

STATEMENT FOR THE RECORD
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON WATER, POWER AND OCEANS
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
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EXAMINING THE MISSIONS AND IMPACTS OF THE PRESIDENT'S PROPOSED FISCAL
YEAR 2017 BUDGETS OF THE U.S. FISH AND WILDLIFE SERVICE, THE NATIONAL
OCEAN AND ATMOSPHERIC ADMINISTRATION, THE BUREAU OF RECLAMATION,
AND THE POWER MARKETING ADMINISTRATIONS

Mr. Chairman and members of the Subcommittee, I am Kenneth Legg, Administrator of the Southeastern Power Administration (Southeastern). I appreciate this opportunity to submit written testimony to share current program issues and provide highlights of the Fiscal Year 2017 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. Each of these systems are integrated hydraulically, financially, and electrically; and maintain 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 2015, Southeastern sold approximately 6.5 billion kilowatt hours of energy to 486 wholesale customers, with revenues totaling approximately \$289 million dollars. Southeastern supports the Department of Energy's (DOE) strategic goals, aligning its activities with Goal 1, "Science and Energy" Objective 2, "Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure." DOE's Strategic Plan identified targeted outcomes to achieve 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 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.

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 energy of 5,748 GWh in FY 2015 offset fossil fuel generation resources and reduced overall CO₂ emissions by 4.0 million tons, which is the equivalent of 58 billion cubic feet of natural gas.¹

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

Federal Power Program Sustainability

Southeastern is committed to the mission detailed in our governing legislation, the Flood Control Act of 1944, to employ sound business principles in delivering power to our customers at the lowest possible rates. In 2015, there was substantial support for Southeastern's power rates which address dam safety costs in a 5 year rate currently awaiting final approval from the Federal Energy Regulatory Commission (FERC).

In 2016, Southeastern will begin the process of partnering with the Corps to review cost allocations associated with multi-purpose water resource projects. The objective of this effort is to ensure that cost allocations at these projects are appropriately adjusted and that the hydropower purpose is correctly credited for losses due to impacts caused by reallocations to other project purposes. This

¹ <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>.

effort will enable Corps resource managers to better and more appropriately distribute joint-use expenditures to all authorized purposes, those which justified original construction along with purposes added later through legislation. Once authorized purposes such as recreation, water supply, water quality, fish and wildlife share an appropriate joint-use cost, I believe hydropower's portion will, in the majority of instances, be reduced, which will lower Federal power rates in the region.

Federal Hydropower Infrastructure Investment

The Water Resources Development Act of 2000 (33 U.S.C. 2321a) enabled hydropower customers to provide the Corps funding to improve generation infrastructure reliability and dependability. Since 2004, at the direction of our customers, Southeastern has transferred \$332 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 the nine hydroelectric facilities in the Corps' Nashville District. The first complete generator and turbine replacement is underway at Center Hill Project. In addition to increasing marketable output the new turbines will alleviate long-standing seasonal operational restrictions due to downstream environmental concerns.

Rate Developments

Southeastern's power system rates are approved on a final basis by FERC for five year terms. This fiscal year, new rates were assessed on October 1, 2015 for Cumberland and Kerr-Philpott System customers. Annual adjustments, based on actual operational results and new investment placed in service, enable rates to respond accordingly within the term to assure proper repayment. Jim Woodruff System rates will be presented to FERC for approval this year and Georgia-Alabama-South Carolina rates will be revised in fiscal year 2017. Southeastern will continue to work openly with customers to improve the rate development process.

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 2017 Budget Request

Southeastern's FY 2017 Budget requests a net appropriation of \$0 (Attachment 1). It provides \$6.0 million for Program Direction expenses, which are completely offset by collections for these annual expenses and use of prior year balances, and \$78.9 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 \$44 million, and Southeastern anticipates purchasing \$34.9million 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 2017 Budget Request.

Thank you again for the opportunity to submit this written testimony on the Fiscal Year 2017 Budget Request and program status.

Attachment 1

**Southeastern Power Administration
Overview
Appropriation Summary by Program**

(Dollars in Thousands)

	FY 2015 Current	FY 2016 Enacted	FY 2017 Request
Southeastern Power Administration			
Purchase Power and Wheeling (PPW)	89,710	83,600	78,929
Program Direction (PD)	7,220	6,900	6,000
Subtotal, Southeastern Power Administration	96,930	90,500	84,929
Offsetting Collections, PPW	-73,579	-66,500	-60,760
Alternative financing, PPW	-16,131	-17,100	-18,169
Offsetting Collections, Annual Expenses, PD	-2,220	-6,900	-1,000
Use of Prior Year Balances, PD	-5,000		-5,000
Total, Southeastern Power Administration	0	0	0