

vested in the Secretary of Energy. By Delegation Order No. 00-037.00 (December 6, 2001), the Secretary of Energy delegated to the Administrator of Southeastern the authority to develop power and transmission rates, and delegated to the Deputy Secretary of the Department of Energy the authority to confirm, approve, and place in effect such rates on an interim basis and delegated to the Federal Energy Regulatory Commission (FERC) the authority to confirm and approve on a final basis or to disapprove rates developed by the Administrator under the delegation. This rate order is issued by the Deputy Secretary pursuant to said delegation.

Background

Power from the Georgia-Alabama-South Carolina System is presently sold under Wholesale Power Rate Schedules SOCO-1-A, SOCO-2-A, SOCO-3-A, SOCO-4-A, ALA-1-J, MISS-1-J, Duke-1-A, Duke-2-A, Duke-3-A, Duke-4-A, Santee-1-A, Santee-2-A, Santee-3-A, Santee-4-A, SCE&G-1-A, SCE&G-2-A, SCE&G-3-A, SCE&G-4-A, Regulation-1, Replacement-1, Pump-1-A, and Pump-2. These rate schedules were approved by the FERC on July 15, 2003, for a period ending September 30, 2007 (104 FERC 62028).

Public Notice and Comment

Notice of proposed rate adjustment was published in the **Federal Register** April 16, 2003 (68 FR 18619). In the notice, Southeastern proposed a rate increase of about twenty per cent. The notice advised interested parties of a public information and comment forum to be held in Atlanta, Georgia on May 29, 2003. Written comments were accepted on or before July 15, 2003. The following is a summary of the comments:

Staff Review of Public Comments

Notice of proposed rate adjustment was published in the **Federal Register** April 16, 2003 (68 FR 18619). The notice advised interested parties of a proposed rate increase of about twenty percent (20%). A public information and comment forum was scheduled for May 29, 2003. Written comments were accepted on or before July 15, 2003. Written comments were received from two sources pursuant to this notice.

The following comments were received during the public comment period. Southeastern response follows each comment.

Comment 1: With respect to the Richard B. Russell Project, the Customers reserve the right to comment

on the final cost allocation, once it is completed.

Response 1: Southeastern will support the Customers right to respond to the cost allocation, once the Corps has provided a completed draft to Southeastern.

Comment 2: The Customers would like to commend Southeastern for its decision to exclude from its proposed rates Interest During Construction ("IDC") costs associated with the Russell Project from Fiscal Year 1993 going forward. These interest costs have accumulated as a result of protracted litigation between local and national environmental groups, the South Carolina Department of Natural Resources ("SCDNR"), and the Federal Government. The Customers neither initiated nor participated in the litigation, nor were they responsible for the decision to proceed with construction when there was no certainty as to whether or not the project would become commercially operable. The Customers should not be held responsible for paying the interest that has accumulated as a result of this litigation.

There is an important precedent for Southeastern's proposed exclusion of Russell Project costs that are not properly considered used and useful for hydropower generation: the Southwestern Power Administration's (Southwestern) treatment of hydropower's cost allocation share at the Harry S. Truman Project in Missouri. The Customers understand that Southwestern and the Corps have completed an arrangement whereby a significant portion of hydropower's original cost allocation has been reallocated away from hydropower, because some of the costs are not properly borne by hydropower. The Southwestern-Corps agreement for the Truman Project is based on the important concept that costs incurred for project construction that are neither used nor useful for hydropower should not be included in customer rates. For these reasons, we support the methodology that Southeastern has selected in excluding IDC costs from its rate base in the present repayment study and urge Southeastern to support permanent exclusion of IDC costs to resolve the question.

Response 2: Southeastern believes that IDC costs are legitimate costs that should be recovered. The question is when should the IDC computation end and to what purpose the IDC should be allocated. The portion of the IDC costs at the Richard B. Russell Project of concern to Southeastern are the IDC costs that accumulated over the nine-

year period, from 1993 to 2002. These costs occurred when the pump-back units at the project were available for use; however, a Federal District Court enjoined their operation until 2002. Southeastern is in discussion with the Corps of Engineers on how these particular costs should be treated. Southeastern does not comment on the Customers' characterization of the treatment of IDC costs at the Harry S. Truman Project.

Comment 3: Several comments pertained to the appropriateness and accuracy of the estimates for Corps Operation & Maintenance Expenses (O&M) and Renewals & Replacements (R&R). Examples are as follows:

- The SeFPC is particularly concerned about the Corps' cost estimates of O&M Expenses, as reflected in its proposed rates. Southeastern's Rate and Repayment study dated May 29, 2003, assumes an increase from \$36,591,149 in fiscal year 2004 to \$37,949,000 in fiscal year 2005 for Corps' O&M expenses. We believe these projections do not accurately reflect the Corps' annual appropriations, as provided by Congress. Proposed O&M funding for Corps' projects in the Georgia-Alabama-South Carolina System has decreased significantly in the President's budget request for the upcoming fiscal year. Unless Congress ignores the President's request and increases O&M funding levels across-the-board for these projects, we fear that Southeastern's customers may be charged for costs that will never be incurred for actual O&M.

- The Customers believe Southeastern should take a closer look at the differences between the projected R&R expenses provide by the Corps in its repayment study and the proposed Congressional appropriations for Corps' Construction General funds in the upcoming fiscal year.

- [The Customers] would like to work closely with Southeastern and the Corps to ensure that the O&M and R&R projections in Southeastern's rates are consistent with funds appropriated by Congress. For example, one method Southeastern may use is a three-year historical average of the amounts the Corps was appropriated.

Response 3: Southeastern is using projections of Corps O&M expenses provided by the Corps in April 2002. Southeastern believes these earlier estimates are more reasonable than those provided most recently.

However, capitalized cost projections used in developing these proposed rates are those most recently provided by the Corps. Southeastern is concerned with the disparity between the capitalized