Southeastern Federal Power Customers, Inc.

Alabama Municipal Electric Authority
Montgomery, AL 36103-5220

Blue Ridge Power Agency
Danville, VA 24541-3300

Central Electric
Power Cooperative, Inc.
Columbia, SC 29202-1455

Central Virginia
Electric Cooperative
Lovingston, VA 22949

East Mississippi Electric
Power Association
Meridian, MS 39302-5517

Electricities of North Carolina, Inc.
Raleigh, NC 27626-0513

Jim Woodruff Customers
Chattahoochee, FL 32324-0188

Municipal Electric Authority
of Georgia
Atlanta, GA 30328-4640

Municipal Energy Agency
of Mississippi
Jackson, MS 39201-2898

North Carolina Electric
Membership Corporation
Raleigh, NC 27611-7306

Oglethorpe Power Corporation
Tucker, GA 30085-1349

Orangeburg Department of
Public Utilities
Orangeburg, SC 29116-1057

Piedmont Municipal Power Agency
Greer, SC 29651-1236

PowerSouth Energy Cooperative
Andalusia, AL 36420-0550

Santee Cooper
Moncks Corner, SC 29461-2901

South Mississippi Electric
Power Association
Hattiesburg, MS 39404-5849

Virginia Cooperative Preference
Power Customers
Harrisonburg, VA 22801-1043

Virginia Municipal Electric
Association #1
Harrisonburg, VA 22801-3699

Statement by the Southeastern Federal Power Customers, Inc.
Department of Energy Power Marketing Administration
Defining the Future Initiative
August 17, 2012

On behalf of the Southeastern Federal Power Customers, Inc. ("SeFPC"), I am providing the following comments in response to the Department of Energy's ("Department") and Western Area Power Administration's ("Western") consultation process to implement the foundational goals set forth in Secretary Chu's March 16th memorandum to the Administrators of the four Power Marketing Administrations ("PMAs"). The SeFPC is a not-for-profit corporation that represents municipally owned and rural electric cooperatives in Alabama, Georgia, Florida, Mississippi, North Carolina, South Carolina, and Virginia. The SeFPC members purchase capacity and energy from the Southeastern Power Administration ("Southeastern"), which markets hydropower produced at U.S. Army Corps of Engineers ("Corps") multipurpose projects throughout the Southeast.

Although the Department and Western are currently focused on activities that relate solely to Western, the SeFPC has a significant interest in the scope and approach that the Department intends to take with Western as it may set a template for the implementation of the Secretary's efforts with the other PMAs, including Southeastern. The far reaching scope of the Secretary's March 16th Memorandum and the actions it proposed for the PMAs have prompted concerns within the preference customer community at large and in the Southeast. Because of deep interest in this proposal, I attended the workshop and listening session in Rapid City, South Dakota in July.

There are a number of features of the Secretary's March 16th proposal that will not apply to Southeastern because Southeastern owns no transmission facilities. For example, Section 1222 of the Energy Policy Act of 2005 was amended during deliberations in Congress to exclude Southeastern because Southeastern owns no transmission facilities and lacks much of the transmission operation infrastructure that would facilitate the execution of responsibilities under Section 1222. To the extent that the Department's effort is focused on transmission activities implemented by a PMA, any framework set forth for Western in this area would be inapplicable to Southeastern.

However, power customers in the Southeast are concerned that the Department could depart from a longstanding tradition in developing cost based rates that are the "lowest possible rates to consumers consistent with sound business principles"[1] in pursuit of modernization efforts. This concern has been heightened after reviewing the Secretary's responses to Congressional inquiries. While there is a stated commitment to cost based rates, the March 16th Memorandum and subsequent correspondence from the Department make no mention of an intent to adhere to the Congressional mandate of setting rate schedules that are the "lowest possible rates to consumers consistent with sound business principles." From the perspective of a customer in the Southeast, if the Department determines that it will no longer set rates at the lowest possible level consistent with sound business principles for Western, similar logic could apply in the Southeast.

Furthermore, power customers in the Southeast have particular concerns with the Secretary's proposal to change the rate design for the PMAs. Southeastern has a long history and tradition of developing rate structures that reflect the actual cost of marketing the hydropower that is made available from the Corps. The Secretary's March 16th Memorandum suggests, however, that the rate design could change to allow for the implementation of new programs and initiatives. This proposed change to a new rate structure for new programs and initiatives raises obvious concerns and questions for preference customers regardless of geographic location. We are concerned that any changes proposed for Western would become a template for attempts to change Southeastern's rate designs.

Before looking to redesigning the rate structures for the PMAs to implement new initiatives, the Department must first honor the Secretary's stated commitment to pursue goals to the extent allowed by law. As noted on page one of the March 16th Memorandum, Secretary has called on the PMAs to take a leadership role "to the extent allowable under their enabling statutes."[2] In this context we encourage the Secretary to closely heed the statutory mandate that requires rate schedules to be the lowest possible consistent with sound business principles. Indeed, a commitment to cost based rates is insufficient and only addresses part of the Administrators' responsibilities.

As this process moves forward, we would also encourage the Department to identify areas where the price of power can be lowered for preference customers without sacrificing reliability or availability of resources. The overall initiative assumes additional costs that must be borne by the PMAs and eventually passed through to customers. While the Secretary has observed that the costs must be "appropriately

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[1] *See* 16 U.S.C. §825s (2012).
[2] March 16th Memorandum at page 1.

managed,"[3] the clear implication is that the price of power will go up as a function of the Secretary's initiative.

We would encourage the Department to focus on policies and initiatives consistent with the enabling statutes for the PMAs that will lower rather than raise costs directly or indirectly for power customers.[4] In recent years in the Southeast, customers have raised concerns for Southeastern that the price of the power marketed by Southeastern is nearing the price of alternative resources. While SeFPC members have been longstanding supporters of the Federal Power Program, including support for the Corps hydropower programs, our support is tested when the price of alternative energy resources is cheaper. From our perspective, the future health of the PMA program depends on the Department setting policies that manage and lower costs.

As this process moves forward, we ask that the Department to focus all appropriate efforts on lowering costs for preference customers while adhering to enabling statutes. While the Secretary's overall initiative appears to have emerged from good intentions, preference customers with many years of experience with the Federal Power Program can see many unintended consequences associated with this effort. We encourage the Secretary and the Department to heed the warnings raised by preference customers so that the Federal Power Program may continue to provide a valuable resource to preference customers as Congress has intended.

Submitted by,

George B. Taylor, Jr.

Chairman, PMA Structural Changes Committee

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[3] Id at page 4.
[4] Importantly, any obligation imposed by the Department in the sale of power that indirectly raises the price of power must be accounted for by the eventual customer. While the rate charged may appear low compared to other resources, the full cost of power for a customer may be much higher if the Federal Government has imposed additional conditions or obligations as a condition of the sale of power.