



*Western States
Power Corporation*

Sustaining the Pick-Sloan Program in a Time of Reduced Federal Funding Through Enhanced Partnerships with Customers

Preface

The Flood Control Act of 1944 greatly expanded an existing partnership between the federal government and consumer-owned electric utilities in the Missouri River basin to undertake comprehensive multi-purpose development. Federal hydropower generation was a critical component of that development, with federal power customers repaying the costs of hydropower facilities as well as providing financial support to other multi-purpose functions.

In the Pick-Sloan Missouri Basin Program, Federal hydropower generation continues to be a significant energy resource for consumer-owned electric utilities in the region. The multi-purpose projects that hydropower helps to support financially are important economic resources to the entire region. Federal hydropower also continues to play an increasingly important role in avoiding production of greenhouse gases. Federal transmission, originally built to deliver federal hydropower allocations has also become the “backbone” transmission system throughout the upper Great Plains.

Taken together, the Federal Power program plays a vital role in the electric utility industry in the region, while providing additional regional and national economic and environmental benefits.

Purpose

This White Paper describes the continuing partnership that the Pick-Sloan Missouri Basin firm power customers seek to pursue with the Western Area Power Administration (“Western”) in order to preserve and enhance the purpose and value of the Federal Power program for the benefit of consumers at the “end of the line,” their communities, the region, and the country.

The Western/Customer partnership is grounded upon the principles of (a) mutual respect; (b) a continued commitment to preserve Western’s core mission to market and deliver Federal power to non-profit utilities, state and federal agencies, and Native American tribes at the “lowest cost possible consistent with sound business

principles;” and (c) partnerships between firm power customers and Western in the development and operation of transmission assets, thus avoiding duplication of facilities, maximizing reliability, providing open access, and assuring capacity for meeting Western’s and its Customers’ needs. The partnership has been fostered by Western’s willingness to work constructively and collaboratively with the Mid-West Electric Consumers Association (“Mid-West”), which represents the large majority of Pick-Sloan Missouri Basin firm power customers.

Customers have demonstrated their unstinting commitment by paying Western on a timely basis for its operations and ownership costs and the hydropower generation and share of multi-purpose costs of the United States Bureau of Reclamation (“Bureau”) and the United States Army Corps of Engineers (“Corps”), as prescribed by law.

In the past, Congress has provided funding authority and appropriations to meet the federal hydropower annual and capital needs of Western, the Bureau, and the Corps. Beginning in the late 1990’s, for a variety of reasons, administrations’ budget requests for funding the federal power program and Congressional appropriations have decreased sharply, threatening the availability of generating agencies’ (the Corps and the Bureau) hydropower and Western’s capability to meet its transmission responsibilities in the region. Although Congress has largely ignored the administrations’ cuts, it is becoming increasingly difficult for Congress to provide adequate funding authority and appropriations to meet the federal hydropower annual and capital needs of Western, the Bureau, and Corps.

This funding crisis prompted Pick-Sloan customers to establish the Western States Power Corporation (“WSPC”) in 1995, adding a new dimension to the long-standing partnership between Western and its customers and the Bureau and Corps as well. WSPC was founded to assist in meeting interim shortfalls in federal appropriations. The primary focus has been upon additional capital needs, both additions and replacements. Since its establishment, WSPC has provided \$139.8 million in funding to Western, \$32.4 million to the Bureau, and \$17.6 million to the Corps.

When founded, WSPC did not envision supplanting federal funding, but supplementing capital needs in a period of shrinking federal appropriations. WSPC and Mid-West both believe that the maintenance of hydropower at federal multi-purpose projects is a federal responsibility and obligation.

The Challenge

Pick-Sloan firm power customers recognize that they and Western have the same but not necessarily identical goals. Pick-Sloan customers know full well the value of federal power to the consumers they serve, to the fulfillment of the multi-purpose nature of the Pick-Sloan Missouri Basin Program, and to the “yardstick” function that the federal power program provides in assessing the fairness and equity of other electric utility operations.

For Western’s Pick-Sloan customers, Western’s “core mission” is defined in Western’s organic statutes, incorporation of development policies of predecessor agencies as decreed by statute, and the Flood Control Act of 1944. That “core mission” is the marketing and delivery of

federal hydropower generation from the federal multi-purpose projects of the Corps of Engineers and the Bureau of Reclamation.

At the same time, Pick-Sloan customers acknowledge that Western has been charged by Congress with assuming other mission responsibilities as well. These additional responsibilities are often imposed upon Western without additional funding and can impinge upon Western's ability to fulfill its core responsibilities. In other instances, Western's other responsibilities have challenged existing relationships and rate structures. The competition for scarce financial resources and potential conflicts between Western's core mission and new responsibilities challenges Western and its customers.

The federal budget and budget process fails to recognize the reimbursable nature of Western's appropriations and further compromises Western's capabilities. Budget requests dictated by the Office of Management and Budget (OMB) and the Department of Energy (DOE) grossly understate Western's real funding needs, as is the case with the Corps and the Bureau as well.

Even a willing Congress has a difficult task in providing adequate funding. Budget ceilings limit the amount of additional appropriations Congress can provide without compromising funding of other programs. Deficit reduction measures applied across the board to appropriations further reduces Western's funding through appropriations.

Customer funding has provided needed financial assistance to Western, but brings its own set of challenges. The capacity of Customer funding is limited. Customer funding is best suited to capital versus annual costs. Western's cash resources are materially affected by customer funding. Customer funding was never meant to meet all the funding needs and priorities of Western, the Bureau and the Corps.

Goals

To sustain and enhance Pick-Sloan firm power customers' relationships with the federal power agencies (Western, the Bureau, and the Corps), Western's Pick-Sloan customers offer the following goals to pursue for mutual benefit:

Hydropower Resource Access

A Wholesale Power Contracts: Current firm power customer contracts need to be renewed or extended to provide long-term power supply certainty. Customers will be unable to continue to offer funding for capital projects if there is uncertainty about future benefits from those investments. Contract extensions are needed to align customers' access to federal power allocations to customers' funding commitments.

B. Transmission: Customers require assurance of reliable and timely transmission access to serve end customer loads. Present and future deliveries to serve Customer auxiliary loads must have the same measure of certainty as federal resource deliveries.

Planning and Funding

A. Budget Development: Customers need to have a meaningful, consistent and timely role in defining operations, capital budget priorities, and performance of the hydropower aspects of the Federal Power program agencies. The Memorandum of Understanding among Western, the Bureau, the Corps, the Loveland Area Customer Association, WSPC, and Mid-West is a promising vehicle for future refinements and developments in pursuit of this goal.

B. Customer Funding: Customers will continue to work with Federal Power agencies (Western Area Power Administration, Corps of Engineers, U.S. Bureau of Reclamation) to provide reasonable funding -- within customers' capabilities -- for the "core mission," including capital requirements to sustain Western's ability to deliver federal power to its firm power customers. While the customers will provide continuing funding to support these efforts, customers strongly support increased federal funding for the Federal Power agencies' core missions, including, but not limited to, an increase in funding for capital funding to support the continuing operations of these critical national resources.

C. Partnerships: In transmission, for growth related capital projects, partnership relationships recognizing the customers' funding role will become an increasingly important aspect of future program plans. Direct customer ownership of transmission assets to meet customers' growth will be essential to both customers and Western in meeting their individual obligations, while recognizing Western's limited access to federal funding and customers' willingness to accept a larger ownership role in jointly-owned transmission assets.

**Adopted by Western States Power Corporation's Board of Directors on May 29, 2008.
Adopted by Mid-West Electric Consumers Association's Board of Directors on June 10, 2008.**