STATEMENT OF
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BEFORE THE

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

APRIL 16, 2013

EXAMINING THE PROPOSED FISCAL YEAR 2014 SPENDING, PRIORITIES AND THE MISSIONS OF THE BUREAU OF RECLAMATION, THE FOUR POWER MARKETING ADMINISTRATIONS AND THE U.S. GEOLOGICAL SURVEY'S WATER PROGRAM

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 (FY) 2014 budget request for the Southwestern Power Administration (Southwestern).

Southwestern, as you know, is committed to marketing and delivering clean, renewable, cost-based hydropower to America's heartland. Our customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas are not-for-profit municipalities, electric cooperatives, and military installations to which Southwestern distributes the power so that the most widespread use can be enjoyed in our region of the country.

Our mission, as stated in the Flood Control Act of 1944 and other authorizing legislation, is well-known to those who are familiar with Southwestern. I have come here today to talk about that mission and the other initiatives and programs that we hope will make the power we market even more valuable to our customers and to the Nation.

SOUTHWESTERN PROFILE

As one of four Power Marketing Administrations (PMAs) in the United States, Southwestern markets approximately 2,174 megawatts (MW) of hydroelectric power from 24 U.S. Army Corps of Engineers (Corps) multipurpose dams. We operate and maintain 1,380 miles of high-voltage transmission lines, 25 substations and switching stations, and a communications system that includes digital microwave, VHF radio, and fiber optic components. Our government and contract employees 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

Southwestern recovers 100 percent of its costs through the rates charged to our customers. Therefore, we have a duty to our rate-payers to contain these costs.

Every year, during the respective Power Repayment Study (PRS) for each of our three rate systems, Southwestern reviews the projected and actual costs of operating and maintaining the generation and transmission facilities. We conduct this review to assure that sufficient revenues are being collected to repay these costs, along with the principal and interest on the Federal investment. We work within our own agency to accurately capture expenses and with the Corps to account for expenses related to the hydropower purpose. Through this process, Southwestern staff develops and reprioritizes an annual spending plan to ensure that revenues projected in those rates are sufficient to fund total program costs.

Yet even with the most careful planning, there continues to be increased upward pressure on costs, such as those related to compliance with expanding regulatory initiatives and increased maintenance and replacement of aging generating and transmission assets. The last rate increase which affected the majority of our customers was 5.4 percent and went into effect in January 2012. For 2013, one of our isolated rate projects, R.D. Willis experienced a 15.4 percent rate increase. The other rates remained the same.

NERC REQUIREMENTS AND CYBER SECURITY

Fortunately, we have largely contained these costs through good planning even as we proactively address the expansion of mandatory reliability initiatives of the North American Electric Reliability Corporation (NERC). To address the escalation, Southwestern has successfully re-aligned our existing resources to take advantage of in-house expertise to create a division devoted entirely to compliance with standards and regional transmission planning policy. This division works with other regional stakeholders and within the agency to assure that Southwestern continues its culture of compliance. The number of actively monitored reliability standards has more than doubled since the mandatory program began, with well over 100 in effect today. NERC cyber-security standards and cyber-security defensive measures are also increasing in complexity and demand for resources.

ACCOMPLISHMENTS IN REGIONAL PLANNING

Southwestern's participation in the regional planning initiatives of the Southwest Power Pool (SPP) Regional Transmission Organization (RTO) has been notably successful. We addressed growing transmission line loading, which has been observed in both SPP and Southwestern transmission system studies, by upgrading 22 miles of 161-kV transmission line between the Missouri cities of Asherville and Idalia. The line was completed and returned to service during the summer of 2012. A second upgrade involving an additional 15 miles of 161-kV transmission line near the Missouri cities of Green Forest, Poplar Bluff, and Asherville is scheduled for completion by the summer of 2014.

NERC ALERT

We responded to a utility-wide NERC Alert calling for a review of transmission line ratings by conducting a survey of our entire transmission system using airborne LiDAR (Light

Detection and Ranging). Southwestern recently completed all necessary analyses to determine the operating capabilities of approximately 40 percent of the surveyed transmission lines. Where results of the analyses indicate that one or more wire-to-ground or wire-to-wire clearances may limit line capacity, we initiated a system-wide construction project to increase such clearances where necessary in order to remove identified limits. We expect to complete all analyses during Calendar Year (CY) 2013 and related construction activities by the end of CY 2014.

FUNDING FOR CORPS GENERATING FACILITIES

Our success with customer funding of non-routine maintenance at Corps facilities continues to expand, with greater commitment coming from all Federal power stakeholders. To date under the Jonesboro Memorandum of Agreement (MOA) among Southwestern, the Corps, and City Water and Light Plant of the City of Jonesboro, Arkansas, nearly $300 million has been approved to replace or refurbish failing and obsolete equipment at Corps-owned facilities.

Of this $300 million, over half – nearly $170 million – is slated for the five major powerhouse rehabilitations currently underway or being planned for the next few years at Denison Dam on the Oklahoma/Texas border; Stockton Dam in Missouri; Ozark Dam in Arkansas; Webbers Falls Dam in Oklahoma; and Whitney Dam in Texas.

Yet the fact is, in addition to these major rehabilitations, the remaining 19 hydropower plants in Southwestern's marketing area could use some kind of major work sooner rather than later in order to preserve these valuable assets. Southwestern is currently working through its options of balancing outages so that it can meet its contractual commitments while keeping the plants in service. The successful launch of the Southwestern Customer Funding Initiative (SCFI) last year should ensure that we will be able to plan and fund necessary capital projects at Corps plants over the next 30 years. These funds do not require Congressional appropriations, and they are crucial to providing a reliable funding stream, minimizing outages and rate impacts, and keeping the generation assets reliable and available. I'm happy to say that the Corps has received customer funding to begin the engineering analyses necessary to determine which powerhouse should be next to undergo rehabilitation.

SYSTEM CONDITIONS AND PURCHASED POWER

During the past year, Southwestern's marketing area experienced extreme drought conditions. Unfortunately, Southwestern's system has very limited reservoir storage and is very dependent on annual rainfall. The extended period of low inflow associated with the on-going drought resulted in purchasing power to supply about one half of Southwestern's energy obligations to its customers. Within its funding authority, Southwestern utilized its power receipts to purchase the power without the need for Congressional appropriations. Not only did Southwestern's actions fulfill its obligations to its power customers, it also maintained reservoir levels in the region in support of other congressionally authorized purposes. Southwestern continues to work with its customers to explore additional funding options that further optimize Southwestern's operations during droughts.

CLEAN, RENEWABLE, AND NON-EMITTING ENERGY

On average, Southwestern markets 5.6 billion kWh of energy annually with revenues of $191.6 million. The hydropower marketed by Southwestern saves a significant amount of fuel that would otherwise have to be obtained from other sources, usually hydrocarbon-based. In an average year, the renewable energy marketed by Southwestern saves the American people the equivalent of 8.9 million barrels of oil, 2.7 million tons of coal, or 54.5 billion cubic feet of natural gas. This cost-based energy also prevents the emission of greenhouse gases equivalent to 4.7 million tons of carbon dioxide, 13.9 thousand tons of sulfur dioxide, and 6.2 thousand tons of nitrogen oxides.[1]

WORKFORCE PLANNING

Changes in the electric utility industry, such as compliance with NERC initiatives, the implementation of day-ahead and real time markets, implementation of statutory authority, and the merger of transmission organizations, have increased the demand on Southwestern's human technical resources.

Even as Southwestern has realigned staff to meet business needs and focus on expanding and new initiatives, we, like many others in the electrical utility industry, face the challenge of replacing a retiring workforce, especially in technical areas. By the end of FY 2014, 41 percent of Southwestern's workforce could retire if they chose to do so, leaving gaps in critical technical and professional areas of the agency.

Given these potential gaps, Southwestern has instituted several programs 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 so that we can aggressively recruit and create a pool of eligible students to fill the many technical positions that will become vacant in the next few years. Our Veteran efforts have been notable. In fact, Southwestern recently received recognition for outstanding achievements in Veteran hiring from the Department of Energy. Southwestern was one of the top programs within DOE supporting the President's Management Agenda for Veteran Preference Hiring. We are also implementing a program in conjunction with local technical colleges to develop power system dispatchers for work in the industry.

I have also asked managers to make more efficient use of existing staff by sharing resources across organizational elements. We have already implemented this strategy in the areas of NERC compliance and regional transmission planning. In the future, we will expand the application of this philosophy.

Certain other resource and skills gaps are being addressed through our support services contracts for information technology, NERC compliance, cyber security, and administrative services. These contracts have become increasingly important in assuring that Southwestern has adequate and appropriate staff on board to accomplish our mission.

[1] Emission savings computed using 2000-2009 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-2010.

SAFETY

Employee safety is an area of emphasis for Southwestern. This emphasis resulted in a decreased safety incident rate in 2012 from 2011, which resulted in a 2012 Safety Award of Excellence from the American Public Power Association. The award noted that Southwestern's performance was "indicative of high standards in the workplace" and "safe and productive utility operations."

HURRICANE SANDY RESPONSE

In the aftermath of Hurricane Sandy in early November 2012, and at the request of DOE under the direction of the Federal Emergency Management Agency (FEMA), Southwestern sent personnel from our maintenance facilities in Oklahoma, Arkansas, and Missouri to join crews from Western Area and Bonneville to assist FirstEnergy Corporation with restoring electric service in some of the hardest hit areas of New Jersey. Southwestern's team, which was the first PMA team to mobilize, departed on November 2, 2012 and included 13 linemen, 10 equipment operators, eight substation electricians, and management and logistics personnel. The mile-long convoy traveled to New Jersey with 30 pieces of heavy equipment including boom trucks, bucket and line trucks, pole trucks, and other vehicles.

Once in New Jersey, our crews carried out their restoration assignments under a variety of challenging conditions. As a result of their strict adherence to safety guidelines, no injuries or accidents occurred during the two-week, 4,000-mile roundtrip deployment. The restoration assistance work ended November 13, 2012, and all crews returned home by November 16, 2012. FirstEnergy, which, along with FEMA, funded all costs associated with Southwestern's work, complimented our crews on the quality and the efficiency with which they completed their assignments. I am very proud of our crews, and I'm proud to report the mission was a success.

BUDGET HIGHLIGHTS

Southwestern's request for appropriations is $11.9 million (Attachment 1). This budget also reflects the continued use of alternative financing and offsetting collections for annual expenses. Both the use of alternative financing and the authority to use offsetting collections for annual expenses are essential in enabling Southwestern to accomplish its mission with minimal Congressional appropriations.

CONCLUSION

Marketing and delivering Federal hydropower – that's Southwestern's mission. Yet within that simple phrase resides a multitude of tasks and responsibilities: responding to changes in the electric utility industry; operating a reliable Federal power system; producing power at the lowest cost-based rates possible consistent with sound business principles; repaying the American taxpayers; providing economic benefits to the region and the Nation; and ensuring that the United States of America receives as much clean, renewable, and domestically produced hydroelectric 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.

Attachment 1

Southwestern Power Administration
FISCAL YEAR 2014 BUDGET REQUEST SUMMARY
(Dollars in thousands)

	FY 2012 Current	FY 2013 Annualized CR	FY 2014 Request
Program Direction (PD)	31,889	32,084	29,939
Operation and Maintenance (O&M)	14,346	14,434	13,598
Construction (CN)	10,772	10,838	6,277
Purchase Power and Wheeling[2]	50,000	50,306	52,000
Subtotal, Southwestern Power Administration	107,007	107,662	101,764
Offsetting Collections, PD (annual expenses)	-25,687	-25,844	-28,267
Offsetting Collections, O&M (annual expense)	-7,431	-7,477	-5,297
Offsetting Collections, PPW	-40,000	-40,245	-42,000
Alternative Financing, PD	-4,740	-4,769	-0
Alternative Financing, O&M	-2,153	-2,166	-2,308
Alternative Financing, CN	-5,104	-5,135	-2,000
Alternative Financing, PPW	-10,000	-10,061	-10,000
Total, Southwestern Power Administration	11,892	11,965	11,892

[2]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.