

STATEMENT OF
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BEFORE THE

SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

MARCH 4, 2010

Madam Chairwoman and members of the Subcommittee, I am Kenneth Legg, Administrator of the Southeastern Power Administration (Southeastern), and I appreciate this opportunity to present a written statement today on the Fiscal Year 2011 Budget Request for the Southeastern Power Administration.

PROFILE OF SOUTHEASTERN POWER ADMINISTRATION

The mission of Southeastern is to market and deliver Federal hydroelectric power at the lowest possible cost consistent with sound business principles to public bodies and cooperatives in accordance with Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s).

With an authorized staff of 44 full time employees, Southeastern markets power produced at 22 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps of Engineers). These 22 projects are separated into four marketing systems. The individual systems are integrated hydraulically, financially and electrically. Each system has separate rate and repayment schedules. Hydroelectric power generated at these projects is marketed in an 11-state marketing area.

Southeastern coordinates the operations of the projects using customers' load schedules and meets the North American Electric Reliability Corporation's control area criteria, while complying with Corps of Engineers' operational and environmental requirements. All of

Southeastern's system operators meet North American Electric Reliability Corporation certification standards.

Southeastern does not own or operate any transmission facilities and carries out its marketing program by using the existing transmission systems of the power utilities in the area. This is accomplished through contracts with area transmission providers that agree to deliver power to preference customers. In turn, Southeastern compensates the transmission providers for their services.

Rate schedules are formulated to repay all of Southeastern's costs, as well as all Corps of Engineers costs allocated to power. Rate schedules are designed to recover operation and maintenance expenses, purchased power and transmission expenses, and expensed interest annually. Rate schedules also include the costs of capital investments that are recovered over a reasonable number of years.

PROGRAM ACCOMPLISHMENTS

The adverse water conditions that impacted the southeastern United States since 2006 improved in FY 2009, and as a result, replacement energy purchases decreased. In FY 2009, Southeastern sold approximately 6,000 gigawatt-hours of energy to 491 wholesale customers, with revenues totaling approximately \$240 million, and repaid approximately \$1.6 million in capital costs to the Treasury. Southeastern contributes to Secretarial Goal 2, Energy: *Build a competitive, low carbon economy and secure America's energy future*, by generating clean, zero carbon emissions hydroelectric

power. Southeastern accomplishes Goal 2 through two subprograms (Purchased Power and Wheeling, and Program Direction) supported by appropriations offset by receipts, Federal power receipts, and alternative financing arrangements, including net billing, and bill crediting. With this Goal, Southeastern performs its mission in a manner that promotes maintaining and upgrading its energy infrastructure to ensure reliable and efficient delivery of Federal power, which is an integral part of the Nation's electric grid.

Southeastern has an active succession management plan that is reviewed on an ongoing basis. The succession plan addresses the need of replacing several members of its executive management team and other critical staff, and recruiting highly-skilled technical personnel over subsequent years.

CLIMATE CHANGE, ALTERNATIVE ENERGY AND ENERGY CONSERVATION

Southeastern contributes program benefits in support of Climate Change activities by reducing carbon emissions through generation of hydroelectric power, which has zero carbon emissions. Southeastern's stream-flow generation of 5,483 GWH in FY 2009 offset fossil fuel resources and reduced overall CO₂ emissions by 3.9 million metric tons. Southeastern supports the Climate Change and Technology Program by promoting residential, commercial, and industrial energy efficiency, as well as development of wind, solar, and biomass technologies when they are economically feasible. Southeastern works closely with DOE's Energy Efficiency and Renewable Energy programs to ensure that municipal and cooperative utilities in the southeast benefit from Federal services and technologies.

PROGRAM GOALS

Cumberland River System

Southeastern will continue to work with the Corps of Engineers on the Wolf Creek and Center Hill safety issues. Cumberland River Basin operations have been severely impacted by the restrictions necessary due to dam safety concerns at both Wolf Creek and Center Hill projects. Restricted operations are expected to continue for several more years. Southeastern will continue an interim operations strategy until normal operations can resume.

Wolf Creek Project

During fiscal years 2010 and 2011, Southeastern will continue to work with the Corps of Engineers regarding the Wolf Creek Dam Safety issue. Over the course of the last fiscal year, Cumberland System River Basin operations were severely impacted by the operational restrictions necessary as a result of dam safety concerns at the project. In order to reduce imminent risk to human life, health, property, and severe economic loss in the region, in January 2007, Corps of Engineer officials elected to lower the elevation of the Wolf Creek Project in response to numerous studies conducted by dam safety experts, which concluded that the dam was at high risk of failure. On January 22, 2007, the lake elevation of the Wolf Creek Project was lowered to an elevation of 680 feet with the intent that this level would be maintained until such time as ongoing remedial efforts at the project indicated a reduced level of risk of failure.

In early FY 2009, the Corps of Engineers completed the first line of grouting at the project in an effort to fill all the cavities and voids under the foundation, which are providing paths for seepage. Work is currently underway on the installation of the cutoff wall through the project's earthen embankment.

The decrease in the lake elevation of the Wolf Creek Project has resulted in a significant reduction in the quantity of water stored in the Cumberland System. Due to the large volume of system storage normally provided by the Wolf Creek Project, virtually all in-lake and in-stream purposes in the entire Cumberland River System have been dramatically impacted by the reduced storage and corresponding reduction to flows, which occurred during the year. In-stream flows and the operation of all hydroelectric projects in the basin are directly or indirectly impacted by the lack of system storage and the revised river basin operational criteria, which call for the maintenance of a relatively constant elevation in lake levels at Wolf Creek. Consequently, dramatic impacts are being experienced by stakeholders throughout the river basin including marina operators, recreation related businesses, environmental purposes, navigation, municipal and industrial water supply, and power generating facilities. The impact to Southeastern's hydropower program is significant. The 216 municipalities and cooperatives located in the states of Tennessee, Kentucky, Georgia, Illinois, Mississippi, Alabama, and North Carolina that normally receive Cumberland System generation as a dependable peaking resource were forced to replace this generation with costly alternative sources of power. At the onset of the altered run of the river operation for the Cumberland System, Southeastern implemented an interim marketing strategy for system generation in order to provide a method of sharing any remaining system generation benefits among all of Southeastern's customers on a ratable basis.

This revised operation for the Cumberland System provides some level of generation benefits to each customer on an “as available” basis as power is made available by the Corps of Engineers. Southeastern will continue this method of operating until it can once again resume a more normal operation.

Center Hill Project

Center Hill Dam is located on the Caney Fork River in DeKalb County, Tennessee, approximately 30 miles upstream from the river’s confluence with the Cumberland River. Construction on the project was completed in 1951, and it is operated for flood control, hydropower, recreation, navigation, water supply, and water quality. Since the 1960’s, the Center Hill Project has experienced serious seepage problems as a result of the Karst limestone features which comprise the project’s foundation.

Through the years, the foundation features have allowed for the seepage of water to occur under the project, which has eroded material and created voids and cavities in the abutments. This uncontrolled progressive seepage of water through the rock foundation and abutments has resulted in the development of muddy downstream flows and the formation of large sinkholes in the left abutment. All previous attempts at remedying the foundation conditions with grouting material have been ineffective since previous methods did not meet current standards for grouting.

Based on the findings of the External Peer Review Panel for Dam Safety, the situation at the Center Hill Project was classified as Corps of Engineers’ Class I designation (Urgent and

Compelling) under the Corps of Engineers' Dam Safety Action Classification System. The Panel recommended an immediate lowering of the reservoir elevation at the Center Hill Project, and as a result, the Corps of Engineers has implemented a revised operating plan for the Center Hill Project, which will maintain a lower reservoir level to relieve pressure and stress on the foundation. The range of operation for the project will be from a low elevation of 620 feet to high elevation of 630 feet during the year. The Panel recommended a comprehensive grouting program and installation of a cutoff wall as soon as possible. The work is tentatively scheduled to be completed by 2014. Southeastern will continue to work with the Corps of Engineers as they implement their operational plan for the Center Hill Project.

Compliance Requirements

In order to maintain compliance with North American Electric Reliability Corporation and the SERC Reliability Corporation operating requirements, Southeastern will ensure that operators are recertified on a rotating basis and that all available power is reliably delivered to the power grid for the benefit of Southeastern's customers. Southeastern is working with the Department of Energy to train its contracting officers to meet the mandated requirements for Contracting Officers.

Responding to Homeland Security Directives

In FY 2009, Southeastern employees received new personal identification verification (PIV) badges in accordance with the requirements set forth by the Homeland Security Presidential Directive 12. During FY 2009 and the start of FY 2010, Southeastern upgraded the building access control system to use the PIV badges for access control. The PIV badges are also used for computer access on Southeastern network computers and laptops.

SOUTHEASTERN'S RELATIONSHIP WITH ITS CUSTOMERS AND THE CORPS

Southeastern maintains a cooperative working relationship with its customers and the Corps of Engineers in both the South Atlantic and Great Lakes and Ohio River Divisions. Financial and operating issues are discussed regularly within the Southeastern Federal Power Alliance. The Alliance was established in 1991 and includes representatives from Southeastern, the Corps of Engineers - South Atlantic Division, and preference customers located in the Georgia-Alabama-South Carolina, Kerr-Philpott, and Jim Woodruff Systems. Team Cumberland was formed in 1992 and includes representatives from Southeastern, the Corps of Engineers - Great Lakes and Ohio River Division, and preference customers located in the Cumberland System. Financial and operating issues are also discussed in biannual Team Cumberland meetings. Southeastern is committed to maintaining open communications with its customers and the Corps of Engineers.

2011 BUDGET REQUEST

The FY 2011 budget request, Attachment 1, provides for \$8.034 million for Program Direction and \$88.6 million for Purchase Power and Transmission. Southeastern relies on existing transmission providers to transmit Federal Power to its customers at a cost of \$37.7 million. Southeastern also purchases \$50.9 million in replacement power and pumped storage energy. Purchase Power and Transmission expenses are financed entirely with offsetting collections and net billing. The use of offsetting collections and net billing enables Southeastern to operate more like a business by allowing Southeastern's revenues to pay for purchase power and transmission costs rather than relying upon appropriations. There are no new program starts included in Southeastern's Fiscal Year 2011 budget request.

Madam Chairwoman, this concludes my presentation of Southeastern's Fiscal Year 2011 budget request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.

BUDGET REQUEST SUMMARY

(dollars in thousands)

| | FY 2009 Current Appropriation | FY 2010 Current Appropriation | FY 2011 Request |
|---|-------------------------------------|-------------------------------------|-----------------------|
| Southeastern Power Administration | | | |
| Program Direction, (PD) | 7,420 | 7,638 | 8,034 |
| Purchase Power and Wheeling (PPW) | 63,522 | 85,228 | 88,615 |
| Subtotal, Southeastern Program Level | 70,942 | 92,866 | 96,649 |
| Offsetting Collections, Annual Expenses | 0 | -7,638 | -8,034 |
| Offsetting Collections, PPW | -49,520 | -70,806 | -74,157 |
| Alternative financing, PPW | -14,002 | -14,422 | -14,458 |
| Total, Southeastern Power Administration | 7,420 | 0 | 0 |
| Reclassification of Mandatory Receipts to Discretionary Collections | | 7,638 | |

