



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

East Kentucky Power Cooperative
Winchester, KY 40392-0707

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

Comments by the Southeastern Federal Power Customers, Inc. Department of Energy and Western Area Power Administration Joint Operations Team Draft Recommendations January 22, 2013

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”) Joint Operations Team (“JOT”) Draft Recommendations. The SeFPC is a not-for-profit corporation that represents municipally owned and rural electric cooperatives in Alabama, Georgia, Florida, Kentucky, 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’s and Western’s JOT draft recommendations are currently focused on activities that relate solely to Western, the SeFPC has a significant interest in the recommendations as it may set a template for the implementation of the Secretary Chu’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.

There are a number of the recommendations that would not apply to Southeastern because Southeastern owns no transmission facilities. These comments will focus only on the recommendations that could potentially be applied to Southeastern.

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 suggestion that transmission rates be consolidated raises concerns for the Southeast even though Southeastern owns no transmission.

Southeastern purchases transmission services from regional transmission providers in each of its project areas. The services purchased are uniquely designed for delivery of the energy generated in each project area. Any consolidation would necessarily lead to cost-shifting among customers and away from cost-based rates. Further, any suggestion that the rates for power delivered be consolidated along with the transmission rates would lead to the same unlawful results.

We are concerned that any changes proposed for Western would become a template for attempts to change Southeastern's rate designs. For example, one of the recommendations (p. 14) suggests a revision to a rate setting methodology and the possible addition of generation-based ancillary services. While there may be advantages to this approach, it leaves open the possibility that generation resources could be used to support transmission service as a general matter and not be limited to supporting sales to preference customers.

Indeed, we note this concern with another one of the proposed recommendations. The first recommendation (p.8) to analyze regulation reserve requirements suggests the possibility that regulation from Western's resources might be used for the benefit of non-preference customers. This would be a troubling precedent in the Southeast as Southeastern currently has no balancing responsibilities,¹ and its resources are not used to provide regulation.

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. The underlying legal concerns with this proposal have been outlined in a document that the National Rural Electric Cooperative Association and American Public Power Association have developed. The SeFPC has signed that document as an endorsement of the legal principles and need to abide by the underlying statutory duties.

As this process moves forward, we ask 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

¹ Three of Southeastern's projects are in a Balancing Authority by themselves, with no retail load, and thus no regulation is required.

valuable resource to preference customers as Congress has intended. If you have any questions regarding these comments, please do not hesitate to contact me at the address below.

Submitted by,

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Chairman, PMA Structural Changes Committee

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