STATEMENT OF

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EXAMINING THE SPENDING, PRIORITIES AND THE MISSIONS OF THE BONNEVILLE POWER ADMINISTRATION, THE WESTERN AREA POWER ADMINISTRATION, THE SOUTHWESTERN POWER ADMINISTRATION AND THE SOUTHEASTERN POWER ADMINISTRATION

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to share with you today the highlights of the President's Fiscal Year 2012 budget request for the Southwestern Power Administration (Southwestern).

Southwestern markets and delivers clean, efficient, and reliable energy to the Nation. As our budget request shows, we are focused on continuing this important mission even as we seek to tighten our belts along with the rest of the country so that present and future generations will continue to have the hope of a brighter future.

SOUTHWESTERN PROFILE

As one of four Power Marketing Administrations in the United States, Southwestern markets hydroelectric power in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas from 24 U.S. Army Corps of Engineers (Corps) multipurpose dams with a generating capacity of approximately 2,174 megawatts (MW).

By law, Southwestern's power is marketed and delivered primarily to public bodies and rural electric cooperatives. Southwestern has over one hundred such customers, and these entities ultimately serve another nine million end-use customers.

Southwestern operates and maintains 1,380 miles of high-voltage transmission lines, 25 substations and switching stations, and a communications system that includes microwave, VHF radio, and digital fiber optic components. Staff members work from offices located in Gore, Oklahoma; Jonesboro, Arkansas; Springfield, Missouri; and Tulsa, Oklahoma. Around-the-clock power scheduling and dispatching are conducted by staff in the Springfield Operations Center.

RATES AND COST RECOVERY

I am proud to say that, at Southwestern, we have always been and will continue to be cost-conscious. We have to be cost-conscious, because the power we market is cost-based, so, when expenses go up, our power rates quickly follow. To make sure that we are recovering the cost of marketing and delivering power, every year, Southwestern conducts Power Repayment Studies (PRS) for each of the three rate systems in our marketing area: the Integrated System, the Robert D. Willis Hydropower Project, and the Sam Rayburn Dam.

In each annual PRS, Southwestern studies the projected and actual costs of operating and maintaining the generation and transmission facilities to make sure that sufficient revenues are being collected to repay these costs, plus the principal and interest on the Federal investment. We do this by working within our own agency to accurately capture our current expenses and to assess and plan for future replacement of transmission assets. We also work with the U.S. Army Corps of Engineers (Corps) to fully recover current and future hydropower expenses, which by law we are required to repay, at the hydroelectric generating plants from which we market power.

SYSTEM CONDITIONS AND PURCHASED POWER

No matter how conscientious we are though, nature sometimes has other plans for us. Unlike the Pacific Northwest, where there are large reservoirs with runoff from snowpack, Southwestern's system is 100 percent dependent on rainfall, with very limited reservoir storage. As a result, extended spells of dry weather can sometimes force us to purchase power to meet our contractual obligations. In planning for purchases, we strive to work with Congress, the Administration, and our customers to avoid increases in Federal spending and prevent severe rate impacts to our customers by using the various funding mechanisms we have in place. To this end, Southwestern's customers have already pre-funded[1] a significant portion of the estimated cost of Southwestern sustaining its contractual obligations during a major drought.

Fortunately in FY 2010 we did not encounter any major dry spells, and inflows were even above normal. While audited numbers are still being finalized, pre-audit numbers place the quantity of energy marketed in FY 2010 as 7.6 billion kWh, with revenues of $202.3 million

[1] Southwestern has an internal accounting mechanism which takes into account and defers surplus receipts collected for purchased power expenses that did not occur. This is in accordance with Financial Accounting Standard Number 71.

from the sale of energy, capacity, and transmission services. On average, Southwestern markets 5.6 billion kWh of energy annually with revenues of $182.5 million. To date, Southwestern has repaid approximately 65 percent of the $1.3 billion in capital investments attributable to Federal power within our region.

As a renewable resource, the hydropower marketed by Southwestern saves a considerable amount of fuel that would otherwise have to be obtained from other sources, usually hydrocarbon-based. For example, in FY 2010, based on actual generation, Southwestern's hydropower saved 12.8 million barrels of oil and prevented emissions of 6.6 million tons of greenhouse gases[2].

INVESTMENT IN THE FUTURE

Investment in the aging facilities that make up Southwestern's Federal hydropower system is critical in keeping the generation and transmission assets available and fully capable of producing and delivering power to our region. Our goal is to keep these Federal assets intact while minimizing any Congressional appropriations necessary for capitalized replacements.

Generation

A significant funding mechanism for the maintenance of the Corps generation assets is the Jonesboro Memorandum of Agreement (MOA), which allows our customers to fund major replacement work at the hydroelectric plants. Signed in 1999, the Jonesboro MOA between Southwestern, the Corps, and City Water and Light Plant of the City of Jonesboro, Arkansas, has provided nearly a quarter of a billion dollars in critical funding of capitalized items to keep the

[2] Emission savings computed using 1998-2007 data from U.S. Energy Information Administration (EIA), assuming a 50/50 Coal/Natural Gas Mix as representative of replacement energy for hydropower in Southwestern's area. Fuel savings based on thermal conversion factors from EIA's Annual Energy Review-2009.

turbines spinning and the power flowing. Perhaps more importantly, decisions as to which projects will be funded are made with all of the stakeholders at the table -- the Corps as the owner of the generation assets, Southwestern as the marketer of power, and Southwestern's customers as the ones who buy the power and, ultimately, bear the responsibility of repayment. This mechanism also assures that Southwestern's power will remain marketable by funding what the stakeholders deem as prudent and necessary. To this end, the average funding provided by Southwestern's customers through Jonesboro is now over $40 million annually. This is $40 million that is not funded by Congressional appropriations, but, of course, is permitted with the authority and oversight of Congress.

We believe this established funding process provides for better planning, will result in an even more efficient Federal hydropower system in our region, and will continue to create jobs as more of the aging plants undergo major replacement work. Southwestern and its customers remain committed to this effort.

Transmission

Like the generation assets, Southwestern's 1,380 miles of transmission line and 25 substations are also experiencing the effects of age. Failure of these facilities would not only impact the delivery of power to Southwestern's customers, but would also ultimately impact the transmission systems of neighboring utilities and their customers within our region.

To make sure this doesn't happen, Southwestern continuously inspects its transmission equipment and evaluates the risk of failure based on its current condition, age, and life expectancy. We put this knowledge to work by prioritizing investment in critical transmission components, such as poles, conductor, transformers, protective relays, and other equipment.

REGIONAL RELIABILITY

As an integral part of our region's power delivery infrastructure, Southwestern participates in regional planning initiatives conducted by Southwest Power Pool (SPP), the Regional Transmission Organization (RTO) in our area. Through special contractual arrangements with SPP consistent with the requirements of Section 1232 of the Energy Policy Act of 2005 (EPACT), Southwestern has completed upgrades on the Federal transmission system that were identified by SPP while maintaining our statutory responsibilities as a Federal agency. Currently, we are exploring ways we may be able to more fully partner with SPP and other utilities in the region so that our Nation's transmission system will be more robust, reliable, and efficient.

COMPLIANCE WITH NERC STANDARDS

Consistent with Section 2111 of EPACT, and to do its part in ensuring the reliability of the bulk electric system, Southwestern complies with the standards of the North American Electric Reliability Corporation (NERC). According to industry reports, in 2008, there were approximately 60 mandatory NERC reliability standards. Today, there are 102. Southwestern has, in the past year, reorganized staff to manage this growing number of mandatory standards and assure a continued culture of compliance.

Right-of-Way Clearing

Inadequate Right-of-Way (ROW) clearing has been cited as a major reason for blackouts and brownouts across the country, including the Northeast Blackout of 2003. To address this, NERC's vegetation management standard requires transmission owners to regularly patrol and clear their lines. In response, Southwestern has increased our ROW clearing efforts. In FY

2010, we cleared or contracted to clear nearly 700 of our 1,380 miles of transmission line, as opposed to previous years in which our clearing averaged between 400-500 miles. Regardless of the number of miles we clear, we are able to accomplish the work through the use of alternative financing, which, again, does not require Congressional appropriations.

Physical and Cyber Security

As with ROW clearing, NERC has defined critical security standards which protect the integrity of our Nation's power grid. To comply with these standards, we've continued to make improvements to our facilities and increased the use of video monitoring at our sites. We also implemented new cyber encryption techniques to prevent the loss of personally identifiable information and to strengthen our password protection scheme. As new requirements and responsibilities emerge, we will continue to dedicate resources to maintain cyber and physical security.

WORKFORCE PLANNING

I truly believe that Southwestern's most important asset is our people. But the fact of the matter is that a great number of these people will be eligible for retirement soon. In fact, approximately 25 percent of Southwestern's workforce could walk out the door next year if they chose to do so.

To address this, Southwestern has instituted several programs, in accordance with the President's hiring reform initiatives, to ensure that we have sufficient resources to meet the challenges of the future. For example, we have increased our use of student and veterans programs and attended job fairs at local universities specifically geared toward persons with

disabilities so that we can aggressively recruit and fill the many technical positions that will become vacant in the next few years.

We are also able to address the resource and skills gaps that we identify through our regular analyses through our support services contracts for information technology and administrative services. As pressure mounts to reduce staff positions, these contracts have become more and more critical in assuring that Southwestern has adequate and appropriate staff on board to accomplish our mission. The contracts have the added benefit of supporting Native-American owned businesses in the region and providing good jobs to local residents.

FISCAL YEAR 2012 BUDGET REQUEST SUMMARY

	FY 2010 Current Appropriation	FY 2011 CR	FY 2012 Request
Southwestern Power Administration			
Operation and Maintenance	94,944	__	107,007
Subtotal, Southwestern Power Administration	94,944	__	107,007
Offsetting Collections, Annual Expenses	-31,868	__	-33,118
Offsetting Collections, Purchased Power and Wheeling (PPW)[a]	-38,000	__	-40,000
Alternative Financing	-12,000	__	-21,997
Total, Southwestern Power Administration	13,076	13,076	11,892

BUDGET HIGHLIGHTS

Southwestern's budget request reflects a 9 percent decrease in appropriations; however, Southwestern's overall program makes use of alternative financing and offsetting collections for annual expenses. Both the use of alternative financing and the authority to use offsetting

[a]Southwestern's budget request for the Purchased Power and Wheeling subprogram reflects anticipated needs to ensure adequate funding to fulfill its 1200-hour peaking power contractual obligations based on volatile market prices, limited availability of energy banks, and all but the most severe hydrological conditions.

collections for annual expenses are essential in enabling Southwestern to operate a reliable Federal power system, produce power at the lowest cost-based rates possible consistent with sound business principles, repay the American taxpayers, provide economic benefits to the region, and ensure that our Nation receives as much clean, renewable, and domestically produced power and energy as possible.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions that you or the Members of the Subcommittee may have.