

STATEMENT OF  
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U.S. DEPARTMENT OF ENERGY  
BEFORE THE  
SUBCOMMITTEE ON WATER AND POWER  
COMMITTEE ON NATURAL RESOURCES  
U.S. HOUSE OF REPRESENTATIVES  
MARCH 25, 2014

EXAMINING THE PROPOSED FISCAL YEAR 2015 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 2015 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 2013, Southeastern sold approximately 7.1 billion kilowatt hours of energy to 486 wholesale customers, with revenues totaling approximately \$303 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 billing<sup>1</sup> 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 7,662 GWh in FY 2013 offset fossil fuel resources and reduced overall CO<sub>2</sub> emissions by 6 million tons, which is equivalent to burning 23,227 rail cars of coal.<sup>2</sup>

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. 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. The Cumberland River Dam Safety issue will continue as a concern through fiscal year 2017. On January 22, 2007, the Corps lowered the lake elevation of the Wolf Creek Project to 680 feet to

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<sup>1</sup> 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.).

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

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 the Wolf Creek Dam was at high risk of failure. The project has been operated at a reduced elevation since remediation work began in 2007. Normal generation scheduling operations at Wolf Creek Dam are expected to resume in 2015.

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' Class I designation (Urgent and Compelling) under the Corps' 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 the Center Hill Project is tentatively scheduled to be completed during FY 2017.

#### 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 River 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 basin 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 water 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, river flows dictate when power is generated by the Corps. Southeastern will continue this method of operation until Wolf Creek reservoir is again full in summer 2015 and more normal operations are possible.

## **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 2015 Budget Request**

Southeastern's FY 2015 Budget requests a net appropriation of \$0 (Attachment 1). It provides \$7.2 million for Program Direction expenses, which are completely offset by collections for these annual expenses, and \$89.7 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 \$40 million, and Southeastern anticipates purchasing \$49.7 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 FY 2015 Budget Request.

Mr. Chairman, this concludes my presentation of Southeastern's Fiscal Year 2015 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 2013<br>Current | FY 2014<br>Enacted | FY 2015<br>Request |
|---|--------------------|--------------------|--------------------|
| Southeastern Power Administration           |                    |                    |                    |
| Purchase Power and Wheeling (PPW)           | 114,870            | 93,284             | 89,710             |
| Program Direction (PD)                      | 8,428              | 7,750              | 7,220              |
| Subtotal, Southeastern Power Administration | 123,298            | 101,034            | 96,930             |
| Offsetting Collections, PPW                 | -100,162           | -78,081            | -73,579            |
| Alternative financing, PPW                  | -14,708            | -15,203            | -16,131            |
| Offsetting Collections, Annual Expenses, PD | -8,428             | -7,750             | -2,220             |
| Use of Prior Year Balances, PD              |                    |                    | -5,000             |
| Total, Southeastern Power Administration    | 0                  | 0                  | 0                  |