

in Reclamation's costs over the last 8 years, particularly the administrative and general expenses increasing by 128 percent since 1996. The Contractors requested a specific breakdown and itemization of the expenses be provided for discussion at the next engineering and operating committee (E&OC) meeting on May 14, 2003. The E&OC is a committee established by the BCP Implementation Agreement.

*Response:* Western and Reclamation agreed that each agency has an obligation under the implementation agreement to uphold accountability in all the various processes. Both agencies have stated that they are willing to work with the Contractors to alleviate these concerns. This was an agenda item for discussion at the May 2003 E&OC meeting. Also, Reclamation provided the requested detail of the itemized administrative and general costs for discussion at the meeting.

### Congressional Authorization

*Comment:* The Contractors expressed concern that some security costs resulting from activities made necessary after the September 11, 2001, terrorist attack are not being considered as non-reimbursable costs; specifically, \$600,000 identified in Reclamation's budget in FY 2003 for Information Technology (IT) Security. The Contractors believe Congress was very specific in deeming such costs non-reimbursable and providing funding to cover the costs.

*Response:* Reclamation did receive a supplemental appropriation in FY 2003 for IT security related to counterterrorism, of which \$3.3 million was earmarked for IT security (\$1.8 million for implementation of the Office of Inspector General's audit recommendation including accreditation and certification, training, and background investigations, and \$1.5 million for implementation of network security improvements including system conversions). Appropriations for physical security, such as guards and surveillance, equipment, etc., are entirely separate from the appropriations for IT security. The \$600,000 identified in Reclamation's budget is considered normal IT security costs. It covers Reclamation's perimeter security system (RECNET) assessment, fire walls and intrusion detection, accreditation and certification, and application conversions. Reclamation believes that Ninety thousand dollars (\$90,000) of these funds may qualify as non-reimbursable and therefore are being submitted for consideration for supplemental funding. If the

supplemental funding is obtained, the \$600,000 will be reduced by \$90,000.

### Revenue Transfers

*Comment:* An interested party representative expressed concern that Western was making a unilateral decision of transferring a portion of revenues from the Parker-Davis Project (P-DP) to the BCP without the consent of either the P-DP or BCP customers. The interested party indicated that the customers first needed to see the documentation supporting this determination.

*Response:* Western has the obligation under the BCP Electric Service Contracts to equitably apportion benefits and appropriate charges among the BCP, other Desert Southwest Projects, and other Federal Projects on the Colorado River. Western recognizes the customers' concerns with the methodology that is currently being applied to transmission losses, spinning reserves and regulation revenues. Western has chartered a team to establish a control area accounting methodology that identifies compensation due to all projects. The expected duration of the project is 12 months with an implementation phase to follow. As Western moves further into the project it will hold a meeting to share information and receive input regarding the accounting methodology.

### BCP Electric Service Rates

BCP electric service rates are designed to recover an annual revenue requirement that includes the operation and maintenance expenses, payments to States, visitor services, uprating program, replacements, investment repayment, and interest expense. Western's power repayment study allocates the projected annual revenue requirement for electric service between capacity and energy, 50 percent to capacity and 50 percent to energy.

### Procedural 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 and the Bureau of Reclamation 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.

By Delegation Order No. 00-037.00, effective December 6, 2001, the

Secretary of Energy delegated (1) the authority to develop long-term power and transmission rates on a nonexclusive basis to Western's Administrator, (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 DOE procedures for public participation in electric service rate adjustments are located at 10 CFR part 903, effective September 18, 1985 (50 FR 37835). DOE procedures were followed by Western in developing the rate formula approved by FERC on July 31, 2001, at 96 FERC ¶ 61,171.

The Boulder Canyon Project Implementation Agreement Contract No. 95-PAO-10616 requires Western, prior to October 1 of each rate year, to determine the annual rates for the next fiscal year. The rates for the first rate year and each fifth rate year thereafter, will become effective provisionally upon approval by the Deputy Secretary subject to final approval by the FERC. For all other rate years, the rates will become effective on a final basis upon approval by the Deputy Secretary.

Western will continue to provide the Contractors annual rates by October 1 of each year using the same rate-setting formula. The rates are reviewed annually and adjusted upward or downward to assure sufficient revenues to achieve payment of all costs and financial obligations associated with BCP. Each fiscal year, Western prepares a power repayment study that updates actual revenues and expenses and includes future estimates of annual revenues and expenses for the BCP including interest and capitalized costs.

Western's BCP electric service rate-setting formula set forth in Rate Order No. WAPA-70 was approved on April 19, 1996, in Docket No. EF96-5091-000 at 75 FERC ¶ 62,050, for the period beginning November 1, 1995, and ending September 30, 2000. Rate Order No. WAPA-94 extended the existing rate-setting formula beginning on October 1, 2000, and ending September 30, 2005. The BCP rate-setting formula includes a base charge, an energy rate, and a capacity rate. The rate-setting formula was used to determine the BCP FY 2004 Base Charge and Rates.

Western proposes the FY 2004 base charge of \$51,719,075, the energy rate of 6.46 mills/kWh, and the capacity rate of \$1.17/kWmonth be approved on a final basis.

Consistent with procedures set forth in 10 CFR part 903, Western held a consultation and comment period. The