

STATEMENT OF CHARLES A. BORCHARDT  
ADMINISTRATOR  
SOUTHEASTERN POWER ADMINISTRATION  
UNITED STATES DEPARTMENT OF ENERGY  
TESTIMONY

BEFORE THE  
SUBCOMMITTEE ON WATER AND POWER  
COMMITTEE ON RESOURCES  
UNITED STATES HOUSE OF REPRESENTATIVES

HOW THE FEDERAL POWER MARKETING ADMINISTRATIONS  
ARE IMPLEMENTING THE ENERGY POLICY ACT OF 2005  
AND AN  
ASSESSMENT OF THE PROPOSED FISCAL YEAR 2007 BUDGET

March 1, 2006

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present a written statement on the President's proposed Fiscal Year 2007 budget request for the Southeastern Power Administration (Southeastern).

### **PROFILE OF SOUTHEASTERN POWER ADMINISTRATION**

The mission of Southeastern is to market and deliver Federal hydroelectric power at the lowest possible cost to public bodies and cooperatives in the southeastern United States in a professional, innovative, customer-oriented manner, while continuing to meet the challenges of an ever-changing electric utility environment through continuous improvements.

With a staff of 42, Southeastern markets power produced at 22 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps). This power is marketed in an 11-state marketing area. Preference in the sale of power is given to public bodies and cooperatives in accordance with Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s).

Southeastern coordinates the operations of the projects using customers' load schedules and meets the North American Electric Reliability Council's control area criteria while complying with Corps' operational and environmental requirements. All of Southeastern's system operators meet North American Electric Reliability Council certification standards.

Southeastern does not own or operate any transmission facilities and carries out its marketing program by using the existing transmission systems of the power utilities in the area. This is accomplished through "wheeling" contracts with area transmission providers that agree to

deliver power to preference customers. In turn, Southeastern agrees to compensate the transmission provider for the wheeling services.

Rates are formulated to repay all costs of Southeastern, as well as the costs of the Corps allocated to power. The rates are designed to recover operation and maintenance expenses, interest expense, and purchased power and wheeling expenses annually. The costs of capital investments are also recovered over a reasonable number of years.

Starting in FY 2007, the interest rate for new obligations incurred by Southeastern for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the **agency rate**. This will align interest rates on certain investments with those paid by Bonneville Power Administration. This new interest rate will apply only to investments whose interest rates are not set by law. All Southeastern investments currently in service will continue to retain existing interest rates. This will result in a rate increase of less than 1 percent, beginning in Fiscal Year 2007

### **ENERGY POLICY ACT OF 2005**

Southeastern is participating in a study to identify the potential for increased hydropower generation from existing Federal facilities. The requirement for this study is set forth in Section 1834 of the Energy Policy Act of 2005. Southeastern is working with the other power marketing administrations to develop benefit evaluation criteria related to the study. Representatives from the Corps and the Bureau of Reclamation are also involved in the study.

## **PROGRAM ACCOMPLISHMENTS**

In Fiscal Year 2005, Southeastern sold 8,730 gigawatt-hours of energy, with revenues totaling \$220 million.

On May 1, 2005, Southeastern integrated the Kerr Project into the PJM Interconnection L.L.C. regional transmission organization (RTO). Southeastern will participate as a stakeholder as additional transmission owners join RTOs.

Southeastern has used the President's Management Agenda to become more efficient and effective. We have integrated the principles of the initiatives in the President's Management Agenda into our organization and have continued working with the Office of Management and Budget and offices within the Department of Energy (DOE) to ensure that the performance measures are more focused and useful in making management decisions. Southeastern has consistently achieved high ratings on DOE's quarterly President's Management Agenda Scorecard process and met the criteria for annual targets and the Program Assessment and Rating Tool.

Southeastern has many customers utilizing Pay.gov, a web-based e-Government initiative that allows customers to make payments on-line. Southeastern, in conjunction with the U.S. Treasury, has implemented a paper check conversion process, which, upon receipt of a customer's payment, enables an immediate electronic deposit or credit to Southeastern's Treasury Account. Both of these systems, Pay.gov and the paper check conversion, significantly improve cash flow to the U.S. Treasury.

Southeastern has also implemented, through the U.S. Treasury, an on-line secure payment system for making payments. Southeastern maintains sound physical and cyber security practices. DOE Orders and National Institute of Standards and Technology documents provide the basis for protection of the critical infrastructure. Southeastern's physical security is enhanced with remote video surveillance equipment and cyber security is improved by updating internet firewalls to block intruders and secure data transmission. Southeastern meets the standards for physical and cyber security required by DOE regulations and orders.

### **BUDGET REQUEST SUMMARY**

	(dollars in thousands)		
	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY</b>
	<b>Appropriation</b>	<b>Appropriation</b>	<b>2007</b>
			<b>Request</b>
Program			
Direction.....	5,158	5,544	5,723
Purchase Power and Wheeling (PPW)			
Purchase Power.....	12,000	12,000	12,895
Wheeling.....	36,200	35,198	35,108
<b>Subtotal, Southeastern Power Administration.....</b>	<b>53,358</b>	<b>52,742</b>	<b>53,726</b>
Offsetting Collections,			
PPW.....	-34,000	-32,713	-34,392
Alternative Financing/Net			
Billing.....	-14,200	-14,485	-13,611
<b>Total, Budget Authority, Southeastern Power</b>			
<b>Administration.....</b>	<b>5,158</b>	<b>5,544</b>	<b>5,723</b>

The Fiscal Year 2007 budget request provides for \$5.7 million in appropriations for program direction. The request also provides \$34.4 million in offsetting collections and \$13.6 million in alternative financing/net billing arrangements to finance the purchase power and wheeling program requirements. Use of offsetting collections enables Southeastern to operate more like a business by allowing Southeastern's revenues to pay for purchase power and wheeling costs rather than using appropriations. There are no new program starts included in Southeastern's Fiscal Year 2007 budget request.

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2007 budget request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.