



U.S. DEPARTMENT OF
ENERGY

Power Marketing Administrations Execution of Current Receipt Authority for Purchase Power and Wheeling Expenditures

**Report to Congress
September 2019**

**United States Department of Energy
Washington, DC 20585**

Message from the Secretary

The Department of Energy's Western Area Power Administration (WAPA), Southwestern Power Administration (SWPA), and Southeastern Power Administration (SEPA) are providing this one-time report in accordance with Section 308 of the Consolidated Appropriations Act, 2018, which requires a report on how these three Power Marketing Administrations (PMAs) are executing current receipt authority to create carryover of unobligated balances for Purchase Power and Wheeling (PPW) expenditures.

This report is being provided to the following Members of Congress:

- **The Honorable Richard Shelby**
Chairman, Senate Committee on Appropriations
- **The Honorable Patrick Leahy**
Vice Chairman, Senate Committee on Appropriations
- **The Honorable Lamar Alexander**
Chairman, Subcommittee on Energy and Water Development
Senate Committee on Appropriations
- **The Honorable Dianne Feinstein**
Ranking Member, Subcommittee on Energy and Water Development
Senate Committee on Appropriations
- **The Honorable Nita M. Lowey**
Chairwoman, House Committee on Appropriations
- **The Honorable Kay Granger**
Ranking Member, House Committee on Appropriations
- **The Honorable Marcy Kaptur**
Chairwoman, Subcommittee on Energy and Water Development
House Committee on Appropriations
- **The Honorable Mike Simpson**
Ranking Member, Subcommittee on Energy and Water Development
House Committee on Appropriations

If you have any questions or need additional information, please contact Ms. Jazmin Everett, Congressional Liaison, Office of the Chief Financial Officer, at (202) 586-2499.

Sincerely,

RICK PERRY

Rick Perry

Executive Summary

The Western Area Power Administration (WAPA), the Southwestern Power Administration (SWPA), and the Southeastern Power Administration (SEPA) market and deliver power across the United States.

The Power Marketing Administrations (PMAs) have long term power marketing plans and power sale contracts with their customers. The contracts obligate the PMAs to deliver power, and obligate the PMA customers to pay for that power. The revenue from the power sales provide for the repayment of:

- Annual costs, and
- Federal capital investment with interest.

Purchase Power Program

When power generated from Federally-owned sources is insufficient to fulfill contractual power commitments, the PMAs purchase power to fulfill their obligations. The Purchase Power and Wheeling (PPW) program is the source of funds the PMAs use to supply customers with power when there is not enough Federal hydropower.

Without the PPW Program, the PMAs could not fulfill their contractual power delivery requirements, placing the recovery of annual costs and repayment of the Federal investment at risk.

2001 PPW Budget Change

Since inception, the full cost of the PMA PPW programs has been and continues to be included in the PMA rate-setting process. All costs of the PPW programs are borne by the power customers, at no long-term cost to the Federal Government. Beginning in 2001, the Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and the House and Senate Budget Committees agreed to the principle that receipts for PPW are linked to expenditures for PPW in the budget. Subsequent to that agreement, the 2001 President's Budget requested language and scoring to reflect that principle. The authority to use offsetting collections in annual appropriation language provides for PPW funding up to a capped amount at no cost to the Federal Government by crediting collections to the PMAs' expenditure accounts. The appropriation language:

- limits the purpose of the PPW offsetting collections to fund only PPW
- limits the amount of the offsetting collections available for PPW (i.e., *up to*)
- provides that the spending authority from PPW offsetting collections do not expire (i.e., *to remain available until expended*). Receipt authority for offsetting collections in excess of amounts matched with cash remains unused and expires at the end of the fiscal year.

Reserve Strategy Established

Over time, the PMAs have adopted a strategy to accumulate unobligated reserve balances for their respective PPW programs as a way to strengthen their ability to deliver on contractual power commitments to customers during unanticipated adverse conditions. The accumulation of unobligated balances from receipts credited as offsetting collections to fund PPW provides the PMAs sufficient cash on hand to respond to current and future adverse conditions, including replenishment of unobligated balances to the levels defined in each PMA's respective risk mitigation strategy.

Consistent with legislative authorities, the PPW unobligated balance strategies of each PMA provide substantial benefits to DOE and PMA missions, PMA customers, and the reliability and capability of the highly integrated wholesale power transmission grid as a whole.

Benefits include:

- Supports reliable power delivery during adverse energy markets and constrained hydropower generation conditions
- Bolsters long term capital repayment certainty by strengthening PMAs' ability to fulfill their contractual power delivery commitments to customers
- Provides improved rate stability for PMA customers
- Reduces potential for litigation associated with breach of long-term power sales contracts
- Supports continuation of critical PMA and generating agency capital projects that rely on alternative financing. Without the unobligated balance strategy, during periods of drought or other adverse conditions, the ability of the customers to advance additional funds for critical capital projects will be constrained by an immediate need to address the volatile PPW funding needs.

This report will detail the authority to use receipts¹ as offsetting collections for PMA PPW programs, propose a common definition for the receipts to recover PPW expenses, describe the risk mitigation strategies for each PMA, and demonstrate how the PMAs are executing current receipt authority to create carryover of unobligated balances for PPW expenses. Summary tables follow detailing the amounts for each of the PMAs.

¹ To clarify the terminology used throughout the document, the appropriation language provides the PMAs authority to use receipts credited as an offsetting collection for PPW "up to" a capped amount.



POWER MARKETING ADMINISTRATIONS EXECUTION OF CURRENT RECEIPT AUTHORITY FOR PURCHASE POWER AND WHEELING EXPENDITURES

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I. Legislative Language

This Congressional Report, *Power Marketing Administrations Execution of Current Receipt Authority for Purchase Power and Wheeling Expenditures*, responds to Section 308 of the Consolidated Appropriations Act, 2018 (Public Law 115-141), which states:

SEC. 308. Not later than 90 days after the date of enactment of this Act, the Secretary of the Department of Energy, in consultation with the Office of Management and Budget, shall submit to the Committees on Appropriations of both Houses of Congress a report that provides a detailed explanation, using specific receipts data and legal authorities, of how each of the Western Area Power Administration, the Southwestern Power Administration, and the Southeastern Power Administration are executing current receipt authority provided in this and prior year appropriations Acts to create carryover of unobligated balances for purchase power and wheeling expenditures.

II. Introduction

The Western Area Power Administration (WAPA), the Southwestern Power Administration (SWPA), and the Southeastern Power Administration (SEPA) market and deliver power across the United States. These Power Marketing Administrations (PMAs) have long-term contractual obligations with customers to market and deliver electric power every hour of the day, every day of the year. If sufficient power is not generated from Federally-owned sources to fulfill the contractual obligations, the PMAs are required to purchase power to fulfill the obligations.

WAPA markets and transmits hydropower from 56 Federal dams in 15 central and western states generated from Federally-owned power plants operated primarily by the U.S. Army Corps of Engineers (Corps), the Department of the Interior's Bureau of Reclamation (Bureau), and the Department of State's International Boundary and Water Commission. WAPA provides reliable, cost-based hydropower and related services to 700 customers, including 93 Native American Tribes, who, in turn, serve more than 40 million Americans in the West.

SWPA markets and delivers hydropower from 24 Federal dams operated by the Corps at wholesale rates to 78 municipal utilities, 21 rural electric cooperatives, and three government entities in the six states of Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas. In turn, these customers distribute that power to approximately ten million end users in the six-state area.

SEPA markets 3,392 megawatts from 22 multi-purpose projects (flood risk management, navigation, hydropower, recreation, and environmental stewardship) operated and maintained by the Corps to 485 customers across 10 states from Virginia to Mississippi and Illinois to Florida. Municipal and electric cooperative customers deliver this power to an estimated 12 million customers.

The PPW program provides for the purchase of energy to meet contractual obligations and the delivery of Federal power. During times of drought, the PPW program is relied upon and used more heavily. Because the PPW program is highly variable and subject to a number of factors beyond the control of the PMAs, each PMA has established an unobligated balance strategy. This strategy sets targets for PPW funding on hand to provide contingency capability. Without this contingency reserve, under adverse conditions the PMAs would have to activate the Continuing Fund/Emergency Fund or request emergency supplemental appropriations to meet customer contractual obligations. Based on an Office of Management and Budget (OMB) policy, which has remained in effect since 2008, the PMAs must recover from ratepayers all PPW costs funded through the Continuing Fund/Emergency Fund within one year from the time costs are incurred. Use of these funds would result in significant rate spikes for PMA customers.

III. Issue

During the fiscal year 2018 appropriations process, the PMAs were asked to provide more information concerning the accumulation of unobligated balances for PPW in the PMAs' accounts. In addition, in the Consolidated Appropriations Act 2018, Public Law 115-141, General Provisions--Department of Energy, Sec. 308 required a report and consultation with OMB on the use of PPW receipt authority. Authority to use receipts credited as offsetting collections for PPW is a key component of the PMA strategy for avoiding volatility on ratepayers and service interruptions during times of drought and creating stability for the regions served by the PMAs.

In line with authorities in annual appropriations language, over time the PMAs have used their offsetting collections for PPW expenses to carry forward balances for future PPW expenses. This report will demonstrate how the PMAs are executing current receipt authority to create carryover of unobligated balances to fund PPW expenditures.

Lack of sufficient unobligated balances for PPW constrains the PMAs' ability to provide the necessary risk mitigation for the highly variable PPW funding requirements, placing the power marketing programs and the customers/stakeholders at risk.

Continued limitations on PPW funding constrains proactive planning and risk mitigation strategies and will leave the PMAs vulnerable when droughts persist over multiple years. This report provides additional information about the PMA strategy of accumulated unobligated balances so that the PMAs can continue to provide high quality service with low rate volatility for customers.

IV. Authorities and Legislative History

The Department of Energy (DOE) Office of General Counsel and the PMAs' respective Offices of General Counsel have conferred on the legal authorities and also provide related report language which provides further background behind the execution of current receipt authority and carryover of unobligated balances.

Sec. 5, Flood Control Act of 1944 (16 U.S.C. § 825s)

- In accordance with the Secretary of Energy's responsibilities under section 5 of the Flood Control Act of 1944, PMAs are required to generate revenues to recover all costs of producing and transmitting electric energy, including the capital investment allocated to power over a reasonable period of years.
- The statutory section, titled "Sale of electric power from reservoir projects; rate schedules; preference in sale; construction of transmission lines; disposition of moneys," reads as follows:

Electric power and energy generated at reservoir projects . . . shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Federal Power Commission. Rate Schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years . . . The Secretary of the Interior is authorized, from funds to be appropriated by the Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All moneys received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts.

Note that, despite the reference to the "Secretary of the Interior," the Department of Energy Organization Act transferred all responsibilities under section 5 to the Secretary of Energy.

Sec. 302, Department of Energy Organization Act of 1977 (42 U.S.C. § 7152)

- The PMAs are responsible for marketing the power and energy generated at Federal hydroelectric plants operated by the Corps, and, in the case of WAPA, including power and energy from the projects of the Bureau.
- The authority for this mission was transferred to the PMAs pursuant to section 302 of the Department of Energy Organization Act of 1977, which conferred on the Secretary the oversight of PMAs previously exercised by the Secretary of the Interior. The mission is carried out pursuant to the Secretary's authority under section 5 of the Flood Control Act of 1944, as well as section 9(c) of the Reclamation Project Act of 1939² in the case of WAPA.

10 CFR Part 903 – Power and Transmission Rates and

DOE Order RA 6120.2 - Power Marketing Administration Financial Reporting

- The PMAs develop rates for the sale of firm power and energy under legislative guidelines utilizing the procedures set out in 10 CFR Part 903 and in accordance with financial reporting policies, procedures, and methodologies established under DOE Order RA 6120.2.
- These rates are currently approved, on an interim basis, by DOE officials and confirmed, on a final basis, by the Federal Energy Regulatory Commission.
- The rate schedules developed pursuant to these guidelines are based on an annual Power Repayment Study (PRS) compiled using audited actual and projected annual revenue and cost data, including amounts spent by the Corps and Bureau related to direct power functions, multi-purpose functions assigned to power, and other certain non-power costs (e.g., aid to irrigation).
- The PMA rate setting process results in the recovery, through rates, of all components of costs, interest, and capital repayment over the rate period established in the PRS, including PPW expenses.
- The PMAs recognize revenues generated from sales of power and energy and use them to repay all program costs.
- Receipts are deposited with the Treasury. The PMAs make no distinction among the receipts deposited in the Treasury, nor are those receipts noted for payment of specific program expenses.

Public Law 106-377, Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2001, Appendix B

² 43 U.S.C. § 485h(c)(1).

- **House Report 106-693 accompanying the House Energy and Water Development Appropriations Bill, 2001, as supporting background.**
- **Senate Report 106-395 accompanying the Senate Energy and Water Development Appropriations Bill, 2001 as supporting background.**

Prior to FY 2001, the PMAs financed the majority of their expenses and investments through annual direct appropriations, including PPW expenses. Beginning with FY 2001, authority to utilize receipts credited as offsetting collections for PPW was provided to the PMAs in lieu of annual direct appropriations.

- “. . . notwithstanding the provisions of 31 U.S.C. 3302, amounts collected by the Southeastern Power Administration pursuant to the Flood Control Act to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures. . .”
- “notwithstanding the provisions of 31 U.S.C. 3302, not to exceed \$4,200,000 in reimbursements, to remain available until expended; Provided, That amounts collected by the Southwestern Power Administration pursuant to the Flood Control Act to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures. . .”
- “amounts collected by the Western Area Power Administration pursuant to the Flood Control Act of 1944 and the Reclamation Project Act of 1939 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures. . .”

Beginning in 2001, there were two significant changes in the funding of PPW activities for WAPA, SWPA, and SEPA. First, OMB worked with CBO and the House and Senate Budget Committees, and all agreed to reclassify PMA receipts related to PPW as offsetting collections. Second, this change would occur through a change to appropriations language. Public Law 106-377 provided flexibility to meet the highly variable PPW requirements by allowing WAPA, SWPA, and SEPA to fund their PPW program through offsetting collections. As a result, receipts for PPW activities were reclassified as discretionary offsetting collections and were allowed to be spent on PPW activities, thereby reflecting the fact that PPW expenditures incur no net cost to the Federal Government and the authority provided for PPW would not score.

The new budget authority in Public Law 106-377 (i.e., spending authority from offsetting collections) to utilize receipts credited as offsetting collections for PPW has been included in the PMAs’ annual appropriation language, in each appropriation enacted since 2001, along with a specific annual cap and language stating that those amounts remain available until expended. Consistent with the authority provided in Public Law 106-377 and subsequent appropriations, the

President's Budget requests have continued the existing authorities to perform PPW activities and finance them through offsetting collections, net billing, or customer advances. The PMAs have carried forward unused spending authority from offsetting collections to support the unobligated balance strategy to mitigate risk to the PMAs and their customers during adverse conditions.

Accordingly, in execution, for each appropriation since 2001, such collections for PPW in a year that are equal to or less than the cap in the appropriations language are credited to the PMA appropriations account and do not expire and are not deposited into the general fund of the Treasury at the end of a given fiscal year. As additional background, the use of receipts credited as offsetting collections and spending authority as a substitute for "no year" direct appropriations (*i.e.*, from the General Fund) is explained in Senate and House of Representatives reports on the Energy and Water Development Appropriation Bill for 2001.

The Senate report stated: "The fiscal year 2001 budget request provides authority for the use of offsetting collections from the sale of electricity to finance purchase of power and wheeling expenses previously funded by direct appropriations."³

The House report stated: "For fiscal year 2001, the Committee recommendation includes the Administration's proposal to fund purchase power and wheeling from power revenues for the Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration."⁴ The House Report further clarified:

WAPA -- "In fiscal year 2001, revenues collected from purchase power and wheeling sales will finance annual purchase power and wheeling activities previously funded by direct appropriations. Purchase power and wheeling costs will be offset by receipts of \$35,500,000."⁵

SWPA -- "Beginning in Fiscal year 2001, Southwestern will utilize purchase power and wheeling revenues in the amount of \$288,000 to finance purchase power and wheeling expenses previously funded by direct appropriations."⁶

SEPA -- "Beginning in fiscal year 2001, customer receipts and net billing will pay for purchase power, transmission wheeling, and ancillary services. Purchase power and wheeling costs will be offset by receipts of \$34,463,000."⁷

³ S. Rep. No. 106-395 (2000) at 139.

⁴ H.R. Rep. No. 106-693 (2000) at 121.

⁵ *Id.* at 124.

⁶ *Id.* at 123.

⁷ *Id.*

Public Law 108-447, Consolidated Appropriations Act, 2005

- **House Report 108-554 accompanying the House Energy and Water Development Appropriations Bill, 2005, as supporting background**

While the FY 2001 Energy and Water Development Appropriations Bill sought to phase out the PMA PPW receipt authority over the course of several years, this language was removed from subsequent appropriations acts.

WAPA - “. . . notwithstanding the provision of 31 U.S.C. 3302, up to \$227,600,000 collected by the Western Area Power Administration pursuant to the Flood Control Act of 1944 and the Reclamation Project Act of 1939 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”

SWPA – “. . . notwithstanding the provisions of 31 U.S.C. 3302, up to \$2,900,000 collected by the Southwestern Power Administration pursuant to the Flood Control Act to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”

SEPA – “. . . notwithstanding the provisions of 31 U.S.C. 3302, up to \$34,000,000 collected by the Southeastern Power Administration pursuant to the Flood Control Act of 1944 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”

As further background, House Report 108-554 explained the rationale for eliminating the phase-out and reinserting Congressional intent to establish the ceilings:

Purchase power and wheeling. - The Committee finds no compelling reason to continue the phase out of purchase power and wheeling, particularly since this activity is budget neutral. The Committee recommendation for fiscal year 2005 maintains purchase power and wheeling activities at approximately the fiscal year 2004 level. The Committee will continue to establish ceilings on the use of receipts for purchase power and wheeling, and also establish the amount of offsetting collections.⁸

⁸ H.R. Rep. No. 108-554 (2004) at 139.

Public Law 115-141, Consolidated Appropriations Act, 2018

Consistent with new language added to the PMAs' FY 2001 appropriations language, the granting of authority to use receipts credited as offsetting collections for PPW continues to be identified in the respective PMAs' annual appropriation language. For example, the FY 2018 appropriation language⁹ includes nearly identical language for each of the PMAs concerning use of receipts collected for PPW expenses and the availability of those receipts for PPW until expended:

- WAPA – “. . . notwithstanding 31 U.S.C. § 3302, up to \$209,000,000 collected by the Western Area Power Administration pursuant to the Flood Control Act of 1944 and the Reclamation Project Act of 1939 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”
- SWPA – “. . . notwithstanding 31 U.S.C. § 3302, up to \$40,000,000 collected by the Southwestern Power Administration pursuant to the Flood Control Act of 1944 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”
- SEPA – “. . . notwithstanding 31 U.S.C. § 3302, up to \$51,000,000 collected by the Southeastern Power Administration pursuant to the Flood Control Act of 1944 to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections, to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.”

In the FY 2018 language cited above for each PMA, Congress established an overall “up to” cap on the authority to use receipts credited to each PMA as an offsetting collection. The FY 2018 limit for each PMA, as noted in the annual appropriations language, is \$51,000,000 for SEPA, \$40,000,000 for SWPA and \$209,000,000 for WAPA. This overall cap established by Congress is the authority for the PMAs to collect and spend from receipts credited as offsetting collections to fund PPW expenses. This annual authority limit provides Congress with a vehicle to annually approve the overall funding level of the PMAs' PPW programs.

The PMAs apply receipts for PPW up to, but no greater than, the annual PPW cap as set by Congress. The annual amount of spending authority is determined as the PMAs collect receipts for PPW. When a PMA obligates and expends less than the spending authority in any year, the difference, or remaining balance of the spending authority remains available for obligation until expended in a future year. Operating within these authorities, each PMA has developed an unobligated PPW balance strategy. When the PMA collects receipts in an amount lower than

⁹ Public Law 115-141 Division D, Title III.

the congressional PPW “up to” limit/cap authorized, no spending authority is created for the difference, as no cash is collected to either obligate or carryover.

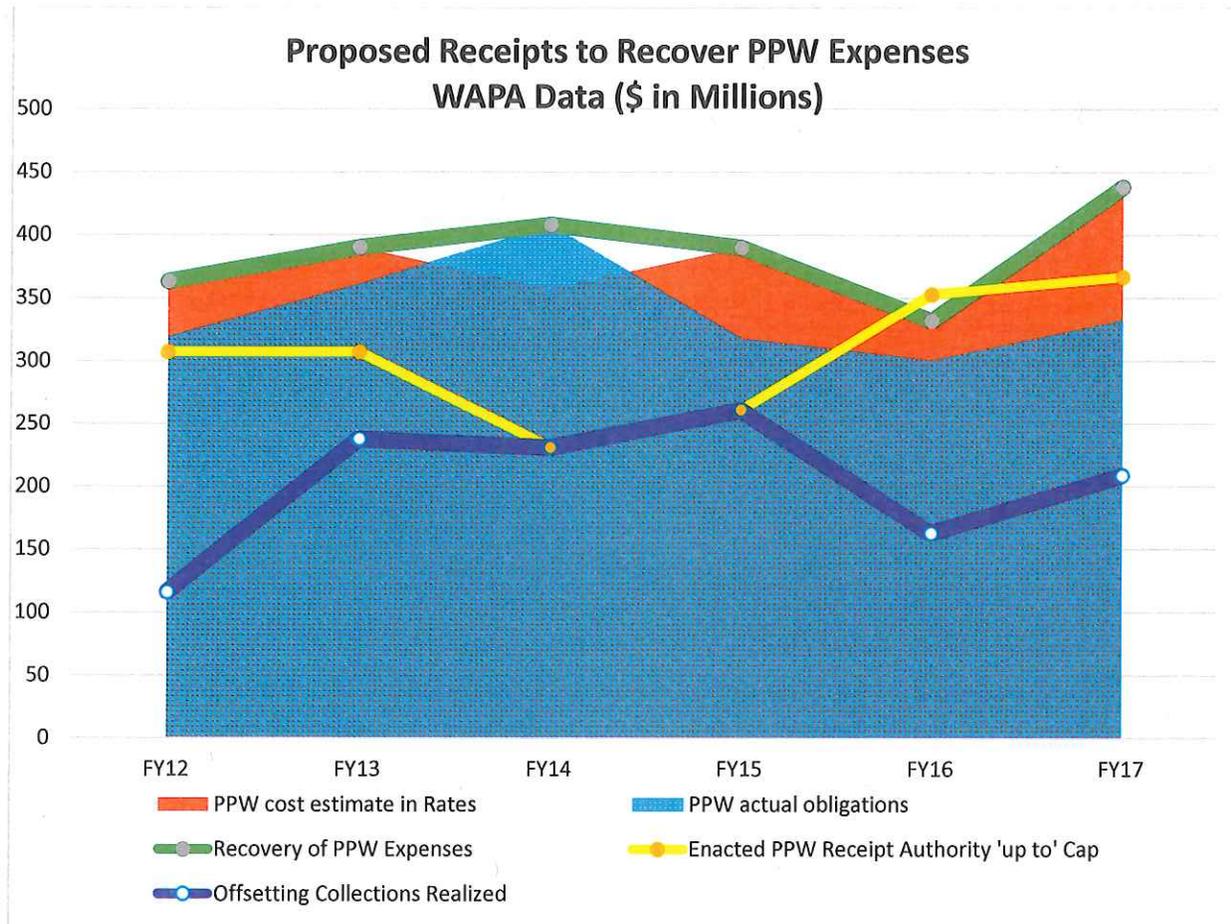
It is important to emphasize that the PMA appropriation language cited above includes the phrase “to remain available until expended for the sole purpose of making purchase power and wheeling expenditures.” As described above, this language provides the PMAs with the authority to carry forward any unused receipts collected as offsetting collections to fund PPW during a fiscal year. Pursuant to this authority, the PMAs have established strategies to determine the necessary amount to carryover that enables them to perform their mission and meet their contractual commitments to preference customers.

V. Defining Receipts to Recover PPW Expenses and Proposed Change

Each PMA develops its rates in an all-inclusive fashion. The development of these rates is done on an annual basis, taking into consideration what revenue is needed to recover all costs of utility operations, including backward looking recovery of known audited costs as well as projected recovery of forecasted expenses and capitalized asset repayment for current and future years. PPW expenses are included alongside recovery of other expenses. Under the authorities noted above, there is no requirement for separate recovery of PPW expenses within PMA rate development. While the PMAs may employ different rate design, all expenses are included in the rates developed consistent with applicable PMA legislation, regulations, and orders. PPW is just one of many costs PMAs recover through rate development. Through the annual rate development processes, and utilizing interim rate adjustment capabilities, the PMAs ensure full recovery of all costs, including the PPW expenses.

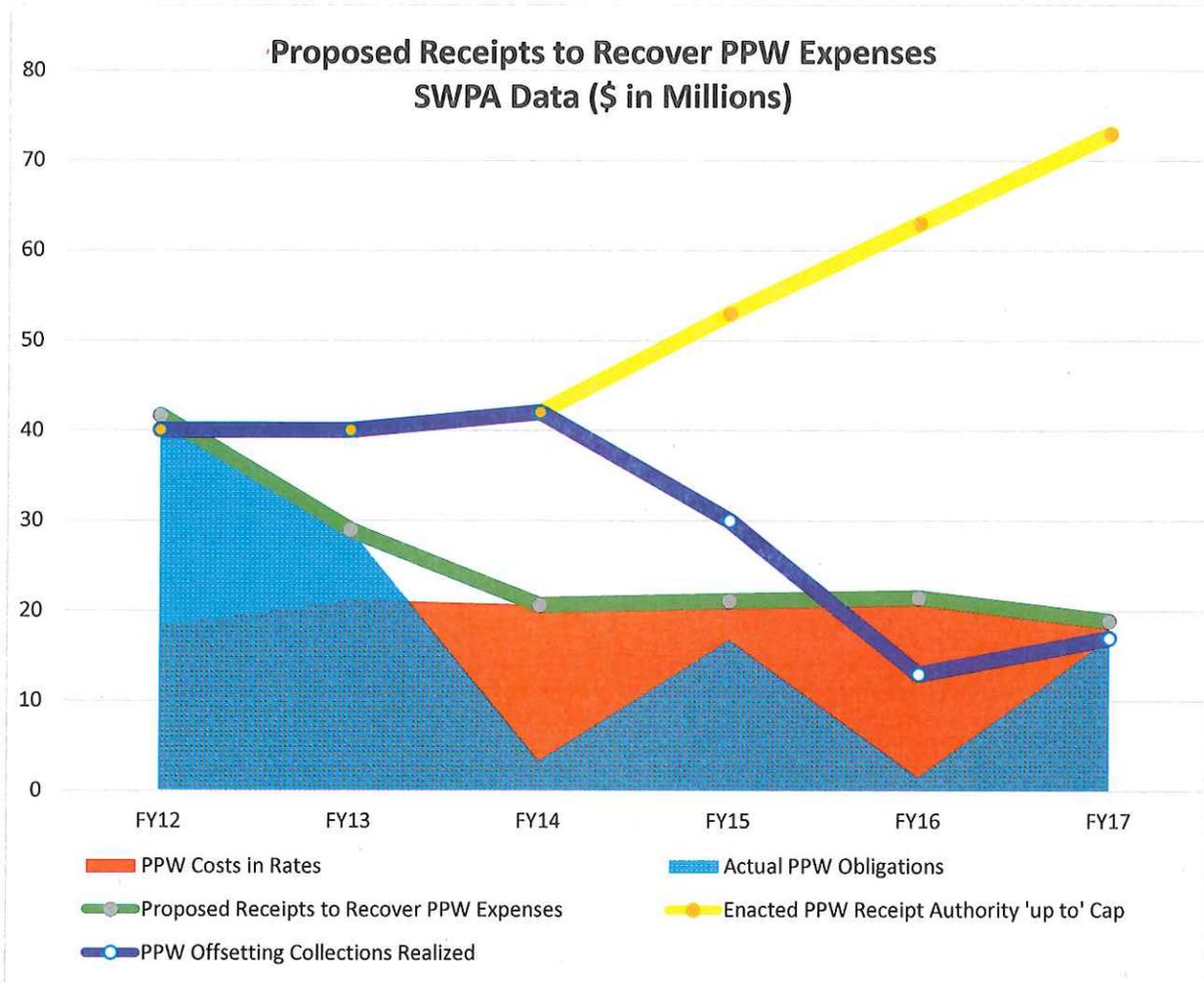
As such, to this point there has not been a concerted attempt to differentiate or define “Receipts to Recover PPW Expenses” other than receipts up to the annual PPW receipt authority amount for each PMA. To ensure that the use of the annual PPW authority for offsetting collections remains within the legislative authority, the PMAs are proposing to define the receipts to recover PPW expenses as the greater of the actual PPW in the current year or the estimated PPW expenses included in the rate. PPW expenses included in the rate would also include, as appropriate, interim rate adjustments in response to increased PPW requirements, whether past, current, or future.

The following graphics illustrate the proposed definition of receipts to recover PPW expenses using WAPA, SWPA, and SEPA historical data:



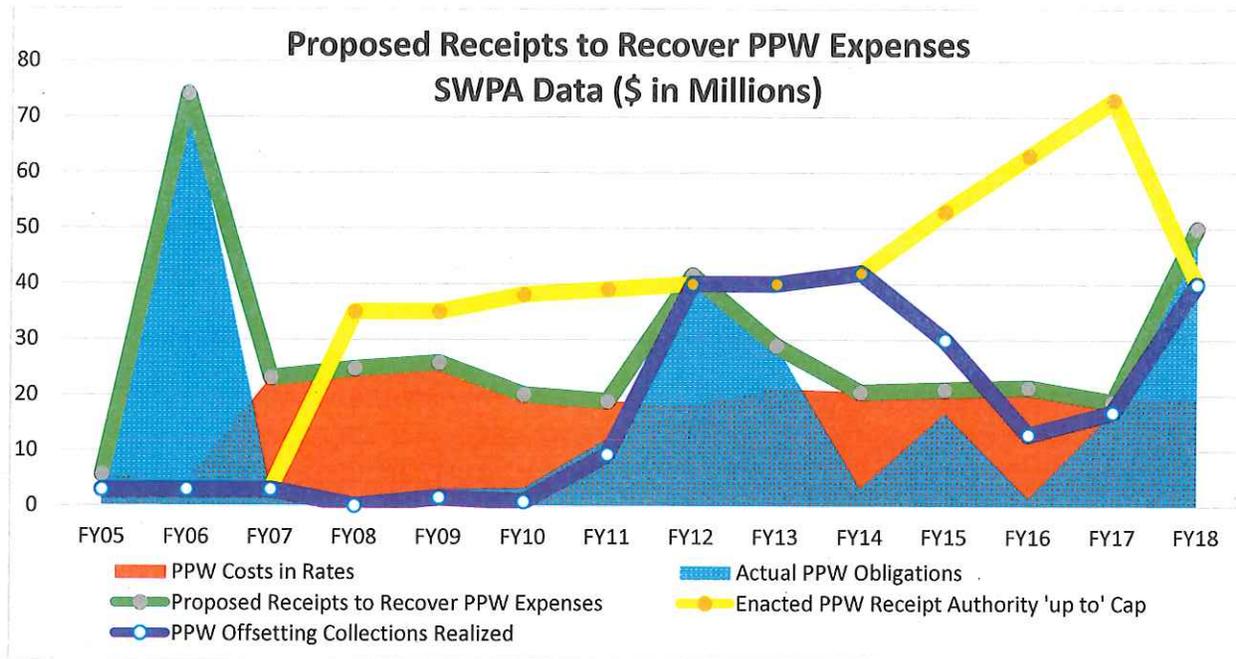
As shown in the WAPA data graphic above, the “green line” represents the proposed Receipts to Recover PPW Expenses. The proposed Receipts to Recover PPW expenses (green line) are equal to the Actual PPW Obligations (blue shaded area) plus any additional PPW Cost Estimate in the Rates (orange shaded area). The proposed Receipts to Recover PPW (green line) is the amount of receipts that WAPA has at its discretion to apply as an offsetting collection to the PPW Receipt Authority that Congress enacts annually.

The PPW Offsetting Collections Realized (purple line) is the amount of Receipts to recover PPW that WAPA has actually applied to the PPW Receipt Authority (i.e., actual spending authority). During this FY12 through FY17 period where WAPA has initiated its unobligated balance strategy, the PPW Offsetting Collections Realized (purple line) has been within the proposed Receipts to Recover PPW Expenses (green line) as well as within the Enacted PPW Receipt Authority “up to” Cap (yellow line) established by Congress annually. Full recovery of all PPW expenses, including those made with funds from the PPW offsetting collections realized, is achieved through WAPA’s rates.

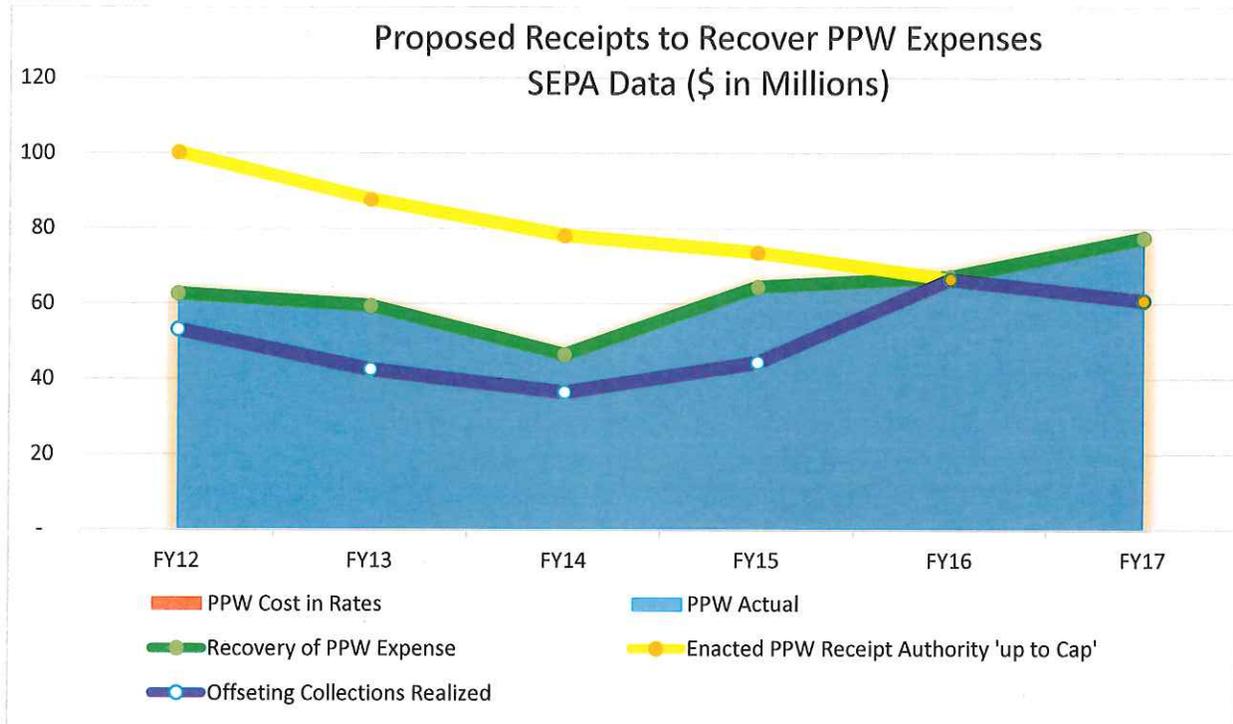


As shown in the SWPA data graphic above, the “green line” represents the proposed Receipts to Recover PPW Expenses. These are equal to the Actual PPW Obligations (blue shaded area) plus any additional for Estimated PPW Expenses in the Rate (orange shaded area). The PPW Offsetting Collections Realized (purple line, i.e., spending authority) in FY13, FY14, and FY15 is above the proposed Receipts to Recover PPW Expenses (green line) but within the Enacted PPW Receipt Authority “up to” Cap (yellow line). As the green line represents a proposed definition of Receipts to Recover PPW Expenses going forward, SWPA would manage its PPW Offsetting Collections Realized within the new definition.

Full recovery of all PPW expenses, including those made with funds from the PPW offsetting collections realized, is achieved through SWPA’s rates. To provide further context, SWPA presents the following data graphic that includes additional historical data.



Reviewing historical data over a longer period helps demonstrate that SWPA’s PPW Costs in Rates is based on an average, with limited adjustment flexibility, in order to stabilize rates to customers through the peaks and valleys of actual PPW expenses. When SWPA’s annual power repayment study shows greater revenue is needed to recover PPW costs, SWPA implements a rate change. Additionally, the chart demonstrates that while the PPW Offsetting Collections Realized (purple line, i.e., spending authority) in FY13, FY14, and FY15 is above the proposed Receipts to Recover PPW Expenses (green line), in the period FY08 through FY11, PPW Offsetting Collections Realized (purple line) was significantly below the proposed Receipts to Recover PPW Expenses (green line), and is always within the Enacted PPW Receipt Authority “up to” Cap (yellow line). SWPA’s unobligated balance strategy allows a proactive approach for funding through the unpredictable drought conditions that result in the peaks of actual PPW expenses (blue shaded area).



As shown in the SEPA data graphic above, the “green line” represents the proposed Receipts to Recover PPW Expenses. SEPA recovers PPW Expenses by passing actual PPW costs incurred through to the customers on a monthly basis. With this pass-through process of setting rates, proposed Receipts to Recover PPW Expenses (green line) is equal to the PPW actual expenses (blue shaded area), which includes those expenses that are funded by alternative financing instruments. With this cost pass-through rate method, the PPW Actuals (blue shaded area) and the PPW Cost in Rates (orange shaded area) are also equal.

The PPW Offsetting Collections Realized (purple line) is within the Enacted PPW Receipt Authority (yellow line). For those years that indicate that the actual PPW expenses (blue and orange shaded areas) exceeded that year’s Offsetting Collections (purple line), prior year carryover balances were used in addition to alternative financing means to meet actual PPW expenses. Full recovery of all PPW expenses, including those made with funds from the PPW offsetting collections realized, is achieved through SEPA’s rates.

VI. Risk Mitigation Strategy

The PMAs have rate and repayment processes to ensure recovery of costs, including the increased PPW costs associated with adverse conditions like long-term drought; however, the budget authority must be sufficient and flexible to provide funding during adverse conditions. To ensure operational flexibility considering funding constraints, the PMAs have developed unobligated balance strategies consistent with their existing authorities.

The PMA’s PPW unobligated balance strategies share a common rationale:

- PPW program requirements are highly variable due to uncontrollable factors.
- Drought is a primary contributor to cost fluctuations, in both short-term and long-term scenarios.
- Reliable firm power delivery during fluctuating hydropower generation and market conditions is important to stakeholders. During periods of drought or other adverse conditions, the increasing PPW program costs constrain the ability of customers to advance additional funds for PMA and generating agency costs. The PPW reserve helps mitigate those constraints, providing balance to ensure that critical and ongoing capital projects continue without disruption. PPW reserves are not used to finance capital projects.

The strategies are also tailored to reflect uniqueness among the PMAs:

- Geographic differences – weather, hydrology, storage, and hydropower generation capability.
- Long-term power marketing contractual requirements.
- Size and scope of PMA programs.

Power Marketing Administration <i>Dollars in Millions</i>	Unobligated PPW Balance Target	Unobligated PPW Balance as of end of FY 2018
Western Area Power Administration	\$393	\$282
Southwestern Power Administration	\$93	\$69
Southeastern Power Administration	\$18	\$12

Western Area Power Administration

To minimize the unobligated balance reserve requirement across 15 rate-setting systems, WAPA has targeted the balance level to that of the system with the largest risk, the Pick-Sloan Missouri Basin Program. This system is comprised of very large reservoirs that are at risk for long-term drought conditions that can span more than ten years. The unobligated balance

target of \$393 million is designed to bridge the gap between increased requirements and budget and rate change capability over the initial three years of a long-term drought, after which the budget and the rate would be revised to reflect the increased PPW requirements through the duration of the drought.

Southwestern Power Administration

The unobligated balance strategy proactively builds up a balance of PPW funds within range of the estimated single-year severe drought PPW need of \$93 million. The unobligated PPW fund balance provides for an efficient response to drought conditions, which are largely unpredictable and can develop quickly in SWPA's region. Maintaining receipt authority for PPW in each fiscal year's appropriation language that is within range of the estimated single-year severe drought PPW needs allows SWPA to manage its unobligated PPW balances, permits SWPA to replenish the PPW funds balance (if expended), and enhances the ability to respond to a multi-year severe drought. It is important for SWPA to continue to have the authority to maintain balances for the PPW program, since receipts are swept by Treasury at the end of the fiscal year, resulting in minimal receipts being available during the first few months of each fiscal year.

Southeastern Power Administration

Funding PPW below the requested level in the long term threatens SEPA's ability to provide a firm, valued product at the lowest possible cost consistent with sound business principles and may subject customers to unpredictable rate spikes. Without its unobligated balance strategy, SEPA would have to request an emergency appropriation or risk interruption of contracted energy delivery. SEPA applies prior fiscal year PPW carryover authorization within the acceptable allotment threshold of roughly \$18 million to the first quarter of subsequent year routine power transmission expenses.

An example of why maintaining unobligated balances is so critical to the PMAs is the challenge faced by SEPA in the first quarter of FY 2018. SEPA had to use its unobligated PPW balances to maintain the continuity of services for its customers. Once the unobligated balances were exhausted, SEPA had to activate the Continuing Fund in January of 2018 to continue service. Several compounding factors during this period resulted in the use of the PPW balances and activation of the Continuing Fund:

- Persistent drought remained in place over North Georgia and Upstate South Carolina.
- Numerous generator failures requiring multi-year repairs exhausted all reserve resources.
- Extremely cold temperatures in early January resulted in unusually high market prices for on-peak replacement energy.

The unobligated PPW balances on hand and the associated risk mitigation strategies defining the unobligated balance levels ensure that the PMAs can meet their contractual obligations.

- The authority in the appropriation language to carry unobligated balances for PPW (*i.e., to remain available until expended for the sole purpose of making PPW expenditures*) is explicitly stated in the annual appropriation language of each PMA.
- All unobligated PPW balance targets are set to the extent deemed necessary by each PMA to support sound business risk mitigation strategies.
- PMA unobligated balance strategies have been developed in concert with customer and stakeholder involvement.
- PMA unobligated balance strategies have been independently reviewed by the Government Accountability Office (GAO) and the DOE Inspector General (IG) with no negative findings regarding purpose, method, or disclosure of the balances for the PPW programs.¹⁰

VII. PPW Use-of-Receipts Authority and Unobligated Balances

The tables in Exhibit 1a, b and c outline the application and use of the PPW use of receipts authority by fiscal year for each of the PMAs. The information includes the proposed Receipts to Recover PPW (green line), the “up to” authority/ceiling enacted (yellow line), expired receipt authority, offsetting collections realized/spending authority (purple line), net budget authority, obligations incurred, and the unobligated carryover at the beginning and end of each fiscal year.

In summary, the Exhibit 1 tables calculate net Budget Authority (BA) for the PPW programs as \$0.

The amount of authority to use receipts credited as offsetting collections to fund PPW identified in the appropriations language includes funding for adverse hydrologic (hydro) conditions and may not always be expended within the fiscal year. This allows the PMAs to retain unobligated collections to support their unobligated balance strategy for future PPW expenses when hydro conditions are not as favorable. The PMAs request PPW authority to respond to adverse conditions, but only to the extent necessary to meet current year PPW requirements and replenish unobligated balances to the levels defined in each PMA’s respective risk mitigation strategies. Ceiling amounts in excess of PPW receipts credited as offsetting collections remain unused and expire. Over the six years included in the tables, the

¹⁰ GAO-16-26 2013 Sequestration and Shutdown (published Oct. 30, 2015), followed by closeout of recommendations issued April 12, 2017. IG report issued on July 10, 2018.

PMA's have collected nearly \$900 million less than the \$2.6 billion in receipt authority enacted for PPW, reflecting—on average—more normal hydro and market conditions.

Over the same FY 2012-FY 2017 period, the PMA's have realized \$1.7 billion in spending authority, obligated \$1.4 billion, and reserved \$0.3 billion in unobligated balances in support of their respective PPW risk mitigation strategies. In no case or event is authority obligated without first being realized through offsetting collections.

It is important to note that the \$900 million not collected represents the difference between the ceiling set on spending authority from offsetting collections and the actual amount of spending authority from offsetting collections in for PPW. The difference was not due to lack of total receipts. The tables in Exhibit 2 a, b and c illustrate each of the PMA's' total revenue and receipts and the use thereof from FY 2012 through FY 2017. The returns to Treasury over the period total \$2.6 billion. The receipts credited as offsetting collections for PPW fund defined operational requirements for PPW, including amounts necessary to mitigate the risks to the PPW programs. It is the PMA's' mission, authority, and responsibility to determine these risks and ensure that appropriate mitigation steps are taken.

VIII. Conclusion

Each PMA's PPW program and unobligated balance strategy is vital to the PMA's to stabilize both the highly variable hydropower product and customer rates. The Flood Control Act of 1944 requires recovery of all PMA costs, including annual operating and maintenance costs, with revenues generated.

- PMA's have long-term power marketing contracts, creating a contractual obligation with their customers to deliver electric power.
- PMA's are required to purchase power if they are unable to generate power from the Federally-owned sources to fulfill their contractual obligations.
- PMA's must have sufficient PPW authority to respond to current and future adverse conditions, but only to the extent necessary to meet current year PPW requirements and replenish unobligated balances to the levels defined in each PMA's respective risk mitigation strategy.

Since 2001, PPW authority in annual appropriation language has provided:

- Specific limitation on the purpose of the PPW expense authority, i.e., *sole purpose of making purchase power and wheeling expenses.*
- Specific limitation on the amount of receipt authority to be credited as offsetting collections for each PMA, i.e., *up to \$xx,xxx,xxx.*
- No limitation on the availability of the funding, i.e., *to remain available until expended.*

- Recovery of PPW expenses at no annual cost to the Federal Government, i.e., collected ... *to recover purchase power and wheeling expenses shall be credited to this account as offsetting collections.*
- Authority to use amounts in excess of receipts that expire at the end of the fiscal year. Spending authority from offsetting collections for PPW in any given year is equal to or less than the cap set in the appropriation language.

All PPW expenses are included in power repayment studies used to identify revenue requirements that are recovered through their respective power rates.

The funding of PPW expenses through use of receipts credited as offsetting collections:

- is consistent with the statutory requirement under the Flood Control Act of 1944 that generated revenues must be sufficient to recover all PMA costs, including annual operating and maintenance costs and the taxpayers' investment in the power portions of dams and in transmission lines;
- provides the funding to enable the PMAs to carry out their functions and meet their contractual obligations to provide electricity to their customers at no long-term cost to the Federal Government; and
- mitigates customer risk during adverse conditions through the unobligated balance strategy.

Exhibit 1a – Overview of PMA PPW Use of Receipt Authority Credited as Offsetting Collections

**Southeastern Power Administration
Purchase Power and Wheeling (PPW) Use of Receipt Authority – Overview**
(Dollars in thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Proposed Receipts to Recover PPW	62,536	59,315	46,348	64,389	67,131	77,499
Budget Authority						
Receipt Authority Enacted (the “up to” ceiling)	100,162	87,696	78,081	73,579	66,500	60,760
Receipt Authority Not Used/Expired ¹ (-)	(47,078)	(45,161)	(41,652)	(29,187)	-	-
Spending Authority	53,084	42,535	36,429	44,392	66,500	60,760
Offsetting Collections/ (-)	(53,084)	(42,535)	(36,429)	(44,392)	(66,500)	(60,760)
Net, Budget Authority	-	-	-	-	-	-
Unobligated Balances						
Unobligated balance brought forward, Oct 1	-	5,956	4,604	9,683	4,762	20,961
Spending Authority from Offsetting Collections ²	53,084	42,535	36,429	44,392	66,500	60,760
Obligations incurred (-)	(47,128)	(43,887)	(31,350)	(49,313)	(50,301)	(64,650)
Unobligated balance, end of year	5,956	4,604	9,683	4,762	20,961	17,070

¹ Receipt Authority Not Used/Expired is amount of the “up to” ceiling enacted in the annual appropriations act that is not matched with receipts, and therefore expires at the end of the fiscal year.

² Spending authority is available for obligation until expended. Unobligated amounts at fiscal year-end carry forward. This facilitates the PMA strategy of risk mitigation by building up a reserve to allow for unexpected purchase power and wheeling expenses in any given year.

Exhibit 1b – Overview of PMA PPW Use of Receipt Authority Credited as Offsetting Collections

**Southwestern Power Administration
Purchase Power and Wheeling (PPW) Use of Receipt Authority – Overview**
(Dollars in thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Proposed Receipts to recover PPW Budget Authority	41,590	28,929	20,635	21,090	21,492	18,908
Receipt Authority Enacted (the “up to” ceiling)	40,000	40,000	42,000	53,000	63,000	73,000
Receipt Authority Not Used/Expired ¹ (-) Spending Authority	-	-	-	(23,000)	(50,000)	(56,000)
Offsetting Collections (-) Net, Budget Authority	40,000	40,000	42,000	30,000	13,000	17,000
	(40,000)	(40,000)	(42,000)	(30,000)	(13,000)	(17,000)
Unobligated Balances	-	-	-	-	-	-
Unobligated balance brought forward, Oct 1	-	4,000	20,000	58,774	72,000	83,432
Spending Authority from Offsetting Collections ²	40,000	40,000	42,000	30,000	13,000	17,000
Obligations incurred (-)	(36,000)	(24,000)	(3,226)	(16,774)	(1,568)	(15,432)
Unobligated balance, end of year	4,000	20,000	58,774	72,000	83,432	85,000

¹ Receipt Authority Not Used/Expired is the amount of the “up to” ceiling enacted in the annual appropriations act that is not matched with receipts, and therefore expires at the end of the fiscal year.

² Spending authority is available for obligation until expended. Unobligated amounts at fiscal year-end carry forward. This facilitates the PMA strategy of risk mitigation by building up a reserve to allow for unexpected PPW expenses in any given year.

Exhibit 1c – Overview of PMA PPW Use of Receipt Authority Credited as Offsetting Collections

Western Area Power Administration
Purchase Power and Wheeling (PPW) Use of Receipt Authority - Overview
(Dollars in thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Proposed Receipts to Recover PPW	362,688	389,627	407,637	389,595	331,951	437,923
Budget Authority						
Receipt Authority Enacted (the “up to” ceiling)	306,541	306,541	230,738	260,510	352,813	367,009
Receipt Authority Not Used/Expired ¹ (-)	(190,558)	(68,665)	-	-	(189,693)	(158,462)
Spending Authority	115,983	237,876	230,738	260,510	163,120	208,547
Offsetting Collections/ (-)	(115,983)	(237,876)	(230,738)	(260,510)	(163,120)	(208,547)
Net, Budget Authority	-	-	-	-	-	-
Unobligated Balances						
Unobligated balance brought forward, Oct 1	-	-	57,102	47,829	144,623	189,600
Spending Authority from Offsetting Collections ²	115,983	237,876	230,738	260,510	163,120	208,547
Obligations incurred (-)	(115,983)	(180,774)	(240,011)	(163,716)	(118,143)	(159,527)
Unobligated balance, end of year	-	57,102	47,829	144,623	189,600	238,620

¹ *Receipt Authority Not Used/Expired* is the amount of the “up to” ceiling enacted in the annual appropriations act that is not matched with receipts, and therefore expires at the end of the fiscal year.

² Spending authority is available for obligation until expended. Unobligated amounts at fiscal year-end carry forward. This facilitates the PMA strategy of risk mitigation by building up a reserve to allow for unexpected PPW expenses in any given year.

Exhibit 2a – Overview of PMA Revenue, Offsetting Collections, and Receipts

**Southeastern Power Administration
Revenues and Receipts**
(Dollars in thousands)

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual
Gross Revenues						
Sale and Transmission of Electric Energy	262,771	303,685	291,120	288,522	317,705	301,816
Total, Gross Revenues	262,771	303,685	291,120	288,522	317,705	301,816
Alternative Financing	-15,408	-15,428	-14,998	-15,076	-16,830	-12,848
Offsetting Collections, Annual Expenses (Net Zero)	-8,428	-8,428	-7,750	-7,220	-6,900	-998
Adjustments not otherwise Classified ¹	-73,417	-32,476	-40,045	-27,351	-64,787	-67,751
Offsetting Collections Realized, PPW	-53,084	-42,535	-36,429	-44,392	-66,500	-60,760
Total Proprietary Receipts	112,434	204,818	191,898	194,483	162,688	159,459

¹ Represents activities related to Section 216 of the Water Resources Development Act of 1996, Public Law 104-303, as amended by Section 212 of Public Law 106-541, and the change in the accounts receivable balance associated with the Sale and Transmission of Electric Energy.

Exhibit 2b – Overview of PMA Revenue, Offsetting Collections, and Receipts

**Southwestern Power Administration
Revenues and Receipts
(Dollars in thousands)**

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual
Gross Revenues						
Sale and Transmission of Electric Energy	176,514	182,457	186,481	201,818	211,965	194,280
Total, Gross Revenues	176,514	182,457	186,481	201,818	211,965	194,280
Alternative Financing	-66,429	-65,022	-30,793	-41,089	-55,585	-124,740
Offsetting Collections, Annual Expenses (Net Zero)	-33,118	-33,118	-33,564	-34,840	-35,961	-34,586
Adjustments not otherwise Classified ¹	-4,307	-8,387	7,219	-2,111	-2,492	-2,069
Offsetting Collections Realized, PPW	-40,000	-40,000	-42,000	-30,000	-13,000	-17,000
Total Proprietary Receipts	32,660	35,930	87,343	93,778	104,927	15,885

¹ Represents activities related to Section 838 of Public Law 99-662, Water Storage Reallocation; Southwest Power Pool Regional Transmission Organization; and the change in the accounts receivable balance associated with the Sale and Transmission of Electric Energy.

Exhibit 2c – Overview of PMA Revenue, Offsetting Collections, and Receipts

**Western Area Power Administration
Disposition of Collections**
(Dollars in thousands)

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual
Total, Collections ¹	1,181,664	1,094,921	935,923	1,099,040	973,579	1,027,641
Less Disposition of Collections						
Offsetting Collections, PPW	-115,983	-237,876	-230,738	-260,510	-163,120	-208,547
Offsetting Collections, Annual Expenses (net zero)	-193,881	-193,881	-208,900	-215,529	-218,604	-181,401
Alternative Financing	-83,136	-102,772	-76,201	-34,259	35,274	27,655
Proceeds from Sale of Assets	-10	-162	-10	0	-50	0
Reimbursable work	-228,440	-215,126	-202,591	-188,549	-155,988	-184,784
Revolving authority	-177,242	-200,143	-200,092	-161,176	-130,884	-133,413
Transmission Infrastructure Program	-160,905	-1,786	-4,321	-7,109	-10,109	-7,117
Falcon and Amistad O&M Fund	-986	-661	-337	-267	-1,351	-1,898
Total Proprietary Receipts – Reclamation Fund	221,081	142,514	12,733	231,641	328,747	338,136

¹ Collections exclude revenue associated with custodial activity and net billing transactions.