

STATEMENT OF
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BEFORE THE

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

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EXAMINING THE PROPOSED FISCAL YEAR 2016 SPENDING, PRIORITIES AND THE
MISSIONS OF THE BUREAU OF RECLAMATION, THE FOUR POWER MARKETING
ADMINISTRATIONS AND THE U.S. GEOLOGICAL SURVEY'S WATER PROGRAM

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to share with you the highlights of the Fiscal Year (FY) 2016 budget request for the Southwestern Power Administration (Southwestern).

Southwestern's mission sounds simple – to market and deliver Federal hydropower and energy from Federally owned dams for the most widespread use according to sound business principles. But this seemingly simple mission has become incredibly complex over the years. There are competing uses for the water. There are increased regulations. There are emerging regional markets for power and energy. There is aging equipment and infrastructure to replace and modernize. And above all, there is the constant challenge of keeping Federal hydropower and energy affordable and dependable for our ratepayers.

My testimony today will focus on some of these challenges, while giving equal time to some of the successes we have had this past year.

SOUTHWESTERN PROFILE

Southwestern markets approximately 2,174 megawatts (MW) of hydroelectric power from 24 U.S. Army Corps of Engineers (Corps) multipurpose dams. We operate and maintain 1,380 miles of high-voltage transmission lines, 25 substations and switching stations, and a communications system that includes digital microwave, VHF radio, and fiber optic components. Our government and contract employees 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 the Springfield Operations Center.

Maybe the most important thing to know about Southwestern's 24-project system is that it is entirely dependent on rainfall. Our projects do not have a significant amount of storage. Many are low-head, run-of-river types of projects, unlike the high-head, large reservoir projects

found in the west and northwest areas of the country which are replenished with snowpack runoff as well as rainfall and which have the ability to store water over multiple years.

SYSTEM CONDITIONS

Currently, Southwestern's system is experiencing dryer than normal conditions. We are hopeful that the National Weather Service's prediction of lessening drought conditions in eastern Oklahoma and Arkansas is accurate, but we also remain concerned about the potential for drought conditions to intensify in western Oklahoma and Texas. While we continue to meet our commitments to our customers, more rain would be a good thing for Southwestern and its customers.

RATES AND COST RECOVERY

The characteristics of our system are integral to Southwestern's rate-making and cost recovery processes. Simply put, the more purchases we have to make to cover the shortfalls in times of drought and below average water conditions, the more our ratepayers have to pay.

As you know, our ratepayers support the cost of Southwestern performing its mission of marketing and delivering Federal hydropower and energy. Every year, during the respective Power Repayment Study (PRS) for each of our three rate systems, Southwestern reviews the projected and actual costs of operating and maintaining the generation and transmission facilities to assure that sufficient revenues are being collected to repay these costs, along with the principal and interest on the Federal investment. We work within our own agency to accurately capture expenses and with the Corps to account for expenses related to the hydropower purpose. Through this process, Southwestern develops and reprioritizes an annual spending plan to ensure that revenues projected in those rates are sufficient to fund total program costs.

The operation and maintenance of the Federal hydropower infrastructure in Southwestern's region is the largest component of Southwestern's Federal power rate. Southwestern continues to work collaboratively with our partners at the Corps to identify efficiencies and search for ways to keep costs under control. Our challenge for the future is keeping the rate for Federal hydropower and energy competitive within the industry.

PURCHASE POWER DROUGHT FUND

One way to provide increased stability to our rates is to plan for anticipated expenses ahead of time. Purchasing power to meet contractual commitments in below average water years and during times of drought can become one of Southwestern's biggest expenses. When we have to purchase power – whether it is on the open market or through direct arrangements with other utilities – the cost is generally high.

Prolonged purchases due to below average water conditions and drought can have a detrimental effect on Southwestern's rates, making them prone to sudden spikes, which ultimately places an undue burden on Southwestern's customers.

Again – due to the nature of Southwestern's rainfall-dependent system – it is reasonable to assume that below average water conditions and drought will recur periodically. Why not try to plan for these periods by funding anticipated purchases through a rate component designed to recover costs ahead of time? That is why the FY 2016 budget request includes a proposal for a Purchase Power Drought Fund. If authorized, funds would be pre-collected from Southwestern's customers and deposited in a special receipt and disbursement account. These pre-collected funds would be used to purchase power in times of drought and below average water conditions so that our customers are protected from sudden increases in rates.

This rate component would be set and implemented in the same way as any other Southwestern rate – through a public process consistent with Southwestern's normal administrative procedures process. We will continue to work in close collaboration with our customers on this new mechanism which has their full support.

RELIABILITY COMPLIANCE AND TRANSMISSION POLICY

As with our rates, Southwestern strives to maintain transparency and value in our compliance and transmission policy areas. I am happy to report that, last year, Southwestern concluded a North American Electric Reliability Corporation (NERC) Operations and Engineering audit led by the Southwest Power Pool Regional Entity with no findings of non-compliance.

During the audit, 24 reliability standards and 55 requirements were examined in the areas of balance of real power demand, interchange with other utilities, frequency response, telecommunications, transmission flow modeling, and protection and control of the bulk power system. Southwestern's success can be attributed to the hard work of our transmission policy and compliance staff and Southwestern's general culture of compliance, in which every employee is empowered to report or mitigate any known violation of NERC standards in a timely manner. We will do everything in our power to keep our record of no findings of non-compliance intact.

Another challenge we face is ensuring that Southwestern's product can be of the most value to our customers within the evolving structured energy markets. The super-peak power and energy we market to our preference customers is used when electricity demand and prices are at their highest. Our goal is to continue to fulfill our mission to market and reliably deliver Federal hydroelectric power, do our part to keep the lights on in our six-state region, and support the Nation's integrated power grid.

GENERATION AND TRANSMISSION INFRASTRUCTURE

Without the Corps' hydroelectric generating plants and Southwestern's transmission system, Southwestern would have no product at all to market. We carefully plan and coordinate our operations with the Corps, the regional reliability coordinator, and other utilities to keep these assets available for our customers and the eight million end users they serve in our region.

Generation Infrastructure

Since 1999, Southwestern has had in place an arrangement to replace, refurbish, and rehabilitate failing and obsolete equipment at the Corps-owned facilities where power is generated. To date, our customers have approved approximately \$350 million to replace or refurbish failing and obsolete equipment at Corps-owned facilities. The latest refinement of the customer funding program, established in March 2014, is a combination of two things: a 30-year plan to refurbish major equipment at all the plants within Southwestern's marketing region, known as the Southwestern Customer Funding Initiative, or SCFI; and a coalition of customers which have formed a Trust to fund the SCFI. Together, the funding program is referred to as the Trust Memorandum of Agreement, or Trust MOA. This type of long-range planning is something we are very proud of here at Southwestern. It is truly a success story to be shared among Southwestern, the Corps, Southwestern customers, and all of the people who supported it along the way.

Transmission Infrastructure

Southwestern is also engaged in major long-term planning initiatives designed to keep our transmission assets available for use. The transmission system is the backbone of the agency, supported by a state of the art communications and information technology infrastructure. Southwestern actively participates in regional planning initiatives and studies to ensure that our transmission system is robust and available. To date, we've met all targets for reliability upgrades in-service and stayed well within our established targets for capital spending on transmission replacements and improvements.

I am also happy to report that last year, in response to an October 2010 NERC alert issued to all utilities and in accordance with our remediation plan, we finished replacing or reconfiguring multiple transmission structures to meet safe electrical clearances.

AGENCY GOALS AND TARGETS

Safety continues to be Southwestern's number one goal. My testimony to this Subcommittee last year emphasized the importance of our employees going home in the same condition they came to work in. To support this goal, Southwestern has hired a dedicated Safety and Occupational Health Specialist. Southwestern achieved three out of the four targets comprising the safety goal in FY 2014 and met all of its remaining six goals: Cost Management, Reliability Compliance, Repayment Obligations, Repayment Studies, Generation Infrastructure, and Transmission Infrastructure. I'm happy to report that this year Southwestern is on track to meet all of its goals.

RENEWABLE AND SUSTAINABLE HYDROPOWER

On average, Southwestern markets 5.6 billion kWh of energy annually with revenues of \$192.5 million. The hydropower marketed by Southwestern saves a significant amount of fuel that would otherwise have to be obtained from other sources, usually hydrocarbon-based. In an

average year, the renewable energy marketed by Southwestern saves the American people the equivalent of 9.5 million barrels of oil, 2.9 million tons of coal, or 47.5 billion cubic feet of natural gas. This cost-based energy also prevents the emission of greenhouse gases equivalent to 4.6 million tons of carbon dioxide, 13.9 thousand tons of sulfur dioxide, and 5.8 thousand tons of nitrogen oxides.¹

SUSTAINABLE WORKFORCE

To support its mission of marketing and delivering Federal hydropower, Southwestern must recruit and retain skilled workers and leaders to replace those who are retiring. Our three tiered plan to accomplish this includes transparent hiring practices, professional leadership development, and performance management. We recently redesigned our agency performance management practices to engage our employees. Supervisory training is also being revamped to provide the needed skills to equip our next generation of leaders.

Finally, we are continually striving to improve our recruitment efforts, seeking veterans and other workers who have the skills we require. In fact, over the past year, 50% of our new hires have been veterans. I am proud that Southwestern is doing its part to help the men and women who have served our country in the military find employment in the Federal government.

BUDGET HIGHLIGHTS

Southwestern's FY 2016 request for appropriations is \$11.4 million (Attachment 1). This budget request reflects the continued use of alternative financing and offsetting collections for annual expenses. It also includes a proposal for the Purchase Power Drought Fund. The use of alternative financing, the authority to use offsetting collections for annual expenses and replacement power and energy, and the Purchase Power Drought Fund to prepay for purchases of replacement power and energy in below average water years and during times of drought are all essential in enabling Southwestern to accomplish its mission with minimal Congressional appropriations.

CONCLUSION

As Southwestern moves further into the 21st century, it is essential that we adapt with the times. Emerging energy markets, aging infrastructure, regulatory uncertainty, rate volatility and loss of skilled workers are just a few of the challenges we face. But given Southwestern's success of marketing and delivering Federal hydropower and energy for the last 72 years, I am confident we will prevail.

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

Attachment 1

¹ Emission savings computed using 2001-2010 data from U.S. Energy Information Administration (EIA), assuming a 50/50 Coal/Natural Gas Mix as representative of replacement energy for hydropower in Southwestern's area. Fuel savings based on thermal conversion factors from EIA's Annual Energy Review-2011.

**Southwestern Power Administration
FISCAL YEAR 2016 BUDGET REQUEST SUMMARY
(dollars in thousands)**

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Program Direction (PD)	29,939	31,089	31,932
Operation and Maintenance (O&M)	13,598	15,174	19,279
Construction (CN)	6,277	13,403	12,012
Purchase Power and Wheeling ²	52,000	63,000	73,000
Subtotal, Southwestern Power Administration	101,764	122,666	136,223
Offsetting Collections, PD (annual expenses)	-28,267	-29,402	-29,938
Offsetting Collections, O&M (annual expense)	-5,297	-5,438	-6,023
Offsetting Collections, PPW	-42,000	-53,000	-63,000
Alternative Financing, PD	-0	-0	-0
Alternative Financing, O&M	-2,308	-5,934	-8,288
Alternative Financing, CN	-2,000	-7,492	-7,574
Alternative Financing, PPW	-10,000	-10,000	-10,000
Total, Southwestern Power Administration	11,892	11,400	11,400

²Southwestern's budget request for the Purchased Power and Wheeling subprogram reflects anticipated needs to ensure adequate funding to fulfill its 1200-hour peaking power contractual obligations based on volatile market prices, limited availability of energy banks, and all but the most severe hydrological conditions.