

Operation and Maintenance, Southeastern Power Administration

Proposed Appropriation Language

For necessary expenses of operation and maintenance of power transmission facilities and of marketing electric power and energy, including transmission wheeling and ancillary services, pursuant the provisions of section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s), as applied to the southeastern power area, \$5,100,000, to remain available until expended; in addition, \$16,000,000 shall be credited to this account as customer advances, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.

Note.—A regular 2003 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 107–229, as amended). The amounts included for 2003 in this budget reflect the Administration’s 2003 policy proposals.

Explanation of Change

Customer advances of \$16,000,000 will be collected to be used for purchase power and wheeling expenses.

Southeastern Power Administration

Executive Summary

Mission

Southeastern Power Administration (Southeastern) markets power generated at 23 U.S. Army Corps of Engineers (Corps) projects to preference customers in 11 southeastern states in accordance with the Flood Control Act of 1944. Southeastern does not own or operate any transmission lines and carries out its marketing program by utilizing the transmission systems of electric utilities in the area.

Goals and Objectives

To perform the Agency's power marketing mission in a manner that maintains the safety of employees and the public, ensures the reliability of the agency's power system in an evolving electric utility industry and repays the United States Treasury for the costs associated with generation and transmission of the power and related services within the time frames established by law and regulation.

Departmental Goal

Increase global energy security, maintain energy affordability and reduce adverse environmental impacts associated with energy production, distribution, and use by developing and promoting advanced energy technologies, policies and practices that efficiently increase domestic energy supply, diversity, productivity, and reliability

Strategic Objective

ER9: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting planned repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

This strategic objective is Southeastern's Program Strategic Performance Goal:

ER9-1: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting planned repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Presidential Initiative

Consistent with the President's Management Agenda, Southeastern continues to integrate performance with its budget and has participated in a program assessment with the Office of Management and Budget (OMB) using the Program Assessment Rating Tool (PART), an analytical method used to assess program effectiveness. Southeastern's PART assessment reflected effective planning and management of the program.

Strategy

Maximizing the use of Federal assets to repay the Federal investment while balancing power needs with the diverse interests of other water resource users and implementing public policy requires Southeastern to participate in the public and investor owned utility arenas. As part of the Department of Energy's Strategic Plan in the Energy Resources business line, Southeastern's program promotes secure, reliable, competitive, and environmentally responsible energy systems by reducing the vulnerability of the U.S. economy to disruptions in energy supplies. Southeastern uses the following three strategic elements to implement its goals and objectives.

- Southeastern takes the lead role in promoting communications between preference customers and the Corps of Engineers through two longstanding partnerships – the Southeastern Federal Power Alliance and Team Cumberland.
- More intense water demand for municipal, industrial and environmental purposes has required increased involvement in water use and allocation issues. To preserve the viability of hydropower as a dependable resource, Southeastern participates in negotiations among state, Federal, cooperative and municipal entities.
- Assuring planned repayment of principal on power investments is accomplished through a rigorous accounting of project operating and maintenance expenses and capital costs. This accounting data is used to formulate rates that will recover the costs over a defined time period. Rates are adjusted periodically to insure that project repayment stays on schedule. In years with above average water conditions, higher than expected amounts may be repaid to the U.S. Treasury. Correspondingly, low water years may result in Southeastern not meeting repayment targets.

Major External Influences

- Department of Energy Organization Act: 42 U.S.C. § § 7101 et seq.
- Flood Control Act of 1944: 16 U.S.C. § 825s
- Administrative Procedure Act: 5 U.S.C. § § 500 et seq.
- Southeastern Power Administration's Published Power Marketing Policies:
 - Kerr-Philpott System of Projects: 50 Fed. Reg. 145 (July 29, 1985)
 - Cumberland System of Projects: 58 Fed. Reg. 149 (August 5, 1993)
 - Georgia-Alabama-South Carolina System of Projects: 59 Fed. Reg. 248 (December 28, 1994)
- Southeastern Power Administration's long-term contracts involving 304 preference customers and 2 investor-owned utilities
- Federal Energy Regulatory Commission's Order Initiating Mediation, Regional Transmission Organizations, Order No. 2000: 65 Fed. Reg. 809 (January 6, 2000)

Site Funding and Federal Staffing Profiles

	(dollars in thousands)		
	FY 2002	FY 2003	FY 2004
Southeastern Power Administration			
Program Direction.....	4,887	4,606	5,100
Purchase Power and Wheeling ^a	34,463	20,000	15,000
Total, Southeastern Program Level	39,350	24,606	20,100
Use of prior year balances	0	-72	0
Use of offsetting collections	-34,463	-20,000	-15,000
Budget Authority, Southeastern Power Administration	4,887	4,534	5,100
Full Time Equivalents.....	42	40	42
Contractor Staffing	2	2	2

Major Changes

- The FY 2004 request continues the phase-out of use of Federal revenues to fund purchase power and wheeling expenses. Southeastern will continue to use alternative financing arrangements such as net billing for these activities. FY 2004 is the last year the Power Marketing Administrations have authority to use purchase power and wheeling receipts to cover the cost of the program.
- The FY 2004 request proposes to fund the hydropower portion of U.S. Army Corps of Engineers' operation and maintenance costs in Southeastern's Service Area from the sale of power.
- In FY 2004 the Competitive Resource Strategies Program will focus on improving diagnostic approaches to identify measures that will improve residential and commercial energy efficiency. Industrial audits will focus on improving industrial processes, motor efficiencies, and other applications. Passage of the Energy Policy Act of 1992, and subsequent implementing orders, direct Southeastern to support its preference customers as they address issues surrounding energy efficiency and alternative generation strategies in a more competitive energy market.
- Strategic Management of Human Capital from the President's Management Agenda has been addressed by implementing the SES Performance Management System; implementing Energy On Line Learning Center (EOLC); implementing a mentoring program; establishing training programs for critical skills mix; and participation of senior managers in succession planning training.
- Expanded E Government in the President's Management Agenda has been addressed by interconnection with DOE, Corps of Engineers and customers; payroll processing through Energy Time and Attendance (ETA) system; coordination of cyber security with customers, other PMAs and DOE HQ; and advertisement procurements of \$25,000 or more in industry interactive procurement system (IIPS) which is automatically routed to Fedbizopps.

^a The total purchase power and wheeling requirements are \$48,545,000, \$46,039,000, and \$43,000,000 for FY 2002, FY 2003, and FY 2004 respectively. Of this total, \$34,463,000, \$20,000,000, and \$15,000,000 are funded from alternative financing arrangements with the remainder funded through power receipts (offsetting collections). For additional detail on funding, refer to the Funding Schedule in the Purchase Power and Wheeling section.

Major Sensitivities

- On May 3, 2002, the U.S. District Court dissolved the injunction that banned commercial operation of the pump units at the Richard B. Russell Project on the Savannah River. The pumping units became operational in September 2002, increasing the Russell project capacity by 300 MW.
- Continuing drought conditions in the southeast required Southeastern to activate its Continuing Fund in FY 2002 for the purchase of approximately \$9.5 million of supplemental power. The cost of this supplemental power is recovered from preference customers through Southeastern's revenues. On October 1, 2002 Southeastern implemented a rate adjustment to pass-through costs of replacement energy associated with drought conditions. Prior year continuing fund expenditures were recovered in the year they were incurred.
- Southeastern has been instructed to participate in the development of Regional Transmission Organizations (RTOs) and expects to be generally affiliated with one or more RTOs in the Southeast. Southeastern depends on other entities to provide for the transmission of its power and RTO affiliation may require a significant modification of Southeastern's transmission contracts.
- In FY 2001 Southeastern's customers filed a lawsuit against the U.S. Army Corps of Engineers that addresses reallocation of water storage in the Federal multiple purpose projects. Customers believe that power interests are not being adequately compensated for reallocated hydro-power storage. The lawsuit is expected to be resolved through mediation. Financial impacts of this issue are unknown at this time.



January 24, 2003

Charles A. Borchardt, Administrator
Southeastern Power Administration

Date

Southeastern Power Administration

Program Mission

The Southeastern Power Administration (Southeastern) markets Federal hydroelectric power at the lowest possible cost, giving preference to public bodies and electric cooperatives in the southeastern United States.

Southeastern markets power generated at 23 U.S. Army Corps of Engineers projects to preference customers in 11 southeastern states in accordance with the Flood Control Act of 1944. Southeastern does not own or operate any transmission lines. In the absence of transmission lines of its own, Southeastern carries out its marketing program by utilizing the transmission systems of electric utilities in the area. Transmission of Federal power is accomplished through arrangements between Southeastern and each of the area utilities with transmission lines connected to the projects under which the utility agrees to deliver specified amounts of Federal power to customers of the government, and Southeastern agrees to compensate the utility for the wheeling services performed.

Southeastern's budget request is based on average power generation under normal operating conditions. The Continuing Fund presently codified at 16 U.S.C. 825s-2, as amended by Public Law 101-101, will continue to be used to defray emergency expenses necessary to insure continuity of electric service and continuous operation of Government facilities.

Program Strategic Performance Goals

ER9-1: Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting planned repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Performance Indicators

- System Reliability Performance
- Repayment of Federal Power Investment
- Recordable Accident Frequency Rate

Annual Performance Results and Targets

FY 2002 Results	FY 2003 Targets	FY 2004 Targets
System Reliability Performance: Goal Met. Attained average NERC compliance ratings of 204 for Control Performance Standard (CPS)1 and 99.8 for Control Performance Standard (CPS)2. (ER2-5)	Attain average NERC compliance ratings of 100 or higher for Control Performance Standard (CPS)1, and 90 or above for CPS 2. (ER9-1)	Attain average NERC compliance ratings of 100 or higher for Control Performance Standard (CPS)1, and 90 or above for CPS 2. (ER9-1)

FY 2002 Results	FY 2003 Targets	FY 2004 Targets
Repayment of Federal Power Investment: Meet planned annual repayment of Federal power investment. Goal not met due to low water conditions. (ER2-5)	Meet planned annual repayment of principal on Federal power investment.(ER9-2)	Meet planned annual repayment of principal on Federal power investment.(ER9-1)
Recordable Accident Frequency Rate: Goal met. Achieved a recordable accident frequency rate of 0 for recordable injuries per 200,000 hours worked. (ER2-5)	Achieve a recordable accident frequency rate for recordable injuries per 200,000 hours worked of not greater than 3.3, or the Bureau of Labor Statistics' industry rate, whichever is lower.(ER9-3)	Repayment of Federal Power Investment: Repay the Federal investment within the required repayment period. (ER9-1) Achieve a recordable accident frequency rate for recordable injuries per 200,000 hours worked of not greater than 3.3, or the Bureau of Labor Statistics' industry rate, whichever is lower. (ER9-1)

Program Assessment

The Program Assessment Rating Tool will provide valuable information. Southeastern will work together with DOE and OMB to develop and refine recommendations on measures and targets used to indicate program performance. The annual targets as provided in this budget submission are measurable and reflect performance standards used in the electric utility industry to evaluate performance. Southeastern will continue to achieve its mandate under the law in regard to marketing of Federal power, customer preference, cost recovery, widespread use of the power, and disposition of revenues.

Significant Accomplishments (FY 2002)

- Marketed 5,542 gigawatt hours of energy with gross revenue of \$152 million. Based on audited financial statements cumulative repayment of Federal investment was \$637,085,832.
- Participated in planning and design of the SETrans RTO to deliver power for SEPA's preference customers. It is expected that Southeastern's contractual arrangements with its customers may require revision.
- Developed a continuity of operations plan.
- Addressed human capital management area of the President's Management Agenda in the following areas: increased management-to-associate ratios from 1:7 to 1:10; implemented SES performance management system; implemented energy on line learning; implemented training to improve critical skills mix; implemented succession planning for senior managers.
- Addressed competitive sourcing area of the President's Management Agenda in the following areas: small business procurement at 72 percent level; maximizing use of purchase cards.
- Addressed improved financial performance area of the President's Management Agenda in the following areas: received clean financial audit for 10th consecutive year; developed in-house financial expertise to strengthen internal capabilities; met performance standards for CFO accounting goals; accelerated end-of-year reporting.

- Addressed expanded electronic government of the President’s Management Agenda in the following areas: connected IT system to Corps of Engineers, DOE and Preference customers; integrated procurement and accounting systems; coordinated cyber security with other PMAs and DOE HQ; participated in televideo conference for training and procurement.
- Addressed budget and performance integration of the President’s Management Agenda in the following areas: performance measures meet DOE guidelines and support budget; revenue and expenditures tracked by senior management; managers have delegated authority to manage resources and produce results.

Funding Profile

	FY 2002 Comparable Appropriation	FY 2003 Request	FY 2004 Request	\$ Change	% Change
Southeastern Power Administration					
Program Direction.....	4,887 ^a	4,606	5,100	+494	+10.7%
Purchase Power and Wheeling ^b	34,463	20,000	15,000	-5,000	-25.0%
Total Southeastern Program Level.....	39,350	24,606	20,100	-4,506	-18.3%
Use of Prior Year Balances	0	-72	0	+72	+100%
Offsetting Collections Realized (P.L. 106-377).....	-34,463	-20,000	-15,000	+5,000	+25%
Total Budget Authority Request.....	4,887	4,534	5,100	+566	+12.5%
 Additional net budget authority to cover the cost of fully accruing retirement (non-add)	 (266)	 (250)	 (254)	 (4)	 (+1.6)%

Public Law Authorizations:

Public Law 78-534, Flood Control Act of 1944
 Public Law 95-91, DOE Organization Act of 1977, Section 302
 Public Law 102-486, Energy Policy Act of 1992
 Public Law 101-101, Title III, Continuing Fund (amended 1989)

^a Reflects a travel and administrative rescission of \$9,000 (P.L. 107-206)

^b The total purchase power and wheeling requirements are \$48,545,000, \$46,039,000, and \$43,000,000 for FY 2002, FY 2003, and FY 2004 respectively. Of this total, \$34,463,000, \$20,000,000, and \$15,000,000 are funded from alternative financing arrangements with the remainder funded through power receipts (offsetting collections). For additional detail on funding, refer to the Funding Schedule in the Purchase Power and Wheeling section.

Funding by Site

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Total Elberton, Georgia.....	39,350	24,606	20,100	-4,506	-18.3
Use of prior year balances.....	0	-72	0	+72	+100
Offsetting collections.....	-34,463	-20,000	-15,000	+5,000	+25.0
Total Budget Authority, Southeastern Power Administration.....	4,887	4,534	5,100	566	+12.5

Site Description

Southeastern is one of four Power Marketing Administrations within the Department of Energy. Southeastern was created in 1950 to market power and energy produced at U.S. Army Corps of Engineers hydroelectric power projects. Southeastern markets power at wholesale rates to 176 municipal utilities, 127 rural electric cooperatives, 2 investor-owned utilities, and 1 government agency, in the 11 states of Florida, Georgia, South Carolina, North Carolina, Tennessee, Alabama, Mississippi, Virginia, West Virginia, Kentucky and Illinois. Southeastern is located in Elberton, Georgia, and has no field offices.

Southeastern Power Administration

Program Direction

Mission Supporting Goals and Objectives

Program direction provides for: (1) scheduling the generation of power and supervision of power deliveries; (2) negotiation and administration of contracts for the sale of power and energy and establishment of rates to assure repayment of power costs; (3) general administration and support of Southeastern's power marketing program; and (4) general administration and support of the Competitive Resource Strategies Program. Southeastern coordinates and cooperates with its partners to operate projects in a manner that enhances the value and reliability of hydropower. Priority is given to integrating environmental concerns and determinations into program actions. Emerging energy efficiency technologies are integrated with marketing strategies and programs.

Southeastern's FTE activities and distribution by percentage are provided as follows:

- 7% The Office of the Administrator is responsible for marketing hydroelectric power and energy and includes the Office of Legal Affairs.
- 27% The Finance and Marketing Division negotiates, prepares and administers contracts for the sale, purchase/interchange, and wheeling of power; formulates rates to meet repayment requirements. Additional responsibilities include budget; accounting and financial management activities; customer service; and the Competitive Resource Strategies Program. The Finance and Marketing Division is primarily responsible for the performance indicator for repayment of Federal power investment.
- 32% The Human Resource and Administration Division plans, develops, coordinates and administers administrative and management activities. It includes activities to support mission accomplishment, automated data processing (IM) and telecommunications services, personnel, contracts and procurement, supply, security, technical library, facilities, and strategic planning.
- 34% The Power Resources Division studies power production to determine the amounts of available power and energy and studies methods of coordinating operation of present and proposed generating plants to obtain maximum utilization of water and power resources. The division coordinates, schedules, and dispatches system power generation on an hourly basis and is responsible for administering contractual operation requirements and performs billing operations for power sold by Southeastern. The Division also is primarily responsible for the performance indicator for system reliability performance.

In FY 2002, Southeastern marketed 5,542 GWH of clean renewable hydroelectric energy for \$151,990,778 in gross revenues, providing total proprietary receipts of \$94,599,304. Southeastern anticipates an increase in gross revenues to \$183,666,000 in FY 2003. Proprietary receipts are estimated to be \$68,206,000 for FY 2003, with the direct funding of the Corps hydropower O&M. Proprietary receipts are estimated to be \$106,825,000 for FY 2004 and \$133,278,000 for FY 2005. Receipt estimates for FY 2003 and subsequent years assume annual direct funding for U.S. Army Corps of Engineers operation and maintenance expenses.

Funding Schedule

	(dollars in thousands)				
	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Program Direction.....					
Salaries and Benefits.....	3,294	3,305	3,726	+ 421	+12.7%
Travel.....	216	150	150	+0	+0.0%
Support Services	100	68	68	+0	+0.0%
Other Related Expenses	1,277	1,083	1,156	+77	+6.7%
Total Program Direction Budget Authority	4,887 ^a	4,606	5,100	+ 494	+10.7%
Additional net budget authority to cover the cost of fully accruing retirement (non-add) ...	(266)	(250)	(254)	(4)	(+1.6)%
Full-time Equivalents	42	40	42	+2	+5.0%

Detailed Program Justification

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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Salaries and Benefits..... **3,294** **3,305** **3,726**

Funding supports salaries and benefits for 42 full-time equivalents. The \$421,000 increase is for cost of living adjustment, promotions, within-grade increases, and 2 additional FTEs. The funding provides for negotiation, preparation, execution, and administration of all contracts for the disposition of electric power, and ensures continuity of electric service to customers. The funding covers Federal employees who schedule pumping energy and coordinate between the providers of the pumping energy and the project and account for all transactions relative to pumping operations of the Carters and Richard B. Russell Projects. Perform control area services for Hartwell, Russell and Thurmond Projects. Coordinate power operations of projects with all parties making determinations of capacity and energy availability weekly. Performance is measured by the System Reliability Performance Indicator: attain control area compliance ratings that meet or exceed the control performance standards 1 and 2 of the National Electric Reliability Council. The funding provides billing, collection, and payment functions for approximately 300 contracts that benefit more than 500 preference customers. Execute budget, accounting and financial management activities. Prepare repayment analyses of each system to determine rates and issue a rate presentation as needed. Performance is measured by meeting planned repayment of principal on power investment. The funding also covers continuing engineering studies, review of project operations and evaluation of impacts of proposed or actual changes to project operations. In addition funding supports Information Management and Homeland Security initiatives.

^a Reflects a travel and administrative rescission of \$9,000 (P.L. 107-206)

(dollars in thousands)

FY 2002	FY 2003	FY 2004
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Travel **216** **150** **150**

The estimate provides transportation and per diem expenses incurred for contract negotiations, preference customer meetings, rate forums, hearings, and meetings, Congressional hearings, site visits of existing and new projects, Competitive Resource Strategy meetings, operations meetings with industry self-regulating groups which include Southeastern Electric Reliability Council (SERC), Virginia Carolina Electric Reliability Group (VACAR), Florida Reliability Coordinating Council & NERC, hydropower task force meetings with the Corps, Customer, and SEPA Working Group (C2SWG), National Environmental Policy Act (NEPA) activities, training, Power Marketing Policy Forums, national and state customer meetings with the National Rural Electric Cooperative Association (NRECA), the American Public Power Association (APPA), Southeastern Federal Power Customers O&M Subcommittee meetings, Interagency Task Force on Finance, Technical Advisory Group meetings, FERC pre-filings and hearings, and headquarters responsibilities.

Support Services..... **100** **68** **68**

Continue Competitive Resource Strategies Program, which supports preference customer efforts to address energy and economic efficiency issues to support the President’s National Energy Policy. Develop specification of training programs, prepare program plans, conduct training, and review and evaluate contractors.

Other Related Expenses **1,277** **1,083** **1,156**

Provide administrative support for the office, rent, communications, maintenance, contract services (library services, support for DOE Power Marketing Liaison Office, independent audit of the Southeastern Federal Power Program financial statements), supplies and materials, and equipment. Support of various initiatives associated with Homeland Security^a. Install various electronic equipment and maintain interconnected fiber optic communication lines for the Supervisory Control and Data Acquisition (SCADA) system. Increase reflects expenses associated with telecommunications equipment, accounting system upgrade, building and computer security equipment, computer hardware and software, and office equipment.

Total, Southeastern Power Administration.....	4,887	4,606	5,100
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^a Includes approximately \$12,000 for Safeguards and Security expenditures associated with Homeland Security. Primarily associated with cyber security, property and personnel security.

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Salaries and Benefits

- Increases in cost of living adjustments and 2 additional FTEs +421

Travel

- No increase in transportation funding for training and meetings..... 0

Support Services

- No increase in funding for energy efficiency training and education..... 0

Other Related Expenses

- Increase in audit expense due to inflation +1
- Communications decrease is accounted for in increased equipment costs (last item)..... -31
- Increase in office lease expense +2
- Maintenance agreements reflect only NERC-required payments to regional reliability council 0
- Printing and reproduction remain unchanged 0
- Increase in tuition expenses necessary to maintain licenses and technical expertise in business, finance, engineering and operations +6
- Decrease in supplies and materials necessary to maintain office -6
- Increase in contract services for administrative and clerical support and use of consulting services for training, ADP support, and accounting system upgrade..... +60
- Equipment (communications, building and computer security, office)..... +41

Subtotal, Other Related Expenses +73

Total Funding Change, Program Direction..... +494

Support Services

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Technical Support Services					
Energy Efficiency and Competitiveness					
Workshops	100	68	68	0	0.0%
Total, Support Services.....	100	68	68	0	0.0%

Other Related Expenses

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Audit of Financial Statements	112	114	115	+1	0.9%
Communications	220	173	142	-31	-17.9%
Rental Space	306	312	314	+2	+0.6%
Maintenance Agreements	116	60	60	0	0.0%
Printing & Reproduction	9	6	6	0	0.0%
Tuition	40	27	33	+6	+22.2%
Supplies & Materials	144	96	90	-6	-6.3%
Contract Services.....	250	190	250	+60	+31.6%
Equipment.....	80	105	146	+41	+39.09%
Total, Other Related Services	1,277	1,083	1,156	+73	+6.7%

Purchase Power and Wheeling

Mission Supporting Goals and Objectives

For FY 2004, this activity provides for the payment of amounts charged to the Government under contractual arrangements for: (1) delivery of power over non-Federal systems to load centers of preference customers for the account of the government, (2) purchase of energy to firm-up Federally-generated power during adverse water periods, as well as purchases of power at the Carters and Richard B. Russell Projects, and purchases of default power; and (3) support capacity required to meet commitments for the Jim Woodruff Project under adverse water conditions. Priority is given to meeting contractual commitments and making arrangements for transmission of power and assisting other transmission providers in planning and constructing necessary facilities.

Funds used for transmission expenses are based on contracts Southeastern maintains with area transmission providers connected to the projects. These transmission providers agree to deliver specified amounts of Federal power to customers of the Government, and Southeastern agrees to compensate the utility for the transmission services performed. Purchase power costs are estimated based on expected costs. Southeastern maintains a Continuing Fund that is used to finance power purchases under emergency conditions which include, but are not limited to, adverse water conditions and unplanned generation outages. Measurement of the effectiveness of the Purchase Power and Wheeling Program is addressed in the system reliability performance indicator. Southeastern consistently meets and exceeds the NERC performance requirements.

The FY 2004 request uses receipts to pay for purchase power and wheeling expenses. No Federal appropriations will be required to fund purchase power and wheeling expenses in FY 2004 and subsequent years. Southeastern will also continue to use alternative financing arrangements such as net billing for these activities.

Funding Schedule

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
Purchase Power and Wheeling					
Purchase Power.....	13,800	13,800	12,800	-1,000	-7.29%
Wheeling.....	34,745	32,239	30,200	-2,039	-6.3%
Subtotal, Purchase Power and Wheeling.....	48,545	46,039	43,000	-3,039	-6.6%
Alternative Financing					
Customer Advances.....	0	-13,617	-16,000	-2,383	+17.57%
Net Billing.....	-14,082	-12,422	-12,000	422	-3.41%
Subtotal, Alternative Financing.....	-14,082	-26,039	-28,000	-1,961	+7.5%
Subtotal, Purchase Power and Wheeling.....	34,463	20,000	15,000	-5,000	-25.0%
Offsetting Collections Realized.....	-34,463	-20,000	-15,000	5,000	+25.0%
Total, Purchase Power and Wheeling Budget Authority.....	0	0	0	0	0.0%

Detailed Program Justification

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Purchase Power	13,800	13,800	12,800
▪ Pumping: Russell Project	8,000	8,000	8,000
Purchase of energy to pump water into the Richard B. Russell Project for later release.			
▪ Pumping: Carters Project	4,000	4,000	4,000
Purchases of energy at the Carters Project to pump water from downstream up into the main storage reservoir to generate electricity during “peak” demand periods. This pumped water enables the generating equipment to be used more hours during “peak” demand periods than would otherwise be possible.			
▪ Default power	1,000	1,000	0
Purchase of default power to firm up ancillary service contractual obligations.			
▪ Support Jim Woodruff Project	800	800	800
Provide support to the Jim Woodruff Project under adverse water conditions through purchases of energy necessary to fulfill contractual obligations.			
Transmission Charges	34,745	32,239	30,200
▪ Transmission service charges	30,317	27,811	25,772
Transmission service charges for delivery of power over non-Federal systems.			
▪ Ancillary Services	4,428	4,428	4,428
Payment for ancillary services.			
Alternative Financing	-14,082	-26,039	-28,000
▪ Use of Customer Advances	0	-13,617	-16,000
▪ Net Billing	-14,082	-12,422	-12,000
Use of Customer Receipts (Offsetting Collections)	-34,463	-20,000	-15,000
Total, Purchase Power and Wheeling	0	0	0

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Purchase Power

- Default power will be acquired by activating the Continuing Fund..... -1,000

Transmission

- Additional transmission arrangements are being made independent of Southeastern..... -2,039

Alternative Financing

- Decrease in use of net billing arrangements and increased reliance on customer advances -1,961

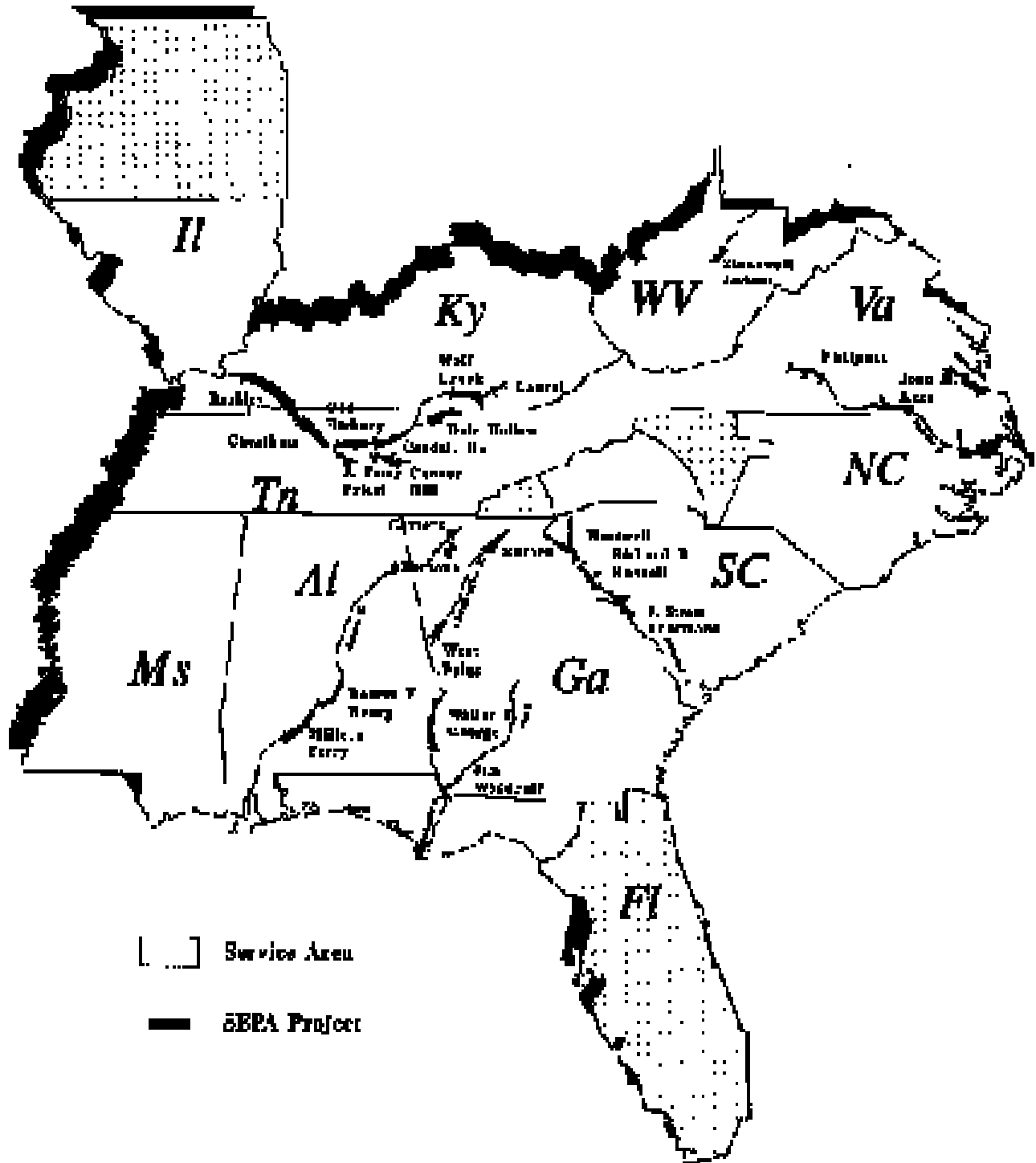
Offsetting Collections

- Decrease in use of customer receipts +5,000

Total Funding Change, Purchase Power and Wheeling..... 0

Southeastern Power Administration

Service Area Map



Southeastern Power Administration

Revenue and Receipts

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Southeastern Power Administration							
Gross Revenues ^{a, b.}	151,991	183,666	222,825	211,372	212,002	213,151	213,848
Less:							
Continuing Fund.....	-9,515	0	0	0	0	0	0
Use of Offsetting Collections to fund PPW and Program Direction	-34,463	-20,000	-15,000	0	0	0	0
Use of Customer Advances to fund PPW	0	-13,617	-16,000	0	0	0	0
Direct Funding Corps Hydropower O&M	0	-70,000	-73,000	-66,000	-69,000	-74,000	-76,000
Net Billing Amount Credited as an Offsetting Receipt.....	-13,413	-11,843	-12,000	-12,278	-12,511	-12,757	-13,014
Total Proprietary Receipts	94,600	68,206	106,825	133,278	130,491	126,394	124,834
Percent of Sales to Preference Customers Energy Sales and Power Marketed (in billions of kilowatt hours).....	99%	99%	99%	99%	99%	99%	99%
	5	6	8	8	8	8	8

^{a.} Revenue decrease in FY 2002 and FY 2003 due to extreme drought conditions

^{b.} Russell units on line in FY 2003, rate increase goes into effect in FY 2004

Southeastern Power Administration

System Statistics

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Generating Capacity (kilowatts)			
Nameplate Capacity	3,092,675	3,392,675	3,392,675
Peak Capacity ^a	3,390,000	3,710,000	3,710,000
Generating Stations			
Generating Projects (Number)	23	23	23
Available Energy (Megawatt-hours)			
Energy from Streamflow	5,384,914	5,119,638	7,700,000
Energy generated from Pumping	306,706	562,362	562,362
Energy Purchased for Replacement	433,324	400,000	75,000
Total, Energy available for Marketing ^b	6,124,944	6,082,000	8,337,362

^a Southeastern markets capacity based on nameplate plus an overload factor. The injunction that banned commercial operation of the pump units at the Richard B. Russell Project was dissolved on May 3, 2002 and the units became commercially operable in October of 2002. NERC requires that Southeastern keep a portion of the capacity in reserve for emergency purposes and to cover losses.

^b Gross amount. Transmission losses of approximately 10 percent are deducted from this amount to estimate the amount of energy marketed.

Southeastern Power Administration

Power Marketed, Wheeled, or Exchanged by Project

Project	State	Plants	Installed Capacity (KW)	FY 2002 Estimated Power (GWH)	FY 2003 Estimated Power (GWH)	FY 2004 Estimated Power (GWH)
<u>Kerr-Philpott System</u>				150 *	475 *	475 *
John H. Kerr	VA-NC	1	204,000			
Philpott	VA	1	14,000			
<u>Georgia-Alabama-South Carolina System</u>				2,468 *	4,106 *	4,106 *
Allatoona	GA	1	74,000			
Buford	GA	1	86,000			
Carters	GA	1	500,000			
J. Strom Thurmond	GA-SC	1	280,000			
Walter F. George	GA-AL	1	130,000			
Hartwell	GA-SC	1	344,000			
R. F. Henry	AL	1	68,000			
Millers Ferry	AL	1	75,000			
West Point	GA-AL	1	73,375			
Richard B. Russell	GA-SC	1	600,000 ¹			
<u>Jim Woodruff Project</u>				194	318	318
<u>Cumberland System</u>				2,729 *	3,301 *	3,301 *
Barkley	KY	1	130,000			
Center Hill	TN	1	135,000			
Cheatham	TN	1	36,000			
Cordell Hull	TN	1	100,000			
Dale Hollow	TN	1	54,000			
Old Hickory	TN	1	100,000			
J. Percy Priest	TN	1	28,000			
Wolf Creek	TN	1	270,000			
Laurel	TN	1	61,000			
<u>Stonewall Jackson</u>				1	1	1
TOTAL POWER MARKETED:		23	3,392,675	5,542	8,201	8,201

* Projects are integrated hydraulically, electrically, and financially for marketing purposes.

¹ The four 75 MW pump-generators at the Richard B. Russell Project began commercial operation in September, 2002, increasing the total installed capacity to 600,000 KW.

Southeastern Power Administration

Pending Litigation

In Central Electric Power Cooperative, Inc., et al. vs. Southeastern Power Administration, et al., No. 3-91-2449-0 (D.C.S.C.; filed August 15, 1991), six customers in South Carolina filed suit against Southeastern in U.S. District Court requesting the court to declare illegal Southeastern's energy surcharge contained in its 1990 approved rates for the Georgia-Alabama-South Carolina System, as applied to these customers. These six customers (five cooperatives and the South Carolina Public Service Authority) have declined to participate in a voluntary, short-term rate increase during 1989, while 168 other customers in the system participated in the voluntary rate increase earlier than allowed by their contracts. The short-term rate change was required to offset the effects of extensive droughts in the southeast and escalating Corps of Engineers operation and maintenance costs. The energy surcharge contained in those rates was used to collect the portion of the costs not recovered from these six customers, and the costs were fully collected by September 1993.

A ruling was made by the District Court on October 17, 2001. In its judgment the District Court found for the customers and ordered a refund in the amount of \$3,544,316 be made. After this judgment was issued, the customers petitioned the District Court to clarify certain elements, including the award of pre-judgment interest on the amount of the refund. The District Court ruled on the petition and issued a final order. Appeals were filed by the Plaintiffs and by the Department of Justice on behalf of Southeastern and the United States on September 5 and September 9, 2002, respectively. A Record on Appeal was forwarded to the 4th Circuit Court of Appeals by the District Court, and briefs of the respective appellants should be filed in the near future.

Southeastern Power Administration

Alternative Financing

<u>2002</u>	Transmission	Purchase Power	Offsetting Collections	Net Billing	Appropriated Funds
Jim Woodruff System.....	0	800	-600	-200	0
Kerr-Philpott System.....	3,859	0	-3,859	0	0
GA-AL-SC System.....	21,080	13,000	-29,131	-4,949	0
Cumberland System	9,806	0	-873	-8,933	0
	34,745	13,800	-34,463	-14,082	0

<u>2003</u>	Transmission	Purchase Power	Offsetting Collections	Customer Advances	Net Billing	Appropriated Funds
Jim Woodruff System.....	0	800	-357	-243	-200	0
Kerr-Philpott System.....	3,859	0	-2,853	-1,942	0	0
GA-AL-SC System.....	21,080	13,000	-15,367	-10,463	-4,816	0
Cumberland System	9,806	0	-1,423	-969	7,406	0
	34,745	13,800	-20,000	-13,617	2,390	0

<u>2004</u>	Transmission	Purchase Power	Offsetting Collections	Customer Advances	Net Billing	Appropriated Funds
Jim Woodruff System.....	0	800	-600	0	-200	0
Kerr-Philpott System.....	4,654	0	-4,654	0	0	0
GA-AL-SC System.....	15,763	12,000	-7,369	-16,000	-4,394	0
Cumberland System	9,783	0	-2,377	0	-7,406	0
	30,200	12,800	-15,000	-16,000	-12,000	0