



Department of Energy
Southwestern Power Administration
One West Third Street
Tulsa, Oklahoma 74103-3502

JAN 16 2014

**NOTICE OF ORDER CONFIRMING AND APPROVING
INTEGRATED SYSTEM POWER RATES ON A FINAL BASIS**

You are hereby notified, in accordance with the terms and conditions of our power sales contract, that the Federal Energy Regulatory Commission (FERC), pursuant to the authority under U.S. Department of Energy Delegation Order No. 00-037.00, dated December 6, 2001, has confirmed and approved the following Integrated System Rate Schedules on a final basis for the period October 1, 2013, through September 30, 2017:

Rate Schedule P-13, Wholesale Rates for Hydro Peaking
Power

Rate Schedule NFTS-13, Wholesale Rates for Non-Federal
Transmission Service

Rate Schedule EE-13, Wholesale Rate for Excess Energy

The Integrated System Rate Schedules were confirmed, approved and placed in effect on an interim basis by the Deputy Secretary of Energy in Rate Order No. SWPA-66 on September 30, 2013. The FERC approved the Integrated System Rate Schedules, as submitted by the Deputy Secretary, by Order issued January 9, 2014, under Docket No. EF14-1-000.

Copies of the Integrated System Rate Schedules are accessible at www.swpa.gov under the Rates link. If you have any questions regarding the new rate schedules, please contact Stephanie Bradley at (918) 595-6676, stephanie.bradley@swpa.gov.

Sincerely,

A handwritten signature in cursive script that reads "Tracey L. Stewart".

Tracey L. Stewart
Acting COO/Vice President
Office of Corporate Operations

UNITED STATES OF AMERICA 146 FERC ¶ 62,016
FEDERAL ENERGY REGULATORY COMMISSION

United States Department of Energy
Southwestern Power Administration
(Integrated System)

Docket No. EF14-1-000

ORDER CONFIRMING AND APPROVING RATE SCHEDULES
ON A FINAL BASIS

(January 9, 2014)

Summary

On October 3, 2013, the Deputy Secretary of Energy (Deputy Secretary) filed a request for final confirmation and approval of Southwestern Power Administration's (Southwestern) Rate Schedules P-13, applicable to the sale of hydro peaking power and energy; NFTS-13, applicable to non-federal point-to-point and network transmission service from Southwestern's Integrated System;¹ and EE-13, applicable to sales of excess energy. The Deputy Secretary placed these rate schedules into effect on an interim basis effective October 1, 2013,² and requests final confirmation and approval of the rates for the period October 1, 2013 through September 30, 2017.³ Southwestern proposes to increase annual revenues from approximately \$184.0M to \$192.7M, an increase of approximately \$8.7M, or 4.7 percent, to recover increased investments and replacements, and operations and maintenance costs. Southwestern maintains that the proposed rates will satisfy cost recovery criteria for the Integrated System projects.

Notice of the application was published in the *Federal Register*, 78 Fed. Reg.

¹ The Integrated System consists of 22 multi-purpose hydroelectric projects whose power output is sold to preference customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

² Rate Order No. SWPA-66 placing the rate schedules into effect on an interim basis, was issued on September 30, 2013, under authority delegated to the Deputy Secretary by Department of Energy Delegation Order Nos. 00-037.00 and 00-001.00C (Delegation Orders).

³ Rate Order No. SWPA-66, supersedes the prior rate schedules, which were approved on a final basis in *United States Department of Energy-Southwestern Power Administration (Integrated System)*, 138 FERC ¶ 62,199 (2012).

64,494 (2013), with comments, protests, or motions to intervene due on November 4, 2013. Southwestern Power Resources Association filed a timely Motion to Intervene, raising no substantive issues. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to operation of Rule 214 of the Commission's Rule of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

Standard of Review:

The Secretary of Energy has delegated the authority to confirm and approve Southwestern's rates on a final basis to the Commission,⁴ and established the scope of Commission review. The scope of Commission review is limited to:

- whether the rates are the lowest possible to customers consistent with sound business principles;
- whether the revenue levels generated by the rates are sufficient to recover the costs of producing and transmitting the electric energy including the repayment, within the period of cost recovery permitted by law, of the capital investment allocated to power and costs assigned by Acts of Congress to power for repayment; and
- the assumptions and projections used in developing the rate components that are subject to Commission review.⁵

The Commission is prohibited from reviewing policy judgments and interpretations of laws and regulations made by the power generating agencies.⁶ The Commission may reject the rate determinations of Southwestern's Administrator only if it finds them to be arbitrary, capricious, or in violation of the law, if they violate Department of Energy regulations (e.g., Department of Energy Order No. RA 6120.2, which prescribes financial reporting policies, procedures, and methodologies), or if they violate agreements between Southwestern's Administrator and the applicable power generating agency. The Commission considers its role as that of an appellate body which

⁴ Section 3 of the Delegation Orders.

⁵ *Id.*

⁶ The power generating agencies include the Bureau of Reclamation, the Army Corps of Engineers, and the International Boundary and Water Commission. These agencies build and operate various projects. The Power Marketing Administrations, such as Southwestern, market the output of the projects.

reviews the record developed by the Administrator. In other words, the Commission does not develop a record on its own. Consequently, the Commission only affirms or remands the rates submitted to it for final review.⁷

Discussion

Based on Southwestern's 2013 Repayment Study (PRS), existing rates will not satisfy cost recovery criteria for the Integrated System projects. The PRS indicates that an increase in annual revenue of approximately \$8.7M, or 4.7 percent, beginning October 1, 2013, is necessary to satisfy cost recovery criteria. Southwestern proposes to increase annual revenues from approximately \$184.0M to \$192.7M, primarily to recover increased investments, replacements, and operations and maintenance costs.

Southwestern states that under Rate Schedule P-13, provisions were modified to include revised charges for capacity and energy and ancillary services. The Regulation Purchase Adder has been modified to transition from collecting for the previous year's regulation purchased costs in arrears to collecting them in the current year. In addition, the regulation purchase costs associated with providing the regulation service to be collected through the rate were further defined. Additionally, as part of Rate Schedule P-13, the charge(s) for purchased power will apply to those customers to which Southwestern has an annual contractual 1200-hour peaking energy commitment (exclusive of contract support arrangements).

Southwestern also states that under Rate Schedule NPTS-13, a modification was made to the Regulation Purchase Adder to better define the costs associated with providing the regulation service and to begin recovering the costs in the year that they occur. Rate schedule provisions have also been modified to include the increased rates for firm point-to-point transmission service, non-firm point-to-point transmission service, network transmission service, and ancillary services.

Southwestern further states that under Rate Schedule EE-13, transmission for the delivery of excess energy must be arranged with the Southwest Power Pool Regional Transmission Organization by the customers purchasing this service.

⁷ *U.S. Department of Energy - Western Area Power Administration (Boulder Canyon Project)*, 61 FERC ¶ 61,229 at 61,844 (1992), *aff'd in relevant respects*, *Overton Power District No. 5 v. Watkins*, 829 F. Supp. 1523 (D. Nevada 1993), *vacated and remanded with directions to dismiss*, *Overton Power District No. 5 v. O'Leary*, 73 F.3d 253 (1996); *U.S. Department of Energy - Western Area Power Administration (Salt Lake City Area Integrated Projects)*, 59 FERC ¶ 61,058 at 61,240-41 & nn.17 & 20, *reh'g denied*, 60 FERC ¶ 61,002 (1992).

Additionally, Southwestern states that the PRS analyzes the Purchased Power Deferral Account which indicated a reduction from $\pm\$0.0062$ per kilowatt hour (kWh) per year to $\pm\$0.0059$ per kWh per year was needed for the Purchased Power Adder (PPA) which is used to recover average annual purchased energy costs. Southwestern also states that it proposes to continue the Administrator's Discretionary Purchased Power Adder Adjustment (Adjustment). Southwestern further states that this Adjustment allows the Administrator to adjust the PPA no more than twice annually, limited to $\pm\$0.0059/\text{kWh}$ per year to provide greater flexibility in recovering purchased power costs.

By statute,⁸ Southwestern must repay the federal investment from power revenues within a reasonable period of time, which as a general practice is 50 years. Our review of Southwestern's PRS indicates that the revenues to be collected under the proposed rate will be sufficient to recover Southwestern's costs, including recovery of the remaining federal investment, with interest, over the remaining repayment period. Moreover, since the revenues generated by the proposed rate recover no more than Southwestern's annual costs and the remaining federal investment, the rate is the lowest possible to customers. Our review also indicates that the PRS was prepared in a manner consistent with Order No. RA 6120.2 which requires that Southwestern's system financial statements must be prepared in accordance with generally accepted accounting principals, as appropriate, and that its PRS be prepared using sound forecasting techniques designed to approximate as closely as possible actual results.

Because Southwestern's proposed rates are consistent with the standards by which they must be judged, they merit final confirmation and approval.

The Director:

Confirms and approves on a final basis Southwestern's proposed Rate Schedules P-13, NFTS-13, and EE-13 for the period October 1, 2013 through September 30, 2017.

⁸ 16 U.S.C. § 825s (2012).

Authorities:

This action is taken pursuant to authority delegated to the Director, Division of Electric Power Regulation -- Central, under 18 C.F.R. § 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Sincerely,

Penny S. Murrell, Director
Division of Electric Power
Regulation - Central