

Testimony of Administrator Virgil G. Hobbs III

Southeastern Power Administration

U.S. Department of Energy

Subcommittee on Water, Wildlife and Fisheries

Committee on Natural Resources

U.S. House of Representatives

May 23, 2023

Examining the President's Fiscal Year 2024 Budget Proposal for the U.S. Bureau of Reclamation, U.S. Fish and Wildlife Service, National Oceanic and Atmospheric Administration, and the Power Marketing Administrations

Subcommittee Chairman Bentz, Ranking Member Huffman, and Members of the Committee, I am Virgil Hobbs, Administrator of the Southeastern Power Administration (Southeastern). I appreciate the opportunity to share the Fiscal Year (FY) 2024 budget request for Southeastern, including current program issues, recent agency accomplishments and upcoming activity.

Profile of Southeastern Power Administration

Southeastern's mission 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 multipurpose projects, operated and maintained by the U.S. Army Corps of Engineers (Corps). The projects are separated into four marketing systems and serve an eleven-state area, including Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. Each system is integrated hydraulically, financially, and electrically, with separate cost-based power rate and repayment schedules. In FY 2022, Southeastern sold nearly seven and a half billion kilowatt-hours of energy to 472 wholesale customers with revenue totaling \$325 million. Federal hydropower benefits are reaching over twelve million residential and industrial consumers.

Southeastern coordinates the operation of these Federal carbon free generation assets from our dispatch centers in rural Elberton, Georgia. We use customer determined load schedules and the North American Electric Reliability Corporation's (NERC) power balancing control performance criteria, while complying with the Corps' water management and environmental requirements.

Southeastern does not own any transmission facilities but delivers contracted Federal power through transmission lines and substations owned and operated by neighboring utilities. Southeastern compensates these transmission service providers through long-term energy Purchasing Power and Wheeling commitments with the revenue received from electric power sales.

Rates charged to our wholesale customers recover all of Southeastern's costs and the Corps' costs allocated to power. Southeastern's rate schedules are designed to recover expenses, on an annual basis, for operations, maintenance, purchased power, transmission, and interest. Rates also recover infrastructure improvement investments which are capitalized over a reasonable number of years.

Southeastern's mission is achieved in a manner promoting the maintenance and upgrade of our region's Federal energy infrastructure. These efforts help to ensure reliable and efficient delivery of Federal carbon free hydroelectric power, which is an integral part of the Nation's security and electric energy supply.

Role of Federal Hydropower Program in Dynamic and Evolving Energy Markets

Southeastern is committed to the mission detailed in our governing law, the Flood Control Act of 1944, to employ sound business principles in delivering power to our customers at the lowest possible rates. Federal hydropower must remain a competitive and viable component of the customer's energy resource portfolios to support the region as the energy landscape in the Southeast evolves. Variables including the formation of the Southeast Energy Exchange Market, reduction of base load coal generation, delayed new nuclear reactor availability, increased natural gas prices and intermittent alternative renewable resources has made affordable, reliable Federal hydropower vitally essential to our customers. Southeastern's ability to consistently deliver energy, especially through Winter Storm Elliott in December 2022, has earned high praise and appreciation from our patrons.

Jim Woodruff Power Marketing Policy

Southeastern's transmission service provider at the Jim Woodruff project provided termination notice in 2022 on a 66-year-old interchange agreement in favor of modern Open Access Transmission Tariff service. The original 1957 contract was a bundled arrangement where deficient stream flow energy was purchased from, and excess Federal hydropower was sold to, the investor-owned utility. Southeastern is formulating a power marketing policy to address future generation capacity and energy delivery decisions associated with this single project, run-of-the-river electrical system. No changes in river operations or to the amount and timing of energy production levels are anticipated.

Renewable Energy Certificates

At the request of Southeastern's Virginia customers, an effort to provide Renewable Energy Certificates (REC) associated with Federal hydropower generation began in 2019. Southeastern markets two projects geographically within the boundaries of the PJM Interconnection Regional Transmission Organization. The Kerr-Philpott system power marketing policy was revised through a standard public process in 2020 to include the distribution of Federal hydropower RECs corresponding to individual customer's purchased energy. Southeastern has interfaced with PJM's

Generator Attribute Tracking System to validate the creation and transfer 2.3 million REC to our North Carolina and Virginia customers since initial distribution in December 2020.

Southeastern's process of revising the power marketing policies of the three remaining electrical systems to include REC distribution is well underway and expected to finalize this year. Southeastern confirmed and verified generation of the Georgia-Alabama-South Carolina system's 10 plants has enabled the creation and transfer of an additional two million REC since February 2023. Distributions are planned for the remaining customers in Tennessee, Kentucky, Illinois, and Florida beginning in early Fall. The potential REC volume is six million per year and all of Southeastern's customers are extremely grateful to be accessing this additional economic intrinsic benefit of Federal hydropower.

Ongoing 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 \$819 million of energy and capacity sale receipts to accomplish hydropower equipment replacements and renewals.

Southeastern's Cumberland System customers have agreed to fund \$1.2 billion of planned rehabilitations of all 28 generation assets housed in the nine hydroelectric facilities operated by the Corps' Nashville District. The first three generators and turbines have been renewed and are operational at the Center Hill project. These new turbines have the capability to increase marketable output by alleviating seasonal operational restrictions due to downstream environmental concerns. The contracts to replace seven more generators and turbines at the Barkley and Old Hickory projects were awarded in September 2020 with onsite work underway and February 2023, respectfully. Customers have also authorized \$24 million to install a dissolved oxygen injection system upstream of the Wolf Creek project to regain year-round full power output by providing downstream fish friendly habitat.

Upcoming Rate Developments

Southeastern formulates and proposes marketed power system rates through a public process and places rates into effect on an interim basis. The Federal Energy Regulatory Commission (FERC) confirms all of Southeastern's rates on a final basis for a five-year term. 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 revenue is adequate to meet repayment obligations. Southeastern does not anticipate proposing any new rates until the Cumberland and Kerr-Philpott marketed electrical systems reach full term in 2025.

Critical Compliance Requirements

Southeastern appreciates the support of Congress allowing the conversion of our Power System Dispatchers to an Administratively Determined pay scale in 2020. Southeastern can now better attract and retain these essential positions while maintaining compliance with NERC and SERC

reliability standards and ensuring available power is delivered to the grid for the benefit of Southeastern's customers and the Nation.

Importance of Southeastern's Relationship with Customers and Federal Partners

Southeastern maintains strong cooperative working relationships with our preference customers and the Corps. Future success of Federal hydropower program in the southeast relies heavily on the success of those relationships and our ability to find solutions to complex challenges threatening the program through higher costs and reduced generation capability. 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 Cumberland System preference customers, which are located both inside and outside the Tennessee Valley Authority's area of operation. Both groups meet on a biannual basis.

Over the past six 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 administration, operations and maintenance staffing efficiencies and common messaging communication plans. Further progress remains on the issues identified in order to improve and add value to the Federal hydropower program. Meaningful change must be achieved in several key areas if substantial planned reinvestment in these renewable infrastructure assets can continue in these times of competitive, dynamic, and evolving energy markets.

Southeastern's Fiscal Year 2024 Budget Request

Southeastern's FY 2024 operating budget request of approximately \$94.4 million results in a net appropriation of \$0 (Attachment 1). The FY 2024 budget request provides \$8.4 million for Program Direction expenses, which are completely offset by collections for these annual expenses and use of prior year balances, and \$86 million for Purchase Power and Wheeling costs, which are entirely financed with offsetting collections and net billing. Southeastern contracts with interconnected utilities for transmission service to deliver Federal power to 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 energy and pumped storage energy to fulfil Federal power customer contracts. 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 2024 Budget Request.

Thank you again for the opportunity to submit this testimony.

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

	FY 2022 Enacted	FY 2023 Enacted	FY 2024 Request	FY 2024 Request vs FY 2023 Enacted (\$)	FY 2024 Request vs FY 2023 Enacted (%)
Southeastern Power Administration					
Purchase Power and Wheeling (PPW)	66,353	92,687	86,019	-6,668	-7%
Program Direction (PD)	7,284	8,273	8,449	176	2%
Subtotal, Southeastern Power Administration	73,637	100,960	94,468	-6,492	-6%
Offsetting Collections, PPW	-53,000	-78,696	-71,850	6,846	-9%
Alternative Financing, PPW	-13,353	-13,991	-14,169	-178	1%
Offsetting Collections, Annual Expenses, PD	-7,184	-8,173	-8,449	-276	3%
Alternative Financing, PD	-100	-100	0	100	-100%
Total, Southeastern Power Administration	0	0	0	0	0%
Federal FTEs	44	44	44	0	0%