

STATEMENT OF
JAMES K. MCDONALD
ADMINISTRATOR
SOUTHWESTERN POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

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, thank you for the opportunity to share with you today the highlights of the President's Fiscal Year (FY) 2013 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 which distribute the power so that the most widespread use can be enjoyed by the citizens 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 microwave, VHF radio, and digital 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 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 new regulatory initiatives and increased maintenance and replacement of aging generating and transmission assets. These rising costs, as reflected in the 2011 PRS for our integrated system, contributed to a 5.4 percent rate increase. This rate increase, which went into effect in January 2012 for the Integrated Rate system, applies to the majority of our customers.

NERC REQUIREMENTS AND REGIONAL PLANNING

Fortunately, good planning has allowed us to keep our costs down as we proactively address the escalation of mandatory reliability initiatives of the North American Electric Reliability Corporation (NERC). The number of reliability standards has more than doubled since the mandatory program began, with well over 100 in effect today.

To address this marked increase, Southwestern re-aligned our existing resources in 2011, taking 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. This effort paid off in 2011, when Southwestern was found to be 100 percent compliant with applicable NERC standards during an August 2011 NERC audit.

ACCOMPLISHMENTS IN REGIONAL PLANNING

Southwestern's participation in regional planning initiatives by the Southwest Power Pool (SPP) Regional Transmission Organization (RTO) has been notably successful. In response to SPP congestion studies, we replaced a transformer at the Corps' Eufaula Dam switchyard, which increased capacity and improved electrical flow on the regional grid. We also completed an upgrade to the electrical bus and terminating equipment at the Corps' Dardanelle switchyard, which allowed more efficient power transfers for users of the bulk electrical system. On our transmission system, we designed and procured materials necessary to rebuild 22 miles of our 161-kilovolt transmission line in Missouri, which is scheduled to start construction this spring. We have also begun an initiative to survey and categorize the thermal operating capabilities of Southwestern's transmission lines. This last initiative will be used to respond to a NERC alert

for facility ratings and will also greatly assist Southwestern's engineers in the design of transmission line improvements.

RECAPITALIZATION OF CORPS GENERATING FACILITIES

Southwestern and its customers are well-aware that the generating facilities within our region are approaching the age where a major re-investment of capital is needed. In fact, we have been aware of this for some time, having spent the last decade providing over a quarter of a billion dollars to the Corps under the Jonesboro Memorandum of Agreement (MOA) among Southwestern, the Corps, and City Water and Light Plant of the City of Jonesboro, Arkansas, to keep generating assets available so that we can meet our contractual commitments.

Hydropower Modernization Initiative

The Corps recently proposed its own initiative to address the investment needs at its aging powerplants. The Hydropower Modernization Initiative (HMI) involves a Nation-wide assessment of critical hydropower elements such as turbines, generators, governors, exciters, and other major equipment.

As we've proven over the last decade, Southwestern and its customers support the Corps' need to keep its powerplants running. To this end, Southwestern and its customers have presented the Corps with the Southwestern Customer Funding Initiative (SCFI). SCFI is a plan to recapitalize the existing generating assets, including rehabilitation and replacement of major components, in Southwestern's region over a 30-year period using the existing funding mechanism under the Jonesboro MOA.

Our customers have committed to funding \$1.3 billion over the next 30 years to implement the SCFI plan, and they took a critical first step in the fall of 2011 by approving the funding of engineering studies at five powerplants in our area identified by the Corps as being next in line for major replacement work. This 30-year customer funded plan will not require Congressional appropriations, but will assure that the Corps has a reliable funding stream for major replacement work, minimize planned outages and rate impacts, and keep hydropower reliable and available in our marketing area.

Expanded Use of Hydropower and Job Creation

Besides keeping existing generating assets functioning, the SCFI plan has the potential to increase hydropower capacity while creating new jobs for the Nation. Improved technologies used in the SCFI recapitalization effort generally result in uprates in capacity which translate into more renewable power to meet our country's needs.

Each major hydroelectric powerplant rehabilitation spans multiple years and requires the removal and restoration of massive components and the related systems that support the production of hydropower. It's major work that creates real jobs. Such work is currently underway with the ongoing rehabilitations in Southwestern's marketing area at Stockton Dam in Missouri; Ozark Dam in Arkansas; Webbers Falls Dam in Oklahoma; and Whitney Dam in Texas.

SYSTEM CONDITIONS AND PURCHASED POWER

During the past year, system conditions have been relatively normal, with a few periods of below normal inflow. But with a system that has very limited reservoir storage and is very dependent on annual rainfall, extended periods of low inflow can often mean increased purchases. In general, Southwestern strives to avoid purchasing power to keep costs down, but in the past year, we have had to make some modest purchases due to severe drought in the western part of our marketing area. I am able to report, however, that we have utilized the various funding mechanisms we have in place to meet our contractual obligations without impacting appropriations.

CLEAN, RENEWABLE, AND NON-EMITTING ENERGY

While audited numbers are still being finalized, pre-audit numbers place the quantity of energy marketed in FY 2011 as 4.1 billion kilowatt-hours (kWh), with revenues of \$169.7 million from the sale of energy, capacity, and transmission services. On average, Southwestern markets 5.6 billion kWh of energy annually with revenues of \$186.3 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 9.2 million barrels of oil, 2.7 million tons of coal, or 56.5 billion cubic feet of natural gas. This cost-based energy also prevents the emission of greenhouse gases equivalent to 4.6 million tons of carbon dioxide, 13.9 thousand tons of sulfur dioxide, and 11.1 thousand tons of nitrogen oxides.¹

WORKFORCE PLANNING

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 an aging workforce, especially in technical areas. As of this year, approximately 27 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. 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 NERC

¹ Emission savings computed using 1998-2007 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-2009.

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 and administrative services. These contracts have become increasingly important in assuring that Southwestern has adequate and appropriate staff on board to accomplish our mission.

BUDGET HIGHLIGHTS

Southwestern's request for appropriations remains the same as for FY 2012: \$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.

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.

FISCAL YEAR 2013 BUDGET REQUEST SUMMARY
(dollars in thousands)

	FY 2011 Current	FY 2012 Enacted	FY 2013 Request
Southwestern Power Administration			
Operation and Maintenance	96,455	107,007	99,029
Subtotal, Southwestern Power Administration	96,455	107,007	99,029
Offsetting Collections, Annual Expenses	-31,868	-33,118	-32,308
Offsetting Collections, Purchased Power and Wheeling (PPW) ²	-38,000	-40,000	-41,000
Alternative Financing	-13,537	-21,997	-13,829
Total, Southwestern Power Administration	13,050	11,892	11,892

²Southwestern'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.