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DEPARTMENT OF ENERGY
Western Area Power Administration

AC Intertie Project; Rate Order

AGENCY: **Western Area Power Administration**, DOE.

ACTION: Notice of Rate Order.

SUMMARY: Notice is given of the confirmation and approval by the Deputy Secretary of the Department of Energy (DOE) of Rate Order No. WAPA-71 and Rate Schedules INT-FT2 and INT-NFT2 placing firm and nonfirm transmission rates into effect on an interim basis. The interim rate, called the provisional rate, will remain in effect on an interim basis until the Federal Energy Regulatory Commission (FERC) confirms, approves, and places it into effect on a final basis or until it is replaced by another rate.

The **power** repayment studies indicate that the **proposed** rates for firm and nonfirm transmission service are necessary because of adjustments in operation and maintenance expenses and an anticipated decrease in current marketable capacity on the new 500-kV transmission system.

Three major changes are affecting the rates for the AC Intertie: (1) The establishment of separate firm transmission rates for the existing 230/345-kV lines and the new 500-kV lines as a result of customer comments and concerns expressed in formal and informal meetings with **Western**; (2) changing the methodology of calculating interest offsets to be consistent with the other **power** marketing administrations; and (3) adjustments **Western** made to budgeted investments for the AC Intertie Project.

DATES: Rate Schedules INT-FT2 and INT-NFT2 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, 1996, and will be in effect until FERC confirms, approves, and places the rate schedules in effect on a final basis through September 30, 2000, or until the rate schedule is superseded.

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION: By Amendment No. 3 to Delegation Order No. 0204-108, published November 10, 1993 (58 FR 59716), the Secretary of Energy delegated: (1) The authority to develop long-term **power** and transmission rates on a nonexclusive basis 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; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove such rates to FERC. Existing DOE procedures for public participation in **power** rate adjustments (10 CFR Part 903) became effective on September 18, 1985 (50 FR 37835). These **power** rates are established pursuant to section 302(a) of the Department of Energy (DOE) Organization Act, 42 U.S.C. 7152(a), through which the **power** marketing functions of the Secretary of the Interior and the Bureau of Reclamation (Reclamation) under the Reclamation Act of 1902, 43 U.S.C. 371 et seq., as amended and supplemented by subsequent enactments, particularly

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section 9(c) of the Reclamation Project Act of 1939, 43 U.S.C. 485h(c), and other acts specifically applicable to the project system involved, were transferred to and vested in the Secretary.

Rate Order No. WAPA-71 confirming, approving, and placing the **proposed** AC Intertie rate adjustments into effect on an interim basis, is issued, and the new Rate Schedules INT-FT2 and INT-NFT2 will be submitted promptly to FERC for confirmation and approval on a final basis.

Issued in Washington, DC. January 30, 1996.
Charles B. Curtis,
Deputy Secretary.

In the matter of: **Western Area Power Administration** Rate
Adjustment for Pacific Northwest-Pacific Southwest Intertie Project,
Rate Order No. WAPA-71.

Order Confirming, Approving, and Placing the Pacific Northwest-Pacific
Southwest Intertie Firm and Nonfirm Transmission Service Rates Into
Effect on an Interim Basis

February 1, 1996.

These **power** rates are established pursuant to section 302(a) of the Department of Energy (DOE) Organization Act, 42 U.S.C. 7152(a) through which the **power** marketing functions of the Secretary of the Interior and the Bureau of Reclamation (Reclamation) under the Reclamation Act of 1902, 43 U.S.C. 371 et seq., as amended and supplemented by subsequent enactments, particularly section 9(c) of the Reclamation Project Act of 1939, 43 U.S.C. 485h(c), and other acts specifically applicable to the project involved, were transferred to and vested in the Secretary of Energy (Secretary).

By Amendment No. 3 to Delegation Order No. 0204-108, published on November 10, 1993 (58 FR 59176), the Secretary delegated: (1) The authority to develop long-term **power** and transmission rates on a nonexclusive basis to the Administrator of the **Western Area Power Administration (Western)**; (2) the authority to confirm, approve, and

place such rates into effect on an interim basis to the Deputy Secretary; 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 (FERC). Existing DOE procedures for public participation in **power** rate adjustments (10 CFR Part 903) became effective on September 18, 1985 (50 FR 37835).

Acronyms and Definitions

As used in this rate order, the following acronyms and definitions apply:

AC Intertie: Pacific Northwest-Pacific Southwest Intertie Project
Additions: A unit of property constructed or acquired which enhances or improves a project system.

CIAR: Compound Interest Amortization Repayment

CEP: Cost Evaluation Period, which is the first 5 future years in the PRS, normally consistent with the budget period.

CROD: Contract rate of delivery

Current PRS: The PRS used in this rate order, which was used to test the adequacy of the existing rate.

Customer Brochure: A document prepared for public distribution explaining the background of the rate proposal contained in this rate order.

DC: Direct Current

DOE: Department of Energy

DOE Act: Department of Energy Organization Act, August 4, 1977 (42 U.S.C. 7101 et seq.)

DOE Order RA 6120.2: An order dealing with **power** marketing **administration** financial reporting.

EIS: Environmental Impact Statement

Engineering Ten Year: A planning document prepared

Construction and Replacement Plan: By **Western** for transmission system construction for a 10-year period. Also referred to as the ``Engineering 10-Year Plan.''

FERC: Federal Energy Regulatory Commission

FY: Fiscal Year

IDC: Interest During Construction

kW: Kilowatt

\$/kW/year: Annual charge for capacity usage--(Sec. per kilowatt per year)

kWh: Kilowatthour

mills/kWh: Mills per kilowatthour

Multiproject Costs: These are costs for facilities being charged to one project that benefit other projects

MW: Megawatt

NEPA: National Environmental Policy Act of 1969. (42 U.S.C. 4321 et seq.)

O&M: Operations and maintenance

pinch-point: The future FY with the largest annual revenue requirement

PMA: **Power** marketing **administration**

PRS: **Power** repayment study

Proposed rate: A rate revision that the Administrator of **Western** recommends to the Deputy Secretary of Energy for approval

Provisional rate: A rate which has been confirmed, approved, and placed into effect on an interim basis by the Deputy Secretary

Ratesetting PRS: The PRS that utilizes, in whole or part, **proposed** or

assumed rates. It is designed to demonstrate that potential revenue levels will satisfy the cost recovery criteria over the remainder of the **power** system's repayment period

Reclamation: Bureau of Reclamation, U.S. Department of the Interior

Replacement: A unit of property constructed or acquired as a substitute for an existing unit of property for the purpose of maintaining the **power** features of a project

Replacement study: The cyclical analysis of replacement service lives

Secretary: Secretary of Energy

Treasury: Secretary of the Department of the Treasury

Western: Western Area Power Administration, DOE

WSPP: **Western Systems Power** Pool

Effective Date

The AC Intertie rates for firm and nonfirm transmission service will become effective on an interim basis beginning on February 1, 1996, and will be in effect until FERC confirms, approves, and places the rate schedules into effect on a final basis through September 30, 2000, or until superseded. **Western** is implementing a rate for the AC Intertie 230/345-kV transmission lines that is separate from the rate for the 500-kV transmission lines for firm transmission service, but a combined rate for nonfirm transmission service.

Public Notice and Comment

The Procedures for Public Participation in **Power** and Transmission Rate Adjustments and Extensions, 10 CFR Part 903, have been followed by **Western** in the development of the firm transmission service and nonfirm transmission service rates. The provisional firm transmission rate for the existing 230/345-kV transmission system in FY 1996 represents a rate increase of 85 percent over the existing step 1 rate, and for the period FY 1997 through FY 2000, it represents a 48 percent increase over the existing step 1 rate. The provisional nonfirm transmission service rate for the existing system represents an increase of 100 percent from the current nonfirm transmission service rate. The provisional firm transmission rate for the 500-kV transmission system is \$17.98/kW/year for FYs 1996 through 1998 and \$17.23/kW/year for FYs 1999 through 2000. This rate is classified as a major rate adjustment as defined at 10 CFR Secs. 903.2(e) and 903.2(f)(1). The distinction between a minor and a major rate adjustment is used only to

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determine the public procedures for the rate adjustment. The following summarizes the steps **Western** took to ensure involvement of interested parties in the rate process:

1. The first informal public information meeting was held on February 22, 1995. **Western** explained the need for the **proposed** rate adjustments and answered questions from those attending.

2. A Federal Register notice was published on May 17, 1995 (60 FR 26433), which extended the existing rates for firm and nonfirm transmission service that became effective August 1, 1993, until October 1, 1996.

3. The second informal public information meeting was held on July 6, 1995. **Western** representatives again explained the need for the **proposed** rate adjustment, provided copies of studies, and answered questions from those attending.

4. A Federal Register notice was published on July 31, 1995 (60 FR 38955), officially announcing the **proposed** rate adjustment for firm transmission service and nonfirm transmission service rates, initiating the public consultation and comment period, announcing the August 24, 1995, public information forum and the September 18, 1995, public comment forum, and presenting procedures for public participation.

5. A letter was mailed to all AC Intertie customers and other interested parties on August 7, 1995, providing a copy of the AC Intertie **Proposed** Rate Adjustment Brochure and announcing the public information forum and public comment forum.

6. At the public information forum held on August 24, 1995, **Western** explained the need for the rate increase in greater detail and answered questions.

7. A letter was mailed to all AC Intertie customers and other interested parties on September 13, 1995, providing a copy of the issue papers concerning the abandoned plant audit adjustment.

8. The comment forum was held on September 18, 1995, to give the public an opportunity to comment for the record. Four persons representing customers and customer groups made oral comments.

9. A letter was mailed to all AC Intertie customers and interested parties on October 14, 1995, providing a copy of the answers to the questions that were raised during the comment period. The letter also announced an informal meeting on October 25, 1995, to answer any questions on the CIAR methodology.

10. A question and answer informal meeting was held on October 25, 1995, to discuss the compound interest amortization methodology. Questions and comments were also raised at this meeting. These comments have also been incorporated and taken into consideration in the final rate settings studies.

11. A Federal Register notice published on November 22, 1995 (60 FR 57867), extended the comment period until November 27, 1995.

12. Ten letters were received during the 119-day consultation and comment period ending November 27, 1995. All formally submitted comments have been considered in the preparation of this rate order.

Project History

The AC Intertie was authorized as part of a much larger alternating current (AC) and direct current (DC) combined transmission system (Pacific Intertie Project) by section 8 of the Act of August 31, 1964, 16 U.S.C. 837g. The basic purpose of the Pacific Intertie Project was to provide, through **power** transmission system interconnections, maximum utilization of the total **power** resources to meet the nation's growing demands. This purpose was to be accomplished through: (1) The exchange of summer-winter surplus peaking capacity between the Northwest and Southwest to reduce capital expenditures for new generating capacity; (2) the sale of Northwest secondary energy to the Southwest; (3) the sale of Southwest energy to the Northwest to ``firm'' peaking hydroelectric sources during critical water years; (4) conservation of significant amounts of fuel through the use of surplus hydroelectric energy; and (5) increased efficiency in the operation of hydroelectric and thermal resources. As authorized, the Pacific Intertie Project was to be a cooperative construction venture by Federal and non-Federal entities that incorporated the capability for both AC and DC transmission components and that provided an intertie among certain Federal and non-Federal **power** systems.

The Lower Colorado Region (LCR), Bureau of Reclamation, U.S.

Department of the Interior, (Reclamation) was assigned construction jurisdiction for: (1) the Celilo-Mead 750-kV DC transmission line from the Oregon-Nevada border to Mead Substation; (2) Mead Substation; and, (3) all facilities south of Mead Substation. Several delays in congressional construction funding for the DC line revised its estimated in-service date to the point that some of the potential users withdrew their interest. This, and the subsequent lack of congressional funding, resulted in the May 1969 indefinite postponement of the DC line construction. Consequently, the facilities constructed provide only AC transmission service.

Pursuant to section 302 of the DOE Organization Act, 42 U.S.C. 7152(a), dated August 4, 1977, these Reclamation constructed facilities were transferred to **Western**. Only those AC Intertie facilities which are administered by **Western**'s Desert Southwest Customer Service Region and which provide AC transmission service are the subject of this rate adjustment. To simplify identification, these facilities have been classified as the AC Intertie and are sometimes referred to as the existing system.

On February 1, 1996, **Western** will add to the AC Intertie the new Mead-Phoenix and Mead-Adelanto 500-kV transmission lines. The additional sales of capacity are expected to be 668 MW. A separate marketing plan is being developed for the sales of the additional capacity.

Power Repayment Studies

PRs are prepared each fiscal year to determine if **power** revenues will be sufficient to pay, within the prescribed time periods, all costs assigned to the **power** function. Repayment criteria are based on law, policies, and authorizing legislation. DOE Order RA 6120.2, section 12.b, states:

In addition to the recovery of the above costs (operations and maintenance and interest expenses) on a year-by-year basis, the expected revenues are at least sufficient to recover (1) each dollar of **power** investment at Federal hydroelectric generating plants within 50 years after they become revenue producing, except as otherwise provided by law; plus (2) each annual increment of Federal transmission investment within the average service life of such transmission facilities or within a maximum of 50 years, whichever is less; plus (3) the cost of each replacement of a unit of property of a Federal **power** system within its expected service life up to a maximum of 50 years; plus, (4) each dollar of assisted irrigation investment within the period established for the irrigation water users to repay their share of construction costs; plus (5) other costs such as payments to basin funds, participating projects, or States.

Existing and Provisional Rates

The following table compares the existing transmission service rates and the **proposed** transmission service rates.

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Comparison of the Existing and

Provisional Rates

-----		-----		Existing rates
		Existing rate 230/	Proposed rate 500-	step two
230/345/	Proposed rate 230/	345-kV system	500-kV system	500-kV system
10/1/	Type of service 345-kV system 2/1/	kV system 2/1/1996		
7/31/	1996 through 9/30/	through 9/30/2000	extended through	1996 through
2000		10/1/1996		1998

Firm transmission service..... \$4.46/kW/year.....
 \$8.01/kW/year..... 1996 \1\--\$8.26/kW/ 1996-1998--\$17.98/
 year, 1997-2000-- kW/year, 1999-
 \$6.58/kW/year. 2000--\$17.23/kW/
 year
 Nonfirm transmission rate (mills/ 1.00 mills/kWh.... 1.52
 mills/kWh.... 2.00 mills/kWh.... 2.00 mills/kWh
 kWh).

\1\ Rate based upon 8 months.

Certification of Rates

Western's Administrator has certified that the AC Intertie firm and nonfirm transmission service rates placed in effect on an interim basis herein are the lowest possible, consistent with sound business principles. The rates have been developed in accordance with administrative policies and applicable laws.

Discussion

The **power** repayment study for the 230/345-kV transmission system indicates that the **proposed** rate adjustments for firm and nonfirm transmission service are necessary due to adjustments in operation and maintenance expenses of the existing system, and due to capacity in the new 500-kV transmission system being sold separately. The existing rates were designed to recover all annual costs and investment repayment of both the existing 230/345-kV transmission lines and the new 500-kV transmission lines. Three major changes are affecting the rates for the AC Intertie.

The first change is the establishment of separate firm transmission rates for the existing 230/345-kV transmission lines and the new 500-kV transmission lines. This change responds to customer comments and concerns during formal and informal meetings **Western** held with its customers. Separate PRSs has been prepared for the 500-kV portion and the 230/345-kV portion of the AC Intertie.

The second change is the determination of interest offsets. An interest offset is a credit that is made toward interest expenses.

Western is changing its methodology of calculating interest offsets to be consistent with the other **power** marketing administrations. The old method calculates interest offsets on only the principal that was repaid in the current year. The new method calculates interest offsets on both the principal and interest for the current year.

The third change is adjustments **Western** made to data budgeted for investments to the AC Intertie Project. **Western's** staff determined the total O&M costs on the combined system for the AC Intertie Project and developed a percentage breakdown based upon O&M costs, to determine a method for allocating Other Revenues/Costs.

Existing System

Based upon FY 1994 data, the PRS for the AC Intertie showed that the existing Step II of the firm transmission service rate of \$8.01/kW/year and the nonfirm transmission service rate of 1.52 mills/kWh would provide more than sufficient revenues to pay the project costs within the prescribed time periods. The ratesetting PRS indicates that a transmission service rate for February 1, 1996, through September 30, 1996, of \$8.26/kW/year and a transmission service rate of \$6.58 for October 1, 1996, through September 30, 2000, for firm transmission service is adequate to meet revenue requirements. The rate for FY 1996 is higher because the revenue will be collected over an 8 month period rather than over a 12 month period. The nonfirm rate was determined by developing a combined rate for both systems. The provisional nonfirm transmission rate of 2.00 mills/kWh for nonfirm transmission service is required to meet revenue requirements for FY 1996 through the end of the study.

New System

Based upon FY 1994 data, the PRS for the new Mead-Phoenix and Mead-Adelanto 500-kV transmission system showed that a rate of \$17.98/kW/year for February 1, 1996, through September 30, 1998, and a transmission service rate of \$17.23/kW/year for October 1, 1998, through September 30, 2000, would satisfy the repayment criteria. The nonfirm rate was determined by developing a combined rate for both systems. The **proposed** rate for nonfirm transmission service of 2.00 mills/kWh will meet revenue requirements for FY 1996 through the end of the study.

The provisional rates filed with FERC have been updated from the rate originally **proposed** in the customer brochure and Federal Register notice dated July 31, 1995.

The changes to the PRS are as follows:

1. Revised budget data for the 230/345-kV existing system.
2. Revised **power** repayment studies that include the new interest offset methodology.
3. Revised budget data for the 500-kV system.
4. Increase in other revenue sales based upon **proposed** transmission rate.

Firm Transmission Revenue Requirements

A comparison of the transmission revenue requirements estimated for the step II of the existing rate for 1996 to the **proposed** revenue requirements for the existing 230/345-kV AC Intertie system and to the **proposed** revenue requirements for the new 500-kV system based upon the

pinch-point methodology is as follows:

Step II of the existing system transmission revenue requirements	Proposed revenue requirements for the 230/345-kV system	Proposed revenue requirements for the new 500-kV system
\$24,883,655.....	\$8,709,909	\$12,352,554

The rate adjustment is necessary to satisfy the cost-recovery criteria set forth in DOE Order RA 6120.2.

Replacement and Addition Activities

The decrease from the existing Step II 230/345-kV transmission system rate is largely due to a decrease in replacements and additions and a decrease in the O&M costs for the existing system. The AC Intertie initial investment will not be fully paid until FY 2028. The capitalized costs for future replacements and additions in the cost evaluation period includes IDC. The IDC calculation for each replacement is determined by the interest rate in the year construction begins. The annual interest expense for replacements and additions is also based on the interest rate in the year construction begins. The

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total replacement cost for the cost evaluation period through the end of the study is \$42,891,147.

The 500-kV transmission system has been pulled out of the existing 230/345-kV transmission **power** repayment study. A 500-kV transmission system **power** repayment study has been developed to determine the transmission rate for the new system. The new transmission system will provide better service to the customers and additional transmission paths that are presently not available. The total cost of the 500-kV Mead-Phoenix and Mead-Adelanto transmission line for the cost evaluation period through the end of the study is \$134,103,799 and is to be repaid by 2046.

Abandoned Plant

Western's auditors have identified approximately \$14.5 million in equipment and interest charges that are contained in the financial statements as abandoned plant that **Western** has not included in the rate base. **Western's** financial statements show that these charges have accumulated since 1964 for the construction of the Direct Current (DC) portion of the Intertie Project.

The construction of the DC line was discontinued in 1969 by the Assistant Secretary of the Department of the Interior. At the time of the decision, the total expenditure amounted to approximately \$10.5 million. Since that time the amount has increased to approximately \$14.5 million. This amount includes \$2,399,747 of IDC and approximately \$952,574 of tangible assets and studies. The remaining \$11.1 million represents the remaining charges for which no tangible assets/studies exist. These costs are not in the PRS, because they were expended on a

feature that was never placed in service.

Statement of Revenue and Related Expenses

The following table provides a summary of revenue and expense data for the 5-year **proposed** rate approval period for the existing 230/345-kV system.

AC Intertie Project--5-Year Rate Study Summary		
Period Revenues and Expenses		
		Existing rate step II 230/345/500-kV system 10/1/96 through 9/30/2000
Proposed rates 230/ 245-kV system 2/1/96 through 9/30/2000	Revenue and expenses Difference	

Revenues:		
Firm Transmission.....		105,009,620
35,545,000	70,464,620	
Other Revenues.....		19,503,775
8,906,743	10,597,032	

Total Revenues.....		124,513,395
43,451,743	81,061,652	
=====		
Revenue Distribution:		
Operations & Maintenance.....		17,486,459
12,643,540	4,842,919	
Other Deductions.....		1,077,007
1,640,012	(563,005)	
Interest on Deferred.....		0
490,316	(490,316)	
Annual Cost:		
Interest.....		93,042,899
23,102,897	69,940,002	
Investment Repayment.....		12,814,649
1,984,977	10,829,672	
Capitalized Expenses.....		92,381
3,590,002	(3,497,621)	
Study-Year Adjustments.....		0
0	0	

Total.....		124,513,395
43,451,744	81,061,651	

The following table provides a summary of revenue and expense data for the 5-year **proposed** rate approval period for the new 500-kV system.

AC Intertie Project.--5-Year Rate Study Summary
 Period Revenues and Expenses

		Existing
rate		step II
230/345/	Proposed rates	500-kV
system 10/	Revenue and expenses	1/96
through 9/	500-kV system 2/ Difference	
30/2000	1/96 through 9/	
	30/2000	

Revenues:

Firm Transmission.....		
105,009,620	59,051,200	45,958,420
Other Revenues.....		
19,503,775	1,807,372	17,696,403

Total Revenues.....		
124,513,395	60,858,572	63,654,823

Revenue Distribution:

Operations & Maintenance.....		
17,486,459	3,569,559	13,916,900
Other Deductions.....		
1,077,007	487,620	589,387
Interest on Deferred.....		
0	0	0

Annual Cost:

Interest.....		
93,042,899	52,707,044	40,335,855
Investment Repayment.....		
12,814,649	4,094,349	8,720,300
Capitalized Expenses.....		
92,381	0	92,381
Study-Year Adjustments.....		
0	0	0

Total.....		
124,513,395	60,858,572	63,654,823

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The table provides a summary of revenue and expense data for the 5-year **proposed** rate approval period for the combined system.

AC Intertie Project.--5-Year Rate Study Summary
 Period Revenues and Expenses

rate	Proposed	Existing
230/345/ system 10/ through 9/ 30/2000	combined rate Revenue and expenses study 2/1/96 through 9/30/ 2000	step II 500-kV 1/96

Revenues:

Firm Transmission.....		
105,009,620	90,195,000	14,814,620
Other Revenues.....		
19,503,775	10,714,115	8,789,660

Total Revenues.....		
124,513,395	100,909,115	23,604,280

Revenue Distribution:

Operations & Maintenance.....		
17,486,459	16,213,099	1,273,360
Other Deductions.....		
1,077,007	2,127,632	(1,050,625)
Interest on Deferred.....		
0	286,491	(286,491)
Annual Cost:		
Interest.....		
93,042,899	71,141,078	21,901,821
Investment Repayment.....		
12,814,649	7,458,773	5,355,876
Capitalized Expenses.....		
92,381	3,682,042	(3,589,661)
Study-Year Adjustments.....		
0	0	0

Total.....		
124,513,395	100,909,115	23,604,280

Basis for Rate Development

The provisional rates were designed to meet cost recovery criteria. The **power** repayment studies indicate that the **proposed** rates for firm and nonfirm transmission service are necessary because of the redistribution of costs from the current rate setting study. The current rate setting study anticipated 1,718 MW of capacity available

for sale. The existing rates were designed to recover all annual costs and investment repayment of both the existing 230/345-kV transmission lines and the new 500-kV transmission lines. Three major changes are affecting the rates for the AC Intertie.

The first change is the establishment of separate firm transmission rates for the existing 230/345-kV transmission lines and the new 500-kV transmission lines. This change is due to customer comments and concerns during the informal and formal meetings **Western** held with its customers. Separate PRSs have been prepared for the 500-kV portion and the 230/345-kV portion of the AC Intertie.

The second change is the determination of interest offsets. An interest offset is a credit that is made toward interest expenses. **Western** is changing its methodology of calculating interest offsets to be consistent with the other **power** marketing administrations. The old method calculates interest offsets on only the principal that was repaid in the current year. The new method calculates interest offsets on both the principal and interest for the current year.

The third change is adjustments **Western** made to data budgeted for investments to the AC Intertie Project. **Western's** staff determined the total O&M costs on the combined system for the AC Intertie Project and developed a percentage breakdown based upon O&M costs, to determine a method for allocating Other Revenues/Costs.

Existing 230/345-kV Transmission System

Operations and Maintenance expenses have decreased for the 230/345-kV system, since the O&M expenses for the 500-kV transmission system are in a separate **power** repayment study as well as the additional facilities. The 230/345-kV system is projecting 1,050 MW of capacity for sale.

500-kV Transmission System

There is also a anticipated decrease in current marketable capacity on the new 500-kV system. This is now projected to be 668 MW which is 156 MW decrease from the current rate setting study. Once the 500-kV transmission lines are energized and go into service, these 500-kV transmission lines will become an integral part of the AC Intertie.

Nonfirm Transmission Service

Western decided to maintain one nonfirm transmission service rate for the AC Intertie Project. This maintains consistency with other **Western** projects and allows for the ability to market nonfirm transmission service through the WSPP Agreement and Joint Transmission Agreement which **Western** is a participant. The single nonfirm transmission rate has been derived by calculating a firm rate from a combined transmission line **power** repayment study. Once the yearly kW rate is determined, it is divided by 8760 hours in a year and multiplied by a 60 percent load factor. This number is then converted to mills/kWh.

Comments

During the 119 day comment period, **Western** received 10 written comments. In addition, five persons commented during the September 18, 1995, public comment forum. All comments were reviewed and considered

in the preparation of this rate order.

Written comments were received from the following sources:

Irrigation & Electrical Districts Association of Arizona (Arizona)
K. R. Saline & Associates (Arizona)
Arizona **Power** Authority (Arizona)
Central Arizona Water Conservation District (Arizona)
Salt River Project (Arizona)

Representatives of the following organizations made oral comments:

Irrigation and Electrical Districts Association of Arizona (Arizona)
K. R. Saline & Associates (Arizona)
Arizona **Power** Authority (Arizona)
Central Arizona Water Conservation District (Arizona)
Salt River Project (Arizona)

Most of the comments received at the public meetings and in correspondence

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were related to the issue on abandoned plant, the separation of the new 500-kV transmission system from the existing system, and the change in the ratesetting methodology from the pinch-point methodology to the CIAR method. All comments were considered in developing the provisional rates.

Comment: The customers support the idea of moving away from the pinch-point methodology to the compound interest amortization repayment method as was done in the Parker-Davis Project.

Response: **Western** developed **power** repayment studies based upon the CIAR method and the pinch-point method. After review of these studies with the customers through working groups, the customers request is to remain with the traditional pinch-point methodology. This rate submittal is based upon the pinch-point methodology.

Comment: The rate brochure includes approximately \$13,558,108 in replacements associated with Mead Substation Stage 05. Would **Western** please provide a breakdown of the **proposed** work including the rationale to allocate all of these **proposed** expenditures to the 230/345-kV transmission system project versus the 500-kV transmission system project?

Response: The Intertie Project **Proposed** Rate Adjustment Brochure refers to replacements at Mead Substation (see page 15) which are part of a multifaceted construction project, Mead Stage 05. The portion of the work related to Intertie expenses is described below (excerpt from the Congressional Budget document Facility Data Sheet):

Activity 2: The work to be performed is as follows:

At Mead: This portion of the project consists of replacing 18 **power** circuit breakers at Mead Substation, provide new wiring and associated control cabinets, and new line relaying to protect the lines. Four of the 18 breakers to be replaced are a result of the planned addition of a 500-kV AC transmission line from Liberty Substation to Mead Substation to McCullough Substation, where it will tie into a 500-kV line into the Los Angeles **area**. The associated costs will be recovered from the Mead-Phoenix 500-kV Project. Add an additional fault recorder to assist in determining causes of system failures. Provide two vehicle crossing in the switchyard to improve access to equipment necessary for maintenance of the breakers. Replace the bolted bus connections with

compression fittings to reduce thermal hot spots. Replace a portion of the station service **power** distribution system to provide 120VAC convenience **power** at the breakers. At Liberty Substation: Replace the line relaying and control cabinet.

The objective is to replace the breakers at Mead that are associated with the Intertie facilities. These circuit breakers will be under rated due to increased fault current. The fault current has increased due to the interconnected **power** system growth in the **area**.

The southern Division of the Pacific Northwest-Pacific Southwest Intertie Transmission System (Intertie) is part of the Pacific Northwest-Pacific Southwest Intertie authorized August 31, 1964, by Public Law 88-552. The Intertie consists of a 345-kV AC transmission line from Mead Substation, near Hoover Dam and Boulder City, Nevada, to Liberty Substation near Phoenix, Arizona, and a 230-kV line from Liberty Substation to Pinnacle Substation north of Phoenix. The Intertie facilities are interconnected with additional AC Intertie transmission facilities which are owned and operated by various Federal and non-Federal entities.

In the first paragraph of the description, in the bold and underlined portion, it states that: ``Four of the 18 breakers to be replaced are a result of the planned addition of a 500-kV AC transmission line from Liberty Substation to Mead Substation to McCullough Substation, where it will tie into a 500-kV line into the Los Angeles **area**. The associated costs will be recovered from the Mead-Phoenix 500-kV Project.'' This statement should clarify that the portion of the Intertie expense that is the result of the 500-kV Project has been accounted for and properly funded. The accounting process for the proper expending has been done by accounting adjustments through the use of Journal Vouchers in our financial management system.

Comment: When **Western** decided to split the Intertie into two separate projects (230/345-kV and 500-kV) how has **Western** allocated the interconnection facilities between Mead Substation and Market Place Substation? The tie between the two substations was not required for the operation of the existing 345-kV project and therefore should be allocated to the 500-kV project. At a minimum **Western** needs to identify the offsetting benefits to the existing Intertie customers of these additions.

Response: The tie between Mead Substation and Marketplace Substation is 13 miles of 500-kV transmission line. The cost to build, operate and maintain these facilities is being allocated to the 500-kV transmission system.

Comment: It is our understanding that there is approximately 67 MW (Phoenix to Mead) of excess capacity available of the existing Intertie (345-kV line). Since **Western** has indicated they believe that they will be successful in marketing 668 MW on the 500-kV project. It seems appropriate that 67 MW of those sales would in reality be contract over the 345-kV line. Would **Western** provide its rationale for not including marketing the additional 67 MW on the 345-kV line before projecting sales on the more expensive 500-kV line.

Response: The referenced 67 MW of transmission system capacity was the estimated amount of capacity that was not under firm contractual arrangements for the existing system. This was stated at the August 18, 1995, public information forum. The existing system for the AC Intertie has a total marketable transmission system capability of 1,050,000 kilowatts.

Western currently has 987,643 kW of the 230/345-kV transmission

system capacity under firm contracts.

Comment: Included in **Western's** FY 1995 10-Year Plan is approximately \$5,016,000 to replace the 345-kV Series Capacitor Control and Bypass System. Has the installation of the 500-kV transmission line caused or contributed to the need to replace the series capacitor controls? Given the fact that the 500-kV transmission line may have excess capacity for some time, is there potential to delay this expenditure until additional transfer capability is needed? What is the rate impact of the **proposed** replacement of the capacitor controls?

Response: The series capacitor banks at Mead and Liberty substations were installed in July 1977. The PCB capacitor units were replaced in 1992 with new non-PCB units. The pneumatic control system is deteriorating and preliminary review indicates it should be replaced with an electronic and optical control system.

The installation of the 500-kV line did not cause or contribute to the deteriorating of the pneumatic control system. The series capacitors were not included in the cost base of the **power** repayment study because the projected in-service date went beyond the cost evaluation period for **power** repayment consideration. Although the costs were not included, a separate study has been run to determine the effect on the rate. The existing system rate would increase about \$.23/kW-year.

Comment: Would **Western** provide its rationale for allocating Other Revenues/Costs on miles of transmission?

Response: **Western's** staff used the following rationale to distribute projected Other Deductions and Other Revenues for the AC Intertie Project to the two systems as follows:

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In the early studies, **Western** determined the total miles of the AC Intertie Project and developed a percentage breakdown by transmission miles. The existing system (230/345-kV transmission lines) consists of 271 miles of transmission lines or 37 percent of the combined system. The new system (500-kV transmission lines) consists of 458 miles of transmission lines or 63 percent of the combined system.

Based upon customer request and comment, **Western** changed its methodology and based the other deductions and other revenues upon the total O&M in the combined **power** repayment study. **Western's** staff determined the total O&M costs on the combined system for the AC Intertie Project and developed a percentage breakdown based upon O&M costs, to determine a method for allocating Other Revenues/Costs to each of the separate systems. The allocation of other costs and other revenues obtained through the Multiproject Cost calculations, has been applied by the above methodology.

Comment: Would **Western** provide its rationale for a single nonfirm rate? What has been the historical nonfirm uses of the existing 345-kV system? Would **Western** please provide its projection of nonfirm energy sales on each of the **proposed** projects (345-kV and 500-kV)?

Response: Due to customer request to develop a single firm transmission service rate for the 230/345-kV and 500-kV transmission lines, **Western** decided to maintain one nonfirm transmission service rate for the AC Intertie Project. This maintains consistency with other **Western** projects and allows for the ability to market nonfirm transmission service through the WSPP Agreement and Joint Transmission Agreement of which **Western** is a participant. The single nonfirm transmission rate has been derived by calculating a firm rate from a

combined transmission line **power** repayment study. Once the yearly kW rate is determined, it is divided by 8760 hours in a year and multiplied by a 60 percent load factor. This number is then converted to mills/kWh.

Typically, **Western's** non-firm sales on the existing AC Intertie are made through our membership in the WSPP or under our fuel replacement program. For example, in FY 1995, WSPP sales totaled approximately 195 GWh and revenues of approximately \$2.3 million; fuel replacement sales totaled approximately 67 GWh and revenues of approximately \$670,000.

Projections for non-firm energy sales on the AC Intertie system should remain at the same levels. These sales could be split between the existing and 500-kV AC Intertie systems in the future.

Western determines future year projections for nonfirm transmission sales revenues for the AC Intertie Project by calculating a 3-year average of total nonfirm sales as reflected in the results of operations. **Western** does not keep a separate log of nonfirm sales by transmission line voltages; therefore information pertaining to separate projections of nonfirm sales on the 230/345-kV and 500-kV transmission lines is unavailable.

Comment: **Western's** white paper addresses the options to resolve the \$11.1 million in abandoned plant that **Western** has indicated as a cost responsibility of the AC Intertie project. We support **Western's** option number 4, and hereby request **Western** seek authority through the budget cycle to declare the abandoned plant as nonreimbursable.

Response: With customer support, **Western** will seek authority through the Department to declare the \$11.1 million of abandoned plant as nonreimbursable.

Comment: Consider the acceptability of directly assigning non-firm transmission revenues, which are based on the historical level of non-firm transmission, to the existing 345/230-kV system. Also, all ``Other Revenues and Expenses'' would be allocated based on an O&M factor versus the presently **proposed** ``Line Miles'' method.

Response: **Western** has been directly assigning all nonfirm transmission revenues, which are based on the historical level of nonfirm transmission, to the existing 230/345-kV system. We are estimating future nonfirm transmission revenues for the 500-kV system to be \$300,000 per year. Distribution of Other ``Revenue and Expenses'' which is due to Multiproject Cost and Revenues, are based upon O&M factors.

Comment: (1) Investigate what is included in the \$2.3 million revenue number stated in **Western's** October 13th letter. (2) What is the appropriate level of GWH for the Intertie and what would be the corresponding level of revenues?

Response: The \$2.3 million of WSPP sales mentioned in the October 13, 1995, letter includes total WSPP nonfirm transactions including energy sales made under WSPP during FY 1995. The transmission portion associated with the AC Intertie is approximately \$70,000. The GWH associated with these particular WSPP nonfirm transmission transactions for FY 1995 was approximately 26 GWH.

Comment: Continue the use of the 1,050,000 KW as the Marketable Capacity for the Existing 230/345 System. This issue centers on whether or not **Western** needs to reserve 50 MW of capacity on the existing system considering the ability to use both the 230/345-kV lines and 500-kV lines for ``operation flexibility.''

Response: The 1,050,000 kW is the estimated transmission capacity which is projected to be marketed, for the purposes of determining the existing 230/345-kV AC Intertie rate adjustment. This estimate is based

on projected demand for transmission capacity in the region and on transmission service requests received by **Western**. Transmission capacity in excess of 1,050,000 kW exists on the 230/345-kV AC Intertie system, but is primarily available from Mead Substation to the Phoenix **area** and is in limited demand. If transmission capacity in excess of 1,050,000 kW is marketed in the future, future rate adjustments will reflect the addition.

Comment: The information distributed by **Western** at the August 24, 1995, public information forum contains a page of ``AC Intertie Project Investments'' which are to be assigned to the existing and new systems. All of the investments, except the ``Mead-Phoenix 500-kV transmission line'' and the ``Mead-Adelanto 500-kV transmission line'' have been assigned to the existing 230/345 system. Yet, we know that at least a component of the ``Mead-Substation Stage 05'' investment should be allocated to the 500-kV system, specifically, the costs associated with four (4) of the 18 breakers. What are the costs associated with these four breakers and should any portion of the other investments be assigned to the 500-kV system.

Response: The costs associated with the four breakers which are attributed to the 500-kV system are cost for breaker hardware, installation, sectionalizing breaker, portion of design, portion of switch gear, portion of control boards, and portion of site preparation. The total cost attributed to the 500-kV system is \$1,945,071.

Breakdown of these costs are as follows:

Mead 05 Breaker Hardware.....	
\$589,200	
Mead 05 Breaker Installation.....	
494,030	
Mead 05 Sectionalizing Breaker.....	
103,345	
Mead 05 Portion of Design.....	
98,868	
Mead 05 Portion of Switchgear.....	
55,000	
Mead 05 Portion of CNTRL Boards.....	
79,448	
Portion of Mead:	
CNTRL Bldg., Site Prep.....	
525,181	
-	-----
Total Itemized Cost:.....	
1,945,071	

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Western believes that all other investments have been properly allocated to the 230/345-kV system and the 500-kV system. We are in the process of closing out work for the 500-kV system and would be willing to provide detailed information on the allocation of equipment. If an adjustment is necessary, **Western** will work with customers during the next rate adjustment process.

Comments: Repayment of the Capitalized Deficits in FY 96. In accordance with a customer's request, run a new PRS in which the capitalized deficit is repaid in FY 1996, and then a separate PRS for years 1997 forward.

Response: Based upon the request, **Western** ran a new study forcing the deficits to be paid by 1996, the results, using the Compound Interest Amortization method are: Rates: FY 1995--\$4.46, FY 1996--\$10.36, FY 1997--\$7.21.

Comment: Customer request **Western** to determine separate nonfirm transmission rates for the existing 230/345-kV transmission system and the new 500-kV transmission line.

Response: The calculated nonfirm transmission service rate for the 230/345-kV transmission lines is 1.40 mills/kWh. The calculated nonfirm transmission service rate for the 500-kV transmission lines is 3.28 mills/kWh.

Comment: We have heard that the **Area** Manager of the Boulder City **Area** Office may have written off the abandoned plant dollars in 1983. Does any document exist writing off the abandoned plant?

Response: **Western** has not been able to locate the document and is not sure that such a document exists. **Area** Managers do not have the authority to write off a dollar amount of such magnitude. **Western** will continue to search for the document and check for the legality of the document.

Environmental Evaluation

In compliance with the National Environmental Policy Act of 1969, 42 U.S.C. 4321 et seq.; 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 the preparation of the environmental assessment or an environmental impact statement.

Executive Order 12866

DOE has determined that this is not a significant regulatory action because it does not meet the criteria of Executive Order 12866, 58 FR 51735. **Western** has an exemption from centralized regulatory review under Executive Order 12866; accordingly, no clearance of this notice by OMB is required.

Availability of Information

Information regarding this rate adjustment, including PRSs, comments, letters, memorandums, and other supporting material made or kept by **Western** for the purpose of developing the **power** rates, is available for public review at the Desert Southwest Customer Service Region, **Western Area Power Administration**, Office of the Assistant Regional Manager for **Power** Marketing, 615 South 43rd Avenue, Phoenix, Arizona 85009-5313; and **Power** Marketing Liaison Office, Room 8G-027, Forrestal Building, 1000 Independence Avenue SW., Washington, DC 20585-0001.

Submission to Federal Energy Regulatory Commission

The rates herein confirmed, approved, and placed in effect on an interim basis, together with supporting documents, will be submitted to

FERC for confirmation and approval on a final basis.

Order

In view of the foregoing and pursuant to the authority delegated to me by the Secretary of Energy, I confirm and approve on an interim basis, effective February 1, 1996, the Rate Schedules INT-FT2 and INT-NFT2. The rate schedules shall remain in effect on an interim basis, pending FERC confirmation and approval of them or substitute rates on a final basis, through September 30, 2000.

Issued in Washington, D.C., January 30, 1996.
Charles B. Curtis

Supersedes Rate Schedule INT-FT1

United States Department of Energy **Western Area Power Administration**

Pacific Northwest-Pacific Southwest Intertie Project

Schedule of Rates for Firm Transmission Service

Effective

The first day of the first full billing period beginning on or after February 1, 1996, and will remain in effect through September 30, 2000, or until superseded, whichever occurs first.

Available

In the marketing **area** served by the Pacific Northwest-Pacific Southwest Intertie Project.

Applicable

To firm transmission service customers where capacity and energy are supplied to the Pacific Northwest-Pacific Southwest Intertie Project (AC Intertie) system at points of interconnection with other systems and transmitted and delivered, on a bi-directional basis, less losses, to points of delivery on the AC Intertie system specified in the service contract.

Character and Conditions of Service

Alternating current at 60 Hertz, three-phase, delivered and metered at the voltages and points of delivery established by contract over the 230/345-kV transmission lines.

Rates 230/345-kv System

Firm Transmission Service Charge: February 1, 1996, through September 30, 1996: \$8.26 per kilowatt per year for each kilowatt delivered at the point of delivery, as established by contract: payable monthly at the rate of \$0.688 per kilowatt.

October 1, 1996, through September 30, 2000: \$6.58 per kilowatt per year for each kilowatt delivered at the point of delivery, as established by contract, payable monthly at the rate of \$0.548 per

kilowatt.

Rates 500-kv System

Alternating current at 60 Hertz, three-phase, delivered and metered at the voltages and points of delivery established by contract over the 500-kV transmission lines.

Firm Transmission Service Charge: February 1, 1996, through September 30, 1998: \$17.98 per kilowatt per year for each kilowatt delivered at the point of delivery, as established by contract, payable monthly at the rate of \$1.50 per kilowatt.

October 1, 1998, through September 30, 2000: \$17.23 per kilowatt per year for each kilowatt delivered at the point of delivery, as established by contract, payable monthly at the rate of \$1.44 per kilowatt

Adjustments

For Reactive **Power**

None. There shall be no entitlement to transfer of reactive kilovolt-amperes at points of delivery, except when such transfers may be mutually agreed upon by contractor and contracting officer or their authorized representatives.

For Losses

Capacity and energy losses incurred in connection with the transmission and delivery of capacity and energy under this rate schedule shall be supplied by

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the customer in accordance with the service contract.

Rate Schedule INT-NFT2;Supersedes Rate Schedule INT-NFT1

United States Department of Energy **Western Area Power Administration**

Pacific Northwest-Pacific Southwest Intertie Project

Schedule of Rates for Nonfirm Transmission Service

Effective

The first day of the first full billing period beginning on or after February 1, 1996, and will remain in effect through September 30, 2000, or until superseded, whichever occurs first.

Available

In the marketing **area** served by the Pacific Northwest-Pacific Southwest Intertie Project.

Applicable

To nonfirm transmission service customers where capacity and energy are supplied to the Pacific Northwest-Pacific Southwest Intertie

Project (AC Intertie) system at points of interconnection with other systems and transmitted and delivered, on a bi-directional basis, less losses, to points of delivery on the AC Intertie system established by contract.

Character and Conditions of Service

Alternating current at 60 Hertz, three-phase, delivered and metered at the voltages and points of delivery established by contract.

Rate

Nonfirm Transmission Service Charge: 2.00 mills per kilowatthour of the scheduled delivered kilowatthours at the point of delivery, established by contract, payable monthly.

Adjustments

For Reactive **Power**

None. There shall be no entitlement to transfer of reactive kilovolt-amperes at points of delivery, except when such transfers may be mutually agreed upon by contractor and contracting officer or their authorized representatives.

For Losses

Capacity and energy losses incurred in connection with the transmission and delivery of capacity and energy under this rate schedule shall be supplied by the customer in accordance with the service contract.

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