



6450-01-P

DEPARTMENT OF ENERGY

Southeastern Power Administration

Cumberland System of Projects

AGENCY: Southeastern Power Administration, DOE.

ACTION: Notice of proposed rates, public forum, and opportunities for public review and comment.

SUMMARY: Southeastern Power Administration (Southeastern) proposes to revise existing schedules of rates and charges applicable to the sale of power from the Cumberland System of Projects effective for a one-year period, October 1, 2015, through September 30, 2016. Interested persons may review the rates and supporting studies and submit written comments. Southeastern will evaluate all comments received in this process.

DATES: Written comments are due on or before **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. A public information and comment forum will be held at 2:00 p. m., on June 30, 2015. Persons desiring to attend the forum should notify Southeastern at least seven (7) days before the scheduled forum date. Persons desiring to speak at the forum should notify Southeastern at least three (3) days before the scheduled forum date, so that a list of forum participants can be prepared. Others may speak if time permits.

ADDRESSES: The forum will be held at: The Inn at Opryland, 2401 Music Valley Drive, Nashville, TN, 37214-1002. Written comments should be submitted to:

Administrator, Southeastern Power Administration, Department of Energy, 1166 Athens Tech Road, Elberton, GA 30635-6711.

FOR FURTHER INFORMATION CONTACT: Virgil G. Hobbs III, Southeastern Power Administration, Department of Energy, 1166 Athens Tech Road, Elberton, GA 30635-6711, (706) 213-3800.

SUPPLEMENTARY INFORMATION:

Background of Existing Rates: The existing schedules of rates and charges applicable to the sale of power from the Cumberland System of Projects are effective through September 30, 2015. On December 22, 2011, the Federal Energy Regulatory Commission (FERC) confirmed and approved on a final basis, Wholesale Power Rate Schedules CBR-1-H, CSI-1-H, CEK-1-H, CM-1-H, CC-1-I, CK-1-H, CTV-1-H, CTVI-1-A, and Replacement-3 applicable to Cumberland System of Projects power for a period ending September 30, 2013 (137 FERC ¶ 62,249). On July 10, 2013, the Deputy Secretary approved an extension of the rate schedules to September 30, 2015 (78 FR 42764).

Operational Impact of Dam Safety Issues: In February 2007, the U.S. Army Corps of Engineers (Corps) lowered pool levels at the Wolf Creek and Center Hill Projects to reduce the risk of imminent failure of the dams due to seepage issues. At that time the Corps also began the process of mitigating the seepage issues at the Wolf Creek and Center Hill Projects. Under normal pool levels, the marketing policy for the Cumberland System provides peaking capacity, along with 1500 or 1800 hours of energy annually with each kilowatt of capacity, to customers outside the Tennessee Valley Authority

(TVA) transmission system. All remaining energy is scheduled by TVA for the benefit of customers inside the TVA system. As a consequence of lowered pool levels due to dam repairs, Southeastern was not able to provide peaking capacity and firm energy to the outside customers due to operational restrictions. Southeastern implemented an Interim Operating Plan for the Cumberland System to provide these customers with energy that did not include capacity.

In March 2014, the Corps lifted operating restrictions on the Wolf Creek Project. The operating restrictions on the Center Hill Project remain in effect. As a consequence, Southeastern implemented a Revised Interim Operating Plan that provides reduced capacity and schedulable energy to the outside customers.

Repayment Study: Existing rate schedules are predicated upon an August 2011 repayment study and other supporting data contained in FERC docket number EF11-13-000. The annual revenue requirement in this study is \$59,600,000. An updated repayment study, dated January 2015, indicates rates are not adequate to recover cost increases that have been identified and therefore do not meet repayment criteria. The additional costs are due to numerous factors. Corps Operation & Maintenance expenses have exceeded estimates and current rate schedules did not include costs associated with the dam safety repairs of the Wolf Creek and Center Hill Projects. The dam repair costs, after the application of the Dam Safety Act (Water Resources Development Act of 1986 section 1203), are a combined \$83,200,000. The Corps has also provided Southeastern with an updated plan of major replacements for the Cumberland System with the total cost of these planned replacements at \$868,000,000. Also, TVA notified Southeastern on

March 5, 2015 they will charge \$1,009,850 per month for delivery of capacity and energy to the outside TVA customers. A revised repayment study demonstrates that a revenue increase to \$78,500,000 per year will meet repayment criteria. The increase in the annual revenue requirement is \$18,900,000 per year, or about 32 percent.

Applicability of the Dam Safety Act: Under section 1203 of the Water Resources Development Act of 1986, otherwise known as the Dam Safety Act, Congress capped the percentage of dam repair costs that may be assigned to project purposes (such as hydropower) at 15 percent. This cap applies to dam modification costs, “the cause of which results from new hydrologic or seismic data or changes in the state-of-the-art design or construction criteria deemed necessary for safety purposes”. 33 U.S.C. 467n(a). When applicable, the Dam Safety Act requires that dam safety repair costs be recovered within thirty years of completion of the work. If the Dam Safety Act is not applied, 100 percent of all costs are assigned to project purposes for cost recovery but the thirty-year cost recovery requirement does not attach.

Southeastern continues to discuss, analyze and seek guidance on the issue from other relevant agencies.

Proposed Rates: Southeastern is proposing three rate scenarios per rate schedule. All of the rate scenarios have an annual revenue requirement of \$78,500,000. This annual revenue requirement was calculated using the lower bound of possible costs associated with the Wolf Creek and Center Hill Dam repairs: 15 percent assigned to project

purposes and recovered within thirty years of completion, an amount that may be adjusted upward pending final determination of the Dam Safety Act's applicability.

The first rate scenario includes the rates necessary to recover costs under the Revised Interim Operating Plan. Under this scenario, the capacity rate at the TVA border is \$2.28 per kilowatt per month and the energy charge is 14.79 mills per kilowatt-hour. The outside customers would pay their portion of the transmission credit provided TVA for delivery of capacity and energy to neighboring system interconnection points, as agreed by contract between Southeastern and TVA. This rate would remain in effect under the Revised Interim Operating Plan.

The second rate scenario would recover cost from capacity and energy. The revenue requirement under this alternative would be \$78,500,000 per year. This scenario would be in effect if Southeastern changes the Revised Interim Operating Plan.

The third rate scenario is based on the original Cumberland Marketing Policy. All costs are recovered from capacity and excess energy. The rates under this alternative would be as follows:

Cumberland System Rates

Third Scenario - Return to Original Marketing Policy

Inside TVA Preference Customers

| | |
|---------------------------|----------------------|
| Capacity and Base Energy: | \$3.733 per kW/Month |
| Additional Energy: | 13.914 mills per kWh |
| Transmission: | Pass-through |

Outside TVA Preference Customers

(Excluding Customers served through Carolina Power & Light Company or East Kentucky Power Cooperative)

| | |
|---------------------------|----------------------|
| Capacity and Base Energy: | \$3.733 per kW/Month |
| Additional Energy: | 13.914 mills per kWh |

Transmission: Monthly TVA Transmission Charge divided by 545,000

Customers Served through Carolina Power & Light Company

Capacity and Base Energy: \$4.249 per kW/Month

TVA Transmission: TVA rate at border as computed above, adjusted for DEP delivery.

DEP Transmission: \$1.546 per kW/Month
(As of 2/1/2015 and provided for illustrative purposes)

East Kentucky Power Cooperative:

Capacity: \$1.994 per kW/Month

Energy: 13.914 mills per kWh

These rates would go into effect once the Corps lifts the restrictions on the operation of the Wolf Creek and Center Hill Projects and the Revised Interim Operating Plan and Southeastern returns to normal operations.

The referenced repayment studies are available for examination at 1166 Athens Tech Road, Elberton, Georgia 30635-6711. The Proposed Rate Schedules CBR-1-I, CSI-1-I, CEK-1-I, CM-1-I, CC-1-J, CK-1-I, CTV-1-I, CTVI-1-B, and Replacement-3 are also available.

Dated: May 20, 2015

Kenneth E. Legg
Administrator

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