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BEFORE THE  
SUBCOMMITTEE ON WATER AND POWER  
COMMITTEE ON NATURAL RESOURCES  
UNITED STATES HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING ON THE PROPOSED  
FISCAL YEAR 2008 BUDGET

March 8, 2007

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 2008 budget request.

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

Southwestern markets and delivers all available Federal hydroelectric power from 24 U.S. Army Corps of Engineers' (Corps) multi-purpose projects and participates with other water resource users in order to balance diverse interests with power needs. Southwestern owns, operates, and maintains high-voltage transmission lines, substations, and microwave 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 nearly seven million end users in a six-state area: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

Southwestern's program goal is to provide the benefits of Federal power to customers by selling and reliably delivering power from Federal multi-purpose hydroelectric dams at the lowest cost-based rates possible consistent with sound business practices that produce revenues sufficient to repay the American taxpayers' investments allocated to power (principal and interest), as well as operation and maintenance costs of the Southwestern Federal Power System.

## **SYSTEM RATES AND COST RECOVERY**

Southwestern markets and delivers cost-based energy. In 2005 and 2006, Southwestern experienced one of the worst droughts on record, and a great deal of the cost of the energy we marketed and delivered came from the purchase of energy more expensive than that normally produced within Southwestern's system. To recover this cost with interest, as well as the cost of critical replacements to the power system, we implemented a 27.7 percent revenue increase for our Integrated System effective October 1, 2006. To minimize the burden on our customers of such a significant increase, Southwestern is phasing the increase in over a three-year period.

Also, a revenue increase of 25.8 percent (\$167,000) was implemented for the Robert D. Willis hydropower project effective January 1, 2007. The Sam Rayburn Dam project did not require a rate adjustment.

## **SYSTEM CONDITIONS**

When FY 2006 began, Southwestern was facing one of the worst droughts ever seen in the history of our region. Since March 2005, rainfall had been below normal, resulting in considerably less water in our limited reservoir system going into the winter peak months. We didn't see an improvement until late summer of 2006, when inflows picked up. Currently, the system percent of energy in storage is 104%, which is near average for this time of year.

Although current water in storage is adequate, one must understand that an extended period of low inflow could very quickly return us to drought conditions.

## **ENERGY POLICY ACT OF 2005**

One major success story for Southwestern in FY 2006 illustrates our extensive cooperation with other Federal power stakeholders. Section 1834 of the Energy Policy Act of 2005 (EPACT 2005) directed the Secretary of the Interior, the Secretary of Energy, and the Secretary of the Army to jointly conduct a study of the potential for increasing electric power production capability at Federally owned and operated water regulation, storage, and conveyance facilities. Southwestern began participating in and contributing to the production of this report shortly after the passage of EPACT 2005. This report should be submitted to the House Committee on Energy and Commerce, Resources, Transportation and Infrastructure, and the Senate Committee on Energy and Natural Resources in the very near future.

One EPACT initiative – the use of Federal power systems to alleviate regional transmission constraints – is something Southwestern has been involved in for nearly a decade. Our participation in regional planning initiatives with the Southwest Power Pool, Inc. (SPP) and open access to our transmission facilities began years ago. This summer, we expect to energize an interconnection with a neighboring utility that will support load growth in northwest Arkansas. During the next few years, we hope to work with the same utility to complete an interconnection in southwest Missouri to support load growth in that region.

Two areas within our region – northwest Arkansas and southwest Missouri – are enjoying rapid population growth, but with such growth comes increasing electrical grid demand. The National Grid Study identified this transmission corridor as a bottleneck within our region. As a participating partner of the SPP Regional Transmission Organization (RTO), Southwestern is part of the working group studying long-term solutions to relieving transmission constraints within this area.

EPACT 2005 poses more than a few challenges for Southwestern to conquer 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 the Nation's Electric Reliability Organization, the North American Electric Reliability Corporation (NERC), and as approved and regulated by the Federal Electric Regulatory Commission (FERC). Southwestern must increase oversight of our own NERC compliance measures. We must also place more emphasis on our information technology systems security to identify and protect the critical cyber assets needed to support reliable operations of the bulk electric system.

### **COMMUNICATIONS AND RELIABILITY**

Up-to-date and dependable communications are key to keeping Southwestern's transmission system reliable. During the past few years, we have spent a significant amount of time and money upgrading our communications network to provide for communications redundancy, which reduces the likelihood of a single point of failure. In June 2006, Southwestern finished its build-out of our fiber optic communications system. Our completed system reduced our dependency on leased analog lines, which considerably reduced our yearly expense. Perhaps more importantly, the enhanced system increased the amount of data we can carry, enabling us to partner with the Corps and other area utilities to increase regional reliability.

During the next three years, Southwestern will strive toward compliance with the Commercial Spectrum Enhancement Act, which streamlines the relocation of Federal microwave systems from certain spectrum bands to accommodate commercial use. Relocation of frequencies will increase capacity and result in a more reliable regional system.

Another improvement in communications and reliability resulted from recent implementation of our new Supervisory Control and Data Acquisition (SCADA) system. Southwestern's ongoing analysis of cyber security requirements and critical information assets recently revealed that moving to a personal-computer-based system developed by Western Area Power Administration (Western) would allow Southwestern to meet new NERC requirements for better alarming capabilities and situational awareness. Moreover, this partnership with Western saved over \$800,000 when it was initially implemented, and will continue to save Southwestern an estimated \$100,000 per year as both agencies work together to cost-share enhancements and test customized applications. Finally, this partnership fulfilled an important DOE initiative to merge systems of common business lines when possible.

Even with the best communications systems in the world, reliability suffers without properly trained system operators. I'm proud to report that in FY 2006 as in every year since NERC began measurement of our control compliance ratings for power system operations reliability we have far exceeded the accepted standards. Most of our success in this area can be attributed directly to our NERC-certified system operators. NERC recognized Southwestern in 2005 as a continuing education provider adhering to NERC Continuing Education program criteria. Since then, we have conducted NERC certification and other training courses, not only for our own operators, but also for operators from nearly 40 other utility systems within our

region on a “space available” basis. In FY 2006, Southwestern saved over \$100,000 in training expenses by conducting classes on-site and sharing expenses with neighboring utilities. One of the outcomes of the October 2006 NERC readiness audit was Southwestern’s training program being identified as a potential “Example of Excellence”.

This past January, Southwestern registered as a member of NERC, which grants us a seat at the table with other Transmission Owners in the stakeholder process of determining changes to NERC reliability standards. Southwestern plans to continue our participation in such national and regional initiatives in FY 2007 and in upcoming years. We have always enjoyed good reviews on our compliance with reliability standards. Our future ability to meet reliability goals will take on even more importance with increased regulation of Power Marketing Administration (PMA) operations and increased potential to incur significant financial burden for noncompliance.

Finally, Southwestern maintained its participation in the SPP RTO and will work with SPP in the future to preserve our successful relationship while promoting energy security in our region.

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

Southwestern fully supports the development of biomass, wind, and other alternative energy sources within our region. These energy technologies, like hydroelectric power, contribute to the reduction of greenhouse gases while reducing our country’s dependence on foreign energy supplies.

In FY 2006, we began development, in coordination with the SPP RTO, interconnection procedures for facilitating the interconnection of new generation to Southwestern’s system while

encompassing both FERC mandated interconnection requirements and the specific operational limitations of our system. We plan to submit these procedures to FERC this year as part of our Open Access Transmission Tariff (OATT) pending further coordination with the SPP RTO.

Southwestern continues to provide reliable and environmentally clean hydroelectric energy resulting in savings of 10.7 million barrels of oil, 3.1 million tons of coal, or 65.6 billion cubic feet of gas annually under average water conditions.

Southwestern promoted energy conservation in FY 2006 by issuing to employees updated “Energy Conservation Notes,” tips to employees for conserving energy at work and home. Southwestern employees also participated in the DOE/EPA co-sponsored "Change a Light, Change the World" campaign by replacing a conventional bulb or fixture in their homes with one that has earned the government's Energy Star label for energy efficiency.

### **SAFETY AND SECURITY**

In FY 2006, Southwestern participated in Cyber Storm, the first government-led, full-scale cyber security exercise of its kind that addressed cyberspace vulnerabilities. Other Federal agencies, state and local governments, private sector partners, and the international community participated in this exercise led by the Department of Homeland Security.

We have again satisfactorily completed requirements of the Federal Information Security Management Act of 2002. We fully support the sharing of cyber security resources within the Federal government, and this year, our Information Security Officer assisted two other Power Marketing Administrations (PMA) by performing system risk assessments during their annual evaluation process.



Southwestern, along with every other Federal agency in the Nation, has been reassessing its capacity to withstand a concentrated assault on critical facilities after the attacks of September 11, 2001. Since then, the Nation has experienced the Blackout of 2003 and the destructive hurricanes of 2005, both of which severely disrupted the regional operations of electrical utilities.

While self-assessment of our physical and cyber assets has been ongoing for the last few years and Southwestern has made many improvements to protect our mission-critical equipment and facilities, increased emphasis is now being placed on Southwestern's responsibility to adequately plan for emergencies or other situations that may cause disruption of our normal operations and affect the reliability of the regional and national transmission grid.

We have consequently upgraded our communications system and the information technology assets associated with it as I mentioned earlier. Further, Southwestern has also revised its Continuity of Operations Plans (COOP). This contingency plan identifies key personnel, equipment, records, and facilities that will be necessary if Southwestern is unable to conduct normal operations, based on table top exercises which simulate emergency conditions. Next year, we will evaluate the COOPs using scenario driven exercises to test organizational response to events that require COOP activation.

We plan to fully implement the Alternate Control Center and our new Site Security Plans, Security Management Plan, and Site-Specific Counter Intelligence Plans this year. Each plan provides policies, procedures, and authorities required to implement a highly effective Physical Security program throughout Southwestern.

## **MAINTAINING PARTNERSHIPS**

I've mentioned several success stories this year that focus on partnerships – Southwestern and SPP, Southwestern and NERC, Southwestern and DOE. These are all very important to Southwestern's ability to fulfill its mission. However, I truly believe that the most important partnership Southwestern has is our relationship with our customers and the Corps. While in the very depths of the operational difficulties we faced due to unprecedented drought conditions last year, both our customers and the Corps came through for us when it counted.

Early last spring, Southwestern asked its customers to voluntarily schedule less than the 60 hour monthly minimum required by their power sales contracts. When it became apparent that system storage was still not recovering and this measure would not be enough to deal with the situation, we developed and executed our innovative Deferral of Peaking Energy Program. Over 90 percent of our customers agreed to take less than the 1200 hours of Peaking Energy they were entitled to enabling Southwestern to preserve system storage, fulfill its contract obligations, and reduce the need to purchase expensive non-hydro energy to make up for the energy it would have produced in normal water conditions.

The Corps for its part allowed Southwestern more operational flexibility on a regional level to help us meet our contractual obligations with cost-based hydropower when possible instead of more expensive thermal power.

We also continue to enjoy the success of our innovative and highly successful Southwestern/Customer/Corps 1999 arrangement to provide for non-routine maintenance at Corps generating facilities. Over \$82,000,000 has been funded under this arrangement to keep the turbines turning and the power flowing to over seven and a half million end-users in the southwest region.

I would be remiss if I did not mention Southwestern's continuing participation in the many committees concerned with operation of the hydroelectric facilities in conjunction with other projects' purposes. We remain firmly committed to the operation of the projects for the greatest good of the Nation.

Finally, I have to say we never would have made it through the severe drought conditions we faced without the support of Office of Management & Budget (OMB) and DOE. Together they apportioned Southwestern the funds needed such that, with the support of our customers and the Corps, Southwestern survived one of the most critical periods of our history. Our goal is to move forward exploring other possible funding mechanisms that could provide improved flexibilities and efficiencies in the future.

### **BUDGET HIGHLIGHTS**

Southwestern's FY 2008 budget request shows a modest increase, allowing Southwestern to maintain its aging transmission system while meeting the demands of increased regional power loads and containing costs. The budget significantly increases Southwestern's Purchased Power and Wheeling use of receipts funding authority. It also includes for recovery from ratepayers any expenditure Southwestern incurs out of its Continuing Fund for purchase power and wheeling costs within one year. This change will assure the Treasury is repaid in a timely manner with minimal deficit impact. Southwestern will begin implementing this initiative in FY 2009. The budget also proposes that the interest rate for new obligations incurred by Southwestern for power-related investments be set at the rate equivalent to what Government corporations pay when borrowing in the market, identified as the "agency rate." This proposal will better align Southwestern's interest rates with its investment risk and will be comparable to

the interest rates charged to Bonneville Power Administration when it borrows from the U.S. Treasury. The new interest rate will apply only to investments whose interest rates are not set by law. All Southwestern investments currently in service will continue to retain existing interest rates. The estimated impact to Southwestern’s customers is a 1.3 percent Federal power sales rate increase.

**FISCAL YEAR 2008 BUDGET REQUEST SUMMARY**

	FY 2006 Appropriation	FY 2007 Appropriation	FY2008 Request
Operation and Maintenance			
Program Direction (PD) .....	19,758	20,782	22,214
Operations and Maintenance (O&M).....	6,972	5,604	11,978
Construction (CN) .....	3,134	3,612	4,300
Purchased Power and Wheeling (PPW) .....	12,400	12,400	45,000
Subtotal, Operation and Maintenance.....	42,264	42,398	83,492
Offsetting Collections, PPW	-3,000	-3,000	-35,000
Alternative Financing, PD	0	0	-877
Alternative Financing, O&M	0	0	-6,304
Alternative Financing, CN	0	0	-869
Alternative Financing, PPW	-9,400	-9,400	-10,000
Total, Operation and Maintenance .....	29,864	29,998	30,442

**CONCLUSION**

Approval of Southwestern’s Fiscal Year 2008 budget request will allow Southwestern to deliver Federal hydro power, comply with EPACT 2005, maintain reliable communications and transmission equipment, address the Nation’s emissions and alternative energy goals, and maintain energy security as we work with other Federal power stakeholders and regional partners to help 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.