

STATEMENT OF
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
SUBCOMMITTEE ON WATER AND POWER
U.S. SENATE
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STATE OF THE AGENCY

Madam Chairwoman and members of the Committee, I am Kenneth Legg, Administrator of the Southeastern Power Administration (Southeastern). I appreciate this opportunity to share the current state of the agency, including program issues and accomplishments for Southeastern.

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 approximately 3400 megawatts of 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. Each system is integrated hydraulically, financially, and electrically, with separate rate and repayment schedules. In FY 2018, Southeastern sold nearly seven billion kilowatt-hours of energy to 485 wholesale customers with revenue totaling \$307 million. Those benefits reached over twelve million homes and businesses.

Southeastern coordinates the operation of the Corps projects from our dispatch center using customers' load schedules and the North American Electric Reliability Corporation's (NERC's) power balancing control performance 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 neighboring utility companies. 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.

In addition, 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 security and electric energy supply.

Program Goals and Accomplishments

Federal Power Program Sustainability

Southeastern is committed to the mission detailed in our governing legislation, the Flood Control Act of 1944, to employ sound business principles in delivering power to our customers at the lowest possible rates. In 2020, Southeastern will propose new 5-year rates for the Cumberland and Kerr-Philpott marketed electrical systems. The Federal Energy Regulatory Commission (FERC) confirms all of Southeastern's rates on a final basis.

Prior to the 2008 economic downturn, our power customers forecast their anticipated load growth and acquired additional capacity to meet their expected demand. A decade later, actual loads lag well behind projections and many Southeastern customers are purchasing capacity they cannot use. Municipalities and electric cooperatives in Southeastern's service area will make economic decisions to eliminate paying for excess capacity.

Southeastern received a letter dated December 21, 2017, from a power sales customer of more than 60 years providing a two year notice of termination of the municipality's power sales contract with Southeastern. In early 2018, ten additional preference customers notified Southeastern of their desire to terminate their Federal power contracts for a combined total of more than 85 megawatts of relinquished hydroelectric generation in 2020. Southeastern solicited interest in supplemental allocations of the affected marketed system customers. Due to the response of interest in supplemental allocations from 63 cooperatives and municipalities across five states, Southeastern was able to coordinate transmission service, expedite most of the terminations, and grant supplemental allocations as early as January 1, 2019. All power will be marketed with no loss in revenue prior to contract terminations of these former customers.

Federal Hydropower Infrastructure Investment

Section 216 of the Water Resources Development Act of 1996, as amended by section 212 of the Water Resources Development Act of 2000 (33 U.S.C. 2321a), enables hydropower customers to provide the Corps funding to improve generation infrastructure reliability and capability. Since 2004, at the direction of our customers, Southeastern has transferred \$518 million of energy and capacity sale receipts to accomplish hydropower equipment replacements and renewals.

The Commander of the Corps' South Atlantic Division, the President of the Southeastern Federal Power Customers, and I signed an amendment to the Memorandum of Agreement on February 19, 2019. The amendment formalizes procedural changes that have evolved since the inception of this unique funding arrangement but most importantly, gives our Florida customers the ability to fund major maintenance work and assure the reliability of the Jim Woodruff System.

Southeastern's Cumberland System customers have agreed to fund \$1.2 billion of planned rehabilitations of the nine hydroelectric facilities in the Corps' Nashville District. The first generator and turbine replacement is complete and operational at Center Hill Project. In addition to increasing marketable output, the new turbines have the capability to alleviate seasonal operational restrictions due to downstream environmental concerns. Customers have authorized funding to rehabilitate both the Barkley and Old Hickory Projects. The Corps will have the majority of the required funding by the end of Fiscal Year 2019.

Rate Development

Southeastern develops proposed power system rates that are placed into effect on an interim basis by DOE and are approved on a final basis by FERC for five-year terms. Annual adjustments, based on actual operational results and infrastructure investment placed into service, enable rates to respond accordingly within the term to assure proper repayment. Southeastern reviews all marketed system rates annually to ensure that revenue is adequate to meet repayment obligations. Southeastern will continue to work openly with customers to improve the rate development process.

Compliance Requirements

In order to maintain compliance with NERC and SERC Reliability Corporation reliability standards, Southeastern will continue to ensure that its power system operators are recertified as necessary. These are important positions we work to retain and attract to our small community, so available power can be delivered to the transmission system for the benefit of Southeastern's customers and the Nation.

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.

Over the past two and a half years, fellow Administrators and I have met with Corps Commanding Generals to discuss topics critical to the sustainability of our jointly managed Federal Hydroelectric Power Systems. Areas identified where changes can reap benefits include infrastructure acquisition strategies, cost accounting, water storage program administration, operations and maintenance staffing efficiencies and common messaging communication plans. In 2018, the effort was expanded to also include the Bureau of Reclamation. We look forward to making further progress on the issues identified in order to improve and add value to the Federal hydropower program, especially during times of competitive energy markets and substantial re-investment in the infrastructure assets.

Southeastern's FY 2020 Budget Request

Southeastern's FY 2020 Budget requests a net appropriation of \$0 (Attachment 1). It provides \$6.6 million for Program Direction expenses, which are completely offset by collections for these annual expenses and use of prior year balances, and \$80.4 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 annual cost of \$45 million. In recent years, dependent on hydrology and energy market volatility, Southeastern has purchased between \$4 million and \$85 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 on appropriations. There are no new program starts included in Southeastern's FY 2020 Budget Request.

Thank you again for the opportunity to submit this testimony.

Attachment 1

**Southeastern Power Administration
Overview
Appropriation Summary by Program
(dollars in thousands)**

	FY 2018 Enacted	FY 2019 Enacted	FY 2020 Request	FY 2020 Request vs. FY 2019 Enacted
Southeastern Power Administration				
Purchase Power and Wheeling (PPW)	66,070	68,824	80,419	11,595
Program Direction (PD)	6,379	6,500	6,597	97
Subtotal, Southeastern Power Administration	72,449	75,324	87,016	11,692
Offsetting Collections, PPW	-51,000	-55,000	-65,715	-10,715
Alternative Financing, PPW	-15,070	-13,824	-14,704	-880
Offsetting Collections, Annual Expenses, PD	-6,379	-6,500	-6,597	-97
Total, Southeastern Power Administration	0	0	0	0
Federal FTEs	44	44	44	0