

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

BEFORE THE  
SUBCOMMITTEE ON WATER, POWER & 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, thank you for the opportunity to share information about our program and highlights of the Fiscal Year (FY) 2019 Budget Request for the Southwestern Power Administration (Southwestern).

Southwestern turns 75 years old this year. We have spent the last seven-plus decades marketing and delivering Federal hydropower to the heartland of this Nation. The wholesale customers we serve depend on Southwestern for competitive, reliable, domestically produced power and energy to run their towns, factories, and farms. Southwestern is proud of its role in making the region stronger, and I look forward to sharing with you today how we plan to continue our success in the future.

**SOUTHWESTERN PROFILE**

Southwestern markets hydroelectric power from 24 U.S. Army Corps of Engineers (Corps) multi-purpose dams with a combined capacity of 2,194 megawatts (MW). On average, Southwestern markets 5,600,000 MW-hours of energy annually, with revenue of approximately \$200 million per year.

The revenue we receive is applied to repayment, with interest, of the Nation's investment in the generating plants, transmission equipment, communication systems, and administrative and overhead expenses associated with running our program. Put simply, Southwestern recovers every penny we spend through the rates we charge our customers.

The majority of our costs come from operating and maintaining 1,380 miles of high-voltage transmission lines, 26 substations and switching stations, and a communications system that

includes digital microwave, VHF radio, and fiber optic components. We also pay our Federal employees and contractors, who 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 Southwestern's Springfield Operations Center. Within the next year, we will commission for service an Alternate Operations Center in Nixa, Missouri, which will increase reliability and energy security by providing for continuity of operations in the event of a natural disaster or other emergency.

Although we appreciate the authority to run our program according to sound business principles, we do not operate independently. Our partners and stakeholders include our customers, the Corps, Congress, the Office of Management and Budget, the Department of Energy (DOE), Federal and state agencies, utilities, regulatory organizations, water resource groups, and the American public.

### **HYDRO-ONLY SYSTEM**

In addition to the facts and figures I have already mentioned, perhaps the most important thing to know about Southwestern is that it has the unique distinction of being the Nation's only electrical balancing area supported solely by hydroelectric generation. Our use of the reservoirs and river systems within our marketing area must be carefully balanced with flood control and other uses so that we can continue to meet the power needs of our customers. Furthermore, the projects we market from are almost entirely dependent on rainfall. Extended dry periods sometimes mean Southwestern must purchase replacement power and energy to meet our contractual obligations.

For the past few months, the U.S. Drought Monitor has characterized conditions in most of Southwestern's marketing area as abnormally dry to extreme drought. In recent weeks, with some much-needed rainfall, drought conditions have improved. However, with the exception of a few areas of our footprint, drought conditions are expected to remain for the near future.

### **FUNDING**

If the drought does persist in Southwestern's region, we will have to purchase power to replace the hydropower that cannot be generated. We have historically done this 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. This authority 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 represent only 6.5% 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.

### **SAFETY AND NATIONAL ENERGY SECURITY**

In operating our business, Southwestern shares the same number-one goal of every other electric utility in the Nation – safety. We have a work force that is safety-conscious, aware, alert, and

engaged so that, as part of the bulk electrical grid, we can continue doing our part to keep the lights on. And, of course, keeping the lights on is vital to our Nation's energy security. Hydropower generators respond quickly to changes in electrical demand and therefore can provide valuable and flexible support to the bulk electric grid in times of crisis.

This was never more apparent than last year in the aftermath of Hurricane Harvey. Damage to the power grid caused wide-spread power outages and strained those facilities that had remained in service. Local utilities, some of which are Southwestern customers, were unable to restore power to their consumers due to the sheer magnitude of the damage. By generating hydroelectric power out of Sam Rayburn Dam near Beaumont, Texas, lines were energized one by one until hospitals, emergency operations centers, and evacuation centers were able to regain power and reduce reliance on portable generators.

### **RELIABILITY AND INFRASTRUCTURE**

As the story above illustrates, reliable generation works hand in hand with reliable transmission, and Southwestern keeps its transmission system reliable by planning and executing repair, maintenance, and protection. We have a long-term construction plan to prioritize investments, and we evaluate and plan yearly to make sure the appropriate work is being done, even as we strive to keep downward pressure on expenditures.

An important part of our planning process is coordinating with Southwest Power Pool, Inc. (SPP), the Regional Transmission Organization (RTO) with which Southwestern participates, to ensure that Southwestern's transmission replacements are part of the regional transmission planning process.

We are also actively engaged in investing in the Corps-owned generating assets in our marketing region. With the Corps' partnership and the unwavering support of our customers, we have a well-established customer funding program that allows for reinvestment in critical infrastructure so that Federal hydropower will continue to be competitive for future generations.

As of this – our 75th – year, over 700 million dollars in funding has been approved under the customer funding program. There are nearly 300 completed and ongoing projects to replace or repair aging equipment such as gates, pipes, cranes, and even the roofs of the powerhouse buildings themselves. In conjunction with work on these ancillary systems, we have also tackled replacement of major equipment through partial and complete rehabilitations. Aging turbines, generators, transformers, excitors, governor systems, and all the other essential components are getting a complete overhaul, resulting in more efficient and reliable Federal power and energy for our customers and the Nation. To date, we have completed two plant rehabilitations under the program, with three more in the construction phase, and six more in the design and planning stage.

### **TRANSMISSION POLICY**

In addition to planning and executing transmission work and replacing components of the generating assets, Southwestern's six-state marketing area puts it within the regional footprint of three distinct RTOs: SPP, the Midcontinent Independent System Operator (MISO), and the Electric Reliability Council of Texas (ERCOT).

Each of these RTOs has its own rules and policies, and Southwestern staff has spent considerable time over the past several years building relationships and learning the intricacies of how these RTOs function in relation to the Federal hydropower program.

This past year, Southwestern staff worked diligently with SPP staff to successfully introduce the concept of a credit for transmission service products offered by Southwestern through SPP where there are redundancies associated with Southwestern's Federal hydropower product. SPP members have approved this concept, and Southwestern and SPP are currently working to implement it. When implemented, the credit will provide for a reduction in transmission service costs to Southwestern's customers taking SPP service for their balance of power needs and will eliminate a pancaked rate under the SPP RTO.

In the MISO RTO, Southwestern has worked with MISO staff and Southwestern's customers to get full capacity credit in the MISO wholesale capacity market for our customers' Federal hydropower deliveries within the MISO footprint, as opposed to the approximately 80% credit they had been receiving since incorporation into MISO in December 2013. This is a major accomplishment for Southwestern and its customers in MISO because it maximizes the value of Federal hydropower and ensures that it is used as intended, as a peaking resource during times of high electricity demand and as a critical resource for regional reliability.

### **CONTROLLING COSTS, RATES, AND REPAYMENT**

One of Southwestern's strategic goals is to keep costs down. Over the past year, we have taken a very detailed look at what makes up our rate base and how we can manage costs.

One example of cost savings came about through an action completed in December 2017, when we consolidated office spaces to save money on lease costs. By reconfiguring our work and meeting spaces and vacating a partially used space, Southwestern was able to save its ratepayers over \$1.5 million through the remaining term of its lease. But we do not intend to stop there. In an effort to further decrease annual expenses associated with renting office space, Southwestern plans to acquire or build a new facility to house its personnel at its Tulsa, Oklahoma, headquarters. We look forward to reporting on this cost-saving action in future testimony.

And though it is satisfying to identify cost savings in new places, our most dependable way of keeping an eye on costs is our annual Power Repayment Studies (PRS), conducted for each of the three rate systems in our marketing area. During the process of conducting the PRS, Southwestern reviews the projected and actual costs of running our business to assure that sufficient revenues are being collected to repay our costs, along with the principal and interest on the Federal investment. We work within our own agency to accurately capture those costs and with the Corps to account for all costs related to the hydropower purpose at the Corps multi-purpose projects.

### **SUSTAINABLE WORKFORCE**

To maintain a reliable Federal hydropower product, you must have a reliable workforce. In 2017, we implemented a re-organization to optimize effectiveness with the following main goals: reduce costs where possible; meet DOE objectives; align related business functions; and put more focus on activities critical to Southwestern, DOE, and Southwestern's customers. Our

focus is along three main business lines: Corporate Operations, Power Delivery, and Corporate Compliance.

In conjunction with the re-organization, we reduced a number of redundant positions and streamlined processes by centralizing our Human Resources functions with those of Western Area Power Administration and Southeastern Power Administration. We successfully implemented this improvement while also recruiting and retaining employees in key areas such as financial management, contracting, operations, reliability compliance, resources, power marketing, and engineering.

### **FEDERAL HYDROPOWER SUMMIT**

In addition to reliable workers, it is crucial to have the support of senior management to make any program a success. That is why Southwestern was pleased last year to have the opportunity to bolster our relationship with the Corps senior management and other leaders on a nationwide basis. As part of the Federal Hydropower Summit, senior level staff at both the marketing and generating agencies have been collaborating to tackle difficult issues related to procurement, project management, and policy.

In short, we are jointly exploring how we can do things better and faster to improve the Federal hydropower product, price, and value in the evolving energy industry. Southwestern is excited about the opportunity to approach our shared issues at the highest levels of leadership to benefit the Federal hydropower program, our collective customers, and the Nation.

### **BUDGET HIGHLIGHTS**

Southwestern's FY 2019 request for appropriations is \$10.4 million (Attachment 1). The use of alternative financing and offsetting collection authorities to fund expenses and purchase power and wheeling are all essential to Southwestern accomplishing its mission with minimal Congressional appropriations.

### **CONCLUSION**

Throughout its 75-year history, Southwestern has relied on its partners. As Acting Administrator, I am not about to change that. I offer my firm commitment to continue working together to reinforce positive relationships, so that Southwestern – and the Nation – can continue to be successful in the 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 2019 BUDGET REQUEST SUMMARY  
 (dollars in thousands)

	FY 2017 Enacted	FY 2018 Annualized CR*	FY 2019 Request
Program Direction (PD)	31,516	32,372	32,995
Operation and Maintenance (O&M)	13,896	16,680	17,006
Construction (CN)	12,486	14,932	16,875
Purchase Power and Wheeling (PPW)	83,000	20,000	93,000
Subtotal, Southwestern Power Administration	140,898	83,984	159,876
Offsetting Collections, PD (annual expenses)	-29,271	-29,072	-29,695
Offsetting Collections, O&M (annual expense)	-5,315	-5,279	-5,707
Offsetting Collections, PPW	-73,000	-9,932	-83,000
Alternative Financing, O&M	-6,269	-9,042	-8,894
Alternative Financing, CN	-5,986	-9,609	-12,180
Alternative Financing, PPW	-10,000	-10,068	-10,000
Total, Southwestern Power Administration	11,057	10,982	10,400

\*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.