



CREDA
Colorado River Energy Distributors Association

ARIZONA

Arizona Municipal Power Users Association

Arizona Power Authority

Arizona Power Pooling Association

Irrigation and Electrical Districts
Association

Navajo Tribal Utility Authority
(also New Mexico, Utah)

Salt River Project

COLORADO

Colorado Springs Utilities

Intermountain Rural Electric Association

Platte River Power Authority

Tri-State Generation & Transmission
Association, Inc.
(also Nebraska, Wyoming, New Mexico)

Yampa Valley Electric
Association, Inc.

NEVADA

Colorado River Commission
of Nevada

Silver State Power Association

NEW MEXICO

Farmington Electric Utility System

Los Alamos County

Tri-State Generation & Transmission
Cooperative

City of Truth or Consequences

UTAH

City of Provo

City of St. George

South Utah Valley Electric Service District

Utah Associated Municipal Power Systems

Utah Municipal Power Agency

WYOMING

Wyoming Municipal Power Agency

Leslie James

Executive Director

CREDA

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May 5, 2008

Mr. Brad Warren
CRSP Management Center
Western Area Power Administration
P.O. Box 11606
Salt Lake City, UT 84147-0606

Email: CRSPMCadj@wapa.gov -- WAPA-137

Dear Mr. Warren:

Following are comments on the Salt Lake City Area Integrated Projects Firm Power Rate proceeding (73 FR No. 3, January 4, 2008 and 73 FR No. 57, March 24, 2008), submitted by the Colorado River Energy Distributors Association (CREDA).

CREDA appreciates the opportunity Western has afforded us to work with staff throughout this proceeding. In addition to the attached comments, CREDA encourages Western to continue evaluating power repayment study (PRS) obligation timing implications, as we believe this effort could have a significant impact on this rate implementation. CREDA also appreciates Western's efforts in scrubbing the FY 2010 work program materials. Because the formal work program process has not concluded prior to the comment deadline (May 5), we believe additional adjustments to the proposed rate may be appropriate, including but not limited to updated hydrologic forecasts and associated sales projections, reflection of enhanced unit efficiencies, and treatment of post-9/11 security costs. We reserve the right to comment on those adjustments prior to finalization of the rate.

Please do not hesitate to contact me with any questions.

Sincerely,

/s/ Leslie James

Leslie James
Executive Director

Cc: CREDA Board

WESTERN AREA POWER ADMINISTRATION -
SALT LAKE CITY AREA INTEGRATED PROJECTS
COMMENTS OF THE
COLORADO RIVER ENERGY DISTRIBUTORS ASSOCIATION (CREDA)
REGARDING THE PROPOSED RATE
TO TAKE EFFECT OCTOBER 1, 2008

The comments presented herein are in response to the proposed adjustment in the firm power rate of the Salt Lake City Area Integrated Projects, which consist of the Collbran, Rio Grande and Colorado River Storage Projects.^{1/} The Integrated Projects will be referred to herein as "CRSP".

The Colorado River Energy Distributors Association (CREDA) is a non-profit organization comprised of electric utility systems and agencies, which in total purchase approximately 85% of the firm power from the CRSP. CREDA members serve over four million consumers in six western states. CREDA appreciates the willingness of Western and the Bureau of Reclamation (Reclamation) to work with CREDA and its members during the rate process and through the process referred to as the "work program review" process. We believe through this process as set forth in the 1992 agreement (Contract No. 92-SLC-0208 as supplemented), CREDA and the agencies have successfully mitigated a higher rate. CREDA encourages the agencies to be flexible throughout this process and appreciates consideration of the following comments. These comments supplement the verbal comments offered at the March 4 and April 10, 2008 Comment Forums.

As a general comment, CREDA appreciates the level of detail and description contained in the January 2008 Brochure for Proposed Rates (Rate Brochure). However, although Table 6 (page 10) of the Rate Brochure is informative as to SLCA/IP marketable energy levels, there should be additional information provided which would portray the actual cost of the SLCA/IP resources to the customers. Clearly, the materials provide historical information as to revenue and expense levels. What they do not provide, and what CREDA believes is important in this process, is an examination of the "cents/kwh delivered" historical assessment. CREDA believes this type of analysis is necessary to identify the "true" cost to the customer, and would reflect not only the rate impact of revenue and expense levels, but also the rate impact of the operational changes resulting from environmental programs which have in essence reduced the CRSP resource by as much as one-third.

The CRSP is unique when compared to other Western projects. The nature of the revolving fund, the Colorado River Basin drought, the environmental programs associated with the projects and the challenges surrounding working with three Western offices provide both obstacles and opportunities for the agency and its customers. CREDA appreciates the extent to which the CRSP Management Center has engaged in meaningful dialogue with its customers in an effort to address drought and financial impacts to the CRSP. This office's willingness to entertain suggestions and develop alternatives to mitigate significant rate increases indicates a true desire to implement the lowest possible rate, consistent with sound business practice. CREDA offers the following specific comments and recommendations and requests that they be addressed in the rate order.

PROPOSED RATE ADJUSTMENT

At the April 10, 2008 Information and Comment Forum, a new composite rate was identified as 29.43 mills/kwh, a 16% increase to the existing rate of 25.28 mills/kwh. In addition, Western indicated it would be willing to consider a two-step rate. CREDA believes this approach is reasonable and appropriate, particularly given the recent uncertainties associated with hydrologic changes, work program review process timing, cost allocations and recent Congressional legislative action regarding post-9/11 security costs for Reclamation. As presented at the Information Forum, the primary "drivers" for this rate are o&m increases of Western (\$2.4 million/year) and \$33.7 million of RRADS. CREDA believes that through the ongoing work program review process, some of these costs could be reduced. CREDA continues to support the cost recovery charge concept (CRC) implemented in the last rate proceeding as a necessary and prudent measure to address drought conditions and uncertainty in the future price of purchased power. Given the current level of the Upper Colorado River Basin Fund, we recommend Western consider a "refinement" to the CRC concept, which CREDA believes could be implemented in the current rate proceeding without significant revision to the CRC formula and definitions. Specific comments and recommendations follow.

^{1/} Notices published in the Federal Register, Volume 73 No. 3, January 4, 2008 and Volume 73 No. 57, March 24, 2008.

- I. IRRIGATION ASSISTANCE: CREDA believes that much of the impetus for the proposed rate increase stems from the acceleration of the pinch point. The accelerated pinch point results from the inclusion in the CRSP Power Repayment Study (PRS) of projected obligations and conditions concerning irrigation assistance for projects that are highly speculative or in fact nonexistent. While a PRS by its very nature looks forward many years to ensure that future reimbursement and repayment obligations can be met, projections must reflect *existing conditions* and *reasonable expectations* of future costs. This principle corresponds with the "known and measurable" standard typically applied by regulatory commissions. With regard to CRSP rates and the Irrigation Assistance projects, it should also be recognized that the apportionment mechanism causes, in effect, a five-fold repayment of investment. As a result, existing rates (absent inflation in o&m expenses, etc.), are already sufficient (in fact, OVERLY sufficient by about \$642 million) to repay all existing and contemplated federal investment related to irrigation for completed projects and projects under construction. CREDA encourages Western and Reclamation to consider "re-timing" programming of the associated apportionment obligations in the PRS to begin following the pinchpoint. CREDA believes this approach complies with the repayment obligation, and could result in a significant reduction of the proposed rate. **CREDA recommends that apportionment costs associated with unauthorized, unconstructed projects be programmed into the PRS beyond the pinchpoint.**
- II. CRC "ADJUSTER"/CREDIT: CREDA recognizes that the Upper Colorado River Basin Fund is not specifically tied to the rate adjustment process; however, it does have connection in that the CRC mechanism is triggered in part by Basin Fund levels. Given the existing status of the Basin Fund and Western's projection that it may be approximately \$83 million at fiscal year end, coupled with the anticipation that additional AHP revenues will flow into the Basin Fund over the next few months, CREDA proposes that Western consider the development of a "credit" mechanism whereby when actual purchased power expenses do not meet projections, a credit be returned to the firm power customers. CREDA would like to work with Western in developing such a mechanism, which could be conceptually similar to that which has been in place in the Southwestern Power Administration (SWPA) regarding its purchased power program for several years. One approach could be to compare the estimated cost of purchased power to the actual cost at the end of the fiscal year; the differential could be credited back to all customers in the form of either an adjustment to the CRC, or a bill credit per MWH on the next succeeding year's billing. CREDA requests that Western review and consider related rate orders from the FERC in dockets EF83-4011-000 and EF88-4011-000, which provide discretion and flexibility to the agency in dealing with purchased power-related revenues and expenses. Historically, Western and CREDA have had annual discussions, pursuant to the 1992 Agreement^{2/}, with regard to the Basin Fund, cash management and returns to Treasury. This consultation should include discussions regarding a credit mechanism and CREDA requests that this consultation begin as soon as practically feasible. **CREDA recommends Western consider a "credit" mechanism to address purchased power revenues and expenses, which could be addressed through the CRC.**
- III. WORK PLANS: CREDA, Western and the Bureau are engaged in the annual work review process. The formal process will not have been completed with regard to FY 2010 at the close of the comment period for this rate proceeding. In addition, due to timing of review under the 1992 Agreement, CREDA and Reclamation have not completed review of Reclamation's FY 2010 program. CREDA has submitted additional comments and questions (April 18, 2008). CREDA believes the purpose and intent of the 1992 work program agreement and joint transmission planning principles/ is to promote "rate impact planning", so there is full consideration given to potential project and rate impacts prior to decisions being made to include the costs in CRSP work program documents. Given the significant increases in o&m from Western, the potential for cost allocation revisions from Reclamation, and the recent Congressional action on the treatment of Reclamation's post-9/11 guard and patrol costs, **CREDA recommends the o&m components of this rate proceeding continue to be scrubbed and refined in consultation with CREDA in accordance with the 1992 Work Program Review Agreement prior to finalization of this rate proposal.** Clearly, RA6120.2 section 10.b. anticipates "decreasing costs as a method to help satisfy repayment obligations." We appreciate the agencies' ongoing efforts to scrub the work plans in a detailed, critical manner.
- VII. TWO-STEP RATE: CREDA initially asked Western to consider deferring the rate process a year (November 27, 2007 letter). In the alternative, CREDA appreciates Western's consideration of a two-step rate, particularly given the uncertainties associated with hydrology, work program review timing, cost allocations, recent Congressional action on the treatment of Reclamation's post-9/11 guard and patrol costs, the likelihood of equalization flows (as announced by Reclamation by press release April 11, 2008), impacts of experimental flows

^{2/} Letter Agreement No. 92-SLC-0208 and Agreement No. 96-SLC-0315.

at Glen Canyon Dam pursuant to the Environmental Assessment (EA) and Finding of No Significant Impact (FONSI) dated February 15, 2008, and potential completion of settlement of the Black Canyon of the Gunnison litigation followed by anticipated completion of an Environmental Impact Statement (EIS) and Record of Decision (ROD) on operation of the Aspinall Unit by December 31, 2008 (communication from Reclamation). CREDA also appreciates Western's development of alternatives for such a rate, as were described at the April 10, 2008 Information and Comment Forum. CREDA has reviewed and considered the various alternatives, as well as the pros and cons associated with each. **CREDA recommends that in the event Western cannot defer this proceeding by a year, that Western adopt a two-step rate in this current proceeding, with the first step of 0% to be implemented October 1, 2008, and the second step not to exceed 18% to be implemented October 1, 2009. Further, CREDA supports Western's statement at the April 10, 2008 Comment Forum that a new PRS would be completed prior to implementation of the second tier of this proposal and requests that Western consult with CREDA during development of the new PRS.**