Act (42 U.S.C. 7152). This Act transferred to and vested in the Secretary of Energy the power marketing functions of the Secretary of the Department of the Interior and the Bureau of Reclamation under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent laws, particularly section (c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) and section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s); and other acts that specifically apply to the project 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 the Administrator of Western; (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 Federal Energy Regulatory Commission. Existing DOE procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985.

[1] FERC confirmed and approved Rate Order WAPA–134 on May 16, 2008, in Docket No. EF08–5181. See *United States Department of Energy, Western Area Power Administration Loveland Area Projects* 123 FERC ¶ 62.137 (May 16 2008).

Acronyms and Definitions

As used in this Rate Order, the following acronyms and definitions apply:

Administrator: The Administrator of the Western Area Power Administration
Base: Revenue requirement component of the firm electric service rate including annual operation and maintenance expenses, investment repayment and associated interest normal timing power purchases, and transmission costs
Capacity: The electric capability of a generator, transformer, transmission circuit, or other equipment It is expressed in kilowatts
Capacity Rate. The rate which sets forth the charges for capacity It is expressed in dollars per kilowattmonth.
Composite Rate. The rate for commercial firm power which is the total annual revenue requirement for capacity and energy divided by the total annual energy sales. It is expressed in mills per kilowatthour and used for comparison purposes
Corps. United States Army Corps of Engineers
Criteria: The Post-1989 General Power Marketing and Allocation Criteria for the sale of energy with capacity from the Pick-Sloan Missouri Basin Program—Western Division and the Fryingpan-Arkansas Project
Customer. An entity with a contract that is receiving service from Western's Rocky Mountain Region.
Deficits. Deferred or unrecovered annual and/or interest expenses
DOE. United States Department of Energy
DOE Order RA 6120 2: An order outlining power marketing administration financial reporting and rate-making procedures
Drought Adder. Formula-based revenue requirement component including costs associated with the drought
Energy: Measured in terms of the work it is capable of doing over a period of time It is expressed in kilowatthours
Energy Rate: The rate which sets forth the charges for energy It is expressed in mills per kilowatthour and applied to each kilowatthour delivered to each customer.
FERC: The Federal Energy Regulatory Commission.
Firm. A type of product and/or service available at the time requested by the customer
FRN. **Federal Register** notice
Fry-Ark: Fryingpan-Arkansas Project
FY. Fiscal year; October 1 to September 30.
kW: Kilowatt—the electrical unit of capacity that equals 1,000 watts
kWh: Kilowatthour—the electrical unit of energy that equals 1,000 watts in 1 hour.
kWmonth: Kilowattmonth—the electrical unit of the monthly amount of capacity
LAP. Loveland Area Projects
L–F7: Loveland Area Projects existing firm electric service rate schedule (expires December 31, 2012, or until superseded).
L–F8: Loveland Area Projects provisional firm electric service rate schedule to be effective February 1, 2009 (to expire December 31, 2013, or when superseded)
M&I: Municipal and industrial water development.
mills/kWh: Mills per kilowatthour—the unit of charge for energy (equal to one tenth of a cent or one thousandth of a dollar)
MW. Megawatt—the electrical unit of capacity that equals 1 million watts or 1,000 kilowatts.
MISO: Midwest Independent Transmission System Operator
NEPA: National Environmental Policy Act of 1969 (42 U.S C. 4321, *et seq*)
Non-timing Power Purchases: Power purchases that are not related to operational constraints such as management of endangered species, species habitat, water quality, navigation, and control area purposes
O&M: Operation and Maintenance.
P–SMBP: The Pick-Sloan Missouri Basin Program.
P–SMBP—ED: Pick-Sloan Missouri Basin Program—Eastern Division
P–SMBP—WD: Pick-Sloan Missouri Basin Program—Western Division
Power. Capacity and energy
Power Factor: The ratio of real to apparent power at any given point and time in an electrical circuit Generally it is expressed as a percentage ratio
Preference: The provisions of Reclamation Law which require Western to first make Federal power available to certain entities For example, section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) states that preference in the sale of Federal power shall be given to municipalities and other public corporations or agencies and also to cooperatives and other nonprofit organizations financed in whole or in part by loans made under the Rural Electrification Act of 1936
Provisional Rate. A rate which has been confirmed, approved and placed into effect on an interim basis by the Acting Deputy Secretary.
PRS: Power Repayment Study.
Rate Brochure: An August 2008 document explaining the rationale and background for the rate proposal contained in this Rate Order.
Ratesetting PRS: The PRS used for the rate adjustment period
Reclamation: United States Department of the Interior, Bureau of Reclamation
Reclamation Law: A series of Federal laws Viewed as a whole, these laws create the originating framework under which Western markets power
Regions: Western s Rocky Mountain Region and Upper Great Plains Region.
Revenue Requirement. The revenue required to recover annual expenses (such as O&M, purchase power, transmission service expenses, interest and deferred expenses) and repay Federal investments and other assigned costs.
Rocky Mountain Region: The Rocky Mountain Customer Service Region of Western Area Power Administration
SPP. Southwest Power Pool
Timing Power Purchases: Power purchases that are due to operational constraints (*e g*, management of endangered species, species habitat, water quality, navigation, control area purposes, etc) not associated with the drought.
Upper Great Plains Region: The Upper Great Plains Customer Service Region of Western Area Power Administration.
Western. United States Department of Energy, Western Area Power Administration

Effective Date

The Provisional Rates will take effect on the first day of the first full billing period beginning on or after February 1, 2009. and will remain in effect until December 31, 2013, pending approval by FERC on a final basis

Public Notice and Comment

Western followed the Procedures for Public Participation in Power and Transmission Rate Adjustments and Extensions, 10 CFR part 903. in developing these rates The steps Western took to involve interested parties in the rate process were:

1. The proposed rate adjustment process began April 9, 2008, when Western's Rocky Mountain Region mailed a notice announcing informal meetings to all LAP preference customers and interested parties The informal meetings were held on April 29, 2008, in Denver, Colorado, and on April 30, 2008, in Sioux Falls South Dakota. At these informal meetings, Western explained the rationale for the rate adjustment, presented rate designs and methodologies, and answered questions

2. A **Federal Register** was published on August 15, 2008 (73 FR 47942), which announced the proposed rates for LAP, began the public consultation and comment period, and announced the public information and public comment forums.

3. On August 22, 2008, Western mailed letters to all LAP preference customers and interested parties transmitting the FRN published on August 15, 2008.

4. On September 9, 2008, beginning at 9 a.m. (MDT), Western held a public information forum at the Ramada Plaza Hotel in Northglenn, Colorado. Western provided updates to the proposed firm electric service rates for LAP and P–SMBP—ED. Western also answered questions and gave notice that more information was available in the Rate Brochure.

5. On September 9, 2008, beginning at 11:30 a.m. (MDT), following the public information forum, a public comment forum was held. The comment forum gave the public an opportunity to comment for the record. No oral or written comments were received at this forum.

6. On September 10, 2008, beginning at 8 a.m. (CDT), Western held a public information forum at the Holiday Inn in Sioux Falls, South Dakota. Western provided updates to the proposed firm electric service rates for LAP and P–SMBP—ED. Western also answered questions and gave notice that more information was available in the rate brochure.

7. On September 10, 2008, beginning at 10:30 a.m. (CDT), following the public information forum, a public comment forum was held. The comment forum gave the public an opportunity to comment for the record. One oral comment was received at this forum.

8. Western provided a Web site with all of the letters, time frames, dates and locations of forums, documents discussed at the information meetings, FRN, Rate Brochure, and all other information about this rate process. The Web site is located at *http://www.wapa.gov/rm/ratesRM/2009/default.htm*.

9. Western received 15 comment letters and one oral comment during the consultation and comment period, which ended November 13, 2008. All formally submitted comments have been considered in preparing this Rate Order.

Comments

Written comments were received from the following organizations:

City of Bayard, Nebraska
City of Benkelman, Nebraska
City of Fort Morgan, Colorado
City of Holyoke, Colorado
City of Gering, Nebraska
City of Imperial, Nebraska
City of Kimball, Nebraska
City of Mitchell, Nebraska
City of Torrington, Colorado
Midwest Electric Consumers Association
Prairie Band Potawatomi Nation
Town of Fleming, Colorado
Town of Julesburg, Colorado
Town of Lyons, Colorado
Village of Morrill, Nebraska

A representative of the following organization made an oral comment:
Minnesota Municipal Utilities

Project Descriptions

Loveland Area Projects

The Post-1989 General Power Marketing and Allocation Criteria, published in the **Federal Register** on January 31, 1986 (51 FR 4012), integrated the resources of the P–SMBP—WD and Fry-Ark. This operational and contractual integration, known as LAP, allowed an increase in marketable resource, simplified contract administration, and established a blended rate for LAP power sales.

The 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 sufficiency of the firm electric service rate to generate adequate revenue to repay project investment and costs during each project's prescribed repayment period. The revenue requirement of the Fry-Ark PRS is combined with the P–SMBP—WD revenue requirement, derived from the P–SMBP PRS, to develop one rate for LAP firm electric sales.

Pick-Sloan Missouri Basin Program—Western Division

The P–SMBP was authorized by Congress in section 9 of the Flood Control Act of December 22, 1944, commonly referred to as the Flood Control Act of 1944. This multipurpose program provides flood control, irrigation, navigation, recreation, preservation and enhancement of fish and wildlife, and power generation. Multipurpose projects have been developed on the Missouri River and its tributaries in Colorado, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

In addition to the multipurpose water projects authorized by section 9 of the Flood Control Act of 1944, certain other existing projects have been integrated with the P–SMBP for power marketing, operation and repayment purposes. The Colorado-Big Thompson, Kendrick, and Shoshone Projects were combined with the P–SMBP in 1954, followed by the North Platte Project in 1959. These projects are referred to as the "Integrated Projects" of the P–SMBP.

The Flood Control Act of 1944 also authorized the inclusion of the Fort Peck Project with the P–SMBP for operation and repayment purposes. The Riverton Project was integrated with the P–SMBP in 1954, and in 1970 was reauthorized as a unit of P–SMBP.

The P–SMBP is administered by two regions. The Rocky Mountain Region with a regional office in Loveland, Colorado, markets the Western Division power of P–SMBP and the Upper Great Plains Region with a regional office in Billings, Montana, markets power from the Eastern Division of P–SMBP. The Rocky Mountain Region markets LAP power (a combination of P–SMBP—WD and Fry-Ark power) in northeastern Colorado, east of the Continental Divide in Wyoming, west of the 101st meridian in Nebraska, and most of Kansas. The Upper Great Plains Region markets power in western Iowa, western Minnesota, Montana east of the Continental Divide, North Dakota, South Dakota, and the eastern two-thirds of Nebraska. P–SMB power is marketed to approximately 60 firm power Customers by the Rocky Mountain Region and approximately 300 firm power Customers by the Upper Great Plains Region.

Fryingpan-Arkansas Project

Fry-Ark is a trans-mountain diversion development in southeastern Colorado authorized by the Act of Congress on August 16, 1962 (Pub. L. 87–590, 76 Stat. 389, as amended by Title XI of the Act of Congress on October 27, 1974 (Pub. L. 93–493, 88 Stat. 1486, 1497)). The Fry-Ark diverts water from the Fryingpan River and other tributaries of the Roaring Fork River in the Colorado River Basin on the West Slope of the Rocky Mountains to the Arkansas River on the East Slope. The water diverted from the West Slope, together with regulated Arkansas River water, provides supplemental irrigation, M&I water supplies, and produces hydroelectric power. Flood control, fish and wildlife enhancement, and recreation are other important purposes of Fry-Ark. The only generating facility in Fry-Ark is the Mt. Elbert Pumped-Storage powerplant on the East Slope.

Power Repayment Studies—Firm Electric Service Rate

Western prepares PRSs each FY to determine if revenues will be sufficient to repay, within the required time, all costs assigned to the LAP. Repayment criteria are based on law, policies including DOE Order RA 6120.2, and authorizing legislation. To meet Cost Recovery Criteria outlined in DOE Order RA 6120.2, revised studies and rate adjustments have been developed to demonstrate that sufficient revenues will be collected under the proposed rates to meet future obligations.

Existing and Provisional Rates

A comparison of the existing and Provisional Rates for LAP firm electric service follows:

TABLE 1—COMPARISON OF EXISTING AND PROVISIONAL RATES LAP FIRM ELECTRIC SERVICE

Firm electric service	Existing rate (January 1, 2008) L–F7	Provisional rate L–F8	Percent change (%)
LAP Revenue Requirement (million)	$66.1	$75.9	14.9
LAP Composite Rate (mills/kWh)	32.42	37.24	14.9
Firm Energy Rate (mills/kWh)	16.21	18.62	14.9
Firm Capacity Rate ($/kWmonth)	$4.25	$4.88	14.9

Certification of Rates

Western's Administrator certified that the Provisional Rates for LAP firm electric service under Rate Schedule L–F8 are the lowest possible rates consistent with sound business principles. The Provisional Rates were developed following administrative policies and applicable laws.

LAP Firm Electric Service Rate Discussion

According to Reclamation Law, Western must establish power rates sufficient to recover operation, maintenance, purchased power and interest expenses, and repay power investment and irrigation aid.

The Criteria, published in the **Federal Register** on January 31, 1986 (51 FR 4012), operationally and contractually integrated the resources of the P–SMBP—WD and Fry-Ark (thereafter referred to as LAP). A blended rate was established for the sale of LAP firm electric service. The P–SMBP—WD portion of the revenue requirement for LAP firm electric service rates was developed from the revenue requirement calculated in the P–SMBP Ratesetting PRS. The P–SMBP—WD revenue requirement increased approximately 18.6 percent from the previous revenue requirement due to the economic impact of the drought, increased annual expenses, increased investments, and increased interest expenses associated with deficits. The revenue requirements for P–SMBP—WD are as follows:

TABLE 2—SUMMARY OF P–SMBP–WD REVENUE REQUIREMENTS ($000)

Current Revenue Requirement (Jan 08) (26.04 mills/kWh × 1,988,000,000 kWh)	$51,767
Provisional Increase (4.85 mills/kWh × 1,988,000,000 kWh)	9,642
Provisional Revenue Requirement (26.04 + 4.85 = 30.89 mills/kWh × 1,988,000,000 kWh)	61,409

The adjustment to the P–SMBP revenue requirement is a separate formal rate process which is documented in Rate Order No. WAPA–140.

Fry-Ark

The Fry-Ark portion of the revenue requirement for LAP firm electric service rates was developed from the revenue requirement calculated in the Fry-Ark Ratesetting PRS. The Fry-Ark revenue requirement increased approximately 1.25 percent due to increased O&M expenses and the economic impact of the drought. The revenue requirements for Fry-Ark are as follows:

TABLE 3—SUMMARY OF FRY-ARK REVENUE REQUIREMENTS ($000)

Current Revenue Requirement (Jan 08)	$14,365
Provisional Increase	180
Provisional Revenue Requirement	14,545

The following table compares LAP existing revenue requirements to the proposed revenue requirements:

TABLE 4—SUMMARY OF LAP REVENUE REQUIREMENTS ($000)

	Existing (January 2008)	Provisional
P–SMBP—WD	$51,767	$61,409
Fry-Ark	14,365	14,545
Total LAP	66,132	75,954

Western will continue to identify its firm electric service revenue requirement using Base and Drought Adder components. The Base component is a fixed revenue requirement for each project that includes annual O&M expenses, investment repayment and associated interest, normal timing power purchases, and transmission costs. Normal timing power purchases are purchases due to operational constraints (*e.g.*, management of endangered species habitat, water quality, navigation, control area purposes, etc.) not associated with the current drought in the Regions. The Base component can not be adjusted by Western without a public process.

The Drought Adder component for each project is a formula-based revenue requirement that includes costs attributable to the present drought conditions in the Regions. The Drought Adder component includes costs associated with future non-timing power purchases to meet firm electric service contractual 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 component is designed to repay the 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. Adjustments to the Drought Adder rate component of less than or equal to 2 mills/kWh to the LAP composite rate will be made by Customer notification of a revised rate schedule with a January implementation date.

The annual revenue requirement calculation formula is: Annual Revenue Requirement = Base Revenue Requirement + Drought Adder Revenue Requirement. Under this Provisional Rate, the LAP annual revenue requirement is $75.9 million (Base revenue requirement of $49.9 million plus a Drought Adder revenue requirement of $26 million).

A comparison of the current and proposed rate components is listed in the following table:

TABLE 5—SUMMARY OF LAP COMPONENTS

	Existing rates L–F7			Provisional rates L–F8		
	Base	Drought adder	Total	Base	Drought adder	Total
Firm Capacity ($/kW-month)	$3.13	$1.12	$4.25	$3.21	$1.67	$4.88
Firm Energy (mills/kWh)	11.92	4.29	16.21	12.23	6.39	18.62

Continuing to identify the firm electric service revenue requirement using Base and Drought Adder rate components will assist Western in presenting the effects of the drought within the Regions, demonstrating repayment of the drought related costs, and being more responsive to changes in drought related expenses. Western will continue to charge and bill Customers firm electric service rates for energy and capacity, which are the sum of the Base and Drought Adder rate components.

Western reviews its firm electric service rates annually. Western will review the Base rate component after the annual PRSs are complete, 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 review the Drought Adder rate component each September to determine if drought costs differ from those projected in the PRSs. If drought costs differ, Western will determine whether an adjustment to the Drought Adder rate component is necessary. Western will use recent Corps and Reclamation hydrological estimates and historical data to determine the estimated amounts for future purchase power costs. For any drought-related adjustments of less than or equal to 2 mills/kWh to the LAP Composite Rate, Western will notify Customers by letter in October and implement the adjustment in the following January billing cycle. For the portion of any planned incremental adjustment greater than 2 mills/kWh to the LAP composite rate, Western will engage in a public process pursuant to 10 CFR part 903 prior to implementing that portion of the adjustment. Although decremental adjustments to the Drought Adder will occur, the adjustment cannot result in the Drought Adder being a negative number. Western will conduct a preliminary review of the Drought Adder in early summer and advise Customers by letter of any estimated change to the Drought Adder for the following January, with the final Drought Adder rate component adjustment verified by 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, lower the interest expense due to drought deficits, demonstrate responsible deficit management, and provide prompt drought deficit repayments.

Western's current and Provisional Rate schedules permit 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 initiating a public process to recover costs attributable to the Drought Adder formula rate for any one-year cycle.

Statement of Revenue and Related Expenses

The following table provides a summary of projected revenue and expense data for the Fry-Ark firm electric service revenue requirement through the 5-year Provisional Rate approval period:

TABLE 6—FRY-ARK COMPARISON OF 5-YEAR RATE APPROVAL PERIOD (FY 2009–2013)

[Total revenue and expense ($000)]

	Existing rate	Provisional rate	Difference
Total Revenues	$76,744	$78,983	$2,239
Revenue Distribution:			
Expenses:			
O&M	25,336	28,868	3,532
Purchase Power	82	1,398	1,316
Transmission	19,889	20,027	138
Interest [1]	22,676	21,383	−1,293
Total Expenses	67,983	71,676	3,693
Principal Payments:			
Capitalized Expenses (deficits)	0	0	0
Original Project and Additions	315	1,762	1,447
Replacements [2]	8,446	5,545	−2,901
Total Principal Payments	8,761	7,307	−1,454

TABLE 6—FRY-ARK COMPARISON OF 5-YEAR RATE APPROVAL PERIOD (FY 2009–2013)—Continued

[Total revenue and expense ($000)]

	Existing rate	Provisional rate	Difference
Total Revenue Distribution	76,744	78,983	2,239

[1] The decrease in interest expense is primarily due to a decrease in projected replacements.
[2] The decrease in replacement payments is primarily due to a reduction of planned capital replacements at Mt Elbert by Reclamation

The summary of P–SMBP—WD revenues and expenses for the 5-year Provisional Rate approval period is included in the P–SMBP Statement of Revenue and Related Expenses that is part of Rate Order No. WAPA–140

Basis for Rate Development

The existing rates for LAP firm electric service in Rate Schedule L–F7, which expire December 31, 2012, no longer provide sufficient revenues to pay all annual costs, including interest expense, and repay investment and irrigation aid within the allowable period. The adjusted rates reflect increases due to the economic impact of the drought, annual expenses, investments, and interest expense associated with drought deficits The Provisional Rates will provide sufficient revenue to pay all annual costs, including interest expense, and repay power investment and irrigation aid within the allowable periods. The Provisional Rates will take effect on the first day of the first full billing period beginning on or after February 1, 2009, and will remain in effect on an interim basis, pending FERC's confirmation and approval of them or substitute rates on a final basis, through December 31, 2013

Emergency Fund Discussion

Due to continuing below normal hydropower generation, Western may need to use the Continuing Fund (Emergency Fund) to pay for unanticipated purchase power and wheeling expenses necessary to meet its contractual obligations for the sale and delivery of power to its Customers Should Western use this funding mechanism, Western will replenish the Continuing Fund (Emergency Fund) in accordance with law and Western's current repayment policy [2]

Comments

The comments and responses below regarding the firm electric service rates are paraphrased for brevity when not affecting the meaning of the statement(s) Direct quotes from comment letters are used for clarification when necessary

The issues discussed are (1) Firm Electric Service Rate and (2) MISO Markets

1 Firm Electric Service Rate

Comment: Western received numerous comments from Customers stating that they understand the need for the rate increases and support the concept of the Drought Adder, which establishes a window during which drought-related expenses are repaid.

Response Western appreciates the Customer support received for the rate adjustment proposal. Western continues separation of the annual revenue requirement into the Base and Drought Adder rate components.

Comment: Many comments were received from Customers expressing appreciation for Western's commitment to keep them informed and involved throughout this rate process Customers were grateful for past cost-cutting measures and encouraged Western s continued vigilance in keeping controllable costs as low as possible.

Response. Western is pleased with the level of Customer interest and participation in the public meetings. Under the Flood Control Act of 1944, power is to be sold at the lowest possible rates consistent with sound business principles. Western is committed to keeping controllable costs as low as possible while continuing to meet our firm electric service commitments.

Comment: Customers state that they are looking forward to working with Western's staff on the projected Base rate adjustments as they pertain to Western's draft Strategic Plan and Western's potential involvement in changes associated with MISO and SPP

Response. Western's goal is to work closely with our Customers throughout this and future rate adjustments Changes to the Base rate are made through a public process and allow for Customer input

Comment: One Customer recognized the impacts that the extended drought has had on the current financial status of the P–SMBP and expressed support for the proposed firm power rate increases The Customer also stated that the repayment of Federal investment through Federal power rates is taken very seriously In the future the Drought Adder will help to avoid a repetition of the financial impacts that are seen today.

Response: Western acknowledges the financial impact of the extended drought, and the need for a firm power rate increase as well The Drought Adder will allow Western to be more responsive to the changing hydrological conditions.

Comment: A Customer representative acknowledged the financial challenges of this drought and made note of the difficulties Federal power customers are confronted with in fulfilling their financial responsibilities to the Federal government They noted the good water years in the 1990's generated significant revenue surplus to P–SMBP's financial requirements Also noted was Western's administration of repayment according to repayment policies and the repayment of a significant amount of capital investment ahead of schedule This early repayment benefitted both P–SMBP Customers and the Federal government, but left no financial resources to deal with the drought. Thus, the current repayment practices and policies exacerbate the impacts of the natural swings in hydrology When the drought deficit is repaid, there will still be a substantial amount of paid ahead investments for the P–SMBP The Customer would like to work with Western to address this issue

Response. Western acknowledges the financial impacts of the current drought and believes the ratemaking policy of identifying the Base and Drought Adder components will make the rates more responsive to hydrological changes caused by both drought and flush water years The Drought Adder component may be adjusted annually up to 2 mills/kWh without a public process to quickly address drought impacts, and the Base Rate component can only be adjusted through a public process This practice will lower interest expense due to drought deficits and demonstrate responsible deficit management Western acknowledges the statements regarding Western's adherence to repayment policies and the associated repayment of a significant amount of

[2] Western's Continuing Fund (Emergency Fund) Policy can be found at *http://www wapa gov/powerm/pdf/repaypolicy pdf*.

capital investment ahead of schedule in the 1990s. Prepayment is an integral part of the long-term plan for the project and has provided rate stability for Consumers while meeting Federal repayment obligations. The ability to reduce the Drought Adder rate component when normal hydrological conditions return to P–SMBP will allow appropriate recognition of repayment obligations. Western appreciates the Customer's support and willingness to work with Western and will continue to discuss issues, impacts, and possible solutions with the Customers.

2. MISO Markets

Comment: Western has received numerous comments concerning the issue of whether the Upper Great Plains Region should join MISO and its Day Two Markets. The comments support a thorough review of costs and benefits to all of Western's Customers, before a change is made. Comments suggest that administrative costs associated with the Day Two markets may impose a significant burden, especially on smaller Customers. There were concerns that if Western joins MISO and other area transmission owners that serve the Customers join the SPP, there could be significant cost issues associated with the delivery of Western's allocation to preferred customer loads. Comments stated that if there are benefits to participating in the Day Two market, those benefits should flow to all of Western's Customers, not just those that participate in joint dispatching arrangements inside the Integrated System. Concerns are that costs associated to deliver Western's allocations to the edge of the system should be recovered as part of the total system transmission rate recovery, as it has been done in the past.

Response. This comment is not directly related to the proposed rate adjustment and it is outside the scope of this rate process. However, Western is actively addressing these issues as well as other options and evaluating them based on cost and benefit to Western's Customers.

Comment. A commenter noted that MISO intends to start an ancillary service market. When that occurs, Western has preference power customers that are served in the MISO footprint. The question asked was, does Western have avoided cost due to the MISO market providing those ancillary services? Specifically, are there avoided cost in Schedule 3, Regulation and Frequency Response, Schedule 5, Operating Reserves Spinning, and Schedule 6, Operating Reserves Supplemental?

Response: This comment is not directly related to the proposed rate action and is outside the scope of this rate process. However, Western is actively evaluating the MISO Module F, as well as other options. Changes in the electric utility market are still evolving. As Western moves forward in evaluating the impacts on market participation and changes for our Customers, we will continue to keep our Customers informed of our decisions regarding these matters.

Availability of Information

Information about this rate adjustment, including the PRSs, comments, letters, memorandums, and other supporting materials that were used to develop the Provisional Rates are available for public review in the Rocky Mountain Regional Office, Western Area Power Administration, 5555 E. Crossroads Boulevard, Loveland, Colorado.

Ratemaking Procedure Requirements

Environmental Compliance

In compliance with the National Environmental Policy Act (NEPA) of 1969 (42 U.S.C. 4321–4347); Council on Environmental Quality Regulations (40 CFR parts 1500–1508); and DOE NEPA Regulations (10 CFR part 1021), Western has determined that this action is categorically excluded from preparing an environmental assessment or an environmental impact statement.

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.

Submission to the Federal Energy Regulatory Commission

The Provisional Rates herein confirmed, approved, and placed into effect, together with supporting documents, will be submitted to FERC for confirmation and final approval.

Order

In view of the foregoing and under the authority delegated to me, I confirm and approve on an interim basis, effective on the first full billing period on or after February 1, 2009, Rate Schedule L-F8 for the Loveland Area Projects of the Western Area Power Administration. The rate schedule shall remain in effect on an interim basis, pending FERC's confirmation and approval of them or substitute rates on a final basis through December 31, 2013.

Dated: January 8, 2009.

Jeffrey F. Kupfer,

Acting Deputy Secretary of Energy.

Rate Schedule L–F8
(Supersedes Rate Schedule L–F7)
Effective February 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: The first day of the first full billing period beginning on or after February 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 electric 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, investment repayment and associated interest, normal timing power purchases (purchases due to operational constraints, not associated with drought), and transmission costs. The Base revenue requirement is $49.9 million.

$$\text{Base Capacity} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Billing Capacity}} = \$3\ 21/\text{kW month}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 12\ 23\ \text{mills/kWh}$$

Drought Adder A formula-based revenue requirement that includes future purchase power expense excluding timing power purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits For the period beginning on or after the first day of the first full billing period beginning on or after February 1, 2009, the Drought Adder revenue requirement is $26 million

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Billing Capacity}} = \$1\ 67/\text{kW month}$$

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

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 component greater than the equivalent of 2 mills/kWh to the LAP composite rate will require a public process.

Adjustments:

For Drought Adder: Adjustments pursuant to the Drought Adder component will be documented 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

[FR Doc E9–897 Filed 1–15–09; 8:45 am]

BILLING CODE 6450–01–P

Rate Schedule L-F8
(Supersedes Rate Schedule L-F7)
Effective February 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:

The first day of the first full billing period beginning on or after February 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 electric 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, investment repayment and associated interest, normal timing power purchases (purchases due to operational constraints, not associated with drought), and transmission costs. The Base revenue requirement is $49.9 million.

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

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

Drought Adder: A formula-based revenue requirement that includes future purchase power expense excluding timing power purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits. For the period beginning on or after the first day of the first full billing period beginning on or after February 1, 2009, the Drought Adder revenue requirement is $26 million.

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

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

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 component greater than the equivalent of 2 mills/kWh to the LAP composite rate will require a public process.

Adjustments:

For Drought Adder: Adjustments pursuant to the Drought Adder component will be documented 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