

STATEMENT OF
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BEFORE THE

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

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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, thank you for the opportunity to share with you today the highlights of the President's Fiscal Year (FY) 2015 Budget Request for the Southwestern Power Administration (Southwestern).

I am proud to report that I have completed my first full year as Administrator of Southwestern. During this time, I have come to appreciate the hard-working staff at Southwestern and the Department of Energy whose efforts support Southwestern's mission.

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 to which Southwestern distributes the power so that the most widespread use can be enjoyed in our region of the country.

SOUTHWESTERN PROFILE

Over the last year, I have learned a great deal about the Power Marketing Administrations (PMAs) and Southwestern in particular. We market 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 digital microwave, VHF radio, and 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.

As I mentioned before, the strength of Southwestern lies in its people. One of my first priorities as Administrator was to make sure Southwestern's people had a clear set of goals to

follow – goals related to every aspect of the agency, goals that support the agency’s core mission of marketing and delivering Federal hydropower, and goals that are easily understandable and achievable by all. We refer to these goals as the Seven Global Goals, and I will address how they support our mission in the sections that follow.

SAFETY

Bar none, Southwestern’s number one goal is safety. Staff is probably tired of hearing it, but I want every single person that works at Southwestern to go home in the same condition that he or she came to work in. As of the end of FY 2013, my first fiscal year at Southwestern, we had only 1.3 lost work days for over 300 thousand hours worked, two motor vehicle accidents, 0.6 reportable OSHA incidents, and zero fatalities.

COST MANAGEMENT

Southwestern recovers 100 percent of its costs through the rates charged to our customers. Therefore, we have a duty to our ratepayers to contain these costs. Cost management is another of the goals that I have stressed to staff, making sure that every employee knows that unnecessary expense puts upward pressure on our rates.

Southwestern did very well last year in planning what we were going to spend and then sticking to it. I’m proud to report that we stayed on budget and on course in accomplishing our mission of marketing and delivering Federal hydropower at the lowest possible cost consistent with sound business principles.

REPAYMENT OBLIGATIONS AND REPAYMENT STUDIES

The way we know we are achieving our cost management goal is to annually perform a Power Repayment Study (PRS) for each of our three rate systems. Through these studies, Southwestern reviews the projected and actual costs of operating and maintaining the generation and transmission facilities and identifies the amount of revenue needed to repay these costs, along with the principal and interest on the Federal investment. We capture expenses within our own organization and work with the Corps to identify expenses related to the hydropower purpose in theirs. This process allows Southwestern to make sure its annual spending plan is achievable and makes good business sense for the agency.

In October 2013, Southwestern implemented two rate increases, one for 4.7% on the Integrated System Rate and one for 7.1% on the Sam Rayburn Dam Rate. We also phased in the last half of a 15.4% rate increase on the Robert D. Willis Rate.

The Integrated System Rate increase was driven by three main causes: increased costs for operating and maintaining the Corps hydropower facilities; increased costs for rehabilitating and replacing major equipment at these facilities; and increased costs for the Corps and Southwestern’s expenses related to compliance with North American Electric Reliability Corporation (NERC) requirements. At Sam Rayburn and Robert D. Willis, it was much the same situation, with costs increasing as the aging equipment nears the end of its useful life.

Historically, another driver for rate increases at Southwestern is purchased power. The need to purchase depends mainly on two things, availability of the Corps hydropower plants, and water in the reservoirs. One thing I've learned at Southwestern is that when it rains in this region, most everybody's happy, and when it doesn't, nobody is. A case in point is happening this year at Denison Dam and Lake Texoma, located on the Red River border of Oklahoma and Texas. For the past three years or so, the area directly upstream of the dam has been suffering from exceptional drought and inflows are significantly below normal, with 2011 being the lowest inflow year since the project's construction in 1945, and 2013 following a close second.

Within our authorizing legislation and the rules and regulations guiding our marketing function, Southwestern has the right to generate from the project within certain lake elevations. Sometimes though, we make the choice to preserve the water storage and voluntarily forgo releasing water for power generation. Realistically, this conservation of project capacity benefits Southwestern and its customers, but it can also benefit other project users and stakeholders in the region.

Fortunately, we have measures in place to plan for power purchases when water is scarce. I'm pleased to report that, within its funding authority, Southwestern utilized its power receipts to purchase such power without the need for Congressional appropriations. We continue to collaborate with our customers to prevent rate spikes during these difficult periods of drought.

RELIABILITY COMPLIANCE

In setting goals for the agency, I've stressed that Southwestern should strive to cultivate a culture of compliance when it comes to electrical reliability. Every employee is keenly aware of his or her responsibilities when it comes to making sure Southwestern is compliant with NERC standards, and every employee knows what to do and who to report to on compliance issues.

To support our compliance goal, Southwestern has restructured its organization so that the person in charge of NERC compliance reports directly to me. This sends a clear message that compliance is a top-down priority and that Southwestern is committed to keeping the grid safe from cyber and physical incidents and keeping the lights on for everyone.

Last year we met both of our compliance goals, with 100 percent of known violations being self-reported prior to audit and 100 percent of required mitigation plans being initiated with the regional reliability entity.

TRANSMISSION INFRASTRUCTURE

Southwestern is proud of doing its part in regional and National efforts to keep the grid reliable and keep the power flowing. We participate in the regional planning initiatives of the Southwest Power Pool (SPP) Regional Transmission Organization (RTO), and work with SPP to identify and mitigate transmission issues before they become a problem. We've successfully completed several line and station upgrades in the past few years, with an upgrade of 15 miles of 161-kV transmission line near the Missouri cities of Green Forest, Poplar Bluff, and Asherville scheduled for completion this year.

We also completed our analysis of the electrical clearances of our entire transmission system, as recommended by the October 2010 NERC alert issued to all utilities. In our analysis, Southwestern compared our engineering design drawings to what is actually built in the field to ensure there are safe clearances. We did find several instances where additional clearance was needed, but I'm happy to say that we have since replaced or reconfigured more than half of the structures identified in our remediation plan, with plans to complete the remediation in late 2014.

Last year also marked the beginning of a new era for Southwestern – life with the Mid-Continent Independent System Operator (MISO) RTO. Entergy's transmission system was moved into the MISO footprint effective December 19, 2013. Nearly a fourth of Southwestern's customers are dependent on Entergy transmission, and therefore made the move with Entergy to MISO. Fortunately, Southwestern staff has worked with these customers, MISO, and SPP for the last couple of years to be ready for the transition, and we successfully assisted with the move of 338 megawatts of our customers' contract demand into the MISO footprint.

GENERATION INFRASTRUCTURE

As my staff will tell you, I am constantly reminding them that if we can't keep the hydropower plants running, then we have no product to market. Since 1999, Southwestern has had in place an arrangement to replace, refurbish, and rehabilitate failing and obsolete equipment at the Corps-owned facilities where power is generated.

We've had great success with the Jonesboro Memorandum of Agreement (MOA), accomplishing over \$300 million in needed work at all of the 24 projects from which we market power. In addition to replacement of components such as piping, battery systems, air coolers, and other peripherals, we've replaced the big items such as generators, turbines, transformers, and more. Currently, there are five major rehabilitations ongoing or starting in the next year in Southwestern's marketing area. We've also put in place the Southwestern Customer Funding Initiative (SCFI) to identify the next project or projects we need to invest in, with studies currently being conducted to help us with that decision-making.

I'm happy to report the successful transition of the MOA from one Southwestern customer – City Water and Light Plant of the City of Jonesboro, Arkansas – to a group of customers – the Southwestern Preference Customer Trust. Jonesboro took the initiative over a decade ago to help out when the Corps needed funding to maintain the generation infrastructure, but now it's time for a more robust arrangement with all of Southwestern's customers. As with the Jonesboro MOA, the new Trust MOA requires no Congressional appropriations, maintains customer and Southwestern oversight, and provides a reliable source of funding for major rehabilitations and other work at Corps facilities.

When the hydropower plants remain available and in an average hydrological year, Southwestern can continue to market 5.6 billion kilowatt hours of energy annually with average annual revenues of \$191.6 million, saving the American people the equivalent of 9.5 million barrels of oil, 2.9 million tons of coal, or 47.5 billion cubic feet of natural gas.¹

¹ Fuel savings based on thermal conversion factors from EIA's Annual Energy Review-2011.

WORKFORCE PLANNING

As I mentioned before, Southwestern's strength lies in its people, and we have some of the best and brightest. We intend to continue this trend by recruiting and filling gaps caused by workforce retirement so that we have sufficient resources to meet the challenges of the future.

We continue to push our student and Veterans programs to fill the many technical positions that will become vacant in the next few years. We also successfully implemented a strategy of sharing resources and expertise across organizational elements. Finally, we continue to address other resource and skills gaps through our support services contracts for information technology, NERC compliance, cyber security, and administrative services. These contracts continue to be critical in assuring that Southwestern has adequate and appropriate staff on board to accomplish our mission.

BUDGET HIGHLIGHTS

Southwestern's FY 2015 Request for appropriations is \$11.4 million (Attachment 1). This Budget Request 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 with minimal Congressional appropriations.

CONCLUSION

I've introduced Southwestern employees to Seven Global Goals to strive for: safety; cost management; repayment obligations; repayment studies; reliability compliance; transmission infrastructure; and generation infrastructure. All of them support Southwestern's mission of marketing and delivering Federal hydropower, and all of them apply to each and every employee. By working to achieve these goals, we will be successful in our mission and will continue to be part of the "all of the above" strategy so important to our Nation's energy security and energy future.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions that you or the Members of the Subcommittee may have.

Southwestern Power Administration
FISCAL YEAR 2015 BUDGET REQUEST SUMMARY
(dollars in thousands)

| | FY 2013 Current | FY 2014 Enacted | FY 2015 Request |
|---|--------------------|--------------------|--------------------|
| Program Direction (PD) | 33,218 | 29,939 | 31,089 |
| Operation and Maintenance (O&M) | 12,677 | 13,598 | 15,174 |
| Construction (CN) | 10,463 | 6,277 | 13,403 |
| Purchase Power and Wheeling ² | 50,000 | 52,000 | 63,000 |
| Subtotal, Southwestern Power Administration | 106,358 | 101,764 | 122,666 |
| Offsetting Collections, PD (annual expenses) | -27,096 | -28,267 | -29,402 |
| Offsetting Collections, O&M (annual expenses) | -6,022 | -5,297 | -5,438 |
| Offsetting Collections, PPW | -40,000 | -42,000 | -53,000 |
| Alternative Financing, PD | -4,740 | 0 | 0 |
| Alternative Financing, O&M | -2,153 | -2,308 | -5,934 |
| Alternative Financing, CN | -5,104 | -2,000 | -7,492 |
| Alternative Financing, PPW | -10,000 | -10,000 | -10,000 |
| Total, Southwestern Power Administration | 11,243 | 11,892 | 11,400 |

² Southwestern's Budget Request for the Purchase 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.