

Construction, Rehabilitation, Operation and Maintenance Western Area Power Administration

Proposed Appropriation Language

For carrying out the functions authorized by title III, section 302(a)(1)(E) of the Act of August 4, 1977 (42 U.S.C. 7152), and other related activities including conservation and renewable resources programs as authorized, including official reception and representation expenses in an amount not to exceed \$1,500, \$171,000,000, to remain available until expended, of which \$167,236,000 shall be derived from the Department of the Interior Reclamation Fund: Provided, That all authorities and future contributions described in Section 402, subparagraph (b)(3)(B) of the Reclamation Projects Authorization and Adjustment Act of 1992 previously assigned to the Secretary of Energy, Western Area Power Administration, shall be transferred to the Secretary of the Interior, Bureau of Reclamation.

Note—A regular 2003 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 107-229, as amended). The amounts included for 2003 in this budget reflect the Administration's 2003 policy proposals.

Explanation of Change

New appropriation language transfers authorities and future contributions for the Utah Reclamation Mitigation and Conservation Account from the Secretary of Energy, Western Area Power Administration, to the Secretary of the Interior, Bureau of Reclamation. Revenues of \$20,000,000, authorized in P. L. 106-377, will be collected for purchase power and wheeling expenditures.

Western Area Power Administration

Executive Summary

Mission

The mission of the Western Area Power Administration (Western) is to market and deliver reliable, cost-based Federal hydroelectric power and related services. Western provides electric power to nearly 750 customers over a 1.3-million-square-mile area in the central and western United States.

Goals and Objectives

Western's goal and objective is to perform its power marketing mission in a manner that maintains the safety of employees and the public, ensures the reliability of its power system in an evolving electric utility industry, and repays the United States Treasury for the costs associated with the generation and transmission of the power and related services within the timeframes established by law and regulation.

Departmental Goal

One Department of Energy goal is to increase global energy security, maintain energy affordability and reduce adverse environmental impacts associated with energy production, distribution, and use by developing and promoting advanced energy technologies, policies and practices that efficiently increase domestic energy supply, diversity, productivity, and reliability.

Strategic Objective

ER9: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

This strategic objective is Western's Program Strategic Performance Goal:

ER9-1: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Program Assessment Rating Tool

Improving programs by focusing on results is an integral component of the President's budget and performance integration initiative. In FY 2002, Western participated in the Office of Management and Budget's Program Assessment Rating Tool (PART) process. The PART is a diagnostic tool that relies on objective data to form evidence-based judgments to assess and evaluate programs across a wide range of issues related to performance.

Strategy

To achieve safety and reliability performance standards while staying competitive, Western plans to accomplish its FY 2004 mission with 1,314 Federal employees, \$173.6 million of budget authority, \$193.6 million of spending authority from offsetting collections for revolving funded activities, \$4.0 million for Boulder Canyon Project, \$20 million of purchase power and wheeling receipts, and \$187.5 million alternative financing of purchase power and wheeling (net billing, bill crediting, non-Federal reimbursable advances, and Federal reimbursable). Western accomplishes its mission through five program activities: Program Direction, Operation and Maintenance, Construction and Rehabilitation, Purchase Power and Wheeling, and Utah Reclamation Mitigation and Conservation. These activities are financed through three accounts: the Construction, Rehabilitation, Operation and Maintenance Account, the Falcon and Amistad Operating and Maintenance Fund, and the Colorado River Basins Power Marketing Fund.

To achieve system reliability and transmission availability performance, the vast majority of Western's physical, financial and human resources are focused on making improvements to and performing maintenance on its transmission, communications, and control systems. Western supports a reliable transmission system in the western United States, effective operation of its control and reliability centers, active participation and leadership in electric reliability organizations, and open access to its transmission system. Western is judged by its customers to a great degree by the reliability of our service. Through better operating and maintenance practices, improved station commissioning and improved substation and transmission line design, Western will reduce the number of accountable outages on its system.

To achieve repayment of Federal power investment, Western establishes cost-based rates to recover all costs of providing power service, including principal and interest owed the U. S. Treasury, while providing an efficient, non-polluting, cost-effective source of energy to a sizeable geographic region of the nation.

To achieve the safety performance target, Western trains its employees on a continuing basis in occupational safety and health regulations, policies, and procedures and conducts safety meetings at employee, supervisory and management levels to keep the safety culture strong. Accidents are reviewed to ensure lessons are learned and proper work protocol is in place.

Major External Influences

- Responding to a May 2001 directive by DOE Secretary Spencer Abraham, Western put together a public-private partnership to resolve the longstanding congestion problem along Path 15, a transmission bottleneck between northern and southern California. On June 12, 2002, the Federal Energy Regulatory Commission approved a Letter Agreement setting out cost recovery and incentive proposals for this non-Federally financed \$306 million upgrade to the transmission line. The California Independent System Operator voted to accept the upgrade on June 25, 2002. Western and its Path 15 partners, Trans-Elect Inc. and Pacific Gas and Electric Company, will break ground on the project in 2003 and expect project completion by late 2004.

Major Program Changes

- The FY 2004 request continues to implement the Administration's FY 2003 proposal to fund the U. S. Army Corps of Engineers' operation and maintenance costs in Western's service area allocated to the power function for repayment using receipts from the sale of power and related services.
- The FY 2004 request continues the phase-out of the Federal financing of the Power Marketing Administration's purchase power and wheeling expenses. The authority to use receipts enacted in the Energy and Water Development Act of 2001 provides \$20 million for Western's FY 2004 purchase power and wheeling program. Western will continue to assist its customers as necessary using alternative funding methods (net billing, bill crediting, and cash advances).
- The FY 2004 budget request does not include funding for the Utah Reclamation Mitigation and Conservation Account. New appropriation language transfers authorities and any future contributions for the Account from the Secretary of Energy, Western Area Power Administration to the Secretary of the Interior, Bureau of Reclamation.

Site Funding and Federal Staffing Profiles

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Construction, Rehabilitation, Operation and Maintenance (CROM) Account			
Program Direction ^a	114,040	112,604	126,588
Operation and Maintenance ^a	38,184	38,253	36,204
Construction and Rehabilitation	18,764	17,784	12,200
Purchase Power and Wheeling ^b	186,124	30,000	20,000
Utah Mitigation and Conservation	6,000	0	0
Total, Operating Expenses.....	363,112	198,641	194,992
Planned Use of Prior Year Balances	0	-1,200	0
Offsetting Collections	-191,272	-34,683	-23,992
Total, CROM Account Budget Authority	171,840	162,758	171,000
Falcon and Amistad Operating and Maintenance Account	2,663	2,734	2,640
Colorado River Basins Power Marketing Fund (CRBPMF)			
Program Direction	35,427	38,373	40,090
Equipment, Contracts and Related Expenses	202,259	371,421	153,471
Total, Operating Expenses.....	237,686	409,794	193,561
Offsetting Collections Realized	-237,686	-431,794	-215,561
Total, CRBPMF Obligational Authority	0	-22,000	-22,000
Total, Western Area Power Administration, All Accounts	174,503	143,492	151,640
Full-time Equivalents	1,300	1,290	1,314

Michael S. HacsKaylo

January 23, 2003

(Date)

Michael S. HacsKaylo
Administrator, Western Area Power Administration

^a Funding amounts include activities of the Boulder Canyon Project which are funded directly through receipts from the Colorado River Dam Fund as authorized in P. L. 98-381. FY 2002 Program Direction amounts also reflect travel and administrative rescission of \$98,000 (P.L. 107-206).

^b The total purchase power and wheeling requirements are \$379.0 million, \$346.4 million, and \$207.5 million for FY 2002, FY 2003, and FY 2004, respectively. The total requirements are financed through receipts and alternative financing methods including net billing, bill crediting, non-Federal reimbursable advances, and Federal reimbursable authority. For additional detail on funding, refer to the Funding Schedule in the Purchase Power and Wheeling section.

Western Area Power Administration

Program Mission

The Western Area Power Administration (Western) markets and delivers reliable, cost-based Federal hydroelectric power and related services giving preference to publicly-owned electric utilities and cooperatives. Western provides electric power to nearly 750 customers over a 1.3-million-square-mile area in the central and western United States. Western repays the Federal investment for which it is responsible within the timeframes established by law and regulations.

Program Strategic Performance Goal

ER9-1: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council’s (NERC) Control Performance Standards, meeting repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Performance Indicators

- System Reliability Performance
- Repayment of Federal Power Investment
- Recordable Accident Frequency Rate

Annual Performance Results and Targets

FY 2002 Results	FY 2003 Targets	FY 2004 Targets
System Reliability Performance:		
Western achieved monthly control compliance ratings of “Pass” on Control Performance Standard (CPS) 1 and CPS2 for FY 2002. Western’s CPS 1 average was 185.66; the CPS2 average was 98.51. (ER2-5)	Attain monthly NERC compliance ratings of 100 or higher for Control Performance Standard (CPS) 1 and a rating of 90 or above for CPS2. (ER9-1)	Attain monthly NERC compliance ratings of 100 or higher for Control Performance Standard (CPS) 1 and a rating of 90 or above for CPS2. (ER9-1) System Reliability Performance: Accountable customer and/or transmission element outages will not exceed the average number of outages for the past five years. (ER9-1)
Repayment of Federal Power Investment: Final FY 2002 Repayment Study results are not yet available. Due to severe drought conditions Western anticipates it did not meet its annual repayment target of \$26.2 million. However, Western continues to be ahead of schedule for cumulative required repayments. (ER2-5)	Meet planned annual repayment of principal on Federal power investment. (ER9-2)	Meet planned annual repayment of principal on Federal power investment. (ER9-1)

FY 2002 Results	FY 2003 Targets	FY 2004 Targets
<p>Recordable Accident Frequency Rate:</p> <p>For FY 2002, Western achieved a recordable accident frequency rate of 1.0, or 69.7% below the 3.3 recordable accident frequency rate. The latest Bureau of Labor Statistics rate is 4.8. (ER2-5)</p>	<p>Achieve a recordable accident frequency rate for recordable injuries per 200,000 hours worked of not greater than 3.3, or the latest published Bureau of Labor Statistics' industry rate, whichever is lower. (ER9-3)</p>	<p>Repayment of Federal Power Investment: Meet required repayment of Federal power investment within the required repayment period. (ER9-1)</p> <p>Achieve a recordable accident frequency rate for recordable injuries per 200,000 hours worked of not greater than 3.3, or the latest published Bureau of Labor Statistics' industry rate, whichever is lower. (ER9-1)</p>

Program Assessment Rating Tool

The Program Assessment Rating Tool will provide valuable information. Western will work together with DOE and OMB to develop and refine recommendations on measures and targets used to indicate program performance. The annual targets as provided in this budget submission are measurable and reflect performance standards used in the electric utility industry to evaluate performance. Western will continue to achieve its mandate under the law in regard to marketing of Federal power, customer preference, cost recovery, widespread use of the power, and disposition of revenues.

Significant Accomplishments and Program Shifts

- The FY 2004 request continues to implement the Administration's FY 2003 proposal to fund the U.S. Army Corps of Engineers' operation and maintenance costs in Western's service area allocated to the power function for repayment using receipts from the sale of power and related services.
- FY 2004 marks the last year for which the Power Marketing Administrations have authority to use purchase power and wheeling receipts to cover the cost of that program. The phase-out assumes that customers, acting independently or in partnerships, will increasingly enter energy markets to arrange directly with suppliers for their energy and related service needs. The phase-out assumes that Western may continue to assist its customers with these activities, as necessary, through alternative funding mechanisms.
- The FY 2004 budget request does not include funding for the Utah Reclamation Mitigation and Conservation Account. New appropriation language transfers authorities and any future contributions for the Account from the Secretary of Energy, Western Area Power Administration to the Secretary of the Interior, Bureau of Reclamation. This Account funds environmental mitigation activities covering fish and wildlife, and recreation resources impacted by the Central Utah and Colorado River Storage Projects in the State of Utah. Western already separately finances, through its Colorado River Basins Power Marketing Fund, mitigation activities at two major facilities in Utah, Flaming Gorge Dam and Lake Powell/Glen Canyon Dam. Western also contributes to mitigation on tributaries that flow into Lake Powell through its funding of the Recovery Implementation Program (P.L. 106-392).
- Responding to a May 2001 directive by DOE Secretary Spencer Abraham, Western put together a public-private partnership to resolve the longstanding congestion problem along Path 15, a transmission bottleneck between northern and southern California. On June 12, 2002, the Federal

Energy Regulatory Commission approved a Letter Agreement setting out cost recovery and incentive proposals for this non-Federally financed \$306 million upgrade to the transmission system. The California Independent System Operator voted to accept the upgrade on June 25. Western and its Path 15 partners, Trans-Elect Inc. and Pacific Gas and Electric Company, will break ground on the project in 2003 and expect project completion by late 2004. On December 30, 2002, project participants executed the Construction and Coordination Agreement, which spells out the project terms and conditions in detail. Western expects to execute an engineering, procurement and construction contract for the transmission line work in late spring 2003. In the coming months, the Coordinated Operations and Interconnection Agreement (related to coordination and interconnection of the Path 15 upgrade with the existing PG&E electric system) and the Transmission Control Agreements and Transmission Owner Tariffs (necessary to turn over the operational control of the facilities to the California ISO) will be negotiated and developed.

- As authorized by Congress in 2001, the Montana-Dakotas Regional Transmission Study was completed in July 2002. The study, commissioned by Western, specifically targets transmission system reinforcements and upgrades needed to support an additional 1,000 megawatts of new wind and lignite coal energy generation in Montana, North Dakota and South Dakota.
- Western fully supports the President's Management Agenda:
 - Western began implementation of its Human Capital Initiative to ensure that Western retains qualified employees well into the future, despite an aging workforce. Western's plan addresses organizational alignment; succession planning; recruitment, retention and development of talented employees; and establishment of a performance culture. Western has trained all General Schedule managers and supervisors on implementation of a new performance system that cascades performance expectations from Senior Executive Service performance plans. Twenty-three Management Succession Program protégés, and 12 senior managers participated in a formal mentoring program during 2002. A developmental matrix for project managers was completed and includes both experience and educational recommendations at progressive levels of project management responsibility.
 - Western has been exempted from the first rounds of review for the competitive sourcing initiative through 2003. The purpose of the initiative is to make government operations more efficient and cost-effective. Customer oversight of our costs through participation in ratemaking and competition with other suppliers accomplishes these objectives. The Department and OMB determined that studies unnecessarily duplicate these processes and did not include Western in initial study plans.
 - Western has implemented an enterprise resources management system to collect, track and report critical financial and maintenance data. The major parts of this system are the Business Information Decision Support System (BIDSS) and MAXIMO, a maintenance management system. The MAXIMO system was upgraded in FY 2002 and BIDSS (Oracle Federal Financials) is scheduled for upgrade by the beginning of FY 2004. The upgrade will enhance data integrity both for internal management and audit requirements. Western met the accelerated reporting dates for both the FY 2002 audited financial statements and the FY 2002 Annual Assurance Statement. New internal controls and operating procedures were implemented in FY 2002, resulting in the elimination of Western's reportable condition.
 - Western has successfully implemented several e-government initiatives including on-line services for training registration and payment for its Electric Power Training Center, on-line

property sales/disposals, e-publishing, e-commerce, a pilot program for e-signatures for tariff documents in its Desert Southwest Regional Office, and automated human resource processes, including recruiting capabilities. Western's information technology network infrastructure architecture has been completed. Western has established the cyber security architecture layer based upon the Federal Architecture Model. In FY 2002, Western began submitting business cases for all major information technology investments.

- Beginning with FY 2003, Western integrated its performance measures with its budget request, provided a five-year plan that ties a program's funding request to its annual performance targets and links it with that of the Department's overall program. Western also participated in a program performance assessment for the FY 2004 budget using OMB's Program Assessment Rating Tool (PART). The PART assessment presents an opportunity to improve agency Government Performance and Results Act (GPRA) plans and reports and establishes a meaningful, systematic link between GPRA and the budget process.
- Western has conducted a thorough assessment of its inventory and initiated a plan to aggressively reduce the number of its vehicles in support of the DOE motor vehicle fleet reduction objectives. Western reduced its fleet by 21 vehicles in FY 2002, with reduction of an additional 55 vehicles planned by end of FY 2004.
- Line crews installed a one-mile test segment of new transmission conductor cable on the Jamestown-Fargo 230-kV No. 1 Transmission Line in North Dakota. The composite conductor, developed by the 3M Company, can carry up to three times the electricity as the same size conductor now in common use. The field test will show how well the new cable can mechanically withstand the extreme wind and winter/summer conditions on the Great Plains of North Dakota.
- Western's Virginia Smith DC Converter Station near Sidney, Nebraska, has been granted operating flexibility to operate in the opposite direction of Tri-State Generation and Transmission's David Hamil DC Converter Station at Stegall, Nebraska. Previous contractual and operating agreements with Nebraska Public Power District prevented such operation. This operating flexibility supports the President's National Energy Policy and DOE's resulting National Transmission Grid Study which seek to remove constraints on the interconnected transmission grid. The Virginia Smith DC Converter Station ties together the eastern and western power grids by converting up to 200 megawatts of alternating current electricity on one side to direct current and then back to alternating current, allowing power to flow between the two grids.
- Western supports the goal of lower rates to consumers through competitive energy supply, and fair and nondiscriminatory access to transmission, with continued emphasis on the importance of reliability. With this goal in mind, Western has voluntarily participated in regional transmission entities (RTE) formation efforts since 1996, and continues to be actively engaged as several RTEs evolve within Western's service territory. For example, Western was an active participant in the working groups that developed the tariff and associated documents filed with the Federal Energy Regulatory Commission (FERC) by WestConnect LLC. Western continues to monitor the activities of the California Independent System Operator, RTO West and TRANSLink Independent Transmission Company. Discussions with the Midwest ISO, with the potential for Western membership, are ongoing. Western could potentially participate in several RTEs, due to its widespread footprint. As the details of RTEs become clearer on such complex subjects as market design, Western will be able to assess the benefits and obstacles to participation. Prior to joining any RTE, Western will conduct a public process, including an environmental evaluation and an

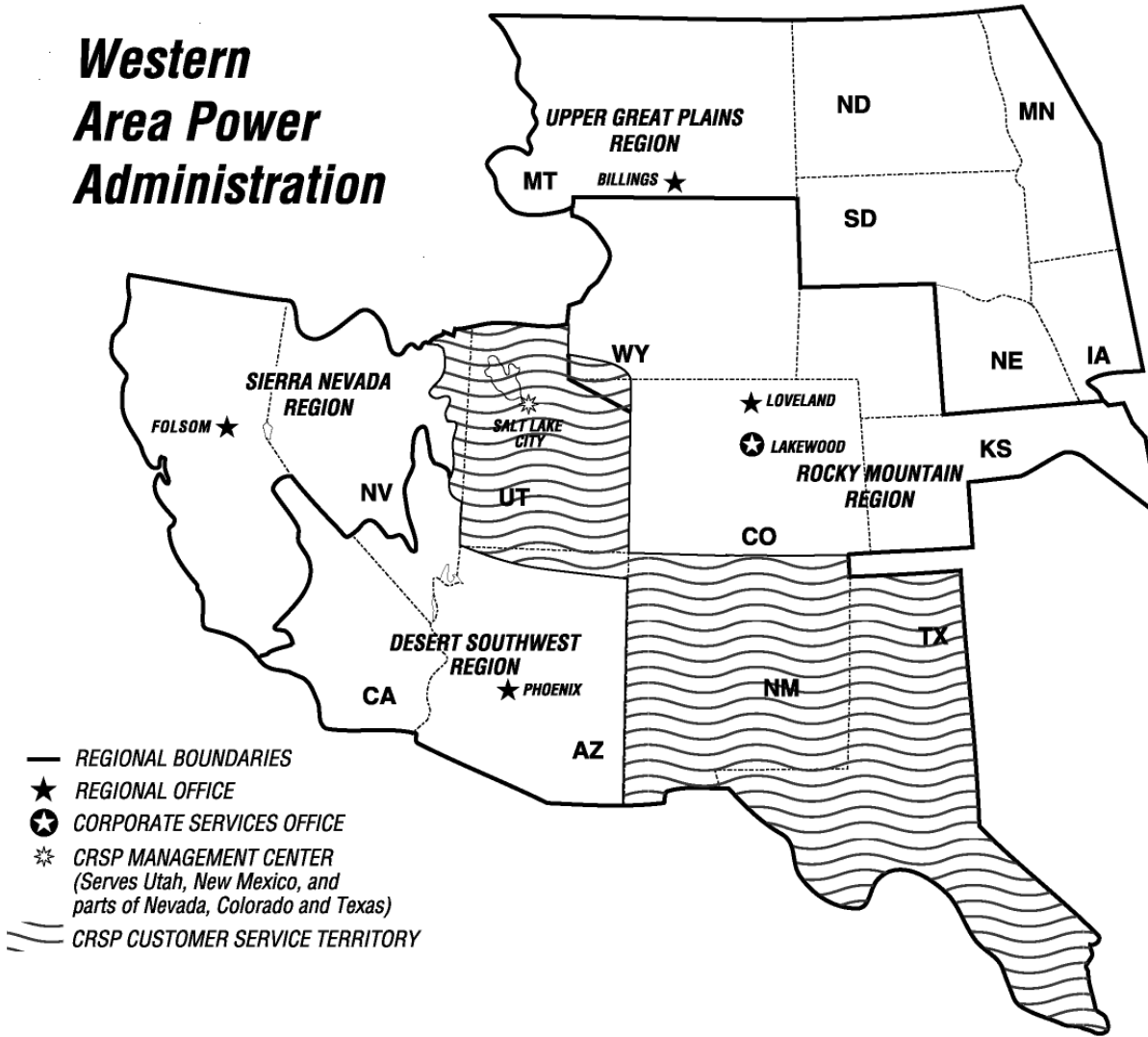
economic evaluation, to affirm that the benefits of joining an RTE outweigh the costs to Western and its customers.

- Western completed the Sacramento Voltage Support Draft Environmental Impact Statement (EIS) which evaluates the potential environmental effects of alternatives (one proposed, three additional alternatives, and a no-action alternative) to improve electric system reliability and voltage support in the Sacramento (California) area. Western held three public meetings and received approximately 20 comments. Western expects to release the Final EIS in mid-2003.
- Western continues its operation under the Western Electricity Coordinating Council's (WECC) Reliability Management System (RMS). RMS is a 3-phase, contract-based approach to ensure reliability of the interconnected transmission system. Monetary sanctions are imposed for violating criteria. Western received no sanctions in FY 2002.
- Western staff involved in energy scheduling, dispatching and information technology successfully upgraded our systems to conform to NERC's e-tagging format, an internet-based protocol. E-tags document the scheduling of energy from an energy supplier and the reservation to transmit that energy across the Nation's bulk electric transmission grid. The new system creates common formats for data exchanged via the Web. Every scheduling entity in the United States, Canada and Mexico had to launch the new software simultaneously at midnight Central Daylight Time on April 10, 2002, and the system had to work correctly and accurately from the start.
- Western's power marketing activities continue to provide significant benefits to new customers, including Native Americans. The source of power for new allocations is a lower hydropower commitment to existing customers as noted in Western's Energy Planning and Management Program (60 FR 54141, dated October 20, 1995). Approximately 65 megawatts (MW) of power from the Pick-Sloan Missouri Basin Program-Eastern Division was allocated to tribes for a 20-year contract term, commencing on January 1, 2001. In April of 2002, Western asked for letters of interest from entities desiring an additional 20 MW of Eastern Division power, available in 2006. Three Native American entities have signed contracts for three MW from Western's Sierra Nevada Region, with contracts becoming effective on January 1, 2005. Allocations from Western's Loveland Area Projects will provide power to 26 new customers, including Yellowstone National Park and six Native American tribes, with deliveries starting in the fall of 2004. Western's Colorado River Storage Project Management Center is actively negotiating power contracts that would commit about 94 MW of Federal hydropower to more than 50 tribes, to become effective when existing contracts expire in September 2004. Finally, Western's Desert Southwest Region has held six public meetings on a proposal to market power from the Parker-Davis Project when current contracts terminate in 2008.
- In FY 2002, Western operated and maintained 16,859 circuit-miles of high-voltage transmission lines, 263 substations, and associated power system control, communication and electrical facilities located across Western's 15-state service territory; marketed reliable hydroelectric power to nearly 750 power customers, and provided system operations and load dispatching, power billing and collection, power marketing, power resource planning, energy services, technology transfer, security and emergency management for 15 separate power projects.
- In response to the Secretary's policy direction in June of 2002, Western has offered green tag and renewable energy acquisition services to the Department of Defense. To date, Western has been instrumental in successfully delivering green tags to Edwards (California), Ellsworth (South Dakota) and Warren (Wyoming) Air Force Bases. In partnership with DOE, money has been made available

for the marketing of Western's green tag/renewable energy acquisition services to other Federal agencies within our service territory. An informational brochure is being drafted, and a marketing effort is anticipated in early 2003.

- In May 2002, Western received DOE's Service-Disabled Veteran-owned Small Business Award. Western awarded 79.7 percent of total acquisitions to small business concerns in FY 2002.
- The cost and benefits of Western's operation, maintenance and capitalized work are often shared with other Federal entities under reimbursable agreements and with non-Federal participants under the authorities provided in the Interior Department Appropriations Act of 1928 and the Contributed Funds Act. Western continues to pursue alternative forms of financing for its programs, such as bill crediting and customer advance funding, to reduce its dependence on annual appropriations while maintaining the same level of oversight and control.

Western Area Power Administration



Construction, Rehabilitation, Operation and Maintenance

Funding Profile

(dollars in thousands)

	FY 2002 Comparable Appropriation	FY 2003 Request	FY 2004 Request	\$ Change	% Change
Construction, Rehabilitation, Operation and Maintenance Account					
Program Direction ^a	114,040	112,604	126,588	+13,984	+12.4%
Operation and Maintenance ^a	38,184	38,253	36,204	-2,049	-5.4%
Construction and Rehabilitation	18,764	17,784	12,200	-5,584	-31.4%
Purchase Power and Wheeling ^b	186,124	30,000	20,000	-10,000	-33.3%
Utah Mitigation and Conservation	6,000	0	0	0	0.0%
Total Program, Operating Expenses	363,112	198,641	194,992	-3,649	-1.8%
Use of Prior Year Balances	0	-1,200	0	+1,200	+100.0%
Offsetting Collections from Colorado River Dam Fund (P. L. 98-381)	-5,148	-4,683	-3,992	+691	+14.8%
Offsetting Collections	-152,624	0	0	0	0.0%
Offsetting Collections (P. L. 106-377)	-33,500	-30,000	-20,000	+10,000	+33.3%
Total Budget Authority Request	171,840	162,758	171,000	+8,242	+5.1%
Additional net budget authority to cover the cost of fully accruing retirement (non-add)	(6,121)	(6,030)	(7,019)	(+989)	(+16.4%)

Public Law Authorizations:

Public Law 57-161, "The Reclamation Act of 1902"
 Public Law 78-534, "Flood Control Act of 1944"
 Public Law 95-91, "Department of Energy Organization Act" (1977)
 Public Law 102-486, "Energy Policy Act of 1992"
 Public Law 66-389, "Sundry Civil Appropriations Act" (1922)
 Public Law 76-260, "Reclamation Project Act of 1939"
 Public Law 80-790, "Emergency Fund Act of 1948"
 Public Law 102-575, "Reclamation Projects Authorization and Adjustment Act of 1992"
 "Economy Act" of 1932, as amended (41 stat. 613)
 "Interior Department Appropriation Act of 1928" (44 stat. 957)
 Public Law 70-642, "Boulder Canyon Project Act" (1928)
 Public Law 75-756, "Boulder Canyon Project Adjustment Act" (1940)
 Public Law 98-381, "Hoover Power Plant Act of 1984"

^a Funding amounts include activities of the Boulder Canyon Project which are funded directly through receipts from the Colorado River Dam Fund as authorized in P. L. 98-381. FY 2002 Program Direction amount also reflects travel and administrative rescission of \$98,000 (P.L. 107-206).

^b The total purchase power and wheeling requirements are \$379.0 million, \$346.4 million, and \$207.5 million for FY 2002, FY 2003, and FY 2004, respectively. The total requirements are financed through receipts and alternative financing methods including net billing, bill crediting, non-Federal reimbursable advances, and Federal reimbursable authority. For additional detail on funding, refer to the Funding Schedule in the Purchase Power and Wheeling section.

Funding by Site

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Western Area Power Administration	363,112	198,641	194,992	-3,649	-1.8%
Use of Prior Year Balances	0	-1,200	0	+1,200	+100.0%
Offsetting Collections.....	-191,272	-34,683	-23,992	+10,691	+30.8%
Total, Construction, Rehabilitation, Operation and Maintenance Account	171,840	162,758	171,000	+8,242	+5.1%

Site Description

Western's service area covers 1.3-million square miles in 15 states. Compilation of FY 2002 customer count is underway. In FY 2002 Western sold energy to 748 wholesale customers including 309 municipalities, 66 cooperatives, 20 public utility and 47 irrigation districts, 39 Federal and 63 State facilities, 47 investor-owned utilities, 41 marketers, 35 Native American tribes, and 81 project use customers. They, in turn, provide retail electric service to millions of consumers in these central and western states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming.

Western annually markets and transmits about 10,000 megawatts of power from 55 hydropower plants and sells about 40 percent of regional hydroelectric generation. Western also markets the United States' entitlement from the coal-fired Navajo Generating Station near Page, Arizona.

Western operates and maintains an extensive and complex high-voltage transmission system to deliver power to its customers. In FY 2004, using this nearly 17,000-circuit-mile Federal transmission system, Western will market and deliver reliable electric power to most of the western half of the United States.

The power facilities are made up of 14 multipurpose water resource projects and one transmission project. The systems include Western's transmission facilities and power generation facilities owned and operated by the U. S. Bureau of Reclamation, the U. S. Army Corps of Engineers and the U.S. Section of the International Boundary and Water Commission.

Power sales, transmission operations and engineering services for Western's system are accomplished by its employees at 52 duty stations located throughout its service area. These include the Corporate Services Office in Lakewood, Colorado, and four customer service regional offices in Billings, Montana; Loveland, Colorado; Phoenix, Arizona; and Folsom, California. The Colorado River Storage Project is also supported by a Management Center in Salt Lake City, Utah.

Construction, Rehabilitation, Operation and Maintenance Program Direction

Mission Supporting Goals and Objectives

Western's Program Direction activity provides compensation and all related expenses for the workforce that operates and maintains Western's high-voltage interconnected transmission system and associated facilities; those that plan, design, and supervise the construction of replacements, upgrades and additions (capital investments) to the transmission facilities; and those that market the power and energy produced to repay annual expenses and capital investment.

Western previously executed a self-imposed downsizing effort to ensure its competitiveness in the industry. By the end of FY 1998, this transformation resulted in a reduction of 26 percent of total staff (Federal staff decreased from 1,504 to 1,329; contract staff went from 601 to 239). Western's FY 2002 FTE usage was 1,300.

The Program Direction activity supports Western's Program Strategic Performance Goal. To attain reliability performance, dispatchers match generation to load minute-by-minute to meet or exceed performance levels established by NERC. Western maintains the interconnected system at or above industry standards to reduce transmission outages. Energy schedulers maximize revenues from non-firm energy sales and power rates are reviewed and adjusted to support repayment of Federal investment. Western trains its employees on a continuing basis in occupational safety and health regulations, policies and procedures, and conducts safety meetings at employee, supervisory and management levels to keep the safety culture strong. Accidents are reviewed to ensure lessons are learned and proper work protocol is in place.

Western operates and maintains a transmission system to ensure an adequate supply of reliable electric power in a clean and environmentally-safe, cost-effective manner within its 15-state service territory. Western achieves continuity of service by maintaining its power system at or above industry standards, rapidly restoring service following any system disturbance, mitigating adverse environmental impacts, performing environmental clean-up activities, and maximizing the benefits gained from non-firm energy sales. Additionally, Western operates the WECC's Rocky Mountain/Desert Southwest Reliability Coordination Center.

Western markets power generated at 55 hydropower plants which are operated primarily by the Bureau of Reclamation, the U. S. Army Corps of Engineers, and the U. S. Section of the International Boundary and Water Commission. Western also markets the United States' entitlement from the Navajo coal-fired powerplant near Page, Arizona.

In concert with its customers, Western reviews required replacements and upgrades to its existing infrastructure to sustain reliable power delivery to its customers and to contain annual maintenance expenses. The timing and scope of these replacements and upgrades are critical to assure that Western's facilities do not become the "weak link" in the interconnected system. Western pursues opportunities to join with neighboring utilities to jointly finance activities, which result in realized cost savings and/or increased efficiencies for all participants and avoid redundant facilities.

Funding Schedule

(dollars in thousands, whole FTEs)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Program Direction ^a					
Salaries & Benefits	79,259	82,265	89,886	+7,621	+9.3%
Travel.....	8,415	6,926	6,968	+42	+0.6%
Support Services	12,421	10,488	13,734	+3,246	+30.9%
Other Related Expenses	13,945	12,925	16,000	+3,075	+23.8%
Total, Program	114,040	112,604	126,588	+13,984	+12.4%
Use of Receipts from Colorado River Dam Fund ^a	-4,760	-4,226	-3,388	+838	+19.8%
Total, Program Direction Budget Authority	109,280	108,378	123,200	+14,822	+13.7%
Additional net budget authority to cover the cost of fully accruing retirement (non-add).....	(6,121)	(6,030)	(7,019)	(+989)	(+16.4%)
Full-time Equivalents.....	1,024	1,022	1,042	+20	+2.0%

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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Salaries and Benefits..... 79,259 82,265 89,886

In FY 2004, salaries and benefits are provided for Federal employees to operate and maintain, on a continuing basis, Western’s high-voltage interconnected transmission system comprised of 16,883 circuit-miles of line, 271 substations, associated power system control and communication, and general plant facilities. Craft workers rapidly restore the transmission system following any disturbance, and routinely maintain and/or replace equipment to assure capability for reliable delivery of power. Dispatchers provide 24-hour-a-day operation of four dispatching centers and one reliability coordination center. Dispatchers respond to minute-by-minute changes to load and generation to meet or exceed NERC and industry averages. Engineers and craft workers maintain the interconnected system at or above industry standards to reduce transmission outages. Energy schedulers maximize revenues from non-firm energy sales. Staffs provide continuing services such as system operations, power billing and collection, power marketing, rate setting activities, energy services, environmental, safety, security and emergency management activities. Due to the extreme hazards associated with a high-voltage electrical system, staffs make safety a priority in each and every task. Staffs inspect construction activities in progress (identified in the Construction and Rehabilitation activity) to ensure quality results and safe

^a Program descriptions and funding amounts include activities of the Boulder Canyon Project. These activities are funded directly through receipts from the Colorado River Dam Fund as authorized in P. L. 98-381. The FY 2002 amount also reflects the travel and administrative rescission of \$98,000 (P.L. 107-206).

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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working methods. General power resources planning and preconstruction activities continue, including planning, environmental clearance, collection of field data, design of facilities, and issuance of specifications for future rehabilitation and upgrades of existing transmission lines and the review/coordination of requests for transmission system interconnections. Staffs evaluate general power resources, collaborating and planning with customers and other members of the interconnected transmission system, to identify the most effective transmission system improvements to maximize benefits to all participants.

Total FTE numbers for FY 2004 include 1,024 for Western’s Construction, Rehabilitation, Operation and Maintenance (CROM) Account activities and 18 for Boulder Canyon Project (BCP) activities accomplished using receipts from the Colorado River Dam Fund under a reimbursable agreement with the Bureau of Reclamation. FTE reflected for CROM Account activities total 1,007 and 999 for FY 2002 and 2003, respectively. FTE associated with BCP activities for those fiscal years total 17 and 23, respectively.

The additional FTE requested in 2004 include computer specialists to support cyber security, power dispatchers and schedulers to meet increasing workload associated with e-tagging and real-time scheduling, public utility specialists/accountants for energy scheduling and after-the-fact power accounting for independent power producers and increased financial/cash-flow management responsibilities associated with the Post 2004 Marketing Plan in the Sierra Nevada Region.

The FY 2004 funding request reflects anticipated salary and within-grade increases to fund the majority of the 1,024 FTE financed in this account. The program request includes \$1,762,000 for activities of the Boulder Canyon Project. Customer advances finance the remainder. Western’s overall average salary/benefit costs for FY 2002 (actuals), and budgeted in FY 2003 and FY 2004, are \$86,132, \$90,023, and \$96,056, respectively. Over 37 percent of Western’s personnel salaries and compensation policies are determined through negotiation (craft workers, power system dispatchers, schedulers, and marketers) and become effective at the beginning of a fiscal year rather than in January as do the GS scale increases. Due to recruitment/retention issues for those occupations across the nation and increased staff in these categories to meet the additional workload requirements attributed to FERC Orders No. 888 and 889, Western’s Federal salary/benefit costs for the dispatching/scheduling functions have increased significantly: 7.1 percent in FY 2001; 14.1 percent in FY 2002; and an estimated 4.8 percent in FY 2003. Western anticipates similar increases in FY 2004.

Travel **8,415** **6,926** **6,968**

Estimates, including \$142,000 for the Boulder Canyon Project, include transportation and per diem allowances for day-to-day performance of duties of Federal staff, including crews who maintain the interconnected system. The remote and rural locations in Western’s 15-state service area lead to less competitive pricing. Rental/lease of GSA vehicles and transportation of things are also included. Estimates are based on historical costs and an assessment of planned activity. The increase is attributed to inflationary increases offset by reductions in transportation costs due to decreased equipment purchases.

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Support Services.....	12,421	10,488	13,734
Support services funded in this activity include information processing, warehousing, computer-aided drafting, engineering, and general administrative support. The restoration of Western's technical support services program associated with its construction program and interconnection requests is funded at \$1.2 million. The activity provides critical support for review/coordination of the increasing requests for interconnections to Western's transmission system. General administrative services support increases about \$2.0 million primarily reflecting the re-negotiation of the Sierra Nevada Region contract where Western anticipates a 20 percent increase. Receipts from the Colorado River Dam Fund provide \$412,000 of funding for these services.			
Other Related Expenses	13,945	12,925	16,000
Other related expenses include rental space, utilities, supplies and materials, telecommunications, personal computers, printing and reproduction, training tuition, and DOE's working capital fund distribution. The Boulder Canyon portion of these expenses total \$1,072,000. Rental space costs assume the General Services Administration's (GSA) inflation factor. Other costs are based on historical usage and actual cost of similar items. The increase is attributed to numerous factors: software procurement/maintenance activities/capital acquisitions increase \$1.5 million attributed to maintaining and licensing multiple software packages and maintenance costs of office machines. Additionally, other costs increase \$1.6 million primarily attributed to a step-up of staged replacement of personal computers (PC) (non-capitalized equipment). The replacement of PCs is necessary to have robust enough machines to be able to accommodate Western's planned upgrade of its financial system. Rental space costs decrease \$73,000.			
Total, Program Direction	114,040	112,604	126,588

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Salaries and Benefits

- The increase in salaries and benefits is primarily attributed to salary and within-grade increases to fund the majority of the 1,024 FTEs financed in this account, including salaries determined through negotiation, and an increase of 20 FTE. +7,621

Travel

- The slight increase in travel is attributed to inflationary increases offset by decreased transportation costs resulting from fewer equipment purchases. +42

FY 2004 vs. FY 2003 (\$000)

Support Services

- Support services cost increases include \$1.2 million for technical support services associated with Western’s construction program and interconnection requests, and \$2.0 million for general administrative support including re-negotiation of the Sierra Nevada Region contract. +3,246

Other Related Expenses

- The increase is attributed to numerous factors: software/maintenance activities and capital acquisitions increase \$1.5 million attributed to maintaining and licensing multiple software packages and additional maintenance costs as office machines near their life-cycle. Additionally, other costs increase \$1.6 million primarily attributed to a step-up of staged replacement of personal computers (non-capitalized equipment). Rental space costs decrease \$73,000. +3,075

Total Funding Change, Program Direction +13,984

Support Services

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Technical Support Services					
Economic and Environmental Analysis	1,711	0	1,223	+1,223	+100.0%
Test and Evaluation Studies.....	0	0	0	0	N/A
Total, Technical Support Services.....	1,711	0	1,223	+1,223	+100.0%
Management Support Services					
Management Studies.....	171	16	0	-16	-100.0%
Training and Education.....	0	0	0	0	N/A
ADP Support.....	5,194	5,258	5,258	0	0.0%
Administrative Support Services.....	5,345	5,214	7,253	+2,039	+39.1%
Total, Management Support Services	10,710	10,488	12,511	+2,023	+19.3%
Total, Support Services	12,421	10,488	13,734	+3,246	+30.9%

Other Related Expenses

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Training	930	828	828	0	0.0%
Working Capital Fund	871	933	937	+4	+0.4%
Printing and Reproduction	278	153	153	0	0.0%
Rental Space	2,410	2,491	2,418	-73	-2.9%
Software Procurement/Maintenance Activities/Capital Acquisitions	3,590	2,837	4,292	+1,455	+51.3%
Other	5,866	5,683	7,372	+1,689	+29.7%
Total, Other Related Expenses	13,945	12,925	16,000	+3,075	+23.8%

Operation and Maintenance

Mission Supporting Goals and Objectives

Western's operation and maintenance (O&M) activity supports the DOE's mission to promote secure, reliable, and environmentally responsible energy systems that serve the needs of the public. Western ensures an adequate supply of reliable electric power in a safe, cost-effective manner, and achieves continuity of service throughout its 15-state service territory by maintaining its power system at or above industry maintenance standards, rapidly restoring service following any system disturbance, mitigating adverse environmental impacts, performing clean-up activities, and maximizing the revenues gained from non-firm energy sales.

Supplies and materials, such as wood poles, instrument transformers, meters and relays must be procured to provide necessary resources to respond to routine and emergency situations in Western's high-voltage interconnected transmission system. Western implemented reliability-centered maintenance (RCM) scheduling to contain costs. RCM focuses on identifying critical components in a system and uses preventive and predictive maintenance practices to repair or replace equipment as needed. Technical services, such as waste management disposal, environmental impact analyses, and pest and weed control are used as needed.

Western's planned replacement and addition activity is based on an assessment of condition and criticality of equipment, maintenance/frequency of problems for individual items of equipment, availability of replacement parts, safety of the public and Western's personnel, environmental concerns, and an orderly work plan. The work plans, coordinated with Western's power customers, who ultimately bear the burden of all Western expenses, reflect an overall sustainable level of effort, with shifts in emphasis between categories (i.e., electrical versus communication equipment) in any given year.

Electrical equipment replacements, such as circuit breakers, transformers, insulators, revenue meters, switches, control boards, relays and oscillographs, must be acquired to assure reliable service to Western's customers. System component age, environmental concerns, and risk to system reliability necessitate orderly replacement before significant problems develop.

Replacement, upgrade and installation of microwave, fiber optics, supervisory control and data acquisition, and other communication and control equipment continues to provide increased system reliability and operation, and to reduce maintenance and equipment costs.

Capitalized movable equipment, such as special purpose vehicles (e.g., cranes, auger trucks, manlifts), special purpose equipment (e.g., pole trailers, industrial tractors, brush chippers), specialized test equipment (e.g., motion analyzers and relay test equipment), computer-aided engineering equipment, office equipment, and IT equipment and software, must be upgraded and replaced.

The personnel expenses and personnel performance accomplishments associated with the O&M activity are combined with those of the Construction and Rehabilitation activity and are reflected in the Program Direction section of Western's budget request.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Operation and Maintenance ^a					
Regular Operation and Maintenance	20,668	19,086	18,006	-1,080	-5.7%
Replacements and Additions.....	17,516	19,167	18,198	-969	-5.1%
Total, Operation and Maintenance.....	38,184	38,253	36,204	-2,049	-5.4%
Use of Prior Year Balances	0	-600	0	+600	+100.0%
Use of Receipts from Colorado River Dam Fund ^a	-388	-457	-604	-147	-32.2%
Total, O&M Budget Authority.....	37,796	37,196	35,600	-1,596	-4.3%

Detailed Program Justification

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
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Regular Operation and Maintenance..... 20,668 19,086 18,006

Supplies and materials necessary to respond to routine and emergency situations in Western’s high-voltage interconnected transmission system will be purchased. The request includes \$575,000 for activities in the Boulder Canyon Project, funded directly through receipts from the Colorado River Dam Fund. The continuing maintenance of Western’s transmission system at or above industry standards supports its Program Strategic Performance Goal by minimizing sudden failure, unplanned outages, and possible regional power system disruptions. Safe working procedures are discussed before work commences to optimize safety for the public, Western’s staff, and equipment. The request is based on projected work plans for activities funded from this account. Estimates are based on historical data of actual supplies needed to maintain the transmission system, including emergency situations such as ice storms and tornadoes. Costs are based on recent procurement of similar items. The decrease is attributed to a slightly lower level of activity.

Replacements and Additions..... 17,516 19,167 18,198

Western’s planned replacement and addition activity is based on an assessment of condition and criticality of equipment, maintenance/frequency of problems on individual items of equipment, availability of replacement parts, safety of the public and Western’s personnel, environmental concerns, and an orderly work plan. Replacement of aged power system components maximizes the reliability and availability of Western’s system by reducing the risk of equipment failure, unplanned outages, and possible regional power system disruptions. Removing environmental hazards and replacement of aged equipment eliminates safety hazards for the public and Western’s personnel. Planned activity is detailed by category below.

^a Program descriptions and funding amounts include activities of the Boulder Canyon Project. These activities are funded directly through receipts from the Colorado River Dam Fund as authorized in P. L. 98-381.

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
▪ Electrical Equipment	7,052	7,609	7,494
<p>Electrical equipment, such as circuit breakers, transformers, relays and switches, will be replaced. Treatment and/or replacement of wood poles will extend the life of aging, deteriorating transmission lines. Additionally, existing transmission system easements for the Parker-Davis Project (Arizona), originally purchased 50 years ago, must be renegotiated (second year of a three-year program). Costs are based on analysis of system operation/maintenance requirements and concerns, customer-coordinated work plans, actual costs of recent similar projects, and bottom-up budgeting techniques. The decrease reflects a slightly lower level of equipment purchases.</p>			
▪ Communications Equipment	4,082	4,481	4,177
<p>Western is replacing/upgrading microwave, supervisory control and data acquisition, and other communication and control equipment. Aged analog radio systems will be replaced with digital radio and fiber optic components in North and South Dakota. A microwave alarm system (Rocky Mountain Region) and a communication alarm system (Desert Southwest Region) will be replaced. Receipts from the Colorado River Dam Fund provide \$29,000 of funding for the communication alarm system. A microwave system will be installed on the Cottonwood-South Fork Mountain transmission line (California). The staged movement to narrow communications band spectrums as directed by the Federal Communications Commission (FCC) and National Telecommunications and Information Administration (NTIA) continues. Funds are also requested for Western's portion of a co-shared arrangement to install fiber optics in the Sacramento (California) area (+\$250,000), avoiding duplicate fiber networks and meeting WECC reliability requirements for the communication path (second year of a three-year project). Costs are based on analysis of system operation/maintenance requirements, customer-coordinated work plans, actual costs of recent similar projects, and bottom-up budgeting techniques. The decrease reflects a reduction in purchases for the bandwidth movement project as it nears its final year.</p>			
▪ Capitalized Movable Equipment	6,382	7,077	6,527
<p>Capitalized movable equipment needed to support the O&M of the interconnected power system will be purchased. Replacement of special purpose equipment includes a mobile transformer unit, an all-track crane, two trucks, a truck tractor, a front end loader and two trailers. Numerous software packages (i.e. metering data acquisition, power billing, settlement package, and enterprise application integration systems) will be purchased for the Sierra Nevada Region to accommodate changes in processes and protocol as the result of its Post 2004 Power Marketing Plan and the establishment of a control area. Replacement needs are based on age, reliability, and safety of equipment, customer-coordinated review, cost analysis of rebuild versus replacement, availability of replacement parts, and obsolescence of diagnostic maintenance tools. Costs are determined using actual costs of similar items. The decrease reflects a lower level of equipment purchases.</p>			
Total, Operations and Maintenance	38,184	38,253	36,204

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Regular Operation and Maintenance

- Decrease in regular O&M is attributed to a slightly lower level of activity..... -1,080

Replacements and Additions

- Decrease in replacements and additions is attributed to reduced purchases in each category: electrical equipment (-\$115,000), communications equipment (-\$304,000) and capitalized movable equipment (-\$550,000)..... -969

Total Funding Change, Operation and Maintenance	-2,049
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Construction and Rehabilitation

Mission Supporting Goals and Objectives

Western's construction and rehabilitation (C&R) activity emphasizes replacement and upgrading of existing electrical system infrastructure to sustain reliable power delivery to our customers, to support a stable and reliable interconnected power system, to contain annual maintenance expenses, and to retain the value of our assets. In FY 2004, Western's transmission system will have 16,883 circuit-miles of line and 271 substations. In FY 2004, 4,158 of the 7,865 miles of wood pole line, or 53 percent, will be over 50 years old, and 5,716 miles, or 73 percent, will be over 41 years old. Western is continually testing, treating, and replacing individual wood poles and hardware to delay the need for replacing an entire transmission line. As substation equipment (such as power transformers, circuit breakers, and control equipment) reaches the end of its useful life, maintenance costs increase, replacement parts become unavailable, risk of outages increase, and system reliability declines. Western will have 96 transformers and 59 breakers over 41 years old in FY 2004. While the replacement of this equipment is systematically planned over a 10-year period, actual replacement varies depending on condition and criticality. All replacement and rehabilitation plans are coordinated with our customers to help establish the timing and scope of work at specific substations. When upgrades or additional capacity are required, Western actively pursues opportunities to join with neighboring utilities to jointly finance activities, which result in realized cost savings and increased efficiencies for all participants.

Western has aggressively reduced its capital investment program from levels around \$110 million annually in the early 1990s to a base of about \$40 million (about \$25 million excluding program direction). This base level supports a program that emphasizes replacement and upgrading of existing infrastructure to sustain reliable power delivery to our customers while maintaining competitive rates. Western's planned program level for FY 2004 is \$12 million, \$6 million less than the FY 2003 program request. Western continues to refine a long-term C&R program level that will maintain the reliability of, and the Government's investment in, Western's power facilities while minimizing effects on power rates. Our challenge has been to evaluate Western's facilities which were built 40 to 50 years ago, and develop a systematic replacement/upgrade program at a level that retains the value of our assets and assures a safe and reliable transmission system, with minimal rate impacts.

It is increasingly difficult to plan specific projects years in advance. A piece of equipment scheduled for replacement may test out fine two years later at the beginning of the execution year, resulting in deferring replacement in favor of equipment at higher risk of failure. Discovery of a failing piece of critical equipment may completely change the planned priority of work. Customer needs may also change, causing Western to revise or reprioritize planned construction projects. Utilities and other entities are also requesting interconnections to Western's transmission system under the provisions of Western's open access transmission tariff, adopted in accordance with the spirit and intent of FERC Order No. 888. These projects often surface suddenly and move quickly, and can significantly impact Western's C&R program planning and project priorities. While this section of our budget request incorporates Western's best efforts to identify and schedule necessary C&R projects, the unpredictability of the need for replacements and the realities of operating and maintaining a complex interconnected power system mean unforeseen priority projects can surface from time to time. Western may have to slip or restructure planned projects to accommodate these sudden priority projects, but our projects will continue to be focused on replacements and upgrades of aging existing equipment necessary to maintain the reliability and integrity of Western's power transmission system. Western's

policy is to continue to assign the highest program priority to those situations that pose the highest risk to safety and system reliability, while meeting the mandates for open access to our transmission system.

Western delays replacement costs for as long as reasonably possible while managing the risk of sudden failure and emergency replacement. Further postponement will contribute to an overall degradation of Western’s power facilities, possibly leading to serious power system disruptions and lengthy power outages while crews repair or replace failed equipment under emergency conditions. “Breakdown maintenance” results in higher costs than scheduled replacements and increases safety risks to maintenance crews, as equipment failures are very often tied to extreme weather conditions and/or high system power loadings.

Personnel costs and related expenses for the workforce to plan, collect field data, write specifications, design facilities, award construction contracts, and purchase government-furnished equipment for the C&R activity are combined with those of the O&M activity and are reflected in the Program Direction section of Western’s budget request.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Construction and Rehabilitation					
Transmission Lines and Terminal Facilities.....	4,827	3,355	3,000	-355	-10.6%
Substations.....	8,333	6,194	2,857	-3,337	-53.9%
Other ^a	5,604	8,235	6,343	-1,892	-23.0%
Total, Construction & Rehabilitation	18,764	17,784	12,200	-5,584	-31.4%
Use of Prior Year Balances	0	-600	0	+600	+100.0%
Total, C&R Budget Authority	18,764	17,184	12,200	-4,984	-29.0%

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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For purposes of budget display, the C&R program is broken into three sections: Transmission Lines and Terminal Facilities, Substations, and Other. The Other category includes communications equipment (microwave, fiber optic, telecommunications, and supervisory control and data acquisition systems), maintenance facilities, power facility development costs, and minor unscheduled jobs. This program supports Western’s Program Strategic Performance Goal as presented under Program Mission. Replacement and upgrade of aged power system components are crucial to system reliability, and communications improvements maintain vital control over system operations. Both contribute to attaining or exceeding monthly control compliance ratings established by NERC by reducing the risk of

^a Other includes communication equipment (such as microwave, telecommunications, and supervisory control and data acquisition systems) maintenance facilities, power facility developmental costs, and minor unscheduled jobs.

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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equipment failure, unplanned outages, and possible local and regional power system disruptions. Reducing the hazards associated with worn or aging equipment, correcting design deficiencies, and replacing deteriorated wood poles which present a serious climbing hazard to linemen, minimizing Western’s safety exposure. In addition, public safety is supported by avoiding or minimizing the negative impacts of unplanned outages and by minimizing the instances of downed lines. C&R program activities support the repayment of Federal power investment by promoting a well-planned C&R program with a relatively stable budget over the long term, by avoiding significant additional costs of emergency “breakdown maintenance,” and by preventing outages which could impact power deliveries, purchase power costs, and power revenues. Planned activity is detailed by category below.

Transmission Lines and Terminal Facilities	4,827	3,355	3,000
▪ Transmission Lines and Terminal Facilities, Continuing Work.....	2,300	1,234	1,250

Complete minor modifications and rehabilitation of transmission lines (TL) in FY 2004 to ensure power system reliability and stability:

- ▶ Continue rebuild of the Cheyenne-Miracle Mile 115-kV TL (Colorado and Wyoming). This 146-mile TL was constructed in 1939 using wood poles with copper conductor. The wood poles are deteriorated and copper conductor has not been used for many years. Hardware and specialized equipment for splicing and maintaining the copper conductor are no longer available. The poor condition of the line requires excessive maintenance, is subject to outages and requires replacement to maintain reliability in the area. This project will be done in stages over an eight year period due to budget constraints.

Funding level is determined by estimating the cost to complete each project, and breaking out these costs by fiscal year. The estimates are based on recent actual costs to complete similar projects, updated individual project requirements, and past experience.

▪ Transmission Lines and Terminal Facilities, Rehabilitation Starts.....	2,527	2,121	1,750
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Two TL and terminal facility rehabilitation starts are planned in FY 2004:

- ▶ Upgrade the 15.1-mile segment of TL from Maricopa Substation to Casa Grande Substation from 115-kV to 230-kV (Arizona). In addition, about 50 percent of the structures violate the National Electric Safety Code (NESC) sag limits. The upgrade of the wood-pole structures (installed in 1948 and many in poor condition) to steel pole structures will provide increased reliability and allow Western to meet the NESC standards;
- ▶ Relocate and upgrade seven miles of existing 161-kV Parker-Gila TL (Arizona) located along the Parker strip. Placed into service in 1943, the wood pole structures have exceeded their service life; in addition, due to encroachment and safety concerns in this rapidly developing area, relocation is necessary. Safety concerns will be greatly reduced with the realignment, and decreased maintenance costs will result from the use of light-duty steel poles for the rerouted lines.

TL and terminal facility starts address specific system reliability risks or operational problems. Estimates are based on actual costs of recent similar projects, expected costs of needed equipment and services, cost estimating guides, and experience.

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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▪ Transmission Lines and Terminal Facilities, Reimbursable Work for Others.....	0	0	0
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Potential transmission line and terminal work for others in FY 2004 includes planning, design or construction of:

- ▶ Interconnection facilities for York Power Plant and Valley Electric (Arizona);
- ▶ Boulder City and Hoover TL Bypasses (Nevada) for Nevada Department of Transportation and U. S. Department of Transportation, respectively;
- ▶ Interconnection facilities for the City of Lodi, Modesto Irrigation District, Florida Power and Light’s Rio Linda Powerplant, Calpine Corporation’s East Altamont Energy Center, City of Roseville (California);
- ▶ Los Banos-Gates 500-kV TL project (also known as Path 15), an extension of the California-Oregon Transmission Project (California);
- ▶ Interconnection facilities at Steamboat Tap for Xcel Energy (Colorado).

Western’s work for others has increased significantly under the open access transmission tariff adopted in response to FERC Order No. 888. The tariff requires Western to provide interconnections to its transmission system. New generation projects typically surface quickly and provide little advance warning for internal planning and budgeting. Western must work with requestors to meet their needs.

Western expects interconnection or capacity upgrade projects funded by the project proponents to be increasingly common in the next few years. Design of these facilities must be closely coordinated with, or accomplished by, Western’s design staff to ensure compatibility with Western’s equipment and facilities and compliance with applicable electrical and safety codes. These projects also affect transmission system loading and operation. Potential impacts to other system facilities and equipment must be determined since the cost of any necessary modifications must be borne by the interconnection project proponents.

Substations.....	8,333	6,194	2,857
▪ Substations, Continuing Work	810	1	2,497

The FY 2004 funding request will allow Western to complete the replacement of high-voltage equipment such as circuit breakers, transformers, reactors, disconnect switches, and fuses at: Creston (Iowa); Jamestown (North Dakota); and Rainbow (Montana). This equipment requires replacement primarily due to reliability factors, age, safety concerns, escalating annual maintenance costs and/or availability of spare parts. Oil containment is added when appropriate to protect nearby water resources from possible contamination. In addition, work will continue on the demolition and environmental cleanup of Basic Substation (Nevada).

The funding level is determined by estimating the cost to complete each project, and breaking out these costs by fiscal year. The estimates are based on recent actual costs to complete similar projects, updated individual project requirements, and past experience.

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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▪ **Substations, Rehabilitation Starts** **7,523** **6,193** **360**

One substation rehabilitation start is planned in FY 2004:

- ▶ The loads served by the 34.5-kV system in the Platte Valley area (Wyoming and Nebraska) have grown to the point that there are problems with low voltage in the entire area. A major upgrade of the 34.5-kV system to 69-kV is being planned in the outyears, and the conversion is expected to take 5-10 years. Studies show that adding shunt capacitors at Lyman (Wyoming) and McGrew (Nebraska) Substations are needed in the short term for voltage support until the system is converted to 69-kV. It was agreed Tri-State would be financially responsible for the capacitor installation at Lyman and Western would be financially responsible for the capacitor installation at McGrew. Tri-State completed installation of shunt capacitors at Lyman Substation in December 2001. Although the load in the area is not great, Western’s line in the area represents the only source of power for the region and is very important to the people who live and work in the area.

Lead times for equipment delivery are increasing as fewer domestic manufacturers remain in the marketplace, and more equipment must come from foreign sources. Worldwide demand for electrical equipment is also impacting delivery schedules. For major equipment such as transformers, delivery times are averaging 18 months and increasing, making it impossible to procure equipment in the same fiscal year as contract award.

Estimates are based on actual costs of recent similar projects, including costs of equipment and services, data from specialized cost estimating guides, and organization experience.

▪ **Substations, Reimbursable Work for Others** **0** **0** **0**

Substation work for others in FY 2004 includes:

- ▶ Empire and Signal Substations for Electric Districts 4 and 2, respectively (Arizona);
- ▶ Review of the design and construction of Phase 2 of Fiddymont Substation for City of Roseville (California);
- ▶ Tri-State’s portion of Whiterock Substation to sectionalize transmission lines (Nebraska);
- ▶ Platte Valley voltage conversions for Tri-State members and transformer at Silt Substation for City of Silt (Colorado).

Other **5,604** **8,235** **6,343**

▪ **Other; Communications Systems** **2,875** **5,177** **3,750**

Continue to replace/modernize/expand communication systems (supervisory control and data acquisition equipment, microwave, fiber optic, global information system, and telecommunication) in the Colorado River Storage Project and the Pick-Sloan Missouri Basin Program to operate and control the transmission system. Replacement parts for the existing obsolete communications systems are becoming very difficult to obtain and the increased use of remote control of facilities, coupled with the need for greater integration of the Federal system with the rest of the grid and technological advances in the communications field, make secure and reliable communications crucial to Western’s mission. Rapid advances in communications technology, along with manufacturers’ phase-out of support for existing systems, primarily drive the need for communications replacements and upgrades. Effective

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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control of remote facilities is crucial to the operation of the power system.

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Other; Miscellaneous ▶ Upgrade Mead Substation Water and Fire Protection systems (Nevada) consisting of replacing a leaking 25-year-old potable water line and upgrading both systems to bring them into compliance with local, state and federal regulations; install fire suppression system at Virginia Smith Converter Station (Nebraska); ▶ Rehabilitate approximately one mile of Buchanan Boulevard from the edge of Boulder City to the junction with the entrance to Western’s Mead Substation. This road is considered an access road to the substation. Since closure of this road during floods cuts off access to the substation by our maintenance crews, this situation creates safety and reliability issues. The reconstruction would consist of repairing the existing asphalt surfacing and improvements to the shoulders of the road and its drainage structures to prevent erosion and minimize maintenance due to flooding; ▶ Develop and implement alternative method for providing station service to Folsom’s Dispatch Center (California). This project will provide required reliability of the power supply to the operations facilities in Folsom by looping the existing TL into the area. Currently this service is provided by the Sacramento Municipal Utility District. During the past few years, the Sacramento area has gone through rotating blackouts. These blackouts have impacted Western’s ability to perform its transmission functions. This alternative would serve as an emergency backup and would improve transmission reliability and voltage profile and reduce and ultimately eliminate the need for involuntary automatic load interruptions; ▶ Annual power facility development costs and miscellaneous minor construction jobs that are not normally scheduled in advance or anticipated as part of larger projects. | <p>2,729</p> <p>3,058</p> <p>2,593</p> |
|---|---|

Each project cost is determined using the actual costs of recent similar projects, estimated quantities of needed materials, past contract costs, specialized cost estimating guides, and in-house experience.

Preconstruction Activities	0	0	0
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The following projects will have active preconstruction activities during FY 2004: New Underwood Pole Yard (South Dakota) to provide storage for transmission line poles; Sioux City Storage Building (Iowa) to provide storage for equipment that is subject to deterioration due to weather conditions; and replacement of control boards at Bismarck and Morris Substations (North Dakota) to enhance reliability. Funding for these activities are included in the Program Direction section of Western’s request.

Total, Construction and Rehabilitation	18,764	17,784	12,200
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Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Transmission Lines and Terminal Facilities

- Transmission Lines and Terminal Facilities work is projected to be slightly less than the FY 2003 level. This reduced funding level results in continued deferral of planned upgrades. The requested funding for FY 2004 will be used for high priority projects that have been identified as having potential reliability, safety, and maintenance problems.... -355

Substations

- Western’s Substation program will decrease from \$6.2 million in FY 2003 to \$2.9 million in FY 2004. This decreased level will fund the most critical additions and upgrades that are essential to maintaining a stable, safe and reliable system. -3,337

Other

- Western’s communications projects will be approximately \$1.4 million less than the FY 2003 level, while the roof repairs, fire system upgrades, etc. will be \$0.5 million less than the FY 2003 level. The requested funds will be used for ongoing communication projects in the Colorado River Storage Project and the Pick-Sloan Missouri Basin Program. These projects are replacing overloaded and obsolete analog microwave communications with digital and fiber optic systems that can handle the load from increasing communication, control, data gathering, and remote monitoring needs. These funds also provide for a number of smaller but significant projects such as roof repairs, security upgrades, fire system upgrades, and other minor construction work. -1,892

Total Funding Change, Construction and Rehabilitation	-5,584
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Purchase Power and Wheeling

Mission Supporting Goals and Objectives

Western's mission is to market and deliver reliable, cost-based hydroelectric power and related services. These services are marketed at rates sufficient to provide recovery of expenses and Federal investment as established by law. To maximize the marketability of Western's products, Western has entered into long-term contracts with customers of the Central Valley Project (CVP), the Pick-Sloan Missouri Basin Program, as well as other projects, to deliver firm power based on the normal (average over the long-term) amount of power and/or capacity available from each of its systems. By its nature, hydropower is a variable resource. Thus, when variations occur as a result of drought or other unforeseen conditions, Western buys power and related transmission services to support its firm power contract commitments. Western also buys transmission services, as needed, to provide the benefits of the Federal hydropower resource to numerous Federal, state, municipal, and other preference customers not directly connected to Western's system. Contracting for transmission services encourages the widespread use principles of the Flood Control Act of 1944 and avoids unnecessary Federal duplication of available transmission resources.

Construction of a base load thermal plant to assure the delivery of firm power during periods of low hydropower generation was contemplated during the initial planning for the CVP. Instead of funding the construction of a thermal plant, Congress acted to complement the CVP purchase power program by approving the execution of a power integration contract with Pacific Gas and Electric (PG&E) and by providing the CVP with access to supplemental power markets via Federal participation and investment in the Pacific Northwest-Pacific Southwest Intertie authorized in 1964, and then again in the California-Oregon Transmission Project authorized in 1984. The acquisition of non-Federal power and transmission services meets Western's power marketing contract provisions for the Central Valley Project, Pick-Sloan Missouri Basin Program-Eastern Division, Loveland Area Projects and Parker-Davis Project, which place special responsibilities on Western to provide firm power.

For FY 2004, the Administration will continue to phase-out Federal financing of the Power Marketing Administrations' (PMA) purchase power and wheeling (PPW) expenses. The phase-out began in the Energy and Water Development Appropriations Act of FY 2001. The Act eliminated direct appropriations previously provided for Western's PPW needs and temporarily instituted new offsetting collection authority. The new authority, provided on a declining basis through FY 2004, authorized the use of customer receipts derived by Western from the recovery of PPW expenses. For Western, the Act authorized \$20 million in use of offsetting collections to provide for PPW requirements in FY 2004. No Federal financing is contemplated in FY 2005. The phase-out assumes that customers, acting independently or in partnerships and cooperatives, will increasingly enter energy markets to arrange directly with suppliers for their energy and related services needs as many utilities across the country already do. The phase-out assumes that Western may continue to assist its customers with these activities, as necessary, through alternative funding mechanisms, such as cash advances, as is done with all customers of the Salt Lake City Area Integrated Projects, which operate within Western's Colorado River Basins Power Marketing Fund, or net billing methods.

Beginning in FY 2004, the basis for estimating the volume of power purchases needed to firm the Federal hydro resource has been revised. The FY 2004 request bases the volume on the long-term average of the actual firming purchases over the past 20 years. This concept matches the approach Western uses for determining the amount of hydropower generation available for sale (i.e., the average hydro generation available over the long-term). In years when hydro generation is below average,

Western's Emergency/Continuing Fund is available to finance purchases from the use of receipts that Western has deposited in the Treasury from the sale of power. FY 2004 price estimates for market power purchases were reduced to average FY 2002 levels. The change in FY 2004 does raise the risk that actual firming purchase requirements will exceed that estimated; however, Western's Emergency/Continuing Fund was authorized in the late 1940s and amended in 1989 to mitigate this risk. The fund has been used twice for purchase power and wheeling. The authority provides for additional purchase power expenses to firm contractual commitments when project generation is below normal. In summary, the FY 2004 PPW program request is down \$139 million from FY 2003, largely based on a reduced price per megawatthour, but also based on the average amount of power purchased during a normal year. The following table lays out the FY 2003 and FY 2004 PPW program assumptions and FY 2001 and FY 2002 actuals for purchases, energy prices and wheeling costs.

Purchase Power and Wheeling Program Assumptions

	FY 2001 Actual	FY 2002 Actual ^a	FY 2003 Request	FY 2004 Request
<u>Power Purchases (gigawatthours)</u>				
Central Valley Project	6,083	5,271	5,187	4,559
Pick-Sloan Missouri Basin and Other Programs	4,132	3,785	2,686	1,218
Total, Purchases	10,215	9,056	7,873	5,777
<u>Purchase Power Prices (\$/megawatthour)</u>				
Central Valley Project	21.5	25.5	24.1	26.0
Pick-Sloan Missouri Basin and Other Programs	47.1	27.2	71.1	27.0
<u>Cost of Power Purchases (\$000)</u>				
Central Valley Project	131,058	134,333	124,769	118,534
Pick-Sloan Missouri Basin and Other Programs	194,552	103,036	150,888	32,886
Total, Purchase Power Costs	325,610	237,369	275,657	151,420
<u>Wheeling Costs (dollars in thousands)</u>				
Central Valley Project	30,636	23,965	59,413	44,489
Pick-Sloan Missouri Basin and Other Programs	11,043	11,469	11,300	11,614
Total, Wheeling Costs	41,679	35,434	70,713	56,103

^a FY 2002 amounts are preliminary.

Funding Schedule

(dollars in thousands)					
	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Central Valley Project	189,053	184,182	163,023	-21,159	-11.5%
Pick-Sloan Missouri Basin and Other Programs	189,951	162,188	44,500	-117,688	-72.6%
Total, PPW (gross)	379,004	346,370	207,523	-138,847	-40.1%
Use of Alternative Financing					
Net Billing and Bill Crediting	-91,251	-110,065	-26,222	+83,843	+76.2%
Reimbursable, Federal Contract Loads	-19,400	-22,500	-20,100	+2,400	+10.7%
Subtotal, Alternative Financing	-110,651	-132,565	-46,322	+86,243	+65.1%
Additional Off-budget Customer Financing	-82,229	-183,805	-141,201	+42,604	+23.2%
Total, PPW	186,124	30,000	20,000	-10,000	-33.3%
Offsetting Collections Realized	-186,124	-30,000	-20,000	+10,000	+33.3%
Total, PPW Budget Authority	0	0	0	0	0.0%

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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For the Central Valley Project and the Pick-Sloan Missouri Basin Program, the PPW activity provides firming energy and wheeling services to support Western’s contractual power allocations based on average generation levels. The revenue dependability gained by contracting Western’s hydro generation as a firm resource aids Western’s effort to ensure that it covers its costs and makes timely debt repayments. (Western’s Program Strategic Performance Goal).

Central Valley Project **92,324** **25,945** **17,297**

▪ **Central Valley Project, Program Requirement** **189,053** **184,182** **163,023**

In FY 2004, Western continues to use offsetting collections to firm its contractual power commitments to customers. No appropriations are requested. The CVP total PPW program amounts are based primarily on contractual pricing and delivery terms negotiated in the long-term firm purchase agreements with Pacific Gas and Electric (PG&E), and to a lesser extent on market estimates for non-firm purchases. The program requirement decreases \$15.0 million from FY 2003 reflecting a decrease in potential California ISO cost recovery requirements that PG&E has been attempting to pass-through to Western. Western is contesting these charges. The majority of the potential FY 2004 charges and costs related to the California ISO, PX, and PG&E bankruptcy proceedings, which depend on legal and regulatory action, are unknown at the time of this request and are not included. The total program further drops \$6.2 million based on the assumptions that purchases will be at long-term average levels. FY 2003 assumed higher purchases due to drought conditions and higher customer usage.

▪ **Central Valley Project, Alternative/Customer Financing....** **-96,729** **-158,237** **-145,726**

Alternative financing methods offsetting CVP’s requirements are expected to remain at the significant levels anticipated for FY 2003. The majority of the CVP offsets will require significant

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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support from customers for cash advances (as is done with customers of the Salt Lake City Area Integrated Projects, which operate within Western’s Colorado River Basins Power Marketing Fund) to Western anticipated at \$127.2 million. Customers may seek firming energy and wheeling services independently from Western. Federal reimbursable program continues at \$18.5 million.

Offsetting collection authority enacted in FY 2001 for use in FY 2004 will provide \$17.3 million; no additional offsetting collection authority is requested in FY 2004.

Pick-Sloan Missouri Basin and Other Programs..... 93,800 4,055 2,703

▪ **Pick-Sloan Missouri Basin and Other Programs, Program Requirement 189,951 162,188 44,500**

In FY 2004, the request continues to support long-term firm power commitments to customers of the Eastern and Western Divisions of the Pick-Sloan Missouri Basin Program, and the Fryingpan-Arkansas Project commensurate with the levels of average firm hydroelectric energy marketed by Western. The total program estimates shown are based primarily on the average firm energy purchases over the FY 1980 through FY 2000 period, market pricing of short-term firm energy, and negotiated transmission rates. The FY 2004 program request is down significantly from FY 2003 and prior year levels which reflected generation restrictions caused by below-normal storage levels, poor precipitation, and dam safety work at the Bureau of Reclamation’s Horsetooth Reservoir in Colorado. Current forecasts reflecting drought conditions in the Pick-Sloan region indicate there is potential for below-normal generation in FY 2004 on the order of 1,000 to 2,000 gigawatthours. Western has Emergency/Continuing Fund authority to provide for additional purchase power expenses due to below-normal generation.

▪ **Pick-Sloan Missouri Basin and Other Programs, Alternative/Customer Financing -96,151 -158,133 -41,797**

As requested for FY 2003, alternative financing methods offsetting the Pick-Sloan PPW requirements are expected to finance the majority (94 percent) of the Pick-Sloan FY 2004 PPW requirements. This level of alternative financing will require significant support from customers for cash advances (as is done with customers of the Salt Lake City Area Integrated Projects, which operate within Western’s Colorado River Basins Power Marketing Fund) to Western anticipated at \$14.0 million and net billing methods anticipated at \$26.2 million. Customers may seek firming energy and wheeling services independently from Western. Federal reimbursable program continues at \$1.6 million.

Offsetting collection authority enacted in FY 2001 for use in FY 2004 will provide \$2.7 million. No additional offsetting collection authority is requested in FY 2004.

Total, Purchase Power and Wheeling 186,124 30,000 20,000

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Central Valley Project

- The gross PPW requirement of \$163,023,000 in FY 2004 is decreasing by \$21,159,000 from the \$184,182,000 level in FY 2003. The decrease assumes CVP's purchase power requirements at long-term average levels. Western assumes that customers will accept upfront financial responsibility for their PPW needs (as is done by all customers of the Salt Lake City Area Integrated Projects, which operate within Western's Colorado River Basins Power Marketing Fund). Cash advances from customers will drop from \$139,737,000 in FY 2003 to \$127,226,000 in FY 2004, assuming average water conditions. The balance of the FY 2004 program, \$18,500,000, will be funded through Federal reimbursable authority at the same level as FY 2003. No direct appropriations are necessary.

-8,648

Pick-Sloan Missouri Basin and Other Programs

- The gross PPW requirement of \$44,500,000 in FY 2004 is decreasing by \$117,688,000 from the \$162,188,000 level in FY 2003. The significant decrease assumes Pick-Sloan requirements at long-term average levels and prices will remain at the FY 2002 levels. Recent purchase requirements have been elevated due to drought conditions and dam safety work. As with CVP, these programs are also phasing out their spending authority request in favor of the use of direct customer advances. Use of receipts will fund \$2,703,000 of the PPW requirement in FY 2004; down \$1,352,000 from FY 2003. Western assumes that customers will accept upfront financial responsibility for their PPW needs (as is done by all customers of the Salt Lake City Area Integrated Projects, which operate within Western's Colorado River Basins Power Marketing Fund). Reimbursable funding from Federal and non-Federal customers, in combination with traditional net-billing methods will finance \$41,797,000, or 94 percent of the program in FY 2004. Given the duration of the current drought conditions, it is likely that the Emergency/Continuing Fund will be activated to meet firm power delivery obligations in FY 2004.

-1,352

Total Funding Change, Purchase Power and Wheeling Budget Authority	-10,000
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Utah Mitigation and Conservation

Mission Supporting Goals and Objectives

The Reclamation Projects Authorization and Adjustment Act of 1992, Title IV, established the Utah Reclamation Mitigation and Conservation Account (Account) in the Treasury of the United States. The purpose of this Account is to ensure that the level of environmental protection, mitigation, and enhancement achieved in connection with projects identified in the Act and elsewhere in the Colorado River Storage Project in the State of Utah is preserved and maintained. The Administrator of Western is authorized to deposit funds into the Account. Such expenditures are to be considered non-reimbursable and non-returnable. The Utah Reclamation Mitigation and Conservation Commission, established under Title III of the Act, is authorized to administer all funds deposited into this Account.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Total, Utah Mitigation and Conservation Budget Authority	6,000	0	0	0	0.0%

Detailed Program Justification

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Utah Mitigation and Conservation.....	6,000	0	0

No deposit will be made into the Account in FY 2004. Western is proposing appropriation language to transfer authorities and future contributions from the Secretary of Energy, Western Area Power Administration, to the Secretary of the Interior, Bureau of Reclamation. This will provide necessary authority to the Federal agency with primary operating/restoration responsibility.

Western already separately finances, through its Colorado River Basins Power Marketing Fund, mitigation activities at two facilities in Utah, Flaming Gorge and Lake Powell/Glen Canyon Dam. Western also contributes to mitigation on tributaries that flow into Lake Powell through its funding of the Recovery Implementation Program (RIP)(P.L. 106-392). Western’s RIP contribution, funded through power revenues, will be equal to contributions from Upper Division States (Colorado, New Mexico, Utah and Wyoming) and may not exceed \$17 million.

The Utah Reclamation Mitigation and Conservation Account has a current cash balance exceeding \$100 million.

Total, Utah Mitigation and Conservation.....	6,000	0	0
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Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Utah Mitigation and Conservation

▪ No deposit will be made to the Account in FY 2004.	0
Total Funding Change, Utah Mitigation and Conservation.....	0

System Statistics

	FY 2002	FY 2003	FY 2004
Generating Plants (Number).....	56	56	56
Generating Capacity:			
Installed Capability (kW).....	10,605,000	10,605,000	10,605,000
Substations:			
Number ^a	263	268	271
Capacity (kVa) ^b	27,787,382	27,993,632	28,376,632
Transmission Lines (Circuit-miles):			
500-kV.....	448.27	448.27	448.27
345-kV.....	1,598.80	1,598.80	1,598.80
230-kV ^c	6,936.07	7,063.27	7,063.27
161-kV ^d	869.26	766.26	766.26
138-kV.....	327.42	327.42	327.42
115-kV.....	5,743.03	5,743.03	5,743.03
69-kV and below.....	935.71	935.71	935.71
Total circuit-miles.....	<u>16,858.56</u>	<u>16,882.76</u>	<u>16,882.76</u>

^a FY 2003 includes addition of Raceway and North Havasu Switchyards (both in Arizona), and Virgil Fodness, Aurora and Elk Creek (all in South Dakota) Substations. Additions planned for FY 2004 include Galvin Peak Switchyard (Arizona), Rio Linda Switchyard (California), and Walden Switchyard (Colorado).

^b Capacity increases by 206,250 kVA in FY 2003 due to changes at Bisbee (North Dakota), Wall and Watertown (both in South Dakota) Substations. FY 2004 includes capacity increases of 383,000 kVA as a result of changes at Denison (Iowa) and Jamestown (North Dakota) Substations.

^c FY 2003 includes addition of 24.2 miles in Arizona (Sundance-Coolidge 1&2 TL, and Liberty-Sundance TL) and upgrade of 103 miles of 161-kV to 230-kV operation (Rainbow-Havre TL) in Montana.

^d FY 2003 reflects removal of 103 miles of 161-kV line due to upgrade of the Rainbow-Havre TL in Montana.

Estimate of Revenues ^a

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Boulder Canyon Project	60,455	67,506	67,414	67,748	67,625	67,537	70,591
Central Valley Project ^b	262,487	257,377	317,755	320,181	343,623	343,623	343,623
Central Arizona Project (Navajo) ^c	106,104	95,461	95,461	95,461	95,461	95,461	95,461
Falcon-Amistad Project.....	4,537	4,798	5,105	5,276	5,171	5,168	5,166
Fryingpan-Arkansas Project	13,920	13,608	13,608	13,608	13,608	13,608	13,608
Pacific Northwest-Southwest Intertie Project.....	25,432	25,837	27,973	27,973	27,973	26,973	26,973
Parker-Davis Project.....	41,948	45,142	45,165	44,879	45,481	51,064	51,064
Pick-Sloan Missouri Basin Program ^d	289,069	271,898	276,386	276,748	276,779	280,343	280,585
Provo River Project.....	352	335	255	256	256	256	256
Washoe Project	61	549	549	549	549	549	549
Salt Lake City Area Integrated Projects ^e	140,260	154,330	155,932	156,149	156,243	157,732	157,695
Total.....	944,625	936,841	1,005,603	1,008,828	1,032,769	1,042,314	1,045,571

^a FY 2002 amounts are based on preliminary actual figures. For FY 2003 through 2008, project amounts in this table are based on FY 2001 Power Repayment Studies (PRS). The Central Arizona Project (CAP) does not have a PRS because it has no power repayment obligation; amounts shown are based on estimated projections. Falcon-Amistad Project FY 2003 through FY 2008 amounts are also estimated. The Falcon-Amistad PRS does not project outyear revenues as the contracts are “take all, pay all” and not rate-based.

^b Outyear revenue estimates for CVP increase after expiration of existing low-cost integration contract with Pacific Gas and Electric in early FY 2005 in order to recover anticipated new costs of project use firming, California Independent System Operator charges, and custom products for CVP power customers.

^c Western has contractually agreed for the Salt River Project (SRP) to act as the scheduling entity and operating agent for CAP’s portion of the Navajo Generating Station’s output (547 MW). In return, as Western retains marketing responsibility, SRP agreed to pay monthly fixed and variable costs to cover annual expenses.

^d The FY 2002 revenue amount for Pick-Sloan Program includes revenue from the sale of energy for other Joint Marketing Program (JMP) members. The power repayment studies, which provide the basis for the FY 2003 through FY 2008 estimates, do not include the sale of energy for other JMP members.

^e A power rate increase went into effect in FY 2003 raising revenues for the Salt Lake City Area Integrated Projects.

Estimate of Energy Sales ^a

	(in gigawatthours) ^b						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Boulder Canyon Project	4,438	4,744	4,681	4,501	4,501	4,501	4,501
Central Valley Project ^c	8,692	9,700	9,700	9,700	9,700	9,700	9,700
Central Arizona Project (Navajo) ..	4,412	3,995	3,995	3,995	3,995	3,995	3,995
Falcon-Amistad Project.....	72	167	167	167	167	167	167
Loveland Area Projects ^d	2,155	2,051	2,051	2,051	2,051	2,051	2,051
Pacific Northwest-Southwest Intertie Project ^e	0	0	0	0	0	0	0
Parker-Davis Project.....	1,809	1,346	1,346	1,346	1,346	1,346	1,346
Pick-Sloan Missouri Basin Program, Eastern Division.....	10,875	9,983	10,187	10,658 ^f	10,231	10,393	10,393
Provo River Project.....	7	27	27	27	27	27	27
Washoe Project	11	12	12	12	12	12	12
Salt Lake City Area Integrated Projects ^g	5,505	6,400	6,434	6,448	6,449	6,510	6,510
Total.....	37,976	38,425	38,600	38,905	38,479	38,702	38,702

^a FY 2002 amounts are based on preliminary actual figures. FY 2003 through FY 2008 estimates are based on FY 2001 Power Repayment Study assumptions. The estimate for Central Arizona is based on average sales.

^b One gigawatthour (GWH) equals one million kilowatt-hours (kWh).

^c Outyear sales estimates assume power delivery at roughly existing levels pending establishment of outyear project use and customer custom product requirements.

^d Loveland Area Projects include Fryingpan-Arkansas Project and Pick-Sloan Missouri Basin Program (Western Division).

^e Pacific Northwest-Southwest Intertie shows no energy sales, but reflects revenues from the transmission of energy (refer to the Estimate of Revenues table). The Intertie Project is for transmission of energy only.

^f FY 2005 projections include intentional unbalancing of the three large upper reservoirs to benefit reservoir fishery and threatened and endangered species.

^g Salt Lake City Area Integrated Projects include the Colorado River Storage Project, Collbran Project, Rio Grande Project, Seedskadee Project, and Dolores Project.

Estimate of Proprietary Receipts

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Falcon Amistad Maintenance Fund, 895178	2,121	2,734	2,640	2,813	2,813	2,813	2,813
Sale and transmission of electric power, Falcon and Amistad Dams, 892245	2,416	2,064	2,465	2,463	2,358	2,355	2,353
Sale of Power and Other Utilities Not Otherwise Classified, 892249 ^a	57,096	42,500	42,500	43,533	44,601	45,707	46,852
Less Transfers to U. S. Army Corps of Engineers.....	0	-27,800	-29,500	-26,000	-27,000	-28,000	-29,000
Subtotal, 892249.....	57,096	14,700	13,000	17,533	17,601	17,707	17,852
Sale of Power – Western Area Power Administration – Reclamation Fund, 895000.27	244,886	219,210	189,050	201,475	224,892	232,709	234,226
Total, Proprietary Receipts	306,519	238,708	207,155	224,284	247,664	255,584	257,244

^a The 892249 account provides primarily for revenue transfers from the Reclamation Fund (895000.27) to the General Fund covering U. S. Army Corps of Engineers' expenditures for several dams on the Missouri River. The FY 2003 and FY 2004 requests propose that Corps' operating and maintenance costs will be funded from a transfer of receipts deposited by Western, from the sale of power and related services, and credited to the Corps. The FY 2002 amount includes a one-time deposit of prior year collections held in suspense.

Pending Litigation

Pending Litigation that may impact Western's FY 2004 Congressional Budget request includes:

- *In re Pacific Gas & Electric Company, Debtor, Case No. 01-20923 SFM11, Northern District of California.* Pacific Gas and Electric Company (PG&E) filed for Chapter 11 bankruptcy protection in April 2001. The potential amount of Western's claim cannot be determined with relative certainty, inasmuch as the company continues to operate. Western could face higher costs if the company is released by the court from its contractual obligations to Western. However, PG&E has indicated its intention to continue to perform under its contracts with Western. Western is highly encouraged that PG&E has entered into discussions with the Government to permit the Government to recoup all monies owing. The latest calculation indicated the estimated amount owed to Western is \$41 million. Western recently received the first quarterly interest payment for post-petition claims.
- *California Power Exchange Corp., United States Bankruptcy Court, Central District of California, Case No. LA 01-16577-ES.* The California Power Exchange Corporation (PX) has filed a Chapter 11 bankruptcy proceeding in the Central District of California in March 2001. The PX plans to liquidate. Its bankruptcy is due in large part to the energy crisis in California, which caused PG&E and Southern California Edison (SCE) to not meet their debts to the PX. Therefore, the PX, which functions as a trading house, with no real assets, has been unable to pay its suppliers, including the Western Area Power Administration. FERC has ordered the ISO to invoice the State of California for its purchases on behalf of PG&E and SCE. The PX should be able to pass through those payments to its suppliers to the extent the bankruptcy trustee is able to collect those amounts. In order to wind down its business activities, the Reorganized Cal PX needs additional funds. The reorganized entity has made the appropriate filings and received approval to charge its participants, including Western, for these activities. These amounts are to be set aside from Settles and Clearing Accounts. Recently the Department of Justice has been preparing to file an intervention in the California State court proceeding relating to inverse condemnation of the "block forward" contracts that were seized by California Governor Davis immediately following the Cal PX's initial defaults in January 2001. Current estimates are \$6.7 million for this contingency.
- *In re Quechan Indian Tribe v. Department of Energy, Federal District Court, Southern District of California, Civil Action No. 02CV0196IEG (AJB).* The Quechan tribe has filed a lawsuit based largely upon an alleged violation of the Federal Tort Claims Act. The tribe alleges that Western employees negligently destroyed several cultural sites on tribal lands. The tribe seeks \$9.4 million in damages. Western attempted to negotiate a settlement; however we are too far apart. The case was filed in early June 2002. The Department of Justice filed an answer which contained more than ten affirmative defenses.

Federal Energy Regulatory Commission Litigation

- *Pacific Gas and Electric Company, FERC Docket No. ER00-2360-000.* PG&E tendered for filing proposed amendments to Contract No. 14-06-200-2948A (Contract 2948A) and other associated contracts. PG&E proposes several changes to the contracts, terms, conditions, rates and charges, including unilaterally changing the existing methodology for calculating the energy rates from average thermal production cost to market. After a hearing, the FERC ruled in Western's favor and the entire Commission subsequently affirmed the Presiding Judge's initial opinion. PG&E's Request

for Rehearing was denied, and PG&E appealed to the D. C. Circuit Court of Appeals. It is estimated that the increased costs over the term of Contract 2948A would be \$1.2 billion.

- *San Diego Gas and Electric Company Investigation of Practices of the California Independent System Operator and California Power Exchange, California Electricity Oversight Board, Docket EL-00-95-000.* The FERC began an investigation into the dysfunctional California markets. FERC has issued a number of orders addressing price mitigation and potential refunds. The Commission made a finding that prices in the California markets were unjust and unreasonable. After a large number of rehearing requests the Commission issued a rehearing order in December 2001. The case is proceeding through discovery, after the scheduling conference on January 8, 2002. The California ISO estimated that \$16 million in refunds are at stake.

On November 20, 2001, the Commission issued an Order on Motion for Discovery. In the Order, the Commission approved the request of the California Parties (State of California, California Electricity Oversight Board, California Public Utilities Commission, PG&E and SCE) to conduct discovery for a period of 100 days into relevant evidence on the issue of manipulation of the California markets from January 1, 2000 to June 10, 2001. The request and order stem from appeals of Commission orders related to efforts of the State of California to get refunds for alleged unjust and unreasonable electricity prices for the period from October 2, 2000 to June 19, 2001. On August 21, 2002, the Ninth Circuit Court of Appeals returned the appeals to the Commission with direction to further investigate the issue of market manipulation. Western may expect to receive discovery requests as a result of this order.

Falcon and Amistad Operating and Maintenance Fund

Proposed Appropriation Language

For operation, maintenance, and emergency costs for the hydroelectric facilities at the Falcon and Amistad Dams, \$2,640,000, to remain available until expended, and to be derived from the Falcon and Amistad Operating and Maintenance Fund of the Western Area Power Administration, as provided in section 423 of the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995.

Note—A regular 2003 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 107-229, as amended). The amounts included for 2003 in this budget reflect the Administration's 2003 policy proposals.

Explanation of Change

The only change from the language proposed in FY 2003 is to the proposed funding amount.

Falcon and Amistad Operating and Maintenance Fund

Funding Profile

(dollars in thousands)

	FY 2002 Comparable Appropriation	FY 2003 Request	FY 2004 Request	\$ Change	% Change
Falcon and Amistad Operating and Maintenance Fund.....	2,663	2,734	2,640	-94	-3.4%
Total, Falcon and Amistad Budget Authority..	2,663	2,734	2,640	-94	-3.4%
Additional net budget authority to cover the cost of fully accruing retirement (non-add) ^a ..	(0)	(0)	(118)	(+118)	(N/A)

Public Law Authorization:

Public Law 103-236, "Foreign Relations Authorization Act, Fiscal Years 1994 and 1995"
The Act of June 18, 1954 (68 Stat. 255)

Funding by Site

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Western Area Power Administration	2,663	2,734	2,640	-94	-3.4%
Total, Falcon and Amistad Operating and Maintenance Fund.....	2,663	2,734	2,640	-94	-3.4%

Site Description

The Falcon-Amistad Project consists of two international storage projects located on the Rio Grande River between Texas and Mexico. The United States and Mexico operate separate powerplants on each side of the Rio Grande River. The power output is divided evenly between the two nations. The State Department's International Boundary and Water Commission (IBWC) owns and operates the U. S. portion of the projects.

Falcon Dam is located about 130 miles upstream from Brownsville, Texas. The United States' portion of construction, operation and maintenance was authorized by Congress in 1950. Construction was started in that year and completed in 1954. The United States' share of Falcon Powerplant capacity is 31.5 megawatts (MW). The powerplant came on line in 1954.

^a No funds for the Government's share of increased costs associated with pension and annuitant health care benefits were included in the FY 2002 and FY 2003 requests. Comparable amounts would have been \$99,000 and \$113,000, respectively. Therefore, FY 2002 and FY 2003 amounts displayed are not comparable to the FY 2004 amount.

Amistad Dam is located about 300 miles upstream from Falcon Dam. The Amistad Powerplant was constructed by the U. S. Army Corps of Engineers, as agent for the IBWC. The United States' portion of construction, operation and maintenance was authorized by the Mexican-American Treaty Act of 1950. Amistad Dam was completed in 1969. Its two generating units, with a generation capacity of 66.0 MW, came on line in 1983.

Project power is marketed to two electric cooperatives in south Texas via Central Power and Light Company's transmission system. There is no Federal transmission associated with these two projects. Repayment is made through annual installments. These installments are established in advance by Western and the customers on or before August 31 of the year preceding the appropriate fiscal year. Each annual installment pays the amortized portion of the U. S. investment in the Falcon and Amistad hydroelectric facilities with interest, and associated operation, maintenance and administrative costs. This repayment schedule does not depend upon the amount of power and energy delivered or the amount of generation each year.

Mission Supporting Goals and Objectives

The Falcon and Amistad Operating and Maintenance Fund (Maintenance Fund) was established in the Treasury of the United States as directed by the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995. The Maintenance Fund is administered by the Administrator of Western for use by the Commissioner of the U. S. Section of the IBWC to defray administrative, O&M, replacements, and emergency costs for the hydroelectric facilities at the Falcon and Amistad Dams.

The Falcon/Amistad Dams hydroelectric power generation plants sell generated power to rural electric cooperatives through Western. The two powerplants have a combined generating capacity of 97.5 MW. All revenues collected in connection with the disposition of electric power generated at the Falcon and Amistad Dams, except monies received from the Government of Mexico, are credited to the Maintenance Fund. Any monies received from the Government of Mexico are credited to the General Fund of the U. S. Treasury. Revenues collected in excess of expenses are used to repay, with interest, the cost of replacements and original investments, thus supporting Western's Program Strategic Performance Goal.

Full funding will support 24-hour/day operation and maintenance of the two powerplants to ensure response to ever-changing water conditions, customer demand, and continual coordination with operating personnel of the Government of Mexico. In addition, power will be marketed, repayment studies will be completed, and revenues collected. The Federal staffs funded under this program continue to be allocated to the U. S. Section of IBWC by the Department of State.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Falcon and Amistad Operating and Maintenance Fund					
Salaries and Benefits	1,433	1,663	1,738	+75	+4.5%
Routine Services	1,098	868	771	-97	-11.2%
Miscellaneous Expenses.....	114	115	115	0	0.0%
Marketing, Contracts, Repayment Studies.	18	18	16	-2	-11.1%
Emergency Contingency	0	70	0	-70	-100.0%
Total, Falcon and Amistad Operating and Maintenance Fund Budget Authority	2,663	2,734	2,640	-94	-3.4%
Additional budget authority to cover the cost of fully accruing retirement (non-add) ^a	(0)	(0)	(118)	(+118)	(N/A)

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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Salaries and Benefits..... 1,433 1,663 1,738

Salaries and benefits are provided for 29 Federal employees of the U. S. Section of the IBWC who operate and maintain the two powerplants on a 24-hour/day basis, including planned maintenance activities, required safety services, and emergency response to flood operations and/or equipment failure. The increase is attributed to promotions, within grade, salary, and cost of living increases (+\$75,000).

Routine Services..... 1,098 868 771

Routine services such as inspection and service of the CO₂ and HVAC systems, elevators, self-contained breathing apparatus, calibration of test equipment, rewinding of motors, and repair of obsolete equipment when replacement parts are no longer available, will be provided. Additionally, upgrades, replacement or rehabilitation of equipment such as control room recorders, station service batteries, pneumatic and grease systems, and the elevator at the Amistad facility will occur. The request also includes \$235,000 to sandblast and recoat a fourth penstock in preparation for future installation of a low head generating unit. This penstock was not included in the original re-coating project, scheduled for completion in FY 2003. Also included is \$100,000 to secure the cliff wall at the rear of the Amistad Powerplant to stop falling rock. The decrease reflects a reduced level of equipment replacements planned in FY 2004.

^a No funds for the Government's share of increased costs associated with pension and annuitant health care benefits were included in the FY 2002 and FY 2003 requests. Comparable amounts would have been \$99,000 and \$113,000, respectively. Therefore, FY 2002 and FY 2003 amounts displayed are not comparable to the FY 2004 amount.

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Miscellaneous Expenses	114	115	115
Estimates include miscellaneous expenses for IBWC employees and technical advisors, including travel, training, communications, utilities and printing.			
Marketing, Contracts, Repayment Studies	18	18	16
Costs for marketing power, administration of power contracts, and preparation of rate and repayment studies are included. Based on accurate studies, staffs ensure that power revenues are set at an appropriate level to recover annual expenses and meet repayment schedules, thus supporting Western’s Program Strategic Performance Goal.			
Emergency Contingency	0	70	0
Restoration of the emergency contingency to the \$200,000 level originally appropriated was completed in FY 2003.			
Total, Falcon and Amistad Operating and Maintenance Fund Budget Authority	2,663	2,734	2,640

Explanation of Funding Changes

	FY 2004 vs. FY 2003 (\$000)
Salaries and Benefits	
▪ The increase in salaries and benefits is primarily attributed to increased costs of promotions, within grade, salary and cost-of-living expenses.	+75
Routine Services	
▪ The reduction in routine services reflects a slightly lower level of equipment replacements.	-97
Marketing, Contracts, Repayment Studies	
▪ The decrease reflects a slightly lower level of effort for these activities.	-2
Emergency Contingency	
▪ Restoration of the emergency contingency amount was completed in FY 2003 and remains at its original level. No funding is requested for this purpose in FY 2004.	-70
Total Funding Change, Falcon and Amistad Operating and Maintenance Fund	-94

Colorado River Basins Power Marketing Fund

Funding Profile

(dollars in thousands)

	FY 2002 Comparable Appropriation	FY 2003 Request	FY 2004 Request	\$ Change	% Change
Colorado River Basins Power Marketing Fund					
Program Direction	35,427	38,373	40,090	+1,717	+4.5%
Equipment, Contracts and Related Expenses	202,259	371,421	153,471	-217,950	-58.7%
Total, Operating Expenses from new authority	237,686	409,794	193,561	-216,233	-52.8%
Offsetting Collections Realized	-237,686	-431,794	-215,561	+216,233	+50.1%
Total, Obligational Authority	0	-22,000	-22,000	0	0.0%
Additional obligational authority to cover the cost of fully accruing retirement (non-add)	(993)	(1,013)	(1,409)	(+396)	(+39.1%)

Public Law Authorizations:

Public Law 75-529, "The Fort Peck Project Act of 1938"
 Public Law 84-484, "The Colorado River Storage Project Act of 1956"
 Public Law 90-537, "The Colorado River Basin Project Act of 1968"
 Public Law 95-91, "Department of Energy Organization Act" (1977)

Funding by Site

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Western Area Power Administration.....	237,686	409,794	193,561	-216,233	-52.8%
Offsetting Collections Realized.....	-237,686	-431,794	-215,561	+216,233	+50.1%
Total, Colorado River Basins Power Marketing Fund.....	0	-22,000	-22,000	0	0.0%

Site Description

The Colorado River Basins Power Marketing Program is comprised of three power systems: the Colorado River Storage Project, including the Dolores and Seedskadee Projects; the Fort Peck Project; and the Colorado River Basin Project, including the Central Arizona Project. Western Area Power Administration is responsible for construction, maintenance, and operation of facilities for transmitting and marketing the electrical energy generated in these power systems. A brief description of each follows:

The **Colorado River Storage Project** (CRSP) was authorized in 1956. It consists of four major storage units: Glen Canyon, on the Colorado River in Arizona near the Utah border; Flaming Gorge on the Green River in Utah near the Wyoming border; Navajo on the San Juan River in northwestern New Mexico near the Colorado border; and the Wayne N. Aspinall unit on the Gunnison River in west-central Colorado.

CRSP has a combined storage capacity that exceeds 33.5 million acre-feet. Five Federal powerplants associated with the project, with 16 generating units, have an operating capacity of 1,710 MW. CRSP provides for the electrical needs of more than a million people spread across Colorado, Utah, New Mexico and Arizona. Portions of Nevada and Wyoming are also served by CRSP power.

The **Dolores Project**, located in Montezuma and Dolores counties in southwestern Colorado, and the **Seedskadee Project**, located in southwestern Wyoming, were authorized as participating projects of CRSP. Dolores, a multipurpose project, provides 12.8 MW of installed power generating capacity along with municipal and industrial water, irrigation water, and recreation and fish and wildlife enhancement. The Dolores Project powerplants at McPhee Dam and the Towaoc Canal produce 1.3 and 11.5 MW, respectively. Seedskadee's power facilities, associated with the project's Fontenelle Dam, include an 11.5-MW powerplant, switchyard and necessary transmission lines to interconnect with the CRSP transmission system at Flaming Gorge Powerplant.

The **Fort Peck Project**, located on the Missouri River in northeastern Montana, was begun under an Executive Order in October 1933 as part of the Public Works Administration. The Fort Peck Project Act of 1938 authorized the completion, maintenance and operation of the project, and the Flood Control Act of 1944 authorized integration of operation of the project with the Pick-Sloan Missouri Basin Program to serve a common market area. Installed generating capacity of the 5 units is 218 MW, which is delivered primarily to customers in eastern Montana and western North Dakota.

The **Central Arizona Project** (CAP) was authorized to furnish irrigation and municipal water supplies to Arizona and New Mexico, and for other purposes. The Navajo Generating Station, located near Lake Powell at Page, Arizona, has three coal-fired steam electric generating units for a combined capacity of approximately 2,250 MW. The Federal share of the capacity (24.3 percent) is used to power the pumps that move Colorado River water through CAP canals. Surplus generation is marketed by the Salt River Project pursuant to an agreement with Western.

Colorado River Basins Power Marketing Fund

Program Direction

Mission Support Goals and Objectives

The Colorado River Basins Power Marketing Program (Program) is comprised of the three power systems described earlier. This program is funded through Western’s business-type revolving fund (Federal Enterprise Fund), the Colorado River Basins Power Marketing Fund.

Revenues from the sale of electric energy, capacity and transmission services replenish the fund and are available for expenditure for operation, maintenance, power billing and collection, program direction, purchase power and wheeling, interest, emergencies, and other power marketing expenses. Power sales and other revenues, which are collected in excess of expenses, are used to repay Federal investments to the U.S. Treasury. This request represents Western’s estimate of obligations to finance these business-type operations.

Western operates and maintains the transmission system for the Projects funded in this account to ensure an adequate supply of reliable electric power in a clean and environmentally-safe, cost-effective manner. Western achieves continuity of service by maintaining its power systems at or above industry standards, rapidly restoring service following any system disturbance, mitigating adverse environmental impacts, performing clean-up activities, and maximizing the revenues gained from non-firm energy sales. In concert with its customers, Western reviews required replacements to its existing infrastructure to sustain reliable power delivery to its customers and to contain annual maintenance expenses.

The Program Direction activity supports Western’s Program Strategic Performance Goal. To attain reliability performance, dispatchers match generation to load minute-by-minute to meet or exceed performance levels established by NERC. Western maintains the interconnected system at or above industry standards to reduce transmission outages. Energy schedulers maximize revenues from non-firm energy sales and power rates are reviewed and adjusted to support repayment of Federal investment. Western trains its employees on a continuing basis in occupational safety and health regulations, policies and procedures, and conducts safety meetings at employee, supervisory and management levels in order to keep the safety culture strong. Accidents are reviewed to ensure lessons are learned and proper work protocol is in place.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Program Direction					
Salaries and Benefits	24,101	25,551	27,360	+1,809	+7.1%
Travel.....	2,132	2,106	2,306	+200	+9.5%
Support Services	3,126	3,551	3,375	-176	-5.0%
Other Related Expenses	6,068	7,165	7,049	-116	-1.6%
Total, Program Direction	35,427	38,373	40,090	+1,717	+4.5%
Additional obligational authority to cover the cost of fully accruing retirement (non-add)....	(993)	(1,013)	(1,409)	(+396)	(+39.1%)
Full-time Equivalents	276	268	272	+4	+1.5%

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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Salaries and Benefits	24,101	25,551	27,360
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Salaries and benefits will be provided for Federal employees who operate and maintain the Program’s high-voltage integrated transmission system and associated facilities; plan, design, and supervise the replacement (capital investments) to the transmission facilities; and market the power and energy produced to repay annual expenses and capital investment. Engineers and craft workers rapidly restore the transmission system, comprised of approximately 4,000 circuit-miles of transmission lines and associated substations, switchyards, communication, control and general plant facilities, following any disturbance. Staffs routinely maintain and/or replace equipment to assure capability for reliable delivery of power. Dispatchers respond to minute-by-minute changes to load and generation to meet or exceed the NERC and industry averages. Energy schedulers maximize revenues from non-firm energy sales, and power rates are reviewed and adjusted, thereby supporting the repayment of Federal investment. Staffs provide continuing services such as system operations, power billing and collection, power marketing, energy services, technology transfer, environmental, safety, security and emergency management activities. Due to the extreme hazards associated with a high-voltage electrical system, staffs make safety a priority in each and every task. Staffs evaluate general power resources, collaborating and planning with customers and members of the interconnected transmission system to identify the most effective transmission system improvements to maximize benefits to all participants.

The 272 FTE supported in this account reflects both direct and indirect (portions of administrative and general expense employees). Amounts are based on planned work associated with facilities funded through this Account and not on specific positions; therefore, FTE numbers may vary from year to year. The increase reflects funding for an additional four FTE as well as anticipated salary and within-grade increases. As authorized in P.L. 99-141, Western annually establishes pay rates and compensation policy for some employees (craft workers, power system dispatchers, schedulers, and marketers) based on prevailing rates in the electric utility industry. Because of recruitment/retention issues for those occupations across the Nation and increased staff in these categories to meet the additional workload requirements attributed to FERC Orders No. 888 and 889, Western’s Federal salary/benefit costs for the dispatching/scheduling functions have increased significantly: 7.1 percent in FY 2001; 14.1 percent in FY 2002; and an estimated 4.8 percent in FY 2003. Western anticipates similar increases in FY 2004.

Travel	2,132	2,106	2,306
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Transportation/per diem allowance for day-to-day performance of duties of Federal staff, including crews maintaining the transmission facilities will continue. Rental/lease of GSA vehicles and transportation of things are also included. Estimates are based on historical travel costs, adjusted for inflation and planned activity.

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Support Services	3,126	3,551	3,375
Support services funded in this activity include IT support, warehousing, computer-aided drafting/engineering, and general administrative support. The decrease is primarily attributed to a reduced need for IT support services (-\$210,000), and elimination of management studies support (-\$54,000), partially offset by an increase of \$88,000 in general administrative support requirements.			
Other Related Expenses	6,068	7,165	7,049
Other related expenses include, but are not limited to, space, utilities and miscellaneous charges, printing and reproduction, training tuition, maintenance of office equipment, supplies and materials, telecommunications, personal computers, and multi-project costs. Intermittent specialized services, not included in on-going support service contracts, are also included. Rental space costs assume the GSA inflation factor. Other costs are based on historical usage and actual cost of similar items. The request reflects increases in DOE’s working capital fund assessments and in maintenance costs including software licensing agreements. The increases are offset by decreases in rental space costs, intermittent services, and supply purchases.			
Total, Program Direction	35,427	38,373	40,090

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Salaries and Benefits

- Increase in salaries and benefits is attributed to an additional four FTE to cover planned workload, and salary and within grade increases, including salaries determined by prevailing rates in the electric utility industry. +1,809

Travel

- The increase in travel reflects inflation and a slightly higher level of planned activity +200

Support Services

- Decrease in support services costs is primarily attributed to a reduction in IT support service needs (-\$210,000), elimination of management studies support (-\$54,000), and an increase of \$88,000 in general administrative support requirements -176

Other Related Expenses

- Increases include printing costs (+\$1,000), DOE’s working capital fund assessment (+\$1,000), and software procurement/maintenance costs/capital acquisitions (+\$147,000). The increases are offset by reductions in supply purchases (-\$24,000), rental space (-\$96,000), and intermittent services (-\$145,000). -116

Total Funding Change, Program Direction	+1,717
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Support Services

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Technical Support Services					
Economic and Environmental Analysis	0	0	0	0	N/A
Test and Evaluation Studies	0	0	0	0	N/A
Total, Technical Support Services	0	0	0	0	N/A
Management Support Services					
Management Studies	52	54	0	-54	-100.0%
Training and Education	0	0	0	0	N/A
ADP Support	1,724	1,983	1,773	-210	-10.6%
Administrative Support Services	1,350	1,514	1,602	+88	+5.8%
Total, Management Support Services	3,126	3,551	3,375	-176	-5.0%
Total, Support Services	3,126	3,551	3,375	-176	-5.0%

Other Related Expenses

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Training	200	200	200	0	0.0%
Working Capital Fund	224	242	243	+1	+0.4%
Printing and Reproduction	13	13	14	+1	+7.7%
Rental Space	877	930	834	-96	-10.3%
Software Procurement/Maintenance Activities/Capital Acquisitions	904	1,000	1,147	+147	+14.7%
Other	3,850	4,780	4,611	-169	-3.5%
Total, Other Related Expenses	6,068	7,165	7,049	-116	-1.6%

Equipment, Contracts and Related Expenses

Mission Supporting Goals and Objectives

Western's equipment, contracts and related expenses are necessary for operation and maintenance activity. This program supports the Department of Energy's mission to promote secure, reliable, and environmentally-responsible energy systems that serve the needs of the public. Western ensures an adequate supply of reliable electric power in a safe, cost-effective manner, and achieves continuity of service throughout its service territory by maintaining its power system at or above industry standards, rapidly restoring service following any system disturbance, mitigating adverse environmental impacts, performing clean-up activities, and maximizing the revenues gained from ancillary services and non-firm energy sales.

The Colorado River Basins Power Marketing Program is comprised of power marketing, operation, and maintenance of transmission facilities of three power systems previously described in the Site Description section. These activities are funded in Western's business-type revolving fund (Federal Enterprise Fund), the Colorado River Basins Power Marketing Fund.

Revenues from the sale of electric energy, capacity and transmission services replenish the fund and are available for expenditure for operation, maintenance, power billing and collection, program direction, purchase power and wheeling, interest, emergencies, and other power marketing expenses.

Supplies and materials, such as wood poles, instrument transformers, meters and relays, must be procured to provide necessary resources to respond to routine and emergency situations in the high-voltage interconnected transmission system. Technical services, such as waste management disposal and pest/weed control, are used as needed.

Western's planned replacement and addition activity is based on an assessment of age and the maintenance frequency/problems of individual items of equipment, availability of replacement parts, safety of the public and Western's personnel, environmental concerns, and an orderly work plan. The work plans, coordinated with Western's power customers who ultimately bear the burden of all Western expenses, reflect an overall sustainable level of effort, with shifts in emphasis between categories (i.e. electrical versus communication equipment) in any given year.

Electrical equipment replacements, such as circuit breakers, transformers, insulators, revenue meters, switches, control boards, relay and oscillographs, must be acquired to assure reliable service to Western's customers. System age and environmental concerns necessitate orderly replacement before significant problems develop.

Replacement and upgrade of microwave, supervisory control and data acquisition, and other communication and control equipment continues to provide increased system reliability, and reduce maintenance and equipment costs.

Capitalized movable equipment such as special purpose vehicles (e.g., cranes, auger trucks, manlifts), special purpose equipment (e.g., pole trailers, industrial tractors, brush chippers), specialized test equipment (e.g., motion analyzers and relay test equipment), computer-aided engineering equipment, office equipment, IT equipment and software must be upgraded and replaced.

Electrical resources and transmission capability to firm up the Federal hydropower supplies needed to meet Western's contractual obligations will continue to be obtained. Transmission wheeling services are

also purchased when a third party's transmission lines are needed to deliver Federal power to Western's customers.

Reimbursements to the U. S. Army Corps of Engineers for operation and maintenance of the Fort Peck Powerplant and planned interest payments to the U. S. Treasury are also included in this section.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Equipment, Contracts and Related Expenses					
Supplies and Materials	8,186	9,382	9,925	+543	+5.8%
Purchase Power Costs	113,580	346,998	129,701	-217,297	-62.6%
Capitalized Equipment	5,440	6,579	5,159	-1,420	-21.6%
Interest/Transfers	75,053	8,462	8,686	+224	+2.6%
Total, Equipment, Contracts and Related Expenses.....	202,259	371,421	153,471	-217,950	-58.7%

Detailed Program Justification

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Supplies and Materials	8,186	9,382	9,925

Supplies and materials necessary to respond to routine and emergency situations in the high-voltage interconnected transmission system will be procured, and reimbursements to the U.S. Army Corps of Engineers for operation and maintenance of the Fort Peck Powerplant will continue. A well-maintained transmission system supports Western's attainment of reliability and transmission availability performance by preventing sudden failure, unplanned outages, and possible regional power system disruptions. By providing 24-hour/day reliable electric power delivery to its customers, Western secures revenues for repayment of the Federal investment. Safe working procedures are discussed before work commences to optimize safety of the public, Western personnel, and equipment. The request is based on projected work plans for activities funded from this Account. Estimates are based on historical data of actual supplies needed to maintain the transmission system reliably, including emergency situations such as ice storms and tornadoes. Costs are based on recent procurement of similar items. The increase is attributed to inflation and a slightly higher level of activity.

Purchase Power Costs.....	113,580	346,998	129,701
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Electrical resources, transmission capability and wheeling services will be purchased. The request anticipates the continuance of low-steady-flow tests conducted at Glen Canyon Dam, as required by the Glen Canyon Dam EIS Record of Decision. Additionally, amounts include obligational authority to accommodate replacement power purchases for customers served by the Colorado River Storage Project. The replacement power purchases, a provision of the Salt Lake City Area Integrated Projects

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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electric power contracts, are made at the request of power customers at times Western lacks sufficient generation to meet its full contract commitment. The funds for the replacement power purchases are advanced by the requestors prior to the purchase. Based on the latest hydrological projections, the FY 2004 request anticipates total purchases of 3,098,600 megawatthours (MWh), an increase of approximately 25,000 MWh above the FY 2003 estimate.

The revenues received from power purchases provide for timely repayment of the taxpayer investment in the projects' power facilities, thus supporting the repayment of Federal investment. The decrease is attributed to lower energy costs (FY 2004 average cost of \$39.05/MWh as compared to FY 2003 average estimates of \$110.29/MWh).

Capitalized Equipment..... 5,440 6,579 5,159

Capitalized equipment, including circuit breakers, transformers, relays, switches, transmission line equipment, microwave, supervisory control and data acquisition, and other communication and control equipment, will be acquired to assure reliable service to Western's customers. FY 2004 is the final year of a three-year program to replace thyristor valve modules at the Miles City (Montana) Converter Station. Fiber optic groundwire will be installed in the Fort Peck Project (Montana). The request includes portions of the costs associated with a communication alarm system (Desert Southwest Region) and replacement of a microwave alarm system in Western's Rocky Mountain Region. Staged replacement of radio equipment to move to narrow communications band spectrums as required by the Federal Communications Commission (FCC) and National Telecommunications and Information Administration (NTIA) continues. A mid-range manlift (Montana) and a tracked loader for use in right-of-way improvement (Rocky Mountain Region) will be procured. Replacement and upgrade of aged power system components are crucial to system reliability and transmission availability performance. Removing environmental hazards and replacing aged equipment eliminates safety hazards for the public and Western's personnel. Costs are based on analysis of system O&M requirements/concerns, customer-coordinated work plans, actual costs of recent similar projects, and bottom-up budgeting techniques. The decrease is primarily attributed to a reduced level of purchases associated with the movement to narrow communications bands as the project approaches its planned FY 2005 conclusion.

Interest/Transfers 75,053 8,462 8,686

Interest payments to the U. S. Treasury will occur. Estimates are based on Power Repayment Studies for the Projects funded in this account. The projected payment is increasing slightly because of a small increase in assets and no interest payment having been made in FY 2002. FY 2002 amount reflects transfers to U.S. Bureau of Reclamation.

Total, Equipment, Contracts and Related Expenses 202,259 371,421 153,471

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Supplies and Materials

- The increase is attributed to inflation and increased maintenance activity +543

Purchase Power Costs

- The decrease for power purchases is primarily attributed to a return to lower energy costs..... -217,297

Capitalized Equipment

- The decrease in capitalized equipment purchases is primarily attributed to a reduced level of purchases associated with the movement to narrow communications bands as the project approaches its planned FY 2005 conclusion..... -1,420

Interest

- Planned interest payment to the U.S. Treasury in FY 2004 increase slightly because of a small increase in assets. +224

Total Funding Change, Equipment, Contracts and Related Expenses -217,950