

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

THE POWER MARKETING ADMINISTRATIONS' ROLE IN BRINGING OUR  
NATIONWIDE ELECTRICITY TRANSMISSION SYSTEM INTO THE 21<sup>ST</sup> CENTURY

March 15, 2005

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present a written statement on the President's proposed Fiscal Year 2006 budget request for the Southeastern Power Administration (Southeastern).

## **PROFILE OF SOUTHEASTERN POWER ADMINISTRATION**

The historic 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 23 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps). This power is marketed to customers in 11 southeastern states. 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 operation 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 are trained, and they all 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 between Southeastern and each of the area utilities with transmission lines connected to the switchyards at the Federal dams. Under these arrangements, the utility agrees to deliver specified amounts of Federal power to Southeastern's customers. In turn, Southeastern agrees to compensate the utility 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 expense, interest expense, and purchased power and wheeling expense annually. The costs of capital investments are also recovered over a reasonable number of years.

## **Program Accomplishments**

In Fiscal Year 2004, Southeastern sold (net of losses) 8,315 gigawatt-hours of energy, with revenues totaled \$217 million. As of the first quarter of 2005, Southeastern is on track to meet Government Performance and Results Act of 1993 annual short-term performance targets.

As a transmission dependent utility, Southeastern has participated in discussions surrounding formation of several Regional Transmission Organizations (RTOs) in the southeastern United States. On October 1, 2004 Southeastern integrated the Philpott Project into the Pennsylvania – Jersey – Maryland (PJM) RTO and expects to integrate the Kerr project into the PJM RTO as

soon as negotiations with Dominion Resources are concluded. Southeastern will participate as a stakeholder as additional transmission owners join RTOs.

Southeastern fully supports the President's Management Agenda to become more efficient and effective. We have integrated the principles of four initiatives of the President's Management Agenda initiatives into our organization and are in the process of 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 in DOE's quarterly President's Management Agenda Scorecard process.

Southeastern implemented Pay.gov in February 2005. Pay.gov is a Web-based e-Government initiative that allows customers to make payments on-line thereby improving cash flow to the Federal Treasury. 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 was enhanced with the addition of remote video surveillance equipment and cyber security was improved by updating internet firewalls to block intruders and secure data transmission.

**Funding Profile  
Southeastern Power Administration**

(dollars in thousands)			
	<b>FY 2004 Comparable Appropriation</b>	<b>FY 2005 Comparable Appropriation</b>	<b>FY 2006 Request</b>
Program Direction	5,070	5,158	5,600
Purchase Power and Wheeling (PPW)			
Purchase Power	12,800	12,000	12,000
Wheeling	33,200	36,200	35,198
<b>Total, Southeastern Program Direction &amp;     Purchase Power and Wheeling</b>	<b>51,070</b>	<b>53,358</b>	<b>52,798</b>
Offsetting Collections, PPW	-34,000	-34,000	-32,713
Offsetting Collections, Program Direction	0	0	-5,600
Alternative Financing/Net Billing, PPW	-12,000	-14,200	-14,485
<b>Total, Budget Authority, Southeastern Power     Administration</b>	<b>5,070</b>	<b>5,158</b>	<b>0</b>

The FY 2006 President's Budget Submission also proposes to allow Southeastern to use receipts from the sale of power to fund all Program Direction activities. Southeastern's \$5.6 million appropriation for program direction will be reduced as offsetting collections are received so as to result in a final net zero appropriation in FY 2006.

Unlike most federal agencies, PMAs fund all costs of constructing, operating and maintaining the Federal power system through the rates they charge their preference customers – rural electric cooperatives and municipally owned electric utilities – for energy and capacity generated at Federal multiple-purpose power dams. Rather than sending all power revenues to the Treasury, Southeastern would be able to fund our program direction activities from power

revenues, much like the Federal Energy Regulatory Commission funds its operations through the revenues it receives through licenses and other – resulting in a net-zero appropriation. Southeastern would continue to go through the normal budget process and approval process, receive an appropriation, and then return the appropriation over the course of the year with the result at year-end of a net zero appropriation.

The FY 2006 budget request also provides \$32.7 million in offsetting collections and \$14.5 million in alternative financing/net billing to finance purchase power and wheeling program requirements. Use of offsetting collections allows Southeastern to operate more like a business by improving funding certainty for day-to-day activities and ensures continued DOE, OMB, and Congressional oversight. Use of offsetting collections also reduces net appropriations and is budget neutral on a government-wide basis since receipts have always been and will continue to be collected to recover Purchase Power and Wheeling and Program Direction expenditures. Southeastern's net revenue is deposited into the General Fund of the U. S. Treasury. There are no new program starts included in Southeastern's Fiscal Year 2006 budget request.

The Administration is preparing legislation that would require Southeastern to raise rates starting in FY 2006 by no more than 20 percent per year until a market rate is reached. It is assumed that this proposal will gradually bring Southeastern's wholesale rates to the level other utilities charge for wholesale power. The expected increase in revenues will result in accelerated repayment of debt to the Treasury.

Finally, in FY 2006, and thereafter, the Administration proposes to fund the Corps' power related operation and maintenance costs in Southeastern's service area from receipts derived from the sale of Federal power and related services. Since such costs are fully recovered in the rates customers pay, the Administration is proposing to have such costs funded through power receipts rather than through annual appropriations. The result would be a more reliable Federal generating resource. Under this funding authorization, Congress would continue to have full oversight of the Corps' operation and maintenance costs on an annual basis.

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2006 budget request and program status. If you or any of the Subcommittee members have any questions, I will be pleased to answer them.