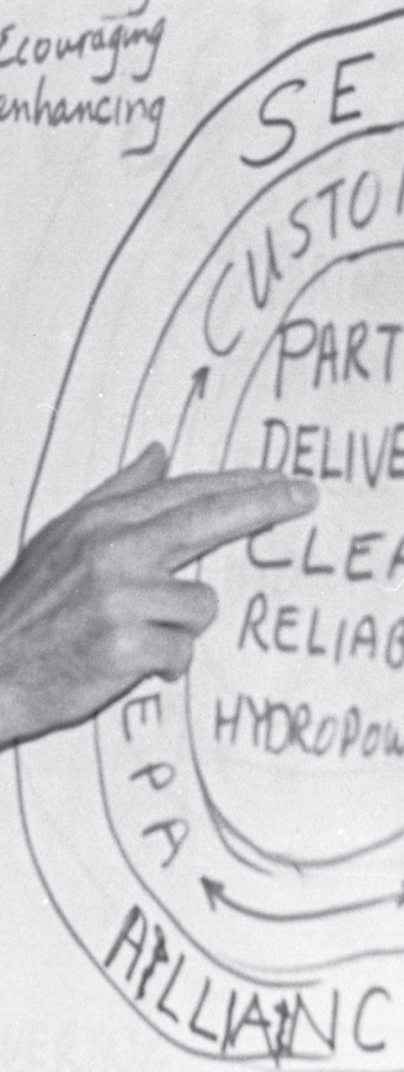


Advance
Promoting
Fostering
Encouraging
enhancing



PARTNERS

Advancing CLEAN
ENERGY

Relations between the Corps and Southeastern have not always been cordial. The droughts of the late 1980s put pressure on both organizations as well as our preference customers.

I came to the realization that we could no longer litigate and legislate; we must negotiate and cooperate.

– ADMINISTRATOR JOHN A. MCALLISTER, JR. (1989-1995)¹

PARTNERING, NOT POSTURING

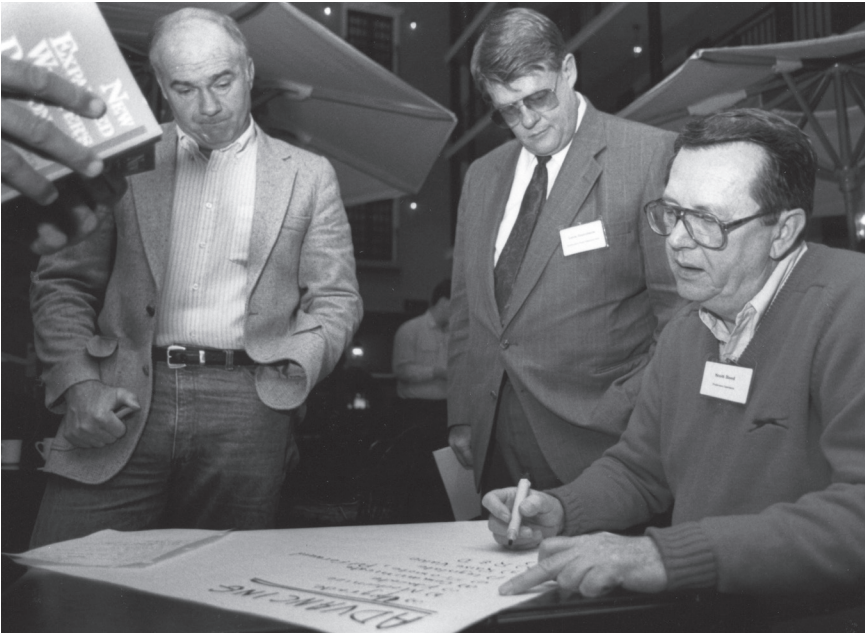
In November 1989, a new administrator arrived in Elberton to lead SEPA. John A. McAllister, Jr., “Johnny,” was a native South Carolinian dedicated to public service through his membership in the National Guard. He was recommended for the Administrator’s position by Senator Strom Thurmond (R-SC) a strong supporter of SEPA who happened to be one of the most powerful politicians in Washington, D.C. Thurmond recognized McAllister’s abilities, from his experience in finance and marketing to his time in the Guard. Only 30 at the time of his appointment, McAllister brought a decidedly different culture to the Office of Administrator, including youth, a business background, and the “you” attitude of a business person.²

The droughts of the late 1980s, coupled with aging and unreliable hydropower assets, had strained the relationship between the Corps, SEPA, and the federal power customers. Caught between the power producer and the power consumer, SEPA was in the unenviable position of mediating concerns between the Corps’ abilities, restrictions, authorization, and budget, and the customers’ expectations for affordable and reliable power. As a marketing administration, SEPA did not have the authority to budget for repairs or rehabilitation or to balance the competing interests of the multi-purpose projects. SEPA could not request Congress to appropriate funds for repairs; the Corps’ has the sole responsibility to seek and justify their maintenance budget. However, SEPA could negotiate revised rates when contracts expired, or advocate for changes in marketing policies.

Left: Developing the vision, mission, and goals of the Southeastern Federal Power Alliance.

As pressures mounted on the hydropower systems, the delicate dynamic between the three entities came under immense pressure. The preference customers were particularly bitter at what appeared to be a highly indifferent and structured environment at the Corps and an ambivalent intermediary at SEPA. Almost immediately to his arrival, McAllister recognized the need to change the culture of the organization internally and externally:

When I came to Southeastern, I found there was animosity that existed between Southeastern's customers and our partners at the Corps of Engineers. We were in a drought, which exacerbated the situation. One of the first meetings I attended was with one of our senior people at Southeastern, Harold Jones. It was a meeting of the Lake Hartwell Property Owners Association. They were blaming the Corps of Engineers, the Southeastern Power Administration, and the customers of Southeastern (the electric cooperatives and municipalities) for the lack of water in Lakes Hartwell, Russell, and Thurmond. I saw this as a real problem. There was obviously a lack of communication; there was a lack of information flow. [I realized] we had to improve the way we did business and we had to change our business practices. With that, I called a national consultant, Dr. Sheila Sheinberg.³



In 1992, SEPA, the Corps, and the federal power customers of the Cumberland System met in Lexington, Kentucky to develop the Team Cumberland partnership.

Dr. Sheila Sheinberg founded the Center for Life Cycle Sciences in Houston, Texas in 1984. As an analyst of organizational and human development, Sheinberg recognized the challenges faced by organizations, specifically their responsiveness to changing social, cultural, economic, and political environments. Other important catalysts to an organization's sustainability, according to Sheinberg, include those internal factors such as company growth, employee awareness, and changing customer expectations.

On July 13, 1991, McAllister organized a communication session facilitated by Dr. Sheinberg. Held in Atlanta, Georgia, attendees included representatives from the Corps' South Atlantic Division (SAD), SEPA, and the southeastern federal power customers in the SAD service area.⁴ The goals of the session were to identify the differences between the three stakeholder groups, but more importantly, define their common causes as to the economic operation of hydropower. Quite literally, the participants sat around a table and openly discussed perceptions of each organization and specific concerns about their working relationship. According to some of the attendees, that first meeting was somewhat awkward, with everyone initially standing, testing the atmosphere. Sheinberg guided the participants through a number of team building exercises, and facilitating the discussion to identify what led to some of the broken relationships. After three days, SEPA, the Corps, and the federal power customers developed the framework for a partnership, the Southeastern Federal Power Alliance (Alliance), with the shared vision of "Partners Advancing Clean Reliable Hydropower."⁵



John McAllister, Jim Vann (Alabama Electric Cooperative), and General John Sobke (SAD) display the Alliance logo following the creation of one of the agency's key partnerships.

On July 13, 1991, our relationship changed. On that day Southeastern, the Corps of Engineers, and the preference customers crafted a shared vision: Partners Advancing Clean Reliable Hydropower. Simultaneously a new working arrangement was developed: The Southeastern Federal Power Alliance. As Vision leaders, it is our duty to keep the Vision alive throughout the transformation process. Alliance meetings are important rituals to enable us to celebrate milestones, encourage full participation, and keep the partners enthusiastically involved throughout the change process.

John A. McAllister to Alliance Partners, December 19, 1992

Immediately, SEPA promoted the development of a parallel organization for the Cumberland System. In February 1992, officials from SEPA, the Corps' Great Lakes and Ohio River Division (LRD), and the Cumberland System power customers, met in Lexington, Kentucky to create a vision and strategy for future communication for their own multilateral relationship.⁶ Again facilitated by Dr. Sheinberg, the participants created "Team Cumberland," with a shared vision of "Partners Advancing Responsible Hydropower." For both partnerships, McAllister and the Corps officials realized that establishing the relationships represented only the first of many steps, and that continued implementation, with measured metrics and regular meetings were necessary for their sustainability.⁷

McAllister, along with General John Sobke (SAD) and General Albert Genetti (LRD), emphasized that leadership started at the top of the organizations, and found that customer participation in meetings increased when the senior officers and senior executives were in attendance. As Administrator, McAllister also spent a great deal of time visiting with the Corps, and strengthening relationships with Generals Sobke and Genetti. He attended Corps functions such as change of command ceremonies, and other important events. In turn, the Corps attended events for SEPA. "It's easier to trust people with whom you've had a cup of coffee or shared a meal. I didn't see that as being the case before." To empower all the participants, SEPA crafted medallions for the logos of the Alliance and Team Cumberland.⁸

One of the most important milestones achieved from the newly christened Alliance relationship was a Memorandum of Understanding (MOU) developed between SEPA and SAD. Executed on June 20, 1991, the MOU reiterates each agency's independent authorized responsibilities, operational expectations, and most importantly, emphasizes cooperation and communication:

It is recognized that the preference customers of the Southeastern Federal Power Program have an interest in the maintenance, operation and maintenance expense, and funding. It is the intent of the parties to develop a relationship of mutual respect and trust between the parties and the preference customers and to resolve controversial issues through discussion rather than confrontation.⁹

The partnerships primarily grew out of the extreme drought situations of the late 1980s, but they were vital to many of the major issues that have emerged since and continue to be held on a semi-annual basis or when needed. “It was a good tool for keeping lines of communication open,” noted Administrator Charles Borchardt. “It started a level of trust for the customers to tell us [SEPA and the Corps] how our actions affected them,” said Jon Worthington. “There are candid and direct lines of communication – that’s helpful.”¹⁰

During the 1990s, the partnerships were crucial to traversing the challenges of the Corps’ maintenance and rehabilitation backlog of its hydropower assets.¹¹ While the aging generating units were, in many cases, in dire need of major repairs, the Alliance and Team Cumberland members worked with the Corps to proactively identify issues that would prevent forced unit outages and power interruptions and to identify those project components that were in need of rehabilitation. The partnership meetings helped the Corps to understand the rate systems, contract terms, and the interrelationship with investor owned utilities regarding transmission services. In addition, the meetings facilitated discussions regarding any phased rehabilitations, so that the power reductions could have the least amount of impact to contractual obligations. An important result of the Team Cumberland partnership was an initiative to develop alternative methods of financing rehabilitation, specifically “customer-funding.” While SEPA cannot advocate or lobby Congress for such actions, the customers can, and proved to be an important voice in having a “customer-funding” provision incorporated into the Water Resource Development Act of 2000.¹²



Donald Norris (East Kentucky Power Cooperative), John McAllister, and General Albert Genetti (LRD) with the Team Cumberland Logo.

For projects affecting customers in the South Atlantic Division, the Alliance has been an “exceptional partnership,” where the Corps and the customers can openly discuss topics with SEPA as the facilitator. Joel Seymour, Deputy Administrator for Human Resources and Administration at SEPA, was trained as a facilitator during the early 1990s and has helped lead the meetings for nearly two decades. During the last twenty years, drought has been a frequent topic and the meetings allow the Corps to communicate their water management issues directly to the customers so they can plan for decreased power production and develop workable solutions. Additionally, the water management challenges resulting from the Tri-State Water Wars have been a recurrent topic for Alliance members over the past twenty years. While SEPA cannot have an official position in those discussions, they can facilitate the conversation and ensure the customers’ concerns regarding rate impacts are addressed with equal attention paid to restrictions on the Corps’ operations due to ongoing litigation.¹³

The Alliance was completed by a previously formed customer organization, the Southeastern Federal Power Customers (SeFPC), Inc., incorporated in 1991. The SeFPC, a trade group of electric cooperatives and municipal power companies served by SEPA, represents more than six million federal power customers in the Southeast and helps to raise awareness about hydroelectricity. This group serves as a consolidated voice to advocate for the protection and reliability of public power. For Alliance meetings, the SeFPC selects representatives to attend from among its membership.¹⁴

In addition to the collaborative meetings, in 1991 SEPA began publication of a customer-oriented newsletter, *Powerline*, which provided information on water conditions, associate profiles, industry changes, training, workshops, status of outages or repairs, conservation tips, and rate changes. The newsletters were mailed not only to customers, but to organizations such as the Corps and other PMAs. With the advancement in technology, SEPA now houses electronic versions of the newsletter on its website. The newsletter is a simple way to maintain the communication between SEPA, the Corps and the customers.

A CONTINUOUS PATH TO QUALITY

The relationship changes facilitated by SEPA paralleled a new initiative proposed by President Bill Clinton in 1993, when he proposed the National Performance Review (NPR), later called the National Partnership for Reinventing Government. In President Clinton’s words, “Our goal is to make the entire Federal Government both less expensive and more efficient, and to change the culture of our national bureaucracy from complacency and entitlement toward initiative and empowerment. We intend to redesign, to reinvent, [and] to reinvigorate the entire National Government.”¹⁵ NPR promoted four general principles: cutting red tape, putting customers first, empowering employees to get results, and getting back to basics. Over the course of fifty years, SEPA had evolved into a highly technical, and arguably, highly-structured organization. Even small government agencies, such as SEPA, could afford to redefine the way they conducted business.

If we're going to stay in business, we have to maintain continuous improvement in the organization.

Administrator John McAllister

NPR was not the first attempt to reform the federal government; indeed, it was the latest of nearly a dozen such efforts in the twentieth century alone. However, it did come on the heels of decades of government growth in infrastructure and regulation, and represented an opportunity for agencies to pause and take inventory. In the Corps of Engineers, for example, the exponential growth of projects and infrastructure constructed between the end of World War II and the 1980s dropped off precipitously. The challenge for the Corps transitioned from one largely focused on design and construction to maintenance, repair, rehabilitation, and customer satisfaction.¹⁶

Under McAllister's leadership, SEPA began a Total Quality Management (TQM) initiative in 1991. A popular management philosophy adopted by the private sector during the 1980s and early 1990s, TQM advocated the concept of process improvement. TQM eventually made its way into the federal government, triggered by the NPR. Championed by the US Secretary of Energy Hazel O'Leary, the DOE adopted TQM in 1993. Developed by W. Edwards Deming, TQM focused on customer satisfaction, performance metrics, and employee empowerment. The TQM principles empowered employees to assume greater responsibilities in their roles and team development.¹⁷

Prior to TQM's implementation at SEPA, the organization was highly static; personnel were largely assigned individual tasks or programs. With such broad responsibilities for a large region, and with relatively few full-time employees at the agency, the absence of an employee or employees for a day or more could delay getting vital information to the customers, the individual hydro project operators, or the Corps. Through TQM, SEPA's goal was to "soften the organization" and "cross-functionalize" employees, thereby making it a more flexible organization to maintain consistent operation. During the early years of this program, all SEPA employees attended training programs led by trained TQM instructors.¹⁸

McAllister focused on continuous improvement within the organization, and at the end of his tenure, restructured the agency's hierarchy. During the 1980s, as SEPA approached the fifty-year mark, it operated under an organizational structure that had been in place since the mid-1950s. It included the Office of the Administrator, with human resources, legal affairs, and administrative functions as direct reports, and divisions for each Fiscal Operations, Power Sales, and Power Resources.¹⁹ In 1988, Administrator Harry Geisinger reorganized the agency to include the Office of Administrator supported by three divisions, each headed by a director: Power Resources, Power Marketing, and Administrative Management.²⁰ While there have been evolutionary tweaks since that 1988 reorganization, the structure is largely the same.

McAllister felt the organization had become highly structured, almost operating under a "stove pipe" management style. In 1994, he took the organizational structure, added one division (Legal Affairs), and developed a "Core Team" concept to improve

My time at Southeastern was limited. But one thing I recognized about the men and women at Southeastern is the amount of pride they have in what they do. It was a great place to work.

Administrator Jon Worthington (2006-2008)

functionality. At the top, the Administrator was supported by the four division directors, re-named deputy administrators; at that time they included Joel Seymour (Human Resources and Administration), Lee Rampey (Legal Affairs), Jim Lloyd (Power Resources), and Leon Jourolmon (Finance and Marketing). This leadership core team was pressed to develop a consensus on key decisions to exhibit a sense of unity.

At lower levels of the organization, work teams were established across the various functions (such as engineering, rates, operations, and billing) to improve production and communication. In addition, a key component of the process improvement included developing teams among various grade levels of employees. By integrating the senior staff with entry level employees, communication and interaction were encouraged and became institutionalized. McAllister believed limiting communication to equal pay grades or function was a common fault with government and private industry; it led to very hierarchical organizations. Each of the work teams reported to a designated core team representative, a process designed to eliminate supervisory redundancies that often lead to diluted accountability. To facilitate the TQM transformation process, SEPA held team-building activities such as TQM Family Day and emphasized continuous training.²¹

STRATEGIC PLANNING

Throughout the 1980s and 1990s, SEPA faced the retirement of a number of long-time employees, many of whom had been with the agency for over two decades.

Without changing the hierarchical nature of the organization and developing a new breed of employee, SEPA faced losing the embedded knowledge and skill sets of the very employees who helped build the organization through a dynamic period of rapid growth. Under TQM, and the team concept, younger employees were empowered to effect change within the agency. McAllister initiated a continuing education program, and all employees took part in regular technical training. In addition, employees were invited to participate in the Strategic Planning sessions to focus on workload, priorities, and staffing.

SEPA holds periodic Strategic Planning sessions to identify long-term directives and policies, key issues, action plans, and performance indicators. In recent years, the Strategic Planning sessions included an emphasis on succession planning. SEPA's aging staff has been a recurring theme during the last twenty years, although the average age has declined due to a number of retirements during the 1990s. Still, in 2010 alone, four of the five senior staff members (Administrator, and division directors for Human Resources and Administration, Finance and Marketing, Power Resources and Legal Affairs) were eligible for retirement.

Current Employees with at least 25 years of SEPA Service (as of 2012)

Name	Began Service
Joel Seymour	1958
Jane Crenshaw	1979
Carol Rice	1981
J.W. Smith	1986
Judith Worley	1986
Nancy Hill	1987

Retired with at least 25 years of SEPA Service

Name	Years of Service
Evie Coogler	1952-1978
Seaborn Lawrence	1951-1979
Julian Brown	1950-1980
Florine Hopkins	1951-1981
Harry Wright	1951-1981
Clifford Bond	1952-1982
George Risner	1950-1982
Elbert Rucker	1950-1982
Curtis Bell	1952-1984
Mirtie Clark	1952-1984
Martha Hewell	1951-1984
Melvin Geter	1952-1988
Dee Dee Mixon	1952-1988
Elise Frierson	1951-1989
Mary George Bond	1950-1989
Kenelm Rucker	1952-1990
Lawrence Johnson	1957-1991
Sidney Cleveland	1952-1991
John Mixon	1962-1991
Patsy Griffith	1957-1993
Harold Jones	1952-1995
Richard Torina	1968-1995
Marie Coogler	1961-1995
Charles Neal	1960-1995
Lonnie Blackwell	1968-1995
E. B. Crenshaw	1957-1996
Alvin Christian	1957-1997
Frances Hubbard	1967-1999
Blanche Adams	1967-2003
Donnie Cordell	1967-2003
Wade Gaines	1968-2007
Brenda Langston	1984-2010
Leon Jourolmon	1981-2011
Fred Easom	1972-2011
Gail Dickerson	1980-2011
Lee Rampey	1981-2011

AT HOME IN ELBERTON

During the 1980s, Administrator Harry Geisinger proposed moving SEPA's headquarters to Atlanta. But, because of the local community's political

support, the agency remained in its present location. Unlike the other PMAs, which are headquartered in larger urban areas, SEPA is at home in the small rural town of Elberton in northeast Georgia.²² Although traveling and preparing for partnership meetings might be easier if the agency was situated in a larger city, with modern technology and telecommunications, even rural areas such as Elberton can be convenient business locations. Elberton is home to less than 5,000 residents, and is known world-wide for its granite quarrying and manufacturing industry. Perhaps because of its relative size and obscurity, the agency and the city have bonded. Many long-time employees of SEPA are originally from Elberton, and the organization often promotes open positions to the local community. Of those employees who call Elberton home, many have extended their public service to the City Council, the Elberton Chamber of Commerce, the National Guard, local historical society, and other civic organizations.

The people of SEPA are very proud of what they do and have a passion for the organization. "That's not something you hear associated with governmental entities very often," noted former Administrator John McAllister. "We're good because we have a pride in who we are and where we are." The composition of the staff has changed over the last twenty years, though; one-quarter of SEPA's staff now reside in surrounding counties. Because of a greater emphasis on electric reliability and requirements for more highly technical skill sets, the PMA employment landscape has evolved. Some of the more technical positions require SEPA to look beyond Elberton into other federal organizations for qualified individuals. Sometimes it is a challenge to entice outside individuals to move into a rural, blue-collar community like Elberton.²³

FROM A HISTORIC HOTEL TO ATHENS TECH DRIVE

During the last twenty years, one of SEPA's major accomplishments was moving its headquarters from an outdated building into a brand new facility. For nearly four decades, SEPA was headquartered in the Samuel

Elbert Building, located on the southwest corner of the historic downtown square in Elberton. Completed in 1924, its inception was a community-wide effort to provide accommodations for visitors. Designed in the Tudor Revival Style by the Atlanta-based architectural firm of Pringle and Smith, it was named after the Revolutionary War hero, and later Governor of Georgia, Samuel Elbert. The hotel closed during the Great Depression but was purchased by prominent local citizen and state representative, Peyton S. Hawes, Sr. Hawes, who later served on the Georgia Supreme Court, was an instrumental supporter of the Richard B. Russell project on the Savannah River.²⁴

SEPA moved its headquarters into the Samuel Elbert Building in September 1968, and became a fixture of the town's downtown district. By the early 1990s, however, general program expansion, new Energy Policy Act requirements, and the need for an Operations Center made the old building inadequate for modern DOE work space.

Administrator John McAllister began the process of finding a new home for the agency as part of the quality management improvement process. In 1993, SEPA requested additional space from the General Services Administration (GSA) and was promptly turned down. For the next few years, SEPA returned repeatedly to GSA as well as the Office of Management and Budget (OMB) to overcome the political process to extricate itself from the outdated building.

By 1995 SEPA had also established an off-site Operations Center in a space once occupied by a Belks department store, but it was clear that changes in the energy industry, including advances in technology and requirements for reliability, far outpaced the organization's current accommodations.²⁵ For GSA to approve a new headquarters facility, SEPA had to prove it needed 4,000 square feet more than was available in the Samuel Elbert Building and the necessary rehabilitation efforts and upgrades would be detrimental to the historic structure. Moreover, SEPA would have to vacate the building while the required upgrades were completed, perhaps up to a year. GSA finally agreed the organization needed additional space. Because Elberton had limited availability of the required 22,000 square feet, SEPA worked with the DOE and OMB to request GSA go on the market to have a dedicated office building constructed. The initial preferred locations for the new building were in close proximity to downtown Elberton; however, a new development was underway approximately three miles west of town on Athens Tech Drive and a deal was reached with the owner to sell the property for \$50,000.



Originally constructed as a hotel in 1924, the Samuel Elbert Building served as the headquarters for SEPA from 1968-2001.



Ribbon cutting for the new headquarters building in 2001 (Clifford Adams, Sr., Attorney, Municipal Electric Authority of Georgia [MEAG]); Charles Borchardt, Administrator, SEPA; Iola Stone, Mayor, City of Elberton; and Elliott Caudell, Caudell Realty Company (then owner of the SEPA building).



By the mid-1990s, SEPA had outgrown its home on the square and embarked on a protracted campaign to acquire a new headquarters. The agency moved into a new state-of-the-art facility on Athens Tech Drive in 2001.

Elberton Responds to the Move

In 2003, Elberton celebrated its bicentennial. As part of the celebration, they had a fashion show of clothing from 1803 to 2003. There were a couple of elderly ladies there who wanted to show their fashions, but were unable to make it down to the theater. So, I was in charge of driving them there and back. On the way home, one turned to me and asked, "You're that SEPA guy, aren't you?" and I said that I was. Then she said, "Let me tell you something, we don't like the fact that SEPA moved off of the square. That was a bad move." A lot of people didn't like us moving; there was a great deal of loyalty to Judge Hawes, whose family owned the building, but we had been there for almost forty years. It was time to move.

Administrator Charles Borchardt (1995-2006)

While SEPA worked with GSA to acquire the new property, the agency faced internal discontent as well. Many of the employees were attached to the downtown location, the availability of restaurants, and proximity to their homes. Once the decision was made to move on the outskirts of town, everyone had an opinion on how the new building should be designed, perhaps one of the greatest challenges of having such a small and intimate organization. Some wanted offices around the outside of the building; others wanted water fountains and restrooms at certain locations. "It was a great internal struggle," according to Joel Seymour, who helped spearhead the new building, "as to who got what and how they wanted it. We went to the drawing board time and time again. But, we were able to get into a first-class facility and it has been very beneficial to the employees and the organization."²⁶

CUSTOMER FOCUS: INTEGRATED RESOURCE PLANNING

In 1986, the DOE initiated an Integrated Resource Planning (IRP) process that instructed utilities (private or federal) to evaluate and select energy resources from supply-side or demand-side options. Because the PMAs are not directly responsible for planning or acquiring energy resources, their IRP strategies have focused almost exclusively on encouraging and assisting their customers' IRP efforts.

During the early 1990s, SEPA held a number of workshops and energy efficiency activities to support its customer groups. In addition, over eighty percent of SEPA's customers participated in a nation-wide survey that addressed federal power customer IRP needs. Those needs were then incorporated with the needs of other federal power customers into a Resource Planning Guide (RPG), developed cooperatively between WAPA, SWPA, and SEPA. The RPG included software the customers could use to assess their storage, delivery and demand options, as well as the potential to incorporate renewable energy resources in the future. Deregulation of the energy

industry, spearheaded by the 1992 Energy Policy Act, opened new markets and opportunities for the southeastern federal power customers. SEPA held contracts and risk management workshops and provided information on industry direction of bulk power and retail electric rates. Through an Advancement of IRP in Public Power Project, SEPA customers leveraged assistance from various trade associations to supplement their training budgets by approximately \$80,000.²⁷

In another example of their IRP involvement, in 1994, SEPA worked with Oak Ridge National Laboratory, the DOE, and Clayton Homes to study and improve energy efficiency in manufactured housing, a type of housing that accounts for a significant portion of the homes in SEPA's residential energy load. The organization also provides basic energy efficiency tips to its customers through the *Powerline* newsletter and holds regular workshops to promote conservation. During the mid-1990s, SEPA changed its IRP program to the more customer-focused Competitive Resource Strategies (CRS) program. The CRS program more accurately reflected the needs of competition as the energy industry evolved through deregulation. Customers had access to PMA-sponsored databases and forecasting models to assist in balancing peak loads. As the technology allowed, customers also had access to E-learning, available twenty-four hours a day on the internet, which helped reduce travel costs. Following the passage of the 2005 Energy Policy Act, the program evolved into the Energy Efficiency and Renewable Energy Program (EERE), which focused on promoting DOE climate change directives and energy efficiency among its customers by holding training sessions and workshops.

PUBLIC POWER UNDER ATTACK

The debate of the federal government's role in the sale of electricity dates back to the initial concept of the "preference customer" during the early twentieth century. In the Southeast, the argument reached its vocal peak during the 1940s and 1950s as the US Army Corps of Engineers engaged in a massive flood control program. This program resulted in the construction of dozens of government-owned multi-purpose projects, many including a hydropower component, across the nation. The power, sold through the newly established power marketing administrations, was set aside for the preference customers, publicly-owned rural cooperatives and municipalities. Public power continued to evolve during the latter half of the most recent century, but the debate over its legality and necessity is never-changing.

In June 1982, President Ronald Reagan signed Executive Order 12369, which established the President's Private Sector Survey on Cost Control (PPSSCC). The PPSSCC authorized an investigation of waste and inefficiency for a variety of programs in the federal government. Led by businessman J. Peter Grace, the commission was composed of over 150 private sector executives. The Grace Commission released a series of reports, including one in 1984 on the privatization of government assets. This report raised one of the first serious proposals to defederalize the PMAs and based their judgment on two reasons, cost-savings and elimination of government's role in power production.²⁸

From an ideological perspective, the report questioned the government's need to continue providing low-cost power. The report noted when "multi-purpose dams were first built, the original projects were in rural or less-developed parts of the country that did not have investor-owned utilities to provide electricity," but by the 1980s that landscape had changed.²⁹ In other words, the Commission argued, the government was saddled with the archaic role of meeting certain social needs that could now be addressed more efficiently by the private sector. Regarding the financial argument, the report speculated by selling the PMAs, the government would eliminate operating deficits and avoid future capital expenditures. In addition, the one-time sale of the PMAs and their transmission capabilities would yield \$25 billion over five years. Further, after all assets were sold, the reduction in net outlays for capital investment and interest subsidies combined with the collection of user fees and interest, would result in an additional \$5 billion in savings and revenue after the sixth year of the sale.³⁰

Although facing a headwind of opposition from Congress, in his FY 1987 budget the President proposed selling the five existing PMAs to private interests by FY 1991. The proposal met with vehement opposition by the American Public Power Association (APPA), which questioned the assumed deficit savings and argued public power customers would be disproportionately affected by sharp increases in wholesale electric rates. Congressional support of the budget proposal was scarce and eventually a supplemental appropriations bill provision forbade funds to study the proposal further. For the moment, the issue was dormant, but would re-emerge under a new administration. SEPA's Public Utilities Specialist, J. W. Smith, recalled, "For the first ten years that I worked here, there was at least one proposal every year, sometimes more, that I had to evaluate."³¹

Notably, privatization proposals have been bipartisan political efforts, as have the efforts to retain the government's role in the sale of electricity.³² In 1995, President Bill Clinton's administration was the second to broach the divestiture issue with any serious consideration. Backed by the Speaker of the House, Newt Gingrich (R-GA) and a bipartisan coalition, President Clinton pushed for the sale of the Western Area, Southwestern, and Southeastern Power Marketing Administrations in the FY 1996 budget. As proposed, the process would involve the divestiture of not only the hydropower components, but the entirety of the projects, reservoirs included. In addition to strong opposition from public power interests in the western United States, stakeholders in the Southeast fought the revived proposal.

While divestiture of federal assets makes for an intriguing sound bite among government reform proponents, the process is far more complex than even most politicians are aware. For any sale of a power marketing administration, even the smallest PMA, a complex negotiation between multiple agencies on many specific issues would have to take place. For instance, in the absence of a new law granting waivers, the sale of each PMA would require applicable studies under federal law, such as the National Environmental Policy Act (NEPA). With the Corps' multi-purpose projects, each authorized purpose has a constituency of stakeholders, whose concerns are taken into account during the analysis.



Representative Charlie Norwood (R-GA) was an ardent supporter of SEPA during the 1990s when the PMAs were targeted for federal divestiture.

Opponents to privatization in the Southeast argued the recreational value of the lakes, in many cases a Congressionally authorized purpose, would be threatened if shorelines fell under the purview of a private utility. In the Cumberland System area, television advertisements aired during the Kentucky gubernatorial race even suggested privatization might threaten public fishing use of the lakes. Southeastern federal power customers worried about how the sales could impact rates and the reliability of the systems. In particular, the customers served by projects in the Corps' South Atlantic Division wondered how potential new owners would finance the backlog of necessary rehabilitation efforts. Congressman Charlie Norwood (R-GA), representing a key northeast Georgia district, including Elberton, and an

ardent opponent of PMA sales, said "That was one of the problems...nobody really had answers to lots of questions. It was just 'Oh, it's a good idea to privatize the thing.'"³³

While the Clinton proposal met with a sound defeat, it reemerged only a year later when a General Accountability Office (GAO) report found that hydropower plants in the Southeast were far less reliable than their private investor-owned utility counterparts. A later bill, proposed to Congress during its 1997 session, scaled divestiture back to only selling the hydropower components, such as turbines, generating equipment, and transmission capabilities. According to Norwood, such an authorization would have created "a logistical nightmare trying to figure out who's responsible for what."³⁴ Again, the divestiture proposals were defeated.

Proponents of the privatization, however, were encouraged by a small victory. The tiny Alaska Power Administration had been under scrutiny since the early 1980s and, with the other PMAs, was recommended for divestiture in the 1983 Grace Commission Report. Unique among the PMAs, the APA owned, operated and maintained two hydroelectric projects that were constructed for a single purpose, power production. Unlike the Corps and Bureau projects in the lower forty-eight states, they were not the result of water resource management plans and were not intended for indefinite federal control. In fact, APA owned all of the generating equipment and infrastructure. The two projects, Eklutna and Snettisham along with their watersheds, are located entirely within the state of Alaska and were designed to serve specific communities.³⁵ Ultimately, municipalities and cooperatives purchased APA's assets. The single-purpose authorization of the two projects made the divestiture process somewhat easier and they were authorized for sale in the Alaska Power Administration Sale and Termination Act of 1995. The APA transferred the Eklutna Project on October 2, 1997 and the Snettisham Project on August 19, 1998.³⁶

PROPOSALS TO CHANGE RATES

Proposals to sell the PMAs, with SEPA a frequent target because of its lack of transmission infrastructure, occasionally emerge

as the federal government seeks ways to increase its revenue and streamline its operation. Many public power opponents often seize on the “low rates” offered by the PMAs as an argument the federal government has no role in subsidizing electricity, or they view the PMAs as being potential revenue sources for the government as a whole. While divestiture proposals stalled during the late 1990s, a coalition of lawmakers from the Northeast and Mid-west, areas largely void of access to public power, proposed legislation to reform PMA rate-setting practices. The legislation, various forms of which never made it out of committee, proposed changing the rate structure from “cost-based” to “market-based.” But, opponents interpret the preference customer rates as the lowest “cost-based” rates, when rates are actually the lowest possible based on “sound business principles” according to enabling legislation. This is a key misinterpretation of the law; in fact, PMA rates are not guaranteed by law to be lower than private utilities, and may vary according to amount of available water and other conditions.³⁷

In 2005, President George W. Bush’s administration also targeted the PMA rate structure. Rather than selling the PMAs, the administration proposed in its FY 2006 budget that PMAs charge market-based rates, which it believed would generate increased revenues for the government. This proposal, considered by many to be a back-door tax hike, had the potential to raise preference customer rates an average of 20% annually until adequately balanced with private utility rates. Preference customers in the Northwest, where BPA supplies nearly 40% of the region’s total power portfolio, would have been particularly hard hit. One Northwest lawmaker suggested the annual 20% rate increase amounted to a one billion dollar tax increase on the population. In the Southeast, one public power customer in South Carolina, the Central Electric Power Cooperative, estimated the proposal would cost its customers up to \$15 million dollars. Even at a time of dramatically increasing federal deficits, the proposal had little support in Congress.³⁹

AVERAGE REVENUE PER KWH OF WHOLESALE POWER SOLD
CENTS/KILOWATT HOUR
(ADAPTED FROM A 1996 GAO REPORT)³⁸

	1990	1991	1992	1993	1994
Western	1.50	1.67	1.75	1.81	1.82
Southwestern	1.27	1.59	1.37	1.23	1.49
<i>Southeastern</i>	<i>1.58</i>	<i>1.86</i>	<i>2.12</i>	<i>1.89</i>	<i>1.98</i>
IOUs*	4.17	3.58	3.57	3.40	3.50
POGs**	3.78	3.78	3.90	3.80	3.90

* Investor-owned utilities
** Publicly-owned generating utilities

While proposals for market-based rates or divestiture were defeated, the investigations of the PMA rate systems did result in one substantial change for SEPA. In a 1996 report on cost recovery, the GAO identified several primary power-related costs the PMAs had not yet recovered through electricity revenues. The report noted that the Reclamation Project Act of 1939 and the Flood Control Act of 1944 required PMAs to recover costs through their power rates, but the acts did not specify which costs had to be recovered.⁴⁰ The PMAs, required to recover some Operation and Maintenance costs under subsequent DOE orders, generally excluded the costs of Civil Service Retirement System (CSRS) pensions and post-retirement health benefits. Those costs were being funded through the US Office of Personnel Management as unfunded liabilities.⁴¹ For SEPA, the GAO estimated the unrecovered costs of pensions and post-retirement health care at \$71 million cumulative and \$2.8 million annually.⁴² On July 1, 1998, the DOE General Counsel determined the CSRS and post-retirement benefits were legitimate power-related costs and should be incorporated in rates consistent with current law. During that year, SEPA was the first PMA to amend its rate structures so that revenues would collect those incurred costs.⁴³

Historically, when the federal government has run deficits or required increased revenues, the PMAs become a target, for outright divestiture as well as higher energy rates. The complexity of issues coupled with pressures from customers has prevented the proposals from gaining traction; that may not always be the case. The Corps and Bureau of Reclamation are no longer constructing large multi-purpose projects that generate hydropower, but as the nation grows so does energy demand. Today, the energy comes from other sources provided by private interest, and public power is becoming a smaller percentage of the energy portfolio.⁴⁴

In addition to absorbing the CSRS costs, SEPA's rate structures with customers have evolved in other significant ways since 1990. By law, the PMAs are required to evaluate and modify rates as appropriate at least once every five years. Historically, SEPA negotiated most contracts with fixed five-year rate structure

AVERAGE SYSTEM RATES FOR SELECT YEARS, 1990-2010*

	1990	1995	2000	2005	2010
GA-AL-SC	2.51	2.55	2.66	3.39	3.70
Cumberland	1.60	2.51	2.63	2.94	n/a**
Kerr-Philpott	1.52	1.86	1.86	1.96	2.98
Jim Woodruff	2.70	5.13	5.51	6.95	13.06

* Rates reflect capacity charge in cents per kilowatts/month and do not reflect transmission or other ancillary services.

** Due to emergency operational restrictions imposed by the Corps in 2006 on both the Wolf Creek and Center Hill projects, SEPA implemented an Interim Operating Plan for the Cumberland System to provide customers with energy that did not include capacity. The energy charge for 2010 was 12.67 mills per kWh.

periods with no adjustments. One drawback to that system included substantial increases during subsequent adjustments that were negotiated under the new contracts. These increases were felt acutely by the customers. An inflexible rate structure also hampered the ability of the agency to recover rates during the severe droughts of the 1980s that impacted the Georgia-Alabama-South Carolina system. As the older fixed five-year contracts expired, SEPA negotiated new contracts with stipulations that allowed for more flexibility in rate adjustments. Some contracts allowed for rate adjustments when needed, others limited any adjustments to specific dates or stipulated a single change during a twelve month period. This new flexible system resulted in incremental and more palatable increases to customer rates as well as a more efficient and predictable cost-recovery for payments into the Treasury.⁴⁵

New non-discriminatory transmission regulations issued by the Federal Energy Regulatory Commission (FERC) in 1996 also affected rate schedules.⁴⁶ Under the new “open access tariffs,” transmission providers must pre-file transmission rates with the FERC. The new open access regulations helped SEPA stabilize the transmission costs passed through to the customers resulting in more consistent rates. While transmission has always been a “pass-through” cost, SEPA adjusted its rate schedules to do the same with purchased power. Prior to 2002, SEPA collected purchased power as a cost included in the basic capacity and energy charge. When these increased purchased power costs occurred, it required activation of a continuing (emergency) fund to provide extra funds. The purchased power costs, often significant during periods of drought, accumulated as deficits and were subsequently included in the next rate adjustment. At the urging of the OMB to recover costs more quickly, SEPA established rate schedules allowing for a “pass-through” of Net Purchased Power Cost during the month when the purchase occurred.⁴⁷ SEPA modified the rate schedules to reflect this new process for the Georgia-Alabama-South Carolina System in 2002, the Kerr-Philpott System in 2006, the Cumberland System in 2008, and the Jim Woodruff System in 2011.⁴⁸

NET-ZERO FINANCING

With the exception of the Bonneville Power Administration, which has self-financing and borrowing authority through its enabling legislation, the PMAs are required to deposit their power-sales revenues into the US Treasury. Each year, PMA operations and expenses are financed through annual Congressional appropriations and Congress identifies what program expenses are covered, how much money may be spent, and the authority for using the revenue receipts. SEPA’s expenses are typically smaller than the organization’s revenues because the revenues include Corps of Engineers’ costs. However, with appropriated budgets, if SEPA had insufficient funds to cover unexpected expenses, such as power purchases required as a result of drought or equipment failure, it would have to return to Congress for a supplemental appropriation or activate a continuing (emergency) fund. For an agency that operated with real-time obligations (getting power to its customers), an appropriated budget environment was a challenging fiscal policy.

Small Agency Budget Woes

SEPA's budget is so small that it increases in terms of thousands. In the early 2000s, the agency's annual expenses were, for example, \$5.1 million. With the budgeting process, that gets rounded down to \$5 million. The next year, they asked for \$5.2 million, and again it was rounded downward for the budget estimate. When I was at the Washington [PMA] Liaison Office, I had to fight with OMB and the DOE Budget Office to explain that a rounding error for such a small budget was very significant to an agency's operating expenses. Those rounding errors caused SEPA's budget to remain stagnant for a number of years and when I got to SEPA [in 2006], they were having significant budget issues. They couldn't even buy new computers; we ended up getting used computers from Southwestern Power Administration. We would drive to meetings early in the morning rather than have the hotel expenses. We finally got those budget issues corrected so that we had adequate operating expenses.

Administrator Jon Worthington

It's really a three-fold issue. Not only is the budget scrutinized by OMB and DOE, but the customers will question expenses, too. The dollars we collect [through rates] – we have to show where they're going.

Administrator Charles Borchardt

During the late 1990s and early 2000s, the PMAs studied the idea of a revolving fund, similar to the way Bonneville operates, and “net-zero” budgeting. In 2006, the PMAs formally proposed “net-zero,” also called self-financing. Net-zero budgeting allowed for the PMAs to use revenues to repay annual program costs as the revenues are generated early in the fiscal year. The PMAs would go through a normal budgeting and approval process, but would use revenues to repay annual costs as the revenues are generated, resulting in a net-zero appropriation at year's end. Although the concept was approved by OMB, the DOE and Congress rejected the idea for several years. Finally, in the FY 2010 budget, the PMAs were appropriated and authorized to repay their budget using net-zero financing. Finance and Marketing Division Director Leon Jourolmon noted, “The more business-like we can be, the better. We have argued for this over the years. It was a big step.”⁴⁹ For SEPA, which had a relatively small annual budget of approximately \$7.6 million in FY 2010, net-zero allows it to pay its annual appropriated cost within one or two months of the new fiscal year, with the flexibility of available revenues in the case of a system emergency or unanticipated costs.

TWENTY YEARS OF LEADERSHIP: SEPA ADMINISTRATORS, 1990-2010

John A. McAllister, Jr. (1989-1995)



A native South Carolinian, John McAllister earned his undergraduate degree at the Citadel, the Military College of South Carolina in 1980. Later educational pursuits led him to business management programs at the University of North Carolina-Chapel Hill as well as the John F. Kennedy School of Government at Harvard. Commissioned in the South Carolina Army National Guard as an Engineer Officer in July 1980, he completed the Army Engineer Officer Basic Course in 1981, the Army Engineer Officer Advance Course in 1982, and studies at the Army Command and General Staff College in 1992.

Following his commission in the National Guard, he was General Manager of Blue Branch Farms, his family timber and cattle business in Mount Carmel, South Carolina. He later became associated with Cooper Communities of Bentonville, Arkansas in the sales and promotion of Savannah Lakes Village, a retirement community of Lake Thurmond. He was appointed Administrator of the Southeastern Power Administration in 1989 and retired from the organization in 1995 when he returned to the private sector.

Charles A. Borchardt (1995-2006)



A native of Miami, Oklahoma, Charles Borchardt graduated from Oklahoma University in 1963. He was on active duty in the Air Force from 1966-1970 during the Vietnam Conflict, including one tour in Thailand. Following his service, he used the G.I. Bill to attend law school at the University of Tulsa. Borchardt worked as a lawyer with the US Army Corps of Engineers Tulsa District from 1974-1978 before transferring to the Southwestern Power Administration where he served as Chief Counsel from 1981-1995. He was appointed Administrator of the Southeastern Power

Administration in 1995 and served until 2006 when he retired and returned to his native Oklahoma.

Jon Worthington (2006-2008)



A native of Boise, Idaho and a 1978 graduate of Westminster College in Utah, Jon Worthington began his career in the federal government in 1982 as a Public Utilities Specialist with the Bonneville Power Administration (BPA). Subsequently, he worked at the Department of Energy headquarter office in Washington, D.C, the Rural Electrification Administration, BPA's National Relations Office, the Federal Energy Regulatory Commission, the Western Power Administration and the Southwestern Power Administration. Mr. Worthington was appointed Administrator for the Southeastern Power

Administration on October 1, 2006 and served until 2008 when he was appointed Administrator for Southwestern Power Administration. In 2012, Mr. Worthington was named the Deputy Assistant Secretary for Permitting, Siting, and Analysis in DOE's Office of Electricity Delivery and Energy Reliability.

Kenneth Legg (2008-present)



The second native Oklahoman to head the Southeastern Power Administration, Kenneth Legg was born and raised in Bartlesville, Oklahoma, and graduated from Oklahoma State University with a degree in electrical engineering. He began his career in 1974 as an engineer with the US Army Corps of Engineers Tulsa District and then became an electrical engineer at Southwestern Power Administration in 1978. He was promoted to public utilities specialist in 1980 and then became Assistant to the Administrator in 1988. He was serving as Director of Engineering and Planning for Southwestern before

moving to Elberton in 2003 to become Assistant Administrator, Division of Power Resources. He was appointed Administrator at Southeastern in July 2008.

ENDNOTES

- ¹ Letter from John A. McAllister, Jr. to COL George Cajigal, Wilmington District, US Army Corps of Engineers, August 13, 1995 (RG 1015, SEPA Archives).
- ² Joel Seymour (SEPA), interview by Patricia Stallings, February 25, 2010; Bob Prince (SAD), interview by Patricia Stallings, January 19, 2011.
- ³ John A. McAllister, Jr. (SEPA-retired), interview by Patricia Stallings, March 29, 2011
- ⁴ McAllister interview. The three marketed power systems in the South Atlantic Division are the Georgia-Alabama-South Carolina, Kerr-Philpott, and the Jim Woodruff systems.
- ⁵ Seymour interview; Prince interview; McAllister interview; SEPA, *Powerline*, November 1991.
- ⁶ In a 1997 re-organization, the US Army Corps of Engineers merged the North Central Division and the Ohio River Division to form the Great Lakes and Ohio River Division (LRD). Prior to the 1997 consolidation, SEPA marketed power from hydro projects within the Ohio River Division.
- ⁷ SEPA, *Powerline*, Summer 1992.
- ⁸ Seymour interview; McAllister interview.
- ⁹ *Memorandum of Understanding Between the US Army Corps of Engineers South Atlantic Division and the Southeastern Power Administration*, June 20, 1991.
- ¹⁰ Interview with Charles Borchardt (SEPA-retired) and John Worthington (SEPA/SWPA) by Patricia Stallings, September 15, 2010.
- ¹¹ See Chapter 3 for further discussion of the issues related to aging hydropower structures and customer funding.
- ¹² Prince interview; Seymour interview.
- ¹³ Prince interview; “Testimony of Robert W. Claussen before the House Resources Subcommittee on Water and Power Resources, July 26, 1996,” in SEPA Archives, RG5104 (Planning, Programming, and Budgeting: Congressional Briefings.” The Water Wars are discussed exclusively in Chapter 4; Seymour interview.
- ¹⁴ A parallel, but more structured organization had been formed for customers of the Southwestern Power Administration, called the Southwestern Power Resources Association. Bonneville and Western also have customer-oriented groups. Ultimately, the SeFPC became a major stakeholder in the “Water Wars” and as one of the primary litigants against the Corps’ water allocation practices (see Chapter 4).
- ¹⁵ For an analysis of the governmental reforms of the 1990s, see Jeffrey L. Brudney, F. Ted Hebert, and Deil S. Wright, “Reinventing Government in the American States: Measuring and Explaining Administrative Reform,” *Public Administration Review* 59:1 (January-February 1999); “Remarks by President Clinton Announcing the Initiative to Streamline Government, March 3, 1993.” Internet online at <http://govinfo.library.unt.edu/npr/library/speeches/030393.html>.
- ¹⁶ Brockington and Associates, Inc., *History of the South Atlantic Division US Army Corps of Engineers, 1945-2011* (Atlanta: US Army Corps of Engineers, 2012)
- ¹⁷ For more on TQM in the Department of Energy, see Terrence R. Fehner and Jack M. Holl, *Department of Energy*, 92-93.
- ¹⁸ Seymour interview.
- ¹⁹ In this reorganization, Power Sales included contracts, billing, and information technology.
- ²⁰ In the reorganization, billing was transferred to Power Resources, contracts went to Power Marketing; IT transferred to the Human Resources and Administration division.
- ²¹ McAllister interview; SEPA, *Powerline*, various issues.
- ²² By statute, the PMAs headquarters have to be located within the area that they serve. Previous administrators had proposed moving SEPA not only to Atlanta, but to other locations, including Asheville, North Carolina. None of these proposals had the political support to make them viable options. Kenneth Legg, interview by Patricia Stallings, February 25, 2010; also interview with Borchardt and Worthington.
- ²³ McAllister interview; Seymour interview.
- ²⁴ Joyce M. Davis, *Images of America: Historic Elberton* (Charleston: Arcadia Publishing, 2002).
- ²⁵ The Operations Center is described in further detail in Chapter 5.

- ²⁶ Seymour interview; McAllister interview; Borchardt and Worthington interview.
- ²⁷ SEPA, *Annual Reports*, 1990-2010; SEPA, *Powerline*, Summer 1992; for more information on DOE IRP history and policy, see Dennis L. White and Philip E. Mihlmester, *US Department of Energy Integrated Resource Planning Program: Accomplishments and Opportunities* (Oak Ridge, TN: Oak Ridge National Laboratory, December 1993).
- ²⁸ President's Private Sector Survey on Cost Control, *Report on Privatization* (Washington, DC: 1983).
- ²⁹ President's *Report on Privatization*, vi.
- ³⁰ Western Area Power Administration, *Serving the West: Western Area Power Administration's First 25 Years as a Power Marketing Agency* (Denver: US Department of Energy, 2002), 95-103. History available online at <http://www.wapa.gov/about/historyproj.htm>. Available from February 18, 2010. See also President's *Report on Privatization*, 39-71.
- ³¹ WAPA, *Serving the West*, 95-103; President's *Report on Privatization*; J.W. Smith interview.
- ³² During the mid-1990s, a bi-partisan Northeast-Midwest Congressional Coalition, led by Representative Bob Franks (D-NJ), held hearings on subsidized federal power. Franks argued that the federal power available to communities in the South and West placed other areas of the country at an economic disadvantage. He declared, "It's time to stop pouring tax dollars from hard-working New Jerseyans that's unnecessary and pits states and regions against one another in the competition for businesses and jobs" (Statement by Congressman Bob Franks NJ Coalition to End Federal Power Subsidies, July 15, 1996).
- ³³ "Southeast Hydropower Plants are Becoming More Unreliable," *Marietta Daily Journal*, July 29, 1996; "Utilities, Co-ops Worry that Clinton Plan would Hike Electric Rates," *Waycross Journal-Herald*, February 28, 1995.
- ³⁴ "Privatization Plan Under Fire," *Augusta Chronicle*, February 24, 1997.
- ³⁵ The 30 MW Eklutna project was built in 1955 to serve Alaska and Matanuska Valley areas, and the 78 MW Snettisham project, built to serve Juneau, was completed in 1975; both were also fed by glacier-melt.
- ³⁶ When the APA ceased to exist as a federal agency, the responsibility for maintaining its records was transferred to SEPA.
- ³⁷ Leon Jourolmon (SEPA), interview by Patricia Stallings, February 25, 2010; J. W. Smith (SEPA), interview by Patricia Stallings, March 10, 2010. Also, General Accounting Office, *Power Marketing Administrations: Cost Recovery, Financing and Comparison to Nonfederal Utilities* (Washington, DC: Report # GAO/AIMD-96-145), hereafter cited as GAO, *Cost Recovery*. The PMA rate-reform legislation was introduced as H.R.3515 in 1998 and H.R. 1486 in 1999.
- ³⁸ GAO, *Cost Recovery*, page 106.
- ³⁹ Jourolmon interview; "Leaders say Bush's Plan Would Raise Power Rates," *The Idaho Statesman*, February 8, 2005; "Budget Would Hike Hydropower Rates," *Living in South Carolina: The Magazine for Cooperative Members* 57:3 (March 2005), 9.
- ⁴⁰ GAO, *Cost Recovery*. Additional unrecovered costs were identified in the report, but primarily related to irrigation and transmission, and are exclusive to WAPA SWPA. One other unrecovered for SEPA, included the capital investment and accumulated interest for the Richard B. Russell pumped-storage units in the Georgia-Alabama-South Carolina System. Because of environmental litigation and operational delays, the federal costs associated with the units had not been incorporated into the system's rate structure until 1992. By the end of FY 1995 alone, this amounted to \$488 million in unrecovered costs (capital investment and accumulated interest). The Richard B. Russell Project delays are discussed in greater detail in Chapter 3.
- ⁴¹ To clarify what costs should be recovered, Department of Energy Order RA 6120.2 (September 20, 1979; revised October 1, 1983) required PMA revenues to cover all Operation and Maintenance (O&M) expenses during the year they were incurred, in addition to requiring recovery of transmission and irrigation capital costs within a fifty-year period.
- ⁴² GAO, *Cost Recovery*.

⁴³ The President's FY 1998 budget called for the PMAs to begin covering those rates; after challenges by the federal power customers, the DOE made the July 1, 1998 determination, which was also upheld by the Federal Energy Regulatory Commission (which has rate approval authority); also, J.W. Smith interview.

⁴⁴ Jourolmon interview.

⁴⁵ J.W. Smith interview.

⁴⁶ FERC Order 888 requiring transmission providers to offer non-discriminatory (or open access) transmission rates is discussed in further detail in Chapter 5.

⁴⁷ Net Purchased Power Cost is calculated as the purchased power obligation less any revenue from sales to the energy provider.

⁴⁸ J.W. Smith interview.

⁴⁹ Jourolmon interview; Legg interview.