



6450-01-P

DEPARTMENT OF ENERGY

Western Area Power Administration

Boulder Canyon Project

AGENCY: Western Area Power Administration, DOE.

ACTION: Notice of Approval for Fiscal Year 2017 Base Charge and Rates.

SUMMARY: In this notice, the Western Area Power Administration (WAPA) establishes the Fiscal Year (FY) 2017 base charge and rates for Boulder Canyon Project (BCP) electric service, as approved by the Deputy Secretary of Energy (Deputy Secretary). The base charge will provide sufficient revenue to cover all annual costs, including interest expense, and to repay investments within the allowable period.

DATES: The base charge and rates will be effective the first day of the first full billing period beginning on or after October 1, 2016, and will remain in effect through September 30, 2017, or until superseded.

FOR FURTHER INFORMATION CONTACT: Mr. Ronald E. Moulton, Regional Manager, Desert Southwest Region, Western Area Power Administration, P.O. Box 6457, Phoenix, AZ 85005-6457, (602) 605-2453, e-mail rmoulton@wapa.gov, or Mr. Scott Lund, Rates Manager, Desert Southwest Region, Western Area Power Administration, P.O. Box 6457, Phoenix, AZ 85005-6457, (602) 605-2442, e-mail slund@wapa.gov.

SUPPLEMENTARY INFORMATION: Hoover Dam, authorized by the Boulder Canyon Project Act (45 Stat. 1057, December 21, 1928), sits on the Colorado River along the Arizona and Nevada border. The Hoover Dam power plant has 19 generating units (two for plant use)

and an installed capacity of 2,078,800 kilowatts (kW) (4,800 kW for plant use). High-voltage transmission lines and substations connect BCP power to consumers in southern Nevada, Arizona, and southern California. Electric service rates are adjusted annually using an existing rate formula established on April 19, 1996. The rate formula requires BCP power customers to pay a base charge (expressed in dollars), rather than a rate, for their power. The base charge is calculated to generate sufficient revenue to cover all annual costs, including interest expense, and to repay investments within allowable time periods. The base charge is allocated to each BCP power customer in proportion to its allocation of Hoover power. The composite power rate, expressed in mills per kilowatt-hour (mills/kWh), is calculated by dividing the base charge by energy sales in a year. However, it is the base charge and not the power rate that is used to calculate BCP customers' bills.

Rate Schedule BCP-F9 under Rate Order No. WAPA-171 was approved on an interim basis by the Deputy Secretary for a five-year period beginning October 1, 2015, and ending September 30, 2020¹. This rate schedule, which was approved by the Federal Energy Regulatory Commission (FERC) on a final basis on December 11, 2015, requires the base charge be calculated annually based on current financial and hydrological data². This notice sets forth the calculation for the FY 2017 BCP base charge.

The FY 2017 base charge for BCP electric service is \$69,662,289, a 9.3 percent increase from the FY 2016 base charge of \$63,735,856. The primary factors contributing to the change in the base charge are prior year carryover and total expenses. Prior year carryover, the difference between the previous year's base charge and expense, has decreased by \$9 million, or 62.7

¹ 80 FR 44098 (July 24, 2015).

² Docket No. EF15-7-000 (153 FERC ¶ 62,189).

percent. Prior year carryover offset current year expenses, thereby reducing the base charge. In FY 2014, carryover increased significantly when customers repaid certain capitalized investments. Since that time carryover has steadily decreased, contributing to the increase in the FY 2017 base charge. Total expenses, which include operation, maintenance and replacement costs, increased by \$6 million, or 9.2 percent, while other expenses such as the uprating credit program and Hoover Dam Visitor Center costs decreased by \$10 million, or 37 percent. Despite the overall expense decrease of \$4 million, the FY 2017 base charge is increasing due to the reduction of prior year carryover.

The FY 2017 composite rate of 19.63 mills/kWh increased 7.11 percent compared to the FY 2016 composite rate of 18.33 mills/kWh. The FY 2017 energy rate of 9.82 mills/kWh increased 7.11 percent compared to the FY 2016 energy rate of 9.17 mills/kWh. The FY 2017 capacity rate of \$1.89/kW-month increased 9.8 percent compared to the FY 2016 capacity rate of \$1.72/kW-month. Energy sales are forecast to increase 2 percent from FY 2016 while FY 2017 capacity sales are expected to decrease 0.5 percent due to poor hydrological conditions. The increase in the FY 2017 base charge is the primary driver behind the increases in the composite, energy and capacity rates. The base charge and rates were calculated using WAPA's FY 2016 Final Master Schedule which provides FY 2017 energy and capacity sales projections.

The following summarizes the steps taken by WAPA to ensure involvement of all interested parties in determining the base charge and rates:

1. A Federal Register notice was published on April 4, 2016 (81 FR 19169), announcing the proposed rate adjustment process, initiating a public consultation and comment period, announcing public information and public comment forums, and presenting procedures for

public participation.

2. Discussion of the proposal occurred at two informal BCP Contractor meetings held April 5, 2016, in Phoenix, Arizona and April 12, 2016, via web conference. Representatives from WAPA and the Bureau of Reclamation (Reclamation) explained the basis for the estimates used to calculate the base charge and rates and held a question and answer session.
3. At the public information forum held on April 27, 2016, in Phoenix, Arizona, WAPA and Reclamation representatives explained the proposed base charge and rates for FY 2017 and held a question and answer session at these informal meetings.
4. A public comment forum held on May 25, 2016, in Phoenix, Arizona, provided the public with an opportunity to comment for the record.
5. WAPA received several comments during the 90-day consultation and comment period ending July 5, 2016. Comments and responses, paraphrased for brevity when not affecting the meaning of the statement, are presented below.

Comment: Commenters objected to the expense WAPA incurred to negotiate electric service contracts for the Post-2017 marketing period.

Response: Department of Energy Order RA 6120.2 requires the recovery of all costs of operating and maintaining a power system. It was necessary and appropriate to incur costs associated with negotiating the Post-2017 electric service contracts and implementation agreement. During the negotiations, WAPA remained mindful of costs incurred and was prudent in managing travel and related expenses.

Comment: A commenter questioned why the FY 2017 base charge has cost increases for power marketing when the negotiations for the Post-2017 electric service contracts have concluded.

Response: The commenter is correct in pointing out that negotiations on the Post-2017 electric service contracts concluded in 2016. The increase in power marketing costs in the FY 2017 base charge is necessary to implement and support the 31 additional electric service contracts that will be in effect during the Post-2017 marketing period.

Comment: A commenter expressed concern regarding changes to WAPA's General Western Allocation, which is a component of the Facility Expenses cost category.

Response: WAPA provided a detailed explanation of cost allocation changes that affect the General Western Allocation during a customer meeting held on August 23, 2016. WAPA will continue to provide customers with detailed explanations of changes in BCP costs.

Comment: A commenter encouraged Reclamation and WAPA to separately account for Post-Retirement Benefit (PRB) expenses collected during each marketing period in the event a refund is given for those expenses.

Response: Reclamation and WAPA are able to identify the PRB expenses collected in each marketing period, inclusive of any refunds.

Comment: A commenter asked for an update on a customer audit of the BCP and whether the audit will impact the FY 2017 base charge.

Response: The BCP contractors designated an audit selection committee to oversee the selection process of a new audit firm. Southern California Public Power Authority plans to administer the contract. This audit will not affect the FY 2017 base charge and rates as any findings will not be identified until after the FY 2017 base charge and rates are in effect.

Comment: A commenter requested that detailed presentations be made when the FY 2018 base charge is proposed so new contractors can better understand the proposal.

Response: WAPA will increase the level of detail presented in future presentations and supporting documentation and work with new contractors to assist them in understanding the proposed base charge.

Comment: A commenter requested the current Ten Year Operating Plan and supporting documentation for the FY 2017 base charge.

Response: Reclamation has sent new and existing contractors the latest Ten Year Operating Plan. Supporting documentation for the base charge is available on WAPA's website at <https://www.wapa.gov/regions/DSW/Rates/Pages/boulder-canyon-rates.aspx>.

Electric Service Rates

The base charge and the resulting calculated rates for electric service are designed to recover expenses including operation and maintenance, payments to states, visitor services, the uprating program, replacements, investment repayment, and accumulated interest. WAPA's power repayment study (PRS) allocates the base charge for electric service equally between capacity and energy.

Availability of Information

Information about this base charge and rate adjustment, including the PRS, comments, letters, memorandums, and other supporting material developed or maintained by WAPA and used to develop the FY 2017 base charge and rates is available for public review at the Desert Southwest Region, Western Area Power Administration, 615 South 43rd Avenue, Phoenix, AZ 85009. The information is also available on WAPA's website at <https://www.wapa.gov/regions/DSW/Rates/Pages/boulder-canyon-rates.aspx>.

Ratemaking Procedure Requirements

BCP electric service rates are developed under the Department of Energy Organization Act (42 U.S.C. 7101-7352), through which the power marketing functions of the Secretary of the Interior under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent enactments, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)), and other acts that specifically apply to the project involved, were transferred to and vested in the Secretary of Energy, acting by and through WAPA.

By Delegation Order No. 00-037.00A, effective October 25, 2013, the Secretary of Energy delegated: (1) the authority to develop power and transmission rates to the Administrator of WAPA; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand or to disapprove such rates to the FERC. Existing Department of Energy procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985 (50 FR 37835). Department of Energy procedures were followed by WAPA in developing the rate formula approved by FERC on December 11, 2015³.

The Boulder Canyon Project Implementation Agreement (BCPIA) requires that WAPA determine the annual base charge and rates for the next fiscal year before October 1 of each rate year. The rates for the first rate year, and each fifth rate year thereafter, become effective provisionally upon approval by the Deputy Secretary subject to final approval by FERC. For all other rate years, as is the case for FY 2017, the rates become effective on a final basis upon approval by the Deputy Secretary.

³ Docket No. EF15-7-000 (153 FERC ¶ 62,189).

In accordance with 10 CFR part 904, effective June 1, 1987, and the BCPIA, the rates are reviewed annually and adjusted to assure sufficient revenues are collected to achieve payment of all costs and financial obligations associated with the project. Each fiscal year, WAPA prepares a PRS for the BCP to update actual revenues and expenses, including interest, estimates of future revenues, operating expenses, and capitalized costs.

Consistent with procedures set forth in 10 CFR parts 903 and 904 and 18 CFR part 300, WAPA held a consultation and comment period. The notice of the proposed FY 2017 base charge and rates for electric service was published in the Federal Register on April 4, 2016 (81 FR 19169).

Under Delegation Order Nos. 00-037.00A and 00-001.00F and in compliance with 10 CFR parts 903 and 904, I hereby approve the FY 2017 base charge and rates for BCP electric service on a final basis under Rate Schedule BCP-F9 through September 30, 2017.

Dated: September 12, 2016

Elizabeth Sherwood-Randall
Deputy Secretary of Energy
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