

STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON WATER, POWER AND OCEANS  
COMMITTEE ON NATURAL RESOURCES  
U.S. HOUSE OF REPRESENTATIVES

APRIL 12, 2018

EXAMINING THE PROPOSED FISCAL YEAR 2019 SPENDING, PRIORITIES AND  
MISSIONS OF THE BUREAU OF RECLAMATION, THE U.S FISH AND WILDLIFE SERVICE,  
THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
AND THE FOUR 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 2019 Budget Request for Southeastern.

**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 just 44 full-time employees, Southeastern markets approximately 3400 megawatts of 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 system is integrated hydraulically, financially, and electrically, with separate rate and repayment schedules. In FY 2017, Southeastern sold approximately 6.0 billion kilowatt hours of energy to 485 wholesale customers with revenue totaling \$314 million dollars. Those benefits reached over 12 million homes and businesses.

Southeastern coordinates the operation of the Corps projects from our dispatch center using customers' load schedules and the North American Electric Reliability Corporation's power balancing control performance 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.

In addition, 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 security and electric energy supply.

## **Program Goals and Accomplishments**

### 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 Cumberland System power rates that addressed disputed dam safety costs in a 5 year rate. On May 6, 2016, the Federal Energy Regulatory Commission (FERC) confirmed those rates.

In 2017, Southeastern continued 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 effort will enable Corps resource managers to better and more appropriately distribute joint-use expenditures to all authorized purposes, both those which justified original construction, along with purposes added later through legislation. Once authorized purposes such as recreation, water supply, fish and wildlife, and water quality, pay an appropriate joint-use cost, hydropower's portion will be reduced, lowering Federal power rates in the region.

Prior to the 2008 economic downturn, our power customers forecast their anticipated load growth and acquired additional capacity to meet their expected demand. Ten years later, actual loads lag well behind projections and many Southeastern customers are purchasing capacity they cannot use. Municipalities and electric cooperatives in Southeastern's service area will make economic decisions to eliminate paying for excess capacity.

Southeastern received a letter dated December 21, 2017, from a power sales customer of more than 60 years providing notice of termination of the municipality's power sales contract with Southeastern. Our long-standing relationship will officially end at midnight, January 31, 2020. Southeastern plans to market this and potential future relinquished federal power allocations prior to contract termination dates.

### 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 capability. Since

2004, at the direction of our customers, Southeastern has transferred \$458 million of energy and capacity sale receipts to accomplish hydropower equipment replacements and renewals.

The Commander of the Corps' South Atlantic Division, the President of the Southeastern Federal Power Customers, and I signed an amendment to the Memorandum of Agreement on February 22, 2018. The amendment formalizes procedural changes that have evolved since the inception of this unique funding arrangement but most importantly, gives our Florida customers the ability to fund work and assure the reliability of the Jim Woodruff System.

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 generator and turbine replacement is complete and operational at Center Hill Project. In addition to increasing marketable output, the new turbines have the capability to alleviate seasonal operational restrictions due to downstream environmental concerns. Customers have authorized funding to rehabilitate both Barkley and Old Hickory Projects. The Corps will have the majority of the required funding by the end of Fiscal Year 2019.

#### Rate Development

Southeastern's power system rates are approved on a final basis by FERC for five-year terms. 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. New Georgia-Alabama-South Carolina rate schedules were approved on an interim basis by the Deputy Secretary of Energy on August 24, 2017, and were effective October 1, 2017. The rates were given final approval by FERC on January 25, 2018. Southeastern reviews all system rates annually to assure revenue is adequate to meet repayment obligations. 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 and the Nation.

#### **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.

Over the past year and a half, fellow Administrators and I have met with Corps Commanding Generals to discuss topics critical to the sustainability of our mutually managed Federal Hydroelectric Power Systems. Areas identified where changes can reap benefits include infrastructure acquisition strategies, cost accounting, water storage program administration, operations & maintenance staffing efficiencies and common messaging communication plans. In our most recent meeting the effort was expanded to also include the US Bureau of Reclamation. We look forward to making progress on the issues identified in order to improve and add value to the Federal hydropower program, especially during times of competitive energy markets and substantial re-investment in the infrastructure assets.

### **Southeastern's FY 2019 Budget Request**

Southeastern's FY 2019 Budget requests a net appropriation of \$0 (Attachment 1). It provides \$6.5 million for Program Direction expenses, which are completely offset by collections for these annual expenses and use of prior year balances, and \$73.0 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 \$41 million, and Southeastern anticipates purchasing \$31.2 million 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 2019 Budget Request.

Thank you again for the opportunity to submit this written testimony on the Fiscal Year 2019 Budget Request and program status.

Attachment 1

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

	FY 2017 Enacted	FY 2018 Annualized CR*	FY 2019 Request
<b>Southeastern Power Administration</b>			
Purchase Power and Wheeling (PPW)	78,929	78,393	73,184
Program Direction (PD)	6,000	5,959	6,500
<b>Subtotal, Southeastern Power Administration</b>	<b>84,929</b>	<b>84,352</b>	<b>79,684</b>
Offsetting Collections, PPW	-60,760	-50,654	-59,360
Alternative Financing, PPW	-18,169	-27,739	-13,824
Offsetting Collections, Annual Expenses, PD	-1,000	-993	-6,500
Use of Prior Year Balances, PD	-5,000	-4,966	0
<b>Total, Southeastern Power Administration</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*A full year 2018 appropriation was not enacted at the time the budget was prepared; therefore, the budget assumes operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.