

STATEMENT OF
MIKE WECH
ADMINISTRATOR
SOUTHWESTERN POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

BEFORE THE
SUBCOMMITTEE ON WATER, WILDLIFE AND FISHERIES
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

MAY 16, 2024

EXAMINING THE PRESIDENT'S FY 2025 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.

SOUTHWESTERN POWER ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to share information about the FY 2025 budget of Southwestern Power Administration (Southwestern).

Southwestern has marketed and delivered Federal hydropower since 1943. Our service territory includes Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas, and customers in these states depend on Federal hydropower to keep their economies strong and help their constituents thrive. Southwestern is proud to support the farms, businesses, and factories in these areas, and I look forward to sharing with you today an overview of our program and some of the current initiatives we are working on that will allow us to continue our service in the future.

SOUTHWESTERN PROFILE

Southwestern markets and delivers hydroelectric power from 24 U.S. Army Corps of Engineers (Corps) multi-purpose dams with a combined capacity of 2,243 megawatts (MW). On average, Southwestern markets 5,600,000 MW-hours of energy annually, with revenue of approximately \$200 million per year.

The energy produced at the hydroelectric power plants flows mainly over transmission assets owned by Southwestern. Our 1,381 miles of high-voltage transmission lines, 26 substations and switching stations, and a communications system that includes digital microwave, VHF radio, and fiber optic communications are an integral part of the regional electrical grid.

We have a staff of approximately 180 full-time equivalent Federal employees and approximately 50 contractors who work out of offices in Gore, Oklahoma; Jonesboro, Arkansas; Nixa,

Missouri; Springfield, Missouri; and Tulsa, Oklahoma. Around-the-clock power scheduling and dispatching are conducted by staff in Southwestern's Nixa and Springfield Operations Centers.

Southwestern employees are dedicated professionals, conscientious in ensuring that costs are kept to a minimum. They understand that every dollar Southwestern receives in revenue is dedicated to the repayment of the Nation's investment, with interest, in our program, and they also understand that Southwestern's ratepayers are the ones footing the bill.

SYSTEM CHARACTERISTICS

Southwestern often describes its system of 24 reservoirs as "hydro-only," meaning that those reservoirs are almost entirely dependent on rainfall. In general, when it rains and inflows into the reservoirs and river channels are sufficient, hydropower generation flourishes; when it does not rain, hydropower generation suffers.

Operations are regularly impacted by the rainfall we receive in our region, both too little and too much, and we work with other water users so that we can continue to meet the power needs of our customers under a variety of water conditions.

In some cases, due to drought, downstream flooding, operational restrictions, or other contributing factors, Southwestern's contractual obligations to provide power exceed the amount of hydropower that is available. Southwestern must continually balance Federal hydropower needs against the needs of other water users and current energy market conditions when determining whether to purchase power to meet contractual obligations.

FUNDING

Power purchases have historically been funded by Southwestern through Congressional authority to use our receipts over the long-term – across good water years and bad. Prior year balances have been available to Southwestern so that we are financially prepared and able to achieve rate stability for our customers. After five years of decreased funding, in FY 2023 and FY 2024 we received our full offsetting collections authority request for purchase power and wheeling, and the President's FY 2025 Budget requests a continuation of this authority that is critical to operating our program according to sound business principles.

Southwestern's program is funded by authority to use receipts, alternative financing, and other authorities approved by Congress, including appropriations, which traditionally have represented only about 6% of Southwestern's total program. Generally, the more funding flexibility we have, the more efficiently we can operate our business and provide a high-value product to our customers.

RATES AND REPAYMENT

Southwestern's program is cost-based, funded by our ratepayers. We perform Power Repayment Studies annually to review the projected and actual costs of operating our business to assure that sufficient revenues are being collected to repay those costs, along with the principal and interest on the Federal investment.

Power Repayment Studies, conducted in 2023, indicate the need for more revenue across all three of our rate systems to meet repayment obligations due to rising cost estimates for future transmission and hydropower infrastructure investments, elevated interest rates, and increased costs for operations and maintenance.

We are in the process of developing new rate schedules to reflect the needed revenue increase and have extended our current rate schedules through September 30, 2024. We have concluded the public comment period for one of our rate systems, and expect to open the public comment period for the additional rate systems within the month.

Southwestern remains cost conscious always, seeking ways to maximize value amidst rising costs. Our support of the regional electrical grid during recent winter weather events is a good example of the value of Federal hydropower. To put it simply, hydropower showed up to help keep the lights on during Winter Storm Uri in 2021, during Winter Storm Elliott in 2023, and, most recently, in January of this year during Winter Storm Heather. We were able to provide voltage support, assist with transmission congestion relief, and worked with the Regional Transmission Organizations to ensure the bulk transmission system remained reliable during these periods.

INFRASTRUCTURE INVESTMENT

To keep hydropower available, the generating plants must be ready to operate. The year 2024 marks the silver anniversary – 25 years – of Southwestern’s customer funding program. Since 1999, through a memorandum of agreement (MOA) among Southwestern, its customers, and the Corps, we have provided funding to keep the turbines spinning without the need for annual appropriations. To date, over \$1.2 billion in funding has been approved by our customers for use in replacing aging, obsolete, and failing equipment at the Corps hydroelectric power plants. This kind of investment is crucial to keeping Federal hydropower viable, and customers have steadfastly supported this effort since the beginning.

SAFETY

Southwestern is in many respects a typical electric utility. As such, we sell and deliver power, develop rates to recover our costs, and maintain our assets so that the lights stay on, all the while maintaining safe operating procedures and practices.

In fact, this is the second year in a row Southwestern was recognized for its safe operating practices. In March 2024, Southwestern was awarded a Safety Award of Excellence from the American Public Power Association (APPA). APPA bestows the award based on incident-free records and the overall state of the safety programs and culture, elements that Southwestern takes great pride in.

REGIONAL TRANSMISSION PLANNING

Southwestern is taking part in studies under the DOE Grid Deployment Office for interconnections between Regional Transmission Organizations to bolster the electric infrastructure in our region. These studies involve the use of Southwestern’s facilities as part of Southwest Power Pool (SPP), and could result in future interconnections between SPP and the

Midcontinent Independent System Operator (MISO), and between SPP and the Electric Reliability Council of Texas (ERCOT). Interconnections of this magnitude have the potential of strengthening the backbone of the Nation's economic, energy, and national security infrastructure.

RENEWABLE ENERGY CERTIFICATES

It is often said that Federal hydropower is one of the original renewable energy sources in the Nation, and our customers have been seeking the benefits that go along with purchasing this renewable energy from Southwestern. To that end, Southwestern is developing a program to equitably distribute Renewable Energy Certificates - or RECs – to its customers based on each MWh of Federal Energy generated.

This distribution of RECs will allow our customers to support their respective state's renewable energy goals, provide the opportunity to offset their carbon footprint and support clean energy, and build stronger relationships within their communities.

I want to commend my colleagues at Southeastern Power Administration for their expertise implementing a successful REC program and for sharing their experience so that Southwestern can begin distributing RECs to our customers.

MARKET PARTICIPATION IN MISO

Southwestern registered as a Market Participant in MISO in June 2021 in response to a need for Southwestern to better position itself to align with electric industry initiatives and to ensure, as drought and hydrological challenges occur, that Southwestern has additional options to purchase power. As an extension of that effort, we will begin directly marketing two Corps-owned projects in Arkansas into MISO, with DeGray – beginning June 1, 2024, and Blakely Mountain beginning June 1, 2025

Benefits of this effort will include optimizing these generation resources to provide maximum value for our customers while reducing our capacity replacement costs due to long term outages for rehabilitation and infrastructure investment.

STRATEGIC PLANNING EFFORTS

Southwestern is constantly working to provide the best possible product for our customers while also providing the best possible work environment and strategic direction for our organization. To that end, Southwestern has implemented our latest Strategic Planning Effort – Set to Thrive in 2025. The revised strategic plan incorporates elements to achieve success and clear direction in the following areas: Workforce Excellence, Operational Excellence, Collaborative Partnering, and Evolving Services.

BUDGET HIGHLIGHTS

Southwestern's FY 2025 request for appropriations is \$11.44 million. The FY 2025 budget request also includes offsetting collection authorities, including the up-to request of \$80 million for purchase power and wheeling. The use of offsetting collection authorities as well as

alternative financing are essential to Southwestern accomplishing its mission with minimal Congressional appropriations.

CONCLUSION

Southwestern remains committed to our core values and strategic direction. We strive for workforce and operational excellence, a safe and healthy workplace, increased value for our customers, and rate stability. We also look forward to opportunities to continue investing in the Nation's infrastructure and exploring ways that we can be a part of strengthening grid resiliency and supporting the Nation's energy security.

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