

STATEMENT OF
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON WATER, POWER AND OCEANS
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
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EXAMINING THE PROPOSED FISCAL YEAR 2016 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, I am Kenneth Legg, Administrator of the Southeastern Power Administration (Southeastern). I appreciate this opportunity to represent Southeastern and to provide highlights of the Fiscal Year 2016 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 a 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). The projects are separated into four marketing systems and serve an 11-state area. These systems are integrated hydraulically, financially, and electrically; and have separate rate and repayment schedules.

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

Southeastern does not own or operate any transmission facilities, but delivers contracted Federal power through transmission lines and substations owned and operated by others. Southeastern compensates these transmission providers using the revenue from electrical power sales.

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

Program Accomplishments

In FY 2014, Southeastern sold approximately 6.9 billion kilowatt hours of energy to 486 wholesale customers, with revenues totaling approximately \$291 million dollars. Southeastern supports the Department of Energy's (DOE) strategic goals, aligning its activities with Goal 1, "Science and Energy" Objective 2, "Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure." The Strategic Plan identified targeted outcomes to achieving these objectives, and Southeastern is responsible for supporting Strategic Plan outcomes through its Budget Request. This is accomplished through two sub-programs (Purchased Power and Wheeling, and Program Direction) supported by appropriations offset by Federal power receipts and alternative financing arrangements. Alternative funding sources include net billing¹ and bill crediting. In keeping with this strategic goal, Southeastern performs its mission in a manner that promotes maintaining and upgrading our region's Federal energy infrastructure. These efforts help to ensure reliable and efficient delivery of Federal power, which is an integral part of the Nation's electric energy supply.

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 Southeastern's management team and other critical staff, and recruiting highly-skilled technical personnel in the near future.

Clean Energy and Energy Conservation

The Southeastern Federal Power System contributes program benefits by reducing carbon emissions from fossil-fueled energy sources through production and marketing of hydroelectric power, which adds no carbon to the environment. Southeastern's stream-flow energy of 6,416 GWh in FY 2014 offset fossil fuel generation resources and reduced overall CO₂ emissions by 4.4 million tons, which is equivalent to burning 4.7 million tons of coal.²

Southeastern supports the Administration's and DOE's clean energy goals 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 through DOE's Energy Efficiency and Renewable Energy programs to ensure municipal and cooperative utilities in the southeast benefit from Federal services and technologies.

Program Goals

Wolf Creek and Center Hill Projects

Southeastern will continue to work with the Corps on the Wolf Creek and Center Hill dam safety issues. Since January 2007, Cumberland River Basin operations have been severely impacted by power generation restrictions due to dam safety concerns at both Wolf Creek and Center Hill projects. These projects were experiencing serious safety problems and were considered to be at

¹ Southeastern's authority to use net billing and bill crediting is inherent in the authority provided by the Flood Control Act of 1944, and has been affirmed by the Comptroller General. To the Honorable Secretary of the Interior, B-125127 (February 14, 1956) available at 1956 WL 3064 (Comp. Gen.).

² <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>.

high risk of failure, as a result of the Karst limestone features which comprise their foundations. Through the years, these foundation features allowed water to seep under the dam, eroding material and creating voids and cavities in the abutments. Based on the findings of External Peer Review Panels for Dam Safety, both projects were classified as Corps' Class I designation (Urgent and Compelling) under the Corps' Dam Safety Action Classification System. To reduce the risk to human life, health, property, and severe economic loss in the region, immediate operational restrictions were implemented to relieve pressure and stress on the foundations of the projects. The lake elevation at the Wolf Creek Project was lowered to 680 feet, and the operating level of the lake at the Center Hill Project was limited to a low elevation of 620 feet to a high elevation of 630 feet during the year. Beginning in 2007, comprehensive dam safety repairs began at the projects, consisting of an extensive grouting program and the installation of cutoff walls in order to remedy the seepage issues at the projects.

In spring of 2013 the repairs at Wolf Creek were completed and the project underwent a period during which the lake was partially raised so the dam safety repair measures could be tested and evaluated. After successful testing, in 2014 the lake was allowed to return to historic levels and on July 1, 2014 peaking power operations resumed at Wolf Creek. The dam safety repair work at Center Hill is continuing and is currently expected to be completed in late 2017.

Dam Safety Impact

The reduced lake elevation of the Center Hill Project continues to impact power production in the Cumberland System. The reduction in the quantity of water stored at the Center Hill Lake has resulted in reduced amounts of capacity and energy available for scheduling in the system and, consequently, the 216 municipalities and cooperatives Federal power customers served by the Cumberland System will be receiving a reduced amount of power until the dam safety work is completed in 2017.

Compliance Requirements

In order to maintain compliance with North American Electric Reliability Corporation and SERC Reliability Corporation reliability standards, Southeastern will ensure its power system operators are recertified, as necessary, so available power can be delivered to the transmission system for the benefit of Southeastern's customers.

Southeastern's Relationship with Customers and Partners

Southeastern maintains a cooperative working relationship with its preference customers and the Corps. Financial and operational issues are discussed regularly among members of the Southeastern Federal Power Alliance and Team Cumberland. The Alliance was established in 1991 and includes representatives from Southeastern, the Corps, South Atlantic Division, and Southeastern's 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, Great Lakes and Ohio River Division, and Southeastern's preference customers located in the Cumberland System. Both groups meet on a biannual basis.

Southeastern's FY 2016 Budget Request

Southeastern's FY 2016 Budget requests a net appropriation of \$0 (Attachment 1). It provides \$6.9 million for Program Direction expenses, which are completely offset by collections for these annual expenses, and \$83.6 million for Purchase Power and Wheeling costs, which are entirely financed with offsetting collections and net billing. Southeastern relies on existing transmission providers to transmit Federal power to its customers at an estimated cost of \$42 million, and Southeastern anticipates purchasing \$41.6 million in replacement power and pumped storage energy. 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 FY 2016 Budget Request.

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2016 Budget Request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.

Attachment 1

**Southeastern Power Administration
Overview
Appropriation Summary by Program**

(Dollars in Thousands)

	FY 2014 Current	FY 2015 Enacted	FY 2016 Request
Southeastern Power Administration			
Purchase Power and Wheeling (PPW)	93,284	89,710	83,600
Program Direction (PD)	7,750	7,220	6,900
Subtotal, Southeastern Power Administration	101,034	96,930	90,500
Offsetting Collections, PPW	-78,081	-73,579	-66,500
Alternative financing, PPW	-15,203	-16,131	-17,100
Offsetting Collections, Annual Expenses, PD	-7,750	-2,220	-6,900
Use of Prior Year Balances, PD		-5,000	
Total, Southeastern Power Administration	0	0	0