

STATEMENT OF
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BEFORE THE

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

MARCH 20, 2012

EXAMINING THE PROPOSED FISCAL YEAR 2013 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, I am Kenneth Legg, Administrator of the Southeastern Power Administration (Southeastern). I appreciate this opportunity to represent Southeastern and to provide for you today the highlights of the Fiscal Year (FY) 2013 Budget Request for the Southeastern Power Administration.

PROFILE OF SOUTHEASTERN POWER ADMINISTRATION

The mission of Southeastern is to market and deliver at wholesale 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 of Engineers), which are separated into four marketing systems serving 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 Corps of Engineers' 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.

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, on an annual basis, operation and maintenance expenses, purchased power and transmission expenses, and expensed

interest. Rate schedules also include the costs of capital investments that are recovered over a reasonable number of years.

PROGRAM ACCOMPLISHMENTS

In FY 2011, Southeastern sold approximately 6,239 gigawatt-hours (GWH) of energy to 491 wholesale customers, with revenues totaling approximately \$265 million dollars. Southeastern supports the Department of Energy's (DOE) strategic goals, aligning its activities with Goal 1, "Transforming our Energy Systems;" Objective A, "Deploy the Technologies We Have." 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 generation of 5,453 GWH in FY 2011 offset fossil fuel resources and reduced overall CO₂ emissions by 3.8 million metric tons, which is equivalent to burning 20,475 rail cars of coal.²

Southeastern supports the Administration's and DOE's clean energy targets 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 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.

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. Honorable Secretary of the Interior B-125.127 (February 4, 1956) available at WL 3064 (Comp. Gen.).

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

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 remain in place for several more years. Southeastern will operate under an interim operations strategy until we can resume normal operations.

Wolf Creek and Center Hill Projects

The Cumberland River Dam Safety issue will continue to be a major concern for the remainder of FY 2012 and through FY 2014. Recently, Cumberland System River Basin power generation was severely impacted by the operational restrictions determined to be necessary as a result of dam safety concerns at these projects. On January 22, 2007, the Corps of Engineers lowered the lake elevation of the Wolf Creek Project to 680 feet to reduce the risk to human life, health, property, and severe economic loss in the region. This decision came in response to numerous studies, conducted by dam safety experts, which concluded that Wolf Creek Dam was at high risk of failure. We expect that the 680 foot operating level will continue in place until ongoing remedial efforts at the project show a reduced risk of failure. Remediation work commenced in 2007.

Since the 1960s, 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 water to seep under the dam, eroding material and creating voids and cavities in the abutments. 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. To relieve pressure and stress on the foundation the range of operation for the project is from a low elevation of 620 feet to a 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 on both projects is tentatively scheduled to be completed during FY 2014.

Dam Safety Impact

The decrease in the lake elevation of the Wolf Creek and Center Hill Projects 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 these projects, virtually all in-lake and in-stream purposes throughout the entire Cumberland River System have been dramatically impacted, either by the reduced storage or the corresponding reduction in flows. 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 altered river basin operational criteria. 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 have been forced to replace this generation with costly alternative sources of power. At the onset of the altered river operation for the Cumberland System, Southeastern implemented an interim marketing strategy for system generation in order to provide a method of equitably sharing any remaining system generation benefits among all of Southeastern's customers. This revised operation for the Cumberland System provides 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.

Compliance Requirements

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

SOUTHEASTERN'S RELATIONSHIP WITH ITS CUSTOMERS AND THE CORPS OF ENGINEERS

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 operations 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 of Engineers' 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 of Engineers' Great Lakes and Ohio River divisions, and Southeastern's preference customers located in the Cumberland System. Both groups meet on a biannual basis. Southeastern is committed to maintaining open communications with its customers and the Corps of Engineers.

2013 BUDGET REQUEST

Southeastern's FY 2013 budget requests a net appropriation of \$0 (Attachment 1). It provides \$8.7 million for Program Direction expenses, which are completely offset by collections for these annual expenses, and \$103.2 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 a cost of \$38.5 million, and Southeastern estimates it will purchase \$64.7 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 Fiscal Year 2013 budget request.

Conclusion

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2013 budget request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.

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

	FY 2011 Current	FY 2012 Enacted	FY 2013 Request
Southeastern Power Administration			
Purchase Power and Wheeling (PPW)	85,264	114,870	103,170
Program Direction (PD)	7,638	8,428	8,732
Subtotal, Southeastern Program Level	92,902	123,298	111,902
Offsetting Collections, PPW	-70,806	-100,162	-87,696
Alternative financing, PPW	-14,458	-14,708	-15,474
Offsetting Collections, Annual Expenses	-7,638	-8,428	-8,732
Total, Southeastern Power Administration	0	0	0