from the Applicant. If an agency does not file comments within the time specified for filing comments, it will be presumed to have no comments. One copy of an agency's comments must also be sent to the Applicant's representatives.

Linwood A. Watson, Jr.,

Acting Secretary.

[FR Doc. 98–988 Filed 1–14–98; 8:45 am]

BILLING CODE 6717–01–M

DEPARTMENT OF ENERGY

Federal Energy Regulatory Commission

Notice of Amendment of License

January 9, 1998.

Take notice that the following hydroelectric application has been filed with the Commission and is available for public inspection:

a. *Type of Application:* Amendment of License.

b. *Project No.:* 1025–020.

c. *Date Filed:* December 23, 1997.

d. *Applicant:* Safe Harbor Water Power Corporation.

e. *Name of Project:* Safe Harbor.

f. *Location:* On the Susquehanna River, in Lancaster County, Pennsylvania.

g. *Filed Pursuant to:* Federal Power Act, 16 U.S.C. 791(a)–825(r).

h. *Applicant Contact:* Marshall J. Kaiser, President, Safe Harbor Water Power Corporation, One Powerhouse Road, Conestoga, PA 17516–9651, (717) 872–5441.

i. *FERC Contact:* James Hunter, (202) 219–2839.

j. *Comment Date:* February 27, 1998.

k. *Description of Application:* The Applicant proposes to raise the normal maximum level of Safe Harbor reservoir by 0.8 feet, from elevation 227.2 feet to elevation 228.0 feet above mean sea level. Raising the elevation can be accomplished operationally, and would not require any modification to project structures.

The higher level would benefit the project by maximizing the operating head and by providing 5,900 acre-feet of additional usable storage capacity for energy generation, under the normal daily peaking operation. The Applicant proposes to implement the increase in reservoir elevation over several years, if necessary, to minimize the potential effects of the increase on migrant shorebird usage of mudflat areas within the reservoir.

1. This notice also consists of the following standard paragraphs: B, C1, and D2.

B. Comments, Protests, or Motions to Intervene—Anyone may submit comments, a protest, or a motion to intervene in accordance with the requirements of Rules of Practice and Procedure, 18 CFR 385.210, .211, .214. In determining the appropriate action to take, the Commission will consider all protests or other comments filed, but only those who file a motion to intervene in accordance with the Commission's Rules may become a party to the proceeding. Any comments, protests, or motions to intervene must be received on or before the specified comment date for the particular application.

C1. Filing and Service of Responsive Documents—Any filings must bear in all capital letters the title ''COMMENTS'', ''RECOMMENDATIONS FOR TERMS AND CONDITIONS'', ''PROTEST'', OR ''MOTION TO INTERVENE'', as applicable, and the Project Number of the particular application to which the filing refers. Any of the above-named documents must be filed by providing the original and the number of copies provided by the Commission's regulations to: The Secretary, Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. A copy of any motion to intervene must also be served upon each representative of the Applicant specified in the particular application.

D2. Agency Comments—Federal, state, and local agencies are invited to file comments on the described application. A copy of the application may be obtained by agencies directly from the Applicant. If an agency does not file comments within the time specified for filing comments, it will be presumed to have no comments. One copy of an agency's comments must also be sent to the Applicant's representatives.

Linwood A. Watson, Jr.,

Acting Secretary.

[FR Doc. 98–990 Filed 1–14–98; 8:45 am]

BILLING CODE 6717–01–M

DEPARTMENT OF ENERGY

Southwestern Power Administration

Integrated System Rates—Notice of Order Approving New Power Rates on an Interim Basis

AGENCY: Southwestern Power Administration, DOE.

ACTION: Notice of rate order,

SUMMARY: The Deputy Secretary acting under Amendment No. 3 to Delegation Order No. 0204–108, dated November 10, 1993, has approved and placed in effect on an interim basis Rate Order No. SWPA–37 which provides for the following Integrated System Rate Schedules:

Rate Schedule P–98, Wholesale Rates for Hydro Peaking Power
Rate Schedule NFTS–98, Wholesale Rates for Point-to-Point and Network Transmission Service
Rate Schedule EE–98, Wholesale Rate for Excess Energy

The rate schedules supersede the existing rate schedules shown below:

Rate Schedule P–90A, Peaking Power—(superseded by P–98)
Rate Schedule P–90B, Peaking Power through Oklahoma Utility Companies and/or Oklahoma Municipal Power Authority—(no longer applicable)
Rate Schedule F–90B, Firm Power through Oklahoma Utility Companies—(no longer applicable)
Rate Schedule TDC–90, Transmission Service—(superseded by NFTS–98)
Rate Schedule IC–90, Interruptible Capacity—(no longer applicable)
Rate Schedule EE–90, Excess Energy—(superseded by EE–98)

DATES: The effective period for the rate schedules specified in Rate Order No. SWPA–37 is January 1, 1998, through September 30, 2001.

FOR FURTHER INFORMATION CONTACT: Forrest E. Reeves, Assistant Administrator, Office of Corporate Operations, Southwestern Power Administration, Department of Energy, P.O. Box 1619, Tulsa, Oklahoma 74101–1619.

SUPPLEMENTARY INFORMATION: Southwestern Power Administration's (Southwestern) Administrator has determined, based on the November 1997 Integrated System Current Power Repayment Study, that existing rates will not satisfy cost recovery criteria specified in Department of Energy Order No. RA 6120.2 and Section 5 of the Flood Control Act of 1944. The Administrator prepared a November 1997 Integrated System Revised Power Repayment Study based on additional annual revenue of $1,805,772 beginning January 1, 1998, which increases ultimate annual revenues from $96,344,200 to $98,149,972, in part to recover increases in Corps of Engineers and Southwestern Federal investments. Southwestern has changed the rate structure to conform with the intent of the Federal Energy Regulatory Commission's (FERC) Order No. 888; consequently, the actual rate impact on each customer will vary based on the type of service requested and provided. Also, a credit, specifically designed for each individual customer, will apply against the purchased power adder component of the rate schedules to refund both excess revenues and interest accruing on such revenues in the purchased power deferral account during recent years of favorable water conditions. This credit is intended to equalize the customer's average purchased power adder cost. These credits will be provided to each applicable customer over a 6-month service period beginning January 1, 1998. The customer specific credit, along with the Administrator's discretionary purchased power adder adjustment, will offset the immediate impact of increasing the purchased power adder to 1.1 mills/kWh, except for those customers to which the purchased power adder does not currently apply. This rate proposal also includes a provision to continue and increase the Administrator's Discretionary Purchased Power Adder Adjustment, from up to $0.0005 to up to $0.0011 per kilowatthour as necessary, and to adjust the purchased power adder annually, at his/her discretion, under a formula-type rate, with notification to FERC.

Following review of Southwestern's proposal within the Department of Energy, I approved, Rate Order No. SWPA–37, on an interim basis through September 30, 2001, or until confirmed and approved on a final basis by FERC.

Dated: January 7, 1998.

Elizabeth A. Moler,

Deputy Secretary.

Order Confirming, Approving and Placing Increased Power Rate in Effect on an Interim Basis

[Rate Order No. SWPA–37]

January 1, 1998.

In the matter of: Southwestern Power Administration System Rates

Pursuant to Sections 302(a) and 301(b) of the Department of Energy Organization Act, Public Law 95–91, the functions of the Secretary of the Interior and the Federal Power Commission under Section 5 of the Flood Control Act of 1944, 16 U.S.C. 825s, for the Southwestern Power Administration (Southwestern) were transferred to and vested in the Secretary of Energy. By Delegation Order No. 0204–108, effective December 14, 1983, 48 FR 55664, the Secretary of Energy delegated to the Deputy Secretary of Energy on a non-exclusive basis the authority to confirm, approve and place into effect on an interim basis power and transmission rates, and delegated to the Federal Energy Regulatory Commission (FERC) on an exclusive basis the authority to confirm, approve and place in effect on a final basis, or to disapprove power and transmission rates. Amendment No. 1 to Delegation Order No. 0204–108, effective May 30, 1986, 51 FR 19744, revised the delegation of authority to confirm, approve and place into effect on an interim basis power and transmission rates to the Under Secretary of Energy rather than the Deputy Secretary of Energy. This delegation was reassigned to the Deputy Secretary of Energy by Department of Energy (DOE) Notice 1110.29, dated October 27, 1988, and clarified by Secretary of Energy Notice SEN–10–89, dated August 3, 1989, and subsequent revisions. By Amendment No. 2 to Delegation Order No. 0204–108, effective August 23, 1991, 56 FR 41835, the Secretary of the Department of Energy revised Delegation Order No. 0204–108 to delegate to the Assistant Secretary, Conservation and Renewable Energy, the authority which was previously delegated to the Deputy Secretary in that Delegation Order. By Amendment No. 3 to Delegation Order No. 0204–108, effective November 10, 1993, 58 FR 59717, the Secretary of Energy revised the delegation of authority to confirm, approve and place into effect on an interim basis power and transmission rates by delegating that authority to the Deputy Secretary of Energy. This rate order is issued by the Deputy Secretary pursuant to said Amendment to Delegation Order No. 0204–108. It is also made pursuant to the authorities as implemented in 10 CFR 903.

Background

FERC confirmation and approval of the following Integrated System (System) rate schedules was provided in FERC Docket No. EF90–4011–000 issued September 18, 1991, for the period October 1, 1990, through September 30, 1994:

Rate Schedule P–90A, Peaking Power—(superseded by P–98)
Rate Schedule P–90B, Peaking Power through Oklahoma Utility Companies and/or Oklahoma Municipal Power Authority—(no longer applicable)
Rate Schedule F–90B, Firm Power through Oklahoma Utility Companies— (no longer applicable)
Rate Schedule TDC–90, Transmission Service—(superseded by NFTS–98)
Rate Schedule IC–90, Interruptible Capacity—(no longer applicable)
Rate Schedule EE–90, Excess Energy—(superseded by EE–98)

These rate schedules were subsequently extended on an interim basis by the Deputy Secretary under the Rate Order No. and for the periods listed below:

Rate Order SWPA–29, October 1, 1994–September 30, 1995
Rate Order SWPA–32, October 1, 1995–September 30, 1996
Rate Order SWPA–34, October 1, 1996–September 30, 1997
Rate Order SWPA–35, October 1, 1997–March 31, 1998

Southwestern's November 1997 Current Power Repayment Study (PRS) indicated that the existing rates would not satisfy present financial criteria regarding repayment of investment in a 50-year period due, in part, to increasing Corps of Engineers (Corps) and Southwestern Federal investment. The Revised PRS indicated that an increase in annual revenues of $1,805,772 was necessary beginning in FY 1998 to accomplish System repayment in the required number of years. Accordingly, Southwestern developed proposed System rate schedules in the November 1997 Rate Design Study based on that additional revenue requirement.

Title 10, Part 903, Subpart A of the Code of Federal Regulations, ''Procedures for Public Participation in Power and Transmission Rate Adjustment,'' has been followed in connection with the proposed rate adjustments. More specifically, opportunities for public review and comment on proposed System power rates during a 90-day period were announced by notice published in the **Federal Register** August 22, 1997, (62 FR 44670). A Public Information Forum was held September 4, 1997, in Tulsa, Oklahoma, and a Public Comment Forum was held October 9, 1997, also in Tulsa. Written comments were due by November 20, 1997. On August 25, 1997, Southwestern mailed a copy of the **Federal Register** Notice, making copies of the proposed rate schedules and supporting data for the August 1997 Power Repayment and Rate Design Studies available to customers and interested parties for review and comment during the formal period of public participation. In addition, and prior to the formal 90-day public participation process, Southwestern held a number of informal meetings with customer representatives during preparation of the August 1997 Current and Revised Power Repayment Studies and Rate Design Study. Southwestern personnel met informally with representatives of the Southwestern Power Resources Association (an organization representing many of Southwestern's customers) on four occasions and with the Oklahoma Municipal Power Authority (OMPA) member representatives once to explain the studies, answer questions, and consider comments and suggestions concerning development of the proposed System rates. Further, Southwestern staff met with specific customer representatives following the Public Information and Comment Forums to discuss the results of the August 1997 Current and Revised Power Repayment Studies and Rate Design Study and how the proposals impacted these customers directly.

Following the conclusion of the comment period in November 1997, modifications to the August 1997 Power Repayment and Rate Design Studies and the proposed rate schedules were completed based on (1) Formal comments received, (2) finalization of the FY 1996 Southwestern Federal Power System (SWFPS) financial audit, and (3) resolution of a major power sales contract. The comments presented during the formal public participation process were considered, responses developed and, where deemed appropriate, incorporated into the studies. Once all comments had been carefully considered, the Administrator made the decision to submit the revised (November 1997) rate proposal for interim approval and implementation. Responses to major comments are contained herein. The proposed rate schedules resulting from these changes are designed to increase total annual revenues to a level sufficient to repay all costs by the 50th year.

Discussion

The rate schedules proposed by Southwestern for implementation increase ultimate annual revenue from $96,344,200, to $98,149,972, or 1.9 percent, which will satisfy cost recovery criteria outlined in Department of Energy (DOE) Order No. RA 6120.2 and Section 5 of the Flood Control Act of 1944, by increasing annual net revenues by $1,805,772, beginning January 1, 1998. This amount is less than the revenue level initially proposed in August 1997 due to changes made to (1) Correct errors in the August study cited within comments received and noted by staff review; (2) reflect the results of the FY 1996 financial audit that had been delayed (due to the Corps of Engineer's (Corps) switchover to a new financial management system); and (3) better show the impacts of specific power sales contract provisions. The following adjustments or corrections, which were not included in the August 1997 studies, lowered the level of increase needed:

1. Completion of the FY 1996 SWFPS audit. This audit was not finalized until September 1997 due to numerous problems with Corps' financial data for FY 1996. The Corps implemented a new financial system during FY 1996 within several of its district offices and numerous problems developed during retrieval of the 1996 financial data which significantly delayed preparation of financial statements and the financial audit. Southwestern incorporated the audited financial data for FY 1996 in its November 1997 Power Repayment Studies. This audited financial data resulted in a decrease in the level of revenues needed.

2. Reduction in the level of Service Charges due to resolution of a major power sales contract. Southwestern had been involved in power sales contract negotiations with a major customer for some time. Upon successful negotiation of a new power sales contract in August 1997, Southwestern lowered its estimate of transmission service charges to correspond with revised anticipated rate levels. This change also caused a decrease in the level of revenues needed.

3. Minor corrections to revenues to reflect effective dates of contract changes and implementation of rates for new services for specific customers. The corrections had both increasing and decreasing impacts on the revenues needed.

4. Minor revisions to estimates of revenues expected from facilities charges based on recently updated projections of future individual customer transmission system usage. These revisions had both increasing and decreasing impacts on the revenues needed also.

5. Adjusted revenues to include customer-specific purchased power credits not identified in the August 1997 PRS due to the unavailability of account data that determines the level of participation for each individual customer. Analysis of the individual customer account activity has been completed and specific purchased power revenue credits have been determined for those participating customers to place all such customers on an equal level.

Not included in the above adjustments are additional issues related to rate design. Southwestern has redesigned its rates for transmission service in accordance with the intent of FERC Order No. 888 on open transmission access. Most of the comments, concerns and requests for information have been related to Southwestern's proposed August 1997 Rate Design and Rate Schedules, and in particular, its charges for transmission service. In consideration of comments and suggested improvements to its rate design, Southwestern has made numerous changes to both its rate design and rate schedules. The following are changes made to Southwestern's August 1997 Rate Design and Rate Schedules: (The rationale for these changes is described in Southwestern's responses to major comments section.)

1. The revenue requirement and transmission capacity sales were changed based on the November 1997 Revised Power Repayment Study.

2. The Net Capacity or Energy Sales/Deliveries divisor on ancillary services was changed from the average 12 months' coincidental peak (CP) of the fifteen projects within Southwestern's control area to the capacity sales (billing units) associated with the customers who are anticipated to be taking the ancillary services.

3. The separate ancillary service charge for Energy Imbalance was deleted while the penalty provision for the service as proposed in the August 1997 Rate Design was retained.

4. The calculation of the per MW cost for providing generation for the two ancillary services, (1) Operational Reserves-Spinning and (2) Operational Reserves-Supplemental were revised to divide the projected generation expenses by the rated capacity of the generation rather than the 12 CP value.

5. Switchyard costs on the transmission side of the Corps' facilities that previously were included in generation have been reassigned to transmission.

6. Before allocating Transmission Expenses to Transformation, the costs for the Scheduling, System Control and Dispatch ancillary service have been removed.

7. An energy transmission loss analysis was completed and the energy loss percentage to be charged on transactions was reduced from 5 percent to 4 percent. Also, a determination was made to charge dollars for losses, based on a formula described in Rate Schedule NFTS–98, rather than have them scheduled/repaid with energy.

8. Southwestern will be providing secondary service, ''headroom,'' under its firm transmission service for both Federal and non-Federal power.

9. Southwestern will be offering Network Integration Transmission Service. The charge for this service will be based on the calculation specified by FERC in its Order No. 888 for this type of service.

In review, Southwestern is filing a revised rate adjustment plan for two reasons. These reasons include the need for a minor increase in the annual revenue requirements to satisfy cost recovery criteria and also the restructuring of rates to conform with the intent of FERC Order Nos. 888 and 888–A. The PRSs indicated that current revenue levels are insufficient, by approximately 1.9 percent, to repay the Federal investment within the repayment period. That increased requirement is due to increased investments for both the Corps of Engineers (Corps) hydroelectric projects and Southwestern's transmission system facilities. Some of the factors causing the Corps increases in project investments include a finalization of the Stockton cost allocation study, and major rehabilitation of a few projects to correct identified problems. Also, major investments have been made in Southwestern's aging transmission facilities to sustain the reliability of the system. This filing represents the first revenue change for the Integrated System in seven years. The second reason is the restructuring of Southwestern's generation and transmission rates and the development of separate rates for ancillary services. This restructuring conforms with the intent of FERC Order Nos. 888 and 888–A, and required a shift of certain costs between generation and transmission to provide for ancillary services and also to reassign generation costs associated with Corps transmission-related switchyard facilities to transmission. The reassignment of costs will have varying financial impacts on Southwestern's customers based on the service requested and provided.

In Southwestern's 1988 and again in the 1990 Rate Proposals, two noteworthy issues, which have previously been approved by FERC were described in detail. The two issues were (1) the treatment of a portion of the Truman project investment as not currently repayable, and (2) the development of customer-specific credits to the Purchased Power Adder to refund excess revenues collected under Southwestern's purchased power rate component.

Harry S. Truman Project

The Truman issue arose out of the limitations placed on the project's operations by the Corps. The project was designed and constructed to have 160 MW of dependable (marketable) capacity through the use of six reversible pump turbine generating units which could return water to the reservoir following normal generation, to mitigate extreme variations in water available for generation and the lack of storage capacity in the project (only two feet). Pumping ensures project dependable capacity and allows marketing of all six units. A substantial fish kill during testing of the units and considerable opposition to the project's operation, both in the pumping mode and the full six-unit generation mode, led the Corps to significantly restrict the project's operation. In particular, the project's pumps may not be used and only a limited number of units may be utilized simultaneously. Consequently, Southwestern is unable to market full capacity from the project and has declared only two units in commercial operation. Southwestern proposed to FERC in the 1988 rate filing that, since the entire project was neither revenue-producing, declared in commercial operation, nor expected to be in service within the then-existing cost evaluation period, the total investment allocated to power was not repayable under DOE or FERC regulations. Southwestern further proposed an adjustment to Truman's allocated costs and reduced the repayable investment to an amount equal to approximately 44 percent of then-allocated costs, with the remaining amount to be deferred until the project can be operated as it was designed. FERC approved this proposal as an acceptable interim measure while the Corps develops a cost allocation for Truman based on actual operating conditions. Southwestern also proposed this concept to the Corps, and the Corps agreed to consider it as an option in developing the cost allocation for the project. Subsequently, the Corps has completed a major revision to the Truman project cost allocation and has utilized Southwestern's proposed concept for determining repayable investment at the project during the interim period until the project becomes fully operational. Although not yet approved on a final basis, the Interim Cost Allocation proposed by the Corps for the Truman project has been utilized in the development of the 1990 PRSs and in the 1997 PRSs in support of the revenue requirements of Southwestern's System and the rate proposal, as the most recent cost allocation available which reasonably reflects the level of costs expected to be payable at the Truman project during the cost evaluation period.

During February 1997, the Interagency Committee on Cost Allocations (ICCA) met to review and potentially approve the Truman, Stockton, and Clarence Cannon project cost allocations. The Stockton cost allocation was subsequently approved on a final basis on May 8, 1997. The Clarence Cannon cost allocation was sent back to the Corps' St. Louis District for a review of the classification of a specific charge and was to be returned to the ICCA for final approval. The Truman cost allocation was to be sent back to the Corps' Kansas City District office to make changes in the allocation's assumptions and then be prepared for finalization. However, in June 1997, a second meeting of the ICCA was held with several customer representatives to discuss the Truman cost allocation. The customers expressed their concern about the significant level of costs being proposed while the project continued to be limited in its ability to produce hydropower. At this meeting, the Corps agreed to review the issue of assigning hydro-related costs to another project purpose that had contributed to limiting the hydro operation of the project. The allocation of those costs to another purpose would be potentially considered temporary and the costs would be reallocated back to the hydropower purpose in an amount relational to the part of the hydropower purpose functioning as originally designed. Southwestern does not anticipate finalization of the Truman cost allocation within the 1997 PRS cost evaluation period; therefore, Southwestern has continued to use the Interim Cost Allocation for the Truman project in development of the 1997 PRS.

Purchased Power Deferral Account (Credit and Adders)

In the 1988 and 1990 PRSs, Southwestern implemented customer-specific purchased power credits to flow back over a fixed period deferred revenues and interest accrued on such revenues in such a way as to equalize the average purchased power adder rate per kilowatthour (kWh) paid by each customer. These credits remained in effect through September 30, 1993, to balance each customer's average cost irrespective of the condition or balance of the Purchase Power Account (Account), or the need for rate adjustment in the meantime. The customer-specific credits specified in the 1990 PRS, like the previous credits, were insufficient to totally equalize the average purchased power adder rate paid by each customer. Changing interest rates, above average water conditions during the period which eliminated the need for estimated average-year purchases, and different rates for the credits over the credit period kept the previous credits from reaching the goal. Therefore, additional customer-specific adjustments are needed to bring all participating customers to the same level. It is important that the remaining revenues to be credited flow back over a short period to get all customers on the same per kWh contribution basis. Southwestern is proposing to flow back the deferred revenues and interest during the service period January 1, 1998, through June 30, 1998. However, to avoid the potential for making cash payments to customers in excess of monthly charges, the rate schedules again limit the amount of applicable credit in any month to the level of total charges for Southwestern's services rendered for such month, and allow for any excess credit to be used in future billing periods. Amounts of revenue and interest in the Account at any time are System revenues, entirely within the purview of Southwestern. No customer is considered to have escrowed these funds, nor to have any specific entitlement or ownership right in contributions to the Account or accrued interest, although Southwestern will attempt to apply purchased power adders, and credits, on a basis reasonably proportional to applicable customer purchases of peaking power and energy.

During the time the purchased power adders and the accounting mechanism have been in place, they have proven to be effective in assuring that purchased power revenues equal purchased power costs over time. The financial interests of the Government have been protected in this endeavor, and the rate component has been adjusted as necessary. In the 1988 and 1990 Rate Proposals, Southwestern also requested approval for the Administrator to have authority to adjust the purchased power rate component up to once annually, based on a formula-type rate included in the rate schedules, by up to $0.0005 per kWh at his or her discretion. The flexibility derived from this authority enables Southwestern to react more quickly to significant changes in water conditions which may have occurred during the preceding year or simply to exercise better control on the amount of revenue in the Account and to better limit the over or under recoveries of revenue. The Administrator utilized this authority in December 1993, 1994, 1995, and 1996 to implement adjustments of up to $0.0005 per kWh additional credit to help reduce excess revenues collected in the Account during the previous years of good water conditions and the corresponding reduced need for purchased power. This authority seems to remain appropriate, particularly in light of the fact that the Account has no direct effect on System repayment requirements and the separate rate component serves to provide revenues to meet expected costs which, if they do not come to pass, are either held to meet future costs or result in a lower purchased power rate for customers. However, experience has shown Southwestern that the $0.0005 per kWh adjustment level does not provide significant impact to the Account especially during times of widely fluctuating water conditions. Therefore, Southwestern's Administrator requests continuing authority to adjust the purchased power rate component annually based on a formula-type rate included in the rate schedules, but increasing his/her authority up to $0.0011 per kWh, an increase of $0.0006 per kWh, as he/she determines necessary, to provide better control over the amount of revenue in the Account and to provide greater flexibility in limiting the over and under recoveries of revenue.

An element directly related to the Account and accrual of interest thereto is the determination of the purchased power adder itself. Southwestern is proposing, as in all previous proposals beginning with the 1983 implementation of the purchased power rate component, that the adder be set equal to the current average long-term purchased power rate requirement. As shown in the Rate Design Study, the amount is determined by dividing the estimated total average direct purchased power costs by Southwestern's total annual contractual 1200-hour peaking energy commitments to the customers (exclusive of contract support arrangements). In this rate proposal, the resulting Purchased Power Adder (Adder) is $0.0011 per kWh of peaking energy. The total revenue created through application of this Adder would enable Southwestern to cover its average annual purchased power costs.

Comments and Responses

The Southwestern Power Administration (Southwestern) received numerous comments from customers and interested parties from the public participation process. The issues identified in these comments were given careful and thorough consideration and, where deemed appropriate, solutions were developed and incorporated into Southwestern's final rate proposal, as noted in the earlier Discussion section. A summary of major comments and Southwestern's responses to the issues raised in them follows:

Corps O&M Expenses

Comment: Southwestern's updated revenue requirement projections based on audited financial statements for the FY 1996 indicate that Corps of Engineer's (Corps) Operation & Maintenance (O&M) expenses for 1996 were approximately $4,900,000 less than estimated by Southwestern in its revenue requirements projection. However, Southwestern did not revise its Corps O&M projection. It appears that Corps O&M expenditures are increasing as compared to historical levels, while Southwestern is reducing its expenditures. Corps O&M expenditures are approximately 30 percent of the cost of Southwestern hydropower. Reductions in Corps O&M expenditures will reduce upward rate pressure on Southwestern's rates. When Southwestern modifies rates in FY 2001, it should consider reducing the Corps O&M expense to reflect actual expenses in 1996, 1997 and 1998.

Response: Southwestern agrees that the audited financial statements for FY 1996 Corps O&M expense were approximately $4.9 million less than Southwestern estimated in the 1996 Power Repayment Study (PRS), but $4.2 million of this difference was due to unforeseen and extraordinarily large retirement losses which are not projected by the Corps or Southwestern. The Corps O&M expenses before the retirement losses were $30.9 million, less than 2 percent from the previous projection for FY 1996. Projections for Corps O&M are not developed by Southwestern, but are developed by the Corps and provided to Southwestern annually. The Corps makes projections using historical information and then includes projections for large maintenance items for each of the projects that have been included in their outyear budget estimates. These projections are made in current year dollars. Southwestern reviews this information and adjusts the estimates to future year dollars based on the Gross Domestic Product Price Index projection to incorporate inflationary trends. Southwestern agrees that such costs should be prudently and timely incurred at reasonable levels consistent with maintaining the high level of reliability required in the utility industry. Historically, the estimates that the Corps provides have been reasonably accurate in total, although they fluctuate from actual expenditures by individual project. The Corps believes that its internal controls, accounting system reviews, and funding procedures effectively provide the needed level of justification, consistency, and control of its O&M expenditures.

Southwestern agrees that a reduction in Corps O&M expenditures would help in reducing the upward pressure on rates. However, the Corps O&M expenditures have been quite stable for most of the last ten years. There is no indication by the Corps that O&M costs will be increasing significantly, but future PRSs will reflect any such trend. It is true that Corps O&M expenditures are a significant percentage of the cost of hydropower; but, considering the level of Corps power investment on the financial statements, this percentage does not appear to be out of line. Southwestern will continue to monitor the Corps estimates of O&M expenses to assure the estimates are reasonably comparable to actual expenses as noted on each year's financial statements. Southwestern completes repayment reviews each year and will include actual expenses for the latest historical year available in its review. When Southwestern modifies rates in FY 2001, it will incorporate actual Corps O&M expenses for FY 1997, FY 1998, FY 1999 and FY 2000.

Accelerated Repayment

Comment: Footnotes in the Southwestern PRS indicate that Southwestern plans in this PRS to repay debt faster than required by its loan obligations. Southwestern should not repay its Federal obligations any faster than required for purposes of establishing cost of service and rates. Southwestern should use amortization and interest expenses that do not exceed what is required to repay loan obligations.

Response: The footnote in Southwestern's PRS indicates that historical water conditions have been above average allowing for increased sales and amortization; however, this PRS indicates that, even with above average water conditions, current rates are insufficient to meet repayment criteria for the System. Southwestern's rate adjustment plan in the FY 1997 PRS does not accelerate repayment of the Federal investment. The comment's reference to loan obligations is actually the repayment of the Federal investment. Each year's investment at each project is treated as a separate repayment obligation with a specific term and interest rate. Southwestern's repayment policy is set forth in DOE Order No. RA 6120.2. Section 8.c.(3) of that Order states: ''To the extent possible, while still complying with the repayment periods established for each increment of investment and unless otherwise indicated by legislation, amortization of the investment will be accompanied by application to the highest interest-bearing investment first.'' The policy is based on Section 5 of the Flood Control Act of 1944 (Flood Control Act) which requires that power and energy from Federal projects be marketed, ''* * * at the lowest possible rates to consumers consistent with sound business principles * * *.'' Amortization of the capital investment is required by the Flood Control Act to be accomplished, ''* * * over a reasonable period of years * * *.'' This period has been determined by Order No. RA 6120.2 to be within 50 years from the date of commercial service for the hydroelectric projects and to be shorter periods for transmission and replacement investments based on their service lives.

Southwestern sets its rates based on average year water conditions. Southwestern's PRSs reflect the rate adjustment plan based on average hydrologic conditions. The repayment system permits the Power Marketing Administrations (PMAs) to vary the amount of capital returned to the Treasury from year to year, reflecting the water conditions and the volume of sales which they experience. From the beginning, the U.S. Congress recognized that marketable energy in a hydroelectric system would vary from year to year with fluctuations in available water. The Congress agreed that, in order to produce a stable rate structure, repayment plans which are based on average water conditions are a reasonable approach. This model permits Southwestern to apply a stable rate over a period of years, regardless of actual water conditions. In above-average water years, the rate model recovers more capital which balances poorer returns during below average water years.

During most of the past ten years, Southwestern has experienced above average water conditions; therefore, Southwestern has returned more funds to the U.S. Treasury than had been planned. The Flood Control Act of 1944 requires that: ''All moneys received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts.'' All revenues from sales of power and energy and non-Federal transmission are returned to the Treasury. Revenues that exceed expenditures for a particular year are credited to the repayment of investment. Revenues credited to repayment of the Federal investment during the past ten years have enabled Southwestern to maintain stable rates since 1992. As a rate increase of 1.9 percent is needed, the Current PRS reflects that the 1997 rate adjustment plan, with existing rates, is insufficient to meet anticipated repayment obligations.

FY 2001 Test Year

Comment: Industry accepted practice is to raise rates when there is a clear need to raise them. There does not appear to be information that supports Southwestern's need to increase its rates before FY 2001. Typically, electric utilities use one of three methods to establish a test year. The test year selection methods include (1) Historical, based on actual results of a previous year; (2) projected, based on the same year the rates are established; or (3) combination of actual and projected data. Southwestern does not need a rate increase until the year 2001. It would be consistent with past precedent to develop steps to these rates or implement them for a test year in 1998.

Response: The existing repayment study methodology prescribed by DOE Order No. RA 6120.2 advocates a cost evaluation period (CEP) that is ''normally 5 years'' to project future costs and revenues to reflect changing conditions. That methodology was established, at least in part, (1) to provide some protection for the financial integrity and stability of the PMAs, including Southwestern, which must assure recovery of all annual costs and repayment of investment from revenues based on hydroelectric power generation under highly variable water conditions, and (2) to provide a stabilizing effect on hydroelectric power rates to minimize the need for more numerous and potentially larger increases caused by a single year or event. While it is true that a five-year cost evaluation period is not required, Southwestern has utilized it consistently, and it serves as a ''reasonable'' period over which Southwestern can project future events and costs. This repayment methodology has been used consistently through Southwestern's history, and the FERC has supported the process through its approval of past rate adjustments.

Southwestern's customers' concerns that would warrant pursuing a phased-in rate increase at this time have been carefully considered. Southwestern is faced with certain statutory (the Flood Control Act of 1944) and regulatory (DOE Order No. RA 6120.2) requirements which limit the latitude the Administrator can exercise in setting the cost-based rates. Southwestern remains committed to the continued financial integrity and stability of its System through the development of regular annual PRSs based upon average-water-year conditions and on the implementation of rate increases, as needed, in accordance with such legal and regulatory requirements. This process has been strongly supported in recent years by customers and customer organizations. The stepped-in rate approved in 1990 was a one-time phase-in approach that was intended as a reasonable accommodation to customer concerns regarding a single 14.4 percent increase. At that time, there was a unique situation regarding Corps O&M costs and confusion over Corps policy regarding preventive and breakdown maintenance as well as inconsistency in anticipated funding level restrictions. The level of the rate adjustment in this rate filing, 1.9 percent, is minor in its application to rates, and Southwestern does not have a compelling reason to phase it in.

Some customers are impacted at a rate greater than 1.9 percent, primarily due to rate restructuring. Such restructuring stems from Southwestern's requirement to conform to the intent of FERC Order No. 888. However, an analysis of the data indicates that the shift in Southwestern's expense patterns from generation-related costs, which have decreased, to increased transmission system-related costs, would have caused such customers to be impacted by increased transmission costs, whether or not an overall revenue increase were warranted. In addition, with all the changes in the electric industry, this is considered a ''sound business principle'' in that it reduces Southwestern's financial risk (albeit, only slightly) of repaying its Federal investment in a timely manner.

Losses

Comment: Capacity losses are approximately 2.8% of total peaking and firm capacity. Losses and station services are approximately 3.3% of total energy resources available for sale. Typically demand losses are greater than energy losses, stated on a percentage basis. Station service should not be included as energy losses; only losses that occur on the transmission system should be considered when calculating transmission losses. Request Southwestern prepare a transmission loss study. Transmission loss rates for transmission customers should be established and updated each year. 5% power factor losses are higher than surrounding control areas. Anything over 3% must be justified by a loss study.

Response: The percentages used in the above comment are believed to have been developed from numbers in the 1997 PRS and were based on Southwestern's Load Resource Study which, for simplicity, combines losses and station service to show total energy usage. Southwestern recently performed a transmission loss study. Station service was not included in our loss study. Only losses that occur on the transmission system were considered in the calculation of transmission losses in the loss study. Southwestern's loss study indicates that Southwestern's loss percentage is approximately 4 percent. Consequently, Southwestern has reduced the loss percentage from 5 percent to 4 percent for real power losses and included that figure in its rate schedules. Southwestern will also begin charging for losses, as compared to its previous practice of requiring losses to be scheduled as energy.

Isolated Projects and Bundled Rates

Comments: Isolated projects should not be required to pay for transmission and ancillary services that they do not use. Isolated projects should receive credit for incurring costs that the typical Southwestern customer does not. It is not appropriate to charge ancillary services for isolated project power.

SWPA must offer unbundled service to all of its customers under non-discriminatory terms and conditions. Proposal to require all customers, regardless of whether they take power from SWPA's Integrated System or use any of SWPA's transmission facilities, to pay for their hydro power purchases under a bundled rate that includes transmission and a charge for scheduling and reactive power services is contrary to Order No. 888 and will not be approved by FERC.

Response: Southwestern's sale of Federal power and energy are based on a ''postage-stamp'' type rate, which is based on the financial integration of all the projects marketed under the Integrated System, as well as various components of Southwestern's transmission system. The capacity rate for all Federal power customers includes a transmission component and the two required ancillary services. This rate has been set to assure that Southwestern charges itself the same rates it charges for the use of the transmission system for wheeling non-Federal power. The customers which receive the output of Corps projects that are presently electrically isolated from Southwestern's primary interconnected system requested integration of such projects into the Integrated System to receive that system's benefits, including lower costs. In addition, such customers receive a number of benefits from their project sales which other Federal customers do not, such as overload capacity, condensing, greater scheduling flexibility, and exclusion from paying the Purchased Power Adder. Additionally, such projects also include components of Southwestern's transmission system and switchyard facilities used to deliver power and energy from the dams. In addition, revenues from all sales within the Integrated System are applied toward repayment of all Federal investment for all projects, regardless of their electrical integration status.

Southwestern is not required by FERC Order No. 888 to offer unbundled services to its customers. Section 5 of the Flood Control Act of 1944 sets forth the statutory requirements for the sale and delivery of Federal power and energy. Based on DOE policy, ''each of the PMAs that own transmission facilities will publish generally applicable open access wholesale transmission tariffs and will take service itself under such tariffs. The tariffs will include rates, terms, and conditions, and will offer transmission services, including ancillary services, to all entities eligible to seek a transmission order under section 211 of the Federal Power Act . . .'' Southwestern has complied with this policy in separating its non-Federal transmission service to provide for ancillary services.

Other Issues

Other issues are discussed in the Administrator's Record of Decision.

Availability of Information

Information regarding this rate proposal including studies, comments and other supporting material, is available for public review and comment in the offices of Southwestern Power Administration, One West Third Street, Tulsa, OK 74101.

Administrator's Certification

The November 1997 Revised Power Repayment Study indicates that the increased power rates will repay all costs of the Integrated System including amortization of the power investment consistent with the provisions of Department of Energy Order No. RA 6120.2. In accordance with Section 1 of Delegation Order No. 0204–108, as amended November 10, 1993, 58 FR 59717, and Section 5 of the Flood Control Act of 1944, the Administrator has determined that the proposed System rates are consistent with applicable law and the lowest possible rates consistent with sound business principles.

Environment

The environmental impact of the proposed System rates was evaluated in consideration of DOE's guidelines for implementing the procedural provisions of the National Environmental Policy Act and was determined to fall within the class of actions that are categorically excluded from the requirements of preparing either an Environmental Impact Statement or an Environmental Assessment.

Order

In view of the foregoing and pursuant to the authority delegated to me by the Secretary of Energy, I hereby confirm, approve and place in effect on an interim basis, effective January 1, 1998, the following Southwestern System Rate Schedules which shall remain in effect on an interim basis through September 30, 2001, or until the FERC confirms and approves the rates on a final basis.

Dated: January 7, 1998.

Elizabeth A. Moler,

Deputy Secretary.

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