

STATEMENT OF  
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BEFORE THE

SUBCOMMITTEE ON WATER AND POWER  
COMMITTEE ON NATURAL RESOURCES

U.S. HOUSE OF REPRESENTATIVES

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Madame Chairwoman and Members of the Subcommittee, I appreciate this opportunity to highlight Southwestern Power Administration's (Southwestern) accomplishments in marketing and delivering Federal hydroelectric power in its region, identify goals and priorities for the coming year, and present an overview of our program and Fiscal Year 2009 budget request.

### **PROFILE OF SOUTHWESTERN POWER ADMINISTRATION**

Southwestern has continued to strive to market and deliver all available Federal hydroelectric power from 24 U.S. Army Corps of Engineers' (Corps) multi-purpose projects and continues to participate with other water resource users in order to balance diverse interests with power needs. Southwestern owns, operates, and maintains high-voltage transmission lines, substations, microwave sites, and very high frequency (VHF) radio sites. Southwestern's Headquarters is in Tulsa, Oklahoma; the Dispatch Center is in Springfield, Missouri; and power system maintenance crews are based in Jonesboro, Arkansas; Gore, Oklahoma; and Springfield, Missouri. In Southwestern's region, Federal hydropower is distributed to over seven million end users in a six-state area: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

This year, 2008, marks the 65<sup>th</sup> Anniversary of Southwestern. Throughout these 65 years, Southwestern has been steadfast in its mission to provide reliable, renewable, and domestically produced Federal power to cooperatives and municipal utilities within our region. Our cost-based rates produce revenues sufficient to repay the American taxpayers' investment in the power portion of the dam's construction, as well as the costs of the Corps to operate and maintain the project. In addition, our rates also recover Southwestern's costs to construct, operate, and maintain our high voltage transmission system.

Southwestern plays a critical role in the region by virtue of our interconnected high-voltage transmission system and the open access service we provide. Through our participation with the Southwest Power Pool Regional Transmission Organization (SPP RTO), Southwestern's high voltage transmission system helps ensure reliable and secure delivery of power in the region while accomplishing our basic mission to deliver Federal power to our customers.

### **SYSTEM RATES AND COST RECOVERY**

Southwestern markets and delivers cost-based power. To ensure repayment of the Federal investment, Southwestern performs annual Power Repayment Studies (PRS). To recover costs incurred as a result of record breaking drought conditions in the region during 2005 and 2006 combined with significant increases in Corps hydropower plant equipment replacement costs, Southwestern implemented a 27.7 percent revenue increase for the Integrated System over a three year period. I am happy to report that in 2007 our system experienced much better conditions than the year before in one of the most severe drought conditions of record for our region. Our need to purchase power was minimal and easily accommodated within our existing rate structure.

During FY 2007, Southwestern marketed approximately 5.6 billion kilowatt-hours of energy and transmission services, which generated revenues of \$161.5 million. Cumulatively, all annual operating costs have been paid along with approximately 50 percent of the \$1.2 billion in capital investments attributable to the Southwestern Federal Power System. All required capital investment payments have been made on time, and all repayment goals have been met.

## RELIABILITY AND COMMUNICATIONS

Even though America operates the most efficient and complex electric power system in the world, electric reliability can suffer without properly trained system operators. I'm proud to report that, yet again in FY 2007, Southwestern exceeded the accepted standards for power system operations reliability.

Our success in this area can be attributed directly to our North American Electric Reliability Corporation (NERC)-certified system operators. NERC approved Southwestern, in 2005, as a continuing education provider adhering to NERC Continuing Education Program criteria. In FY 2007, Southwestern's Power Operations Training Center conducted over 49 NERC certification and other training courses, not only for our own operators, but also for operators from nearly 40 other utilities within our region. In FY 2007, Southwestern saved over \$100,000 in training expenses by conducting classes on-site and sharing expenses with neighboring utilities. Southwestern's Operator Training Program continues to be identified as an example of excellence throughout the region.

Southwestern, as a registered member of NERC, is preparing for a Regional Entity Compliance Audit that will be conducted next month. We anticipate that this audit will demonstrate Southwestern's continued commitment to achieving compliance with the Federal Energy Regulatory Commission and NERC approved electric reliability standards. Southwestern is actively involved as a voting member in the stakeholder process of determining changes to NERC reliability standards. Additionally, Southwestern has maintained its participation in the SPP RTO and will continue to work with SPP in the future to preserve our successful relationship while promoting energy security in our region.

Up-to-date and dependable communications are key to keeping Southwestern's transmission system safe and reliable. This past year, we completed the fiber optic portion of our communications system, which greatly improved Southwestern's ability to reliably operate our power system. Continued efforts are underway to complete additional communication rings to provide redundancy and further increase the reliability and capability of the communications system. These enhancements enable Southwestern to partner with the Corps and other area utilities to increase regional reliability.

In compliance with the Commercial Spectrum Enhancement Act and upon receipt of the Spectrum Relocation Funds in April 2007, Southwestern has begun vacating 94 of its assigned frequencies to accommodate the growth in commercial use. Accordingly, Southwestern is on schedule to release the identified frequencies within the approved 24 month timeline.

### **CLIMATE CHANGE, ALTERNATIVE ENERGY, AND ENERGY CONSERVATION**

The issue of climate change is one of the most significant environmental concerns confronting our nation. Southwestern is addressing this issue by providing reliable, renewable, and environmentally clean hydroelectric energy. In fact, the Energy Information Administration reports that hydropower accounts for nearly 75 percent of this country's renewable energy supply while meeting approximately seven percent of consumers' total electricity needs.

Hydroelectric power contributes to the reduction of greenhouse gas emissions and fossil fuel usage while reducing our country's dependence on foreign energy supplies. Southwestern produces an average of 5,570 gigawatt-hours of clean renewable hydroelectric energy annually. This energy production reduces emissions of carbon dioxide by 4.6 million tons per year, sulfur dioxide by 13,900 tons per year, and nitrogen oxides by 11,100 tons per year. Clean renewable hydropower from Southwestern displaces 9.2 million barrels of fuel oil, 2.7 million tons of coal, or 56.5 billion cubic

feet of natural gas which would have otherwise been depleted.

Southwestern fully supports the development of wind and other alternative energy sources which, like hydroelectric power, contribute to the reduction of greenhouse gases while reducing our country's dependence on foreign energy supplies. In this regard, Southwestern has developed in coordination with the SPP RTO and filed with FERC flexible interconnection procedures that facilitate the interconnection of new generation to Southwestern's system while recognizing the specific operational limitations of our system.

### **ENERGY POLICY ACT OF 2005**

In 2005, the Energy Policy Act of 2005 (EPAAct) was enacted to promote dependable, affordable, and environmentally sound production and distribution of energy for America's future. Southwestern has worked diligently to carry out the initiatives and spirit of that law.

Pursuant to Section 1834 of EPAAct, and in cooperation with other Federal hydropower stakeholders, we participated in a study and the formulation of a report regarding the potential for increasing electric power production at Federally owned and operated water regulation, storage, and conveyance facilities. The study examined 871 existing Federal facilities. Based on current economic conditions, six Bureau of Reclamation and 58 Corps sites were found to be potentially viable and merit further evaluation. Eleven of the 58 Corps sites are located in Southwestern's marketing area.

Southwestern is involved in another EPAAct initiative – the use of Federal power systems to alleviate regional transmission constraints through our participation in regional planning initiatives with the SPP RTO. The Northwest Arkansas and Southwest Missouri region is experiencing rapid population growth and an accompanying increase in electrical grid demand. This region was identified in the National Electric Transmission Congestion Study as an area of congestion. As a

participating partner of the SPP RTO, Southwestern is part of the working group studying long-term solutions to relieve transmission constraints within this area.

Last summer, Southwestern energized an interconnection with a neighboring utility to support load growth in Northwest Arkansas. During the next few years we hope to complete another interconnection in Northwest Arkansas to support additional load growth in that region.

EPAct poses more than a few challenges for Southwestern in the coming year. Southwestern and all other owners, operators, and users of the bulk power system must comply with reliability standards developed and enforced by NERC, acting as the Nation's Electric Reliability Organization. Our future ability to meet reliability goals will become even more important with the increased regulation of utility operations nationwide.

### **SAFETY AND SECURITY**

Southwestern continues to assess its physical and cyber assets to ensure they remain secure and reliable. In FY 2007, our Information Technology (IT) systems underwent third-party Certification and Accreditation validations with no major adverse findings. This confirms Southwestern's information security program is in compliance with the Federal Information Security Management Act of 2002. Additionally, Southwestern tested contingency plans for 100 percent of our IT systems and achieved an E-Gov scorecard rating of Green. We continually work with other PMAs and Federal agencies to share cyber security resources. In FY 2007, our Information Security Officer assisted another PMA in the performance of system risk assessments during the PMA's annual certification and accreditation process.

I am also happy to announce that in FY 2007, Southwestern tested and successfully operated our power system from an alternate control center. This means that we are fully prepared to continue

operations in the event our control center becomes inoperable. Our emergency preparedness approach is typical of the initiative Southwestern has taken to protect all of our essential systems. These programs assure our compliance with NERC and SPP RTO initiatives and ensure a continued supply of reliable power for our region and the Nation.

### **MAINTAINING PARTNERSHIPS**

For 65 years, Southwestern has worked to build a solid base of support for Federal power in the Southwest. Our partnerships with the SPP RTO, the Corps, our customers, DOE, and our participation in NERC are essential to successfully completing Southwestern's mission of marketing and reliably delivering Federal power in our region. We continue to participate in the initiatives and processes that make our Nation's power more reliable while working with other stakeholders to recognize the operational requirements of different project purposes.

However, continued reductions in the Corps' Operations and Maintenance funding from Federal appropriations has necessitated a new way of securing funding to ensure the hydropower projects are properly maintained. To accomplish this objective, Southwestern, its customers and the Corps developed a Memorandum of Agreement (MOA) to provide limited funds to the Corps for non-routine maintenance and repairs at the hydropower projects. This funding mechanism allows the Corps to quickly respond to unscheduled repairs and bring generation back on line quicker than if the Corps had to either reprogram funds from other competing sources or receive appropriated funds. Without these arrangements, a significant portion of the Corps' generation would be unavailable, which would result in a loss of power to Southwestern's customers and the Nation, loss of revenue to the Treasury, and increased use of fossil fuels. However, this funding source is limited and is not available for major rehabilitation work for the Corps hydropower projects.



In partnership with the Corps, not only do we ensure you have power when you flip a light switch in your home, but we also partner with the Corps to ensure stewardship of our Nation's natural river resources. We all realize that water is a precious commodity and that we need to preserve this resource for future generations. For Southwestern and the Corps, being good stewards means that in addition to generating and delivering electricity we have the responsibility to consider the most efficient, effective, and beneficial use of our Nation's rivers. In the end, we remain firmly committed to the operation of the projects for the greatest good of the Nation.

**FISCAL YEAR 2009 BUDGET REQUEST SUMMARY**

	FY 2007 Appropriation	FY 2008 Current Appropriation	FY 2009 Request
Operation and Maintenance			
Program Direction (PD) .....	20,782	22,054	24,330
Operations and Maintenance (O&M) .....	5,604	11,892	12,865
Construction (CN).....	3,612	4,269	5,991
Purchased Power and Wheeling (PPW).....	12,400	45,000	46,000
Subtotal, Operation and Maintenance .....	42,398	83,215	89,186
Offsetting Collections, PPW .....	-3,000	-35,000	-35,000
Alternative Financing, PD.....	0	-877	-2,200
Alternative Financing, O&M.....	0	-6,304	-9,381
Alternative Financing, CN.....	0	-869	-3,191
Alternative Financing, PPW .....	-9,400	-10,000	-11,000
Total, Operation and Maintenance.....	29,998	30,165	28,414

**BUDGET HIGHLIGHTS**

Southwestern’s FY 2009 budget request provides for maintenance, additions, replacements, and interconnections to assure a dependable and reliable Federal power system, which is an integral part of the nation’s electrical grid. The budget request reflects a 5.8 percent decrease in appropriations; however, Southwestern’s overall program shows an increase of 7.2 percent due to the use of alternative financing. The increased use of alternative financing is essential in maintaining Southwestern’s transmission system, both for Southwestern to satisfy its obligations as part of the Nation’s interconnected electric grid and to meet new NERC compliance requirements.

Beginning in FY 2009, Southwestern will increase rates as necessary to recover emergency purchase power and wheeling costs within one year. This change will assure that Treasury is repaid in

a timely manner with no impacts to the Federal budget deficit. However, we will be considering and analyzing options that might be used to mitigate or avoid large rate spikes to our customers from future emergency power expenses.

This FY 2009 budget request does not include reclassification of receipts from mandatory to discretionary (net zero appropriations) for the annual operating expenses of Southwestern. Reclassification of receipts in this manner would allow Southwestern's programs to benefit from the alignment of Southwestern receipts with annual (non-capital) expenditures provided by appropriations. This alignment would foster increased planning certainty for Southwestern's programs, which would ultimately improve the reliability and operating efficiency of the Federal power system. The Administration will continue to pursue reclassification of receipts through changes to the existing authorizing statute or by other means.

### **CONCLUSION**

As noted above, Southwestern is proud to be celebrating its 65<sup>th</sup> Anniversary this year. The continued success of Southwestern's operation is evidenced by the close work that is done on a daily basis with the consumer- and member-owned utilities, DOE, the Corps, and our sister PMAs. Through these partnerships, Southwestern continues to provide a safe and reliable transmission system. Moreover, our success is directly attributable to the dedication of the men and women who serve Southwestern, ensuring that its Mission and goals are met. The approval of Southwestern's FY 2009 budget request will allow Southwestern to continue to deliver clean, renewable Federal hydropower; maintain a reliable Federal transmission system; comply with EPA Act by addressing the Nation's climate change and alternative energy goals; implement NERC requirements to maintain

energy security; and work with other Federal power stakeholders and regional partners to keep the lights on.

Madame Chairwoman, this concludes my testimony. I would be pleased to address any questions that you or the Subcommittee may have.