

STATEMENT OF JON C. WORTHINGTON
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UNITED STATES DEPARTMENT OF ENERGY

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

Madam Chairwoman and members of the Subcommittee, I am Jon Worthington, Administrator of the Southeastern Power Administration (Southeastern), and I appreciate this opportunity to present a written statement today, March 8, at this Oversight Hearing on the FY 2008 Budget Requests for the Bureau of Reclamation, the Federal Power Marketing Administrations, and the Water Resources Division of the United States Geological Survey.

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 practices to public bodies and cooperatives in the southeastern United States in a professional, innovative, customer-oriented manner, while continuing to meet the challenges of an ever-changing electric utility environment through continuous improvements.

With an authorized staff of 42, Southeastern markets power produced at 22 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps). These 22 projects are divided into four individual river systems, each of which has separate rate and repayment schedules. This power is marketed in an 11-State marketing area. Preference in the sale of power is given to public bodies and cooperatives in accordance with Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s).

Southeastern coordinates the operations of the projects using customers' load schedules and meets the North American Electric Reliability Corporation's (NERC) control area criteria, while complying with Corps' operational and environmental requirements. All of Southeastern's system operators meet NERC certification standards.

Southeastern does not own or operate any transmission facilities and carries out its marketing program by using the existing transmission systems of the power utilities in the area. This is accomplished through “wheeling” contracts with area transmission providers that agree to deliver power to preference customers. In turn, Southeastern compensates the transmission provider for the wheeling services.

Rate schedules are formulated to repay all of Southeastern’s costs, as well as all Corps costs allocated to power. Rate schedules are designed to recover operation and maintenance expenses, purchased power and wheeling expenses, and expensed interest annually. Rate schedules also include the costs of capital investments that are recovered over a reasonable number of years.

PROGRAM ACCOMPLISHMENTS

The eighth worst drought in the past 100 years occurred on the Georgia-Alabama-South Carolina System during FY 2006. In spite of the drought, Southeastern sold 5,255 gigawatt-hours of energy, with revenues totaling \$204 million, and repaid approximately \$4.5 million in capital costs to the Treasury.

Southeastern recovered all costs associated with drought-related power purchases by the end of FY 2006, including \$9.9 million financed using the Continuing Fund. Continuing Fund expenditures were recovered by passing-through the cost to Southeastern’s customers within the month following the purchase. Southeastern has implemented a similar pass-through in the Kerr-Philpott System to recover purchase power costs as they are incurred, thereby improving cash flow to the Treasury.

Southeastern has used the President's Management Agenda to become more efficient and effective. We have integrated the principles of the initiatives in the President's Management Agenda into our organization and continue to work with the Office of Management and Budget and offices within the Department of Energy (DOE) to ensure that the performance measures are more focused and useful in making management decisions. Southeastern has consistently achieved high ratings on DOE's quarterly President's Management Agenda Scorecard process and met the criteria for annual targets specified in the Program Assessment Rating Tool. Southeastern is "Green" on all items that apply to the President's Management Agenda. We continue to use this as an improvement tool.

Like most Federal agencies, Southeastern will face numerous retirements over the next several years. To that end, Southeastern has an active succession management plan that is reviewed on an ongoing basis. It was modified last fiscal year to address the critical need of replacing four out of five senior staff within the next five years and three highly-skilled technical personnel in the next two years.

Southeastern continues to meet all cyber security requirements on its three Information Technology (IT) networks. In addition, Southeastern signed a Memorandum of Agreement (MOA) with the Corps on protocols to share cyber security information and to formalize security issues. This agreement will facilitate coordination efficiencies between our agencies in the operation of the Federal hydropower system.

PROGRAM GOALS

Wolf Creek Project

During FY 2007 and into FY 2008 Southeastern will be focusing on the evolving situation at the Wolf Creek Project. The Wolf Creek Project is operated by the Corps and is included in the Cumberland System, which consists of nine hydropower projects operated in a completely coordinated manner. Wolf Creek is the largest manmade reservoir in the eastern United States. It encompasses over half of the usable storage in the Cumberland System and regulates flow to four downstream projects. The Wolf Creek Dam has experienced seepage problems since the mid to late 1960's resulting from the Karst limestone characteristics of the foundation material that typically contains fissures and clay-filled seams. Over time, mildly acidic water begins to dissolve the surface and any fractures or bedding planes in the limestone bedrock enlarge as the bedrock continues to dissolve. Openings in the rock increase in size and an underground drainage system begins to develop, allowing more water to pass through and accelerating the formation of underground karst (cave-like) features which are the cause of concern at Wolf Creek. During the 1960's and 1970's, the Corps undertook measures to correct the problem; however, these repairs have not provided the desired results.

Amid increasing concern over the overall seepage occurring at the project, in March 2005, the Corps instituted a revision to the operational parameters of the Wolf Creek project. The project elevations, which were normally permitted to fluctuate between the seasonally varying project guide curve of elevation 723 (MSL) in the summer and 700 (MSL) in the winter, were limited to seasonal variations of 720 (MSL) and 690 (MSL), respectively.

This plan was intended to relieve some pressure on the dam and reduce the foundation seepage, while still allowing a sufficient quantity of water to be stored at the project, which could be used to meet down stream flow requirements and satisfy congressionally-authorized project purposes.

A number of studies have recently been conducted relating to the seepage at the project. The most recent of these reviews was completed in December 2006. This panel was composed of independent, outside experts in their respective fields. As a result of the recommendations from the studies that concluded the dam was at high risk of failure, the Corps announced emergency measures and courses of action would be taken to reduce imminent risk to human life, health, property, and severe economic loss. The Corps' concern of failure and risk to human life is not lost on Southeastern or Southeastern's customers.

Effective January 22, 2007, the Wolf Creek project elevation was lowered to 680 (MSL) and will be maintained at this constant elevation. The Corps has instituted an accelerated grouting program for the project with the goal of having the grout work completed in one of the most critical sections of the dam on or about April 1, 2007, and a second critical area by Fall of 2007. In addition, a risk analysis will also be completed in that same timeframe. Based on the results of the grouting program and this analysis of project conditions, a revision to the new operating plan may be warranted. The project will be constantly monitored during this time period. If positive effects are not seen from this incremental lowering, or if other conditions develop, further actions will be necessary.

Modifications to the operating criteria of these projects are having a dramatic impact on a number of stakeholders throughout the entire system: loss of revenue to marina operators and other recreation-related businesses; waterborne commerce; and unplanned water supply construction costs for municipal governments and power plant operators. With the loss of summer reservoir storage, the impact to Southeastern's hydropower customers is also significant. The Cumberland System provides less generation for the preference customers, which results in power delivery deficiencies and load serving impacts to the 216 municipalities and cooperatives located in the states of Tennessee, Kentucky, Georgia, Illinois, Mississippi, Alabama, and North Carolina who rely on this generation resource.

Southeastern continues to meet and coordinate with its customers and the Corps regarding the revised operation of the Cumberland System. Southeastern is presently formulating a strategy to market the remaining energy in a system that, until the repair is accomplished and pool level normalizes, will become a run-of-the-river generation resource. Our short-term goal is to formulate rates and market the remaining energy to ensure repayment of the Federal investment and recover all the Corps and other costs (O&M).

Power Operations

In order to maintain compliance with NERC and the Southeastern Electric Reliability Council (SERC) Reliability Corporation operating requirements, Southeastern will ensure that operators are recertified on a rotating basis and that all available power is reliably delivered to the power grid for the benefit of Southeastern's customers.

Agency Rate

Southeastern's FY 2008 proposed budget includes a proposal whereby the interest rate for new obligations incurred by Southeastern for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the agency rate. This proposal will better align Southeastern's interest rates with its investment risk and will be comparable to the rates charged to the Bonneville Power Administration when it borrows from the Treasury. This new interest rate will apply only to investments with interest rates that are *not* set by law. All of Southeastern's investments currently in service will continue to retain existing interest rates. The new agency rate will result in increased annual costs of less than one percent (1%), beginning in FY 2008.

Recovery of Emergency PPW Expenses Using the Continuing Fund

Southeastern has implemented rates that recover emergency power purchases costs for the majority of its hydroelectric systems within the fiscal year that costs are incurred. The 2008 Budget includes an initiative for all Southeastern hydroelectric systems to recover emergency power purchase expenses from ratepayers within one-year. This change will assure the Treasury is repaid in a timely manner with minimal deficit impact if emergency costs are incurred.

Financial Reporting

Southeastern staff is working with Corps' financial staff to improve the timeliness and streamline delivery of annual financial data for auditing purposes.

HOW SOUTHEASTERN RELATES TO GENERATION AGENCIES

Southeastern maintains cooperative working relationships with the Corps of Engineers in both the South Atlantic Division and the Great Lakes and Ohio River Division. The Georgia-Alabama-South Carolina, Kerr-Philpott and Jim Woodruff Systems' financial and operating issues are regularly discussed within the Southeastern Federal Power Alliance. Cumberland System financial and operating issues are addressed within the Team Cumberland organization. Southeastern is committed to maintaining open communications with its customers and the Corps.

CLIMATE CHANGE, ALTERNATIVE ENERGY, AND ENERGY CONSERVATION

Southeastern addresses climate change issues by providing educational and technical services to our municipal and cooperative customers. Specific programs include partnering with the American Public Power Association to develop a web-based tool that enables our customers to access technical energy efficiency information for their large commercial and industrial customers. Southeastern also assisted the City of College Park, Georgia, in acquiring renewable

energy resources for its power portfolio mix. We have also partnered with DOE's wind program to provide educational services in the mountainous region of the agency's service area.

In addition, based on FY 2006 generation, Southeastern saved the equivalent of the amount of energy in 9.3 million barrels of oil, 2.7 million tons of coal, or 57.3 billion cubic feet of gas through hydropower generation, and prevented greenhouse emissions of approximately 4.7 million tons of carbon dioxide, 14,100 tons of sulfur dioxide, and 11,300 tons of nitrogen oxides.

2008 BUDGET REQUEST

The FY 2008 budget request, Attachment 1, provides for \$6.463 million in appropriations for program direction and \$62.215 million for Purchase Power and Wheeling. Southeastern relies on existing transmission systems to transmit Federal Power to its customers at a cost of \$36 million. Southeastern also purchases \$26 million in replacement power and pump storage energy. Purchase power and wheeling expenses are financed entirely with offsetting collections and net billing. 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 wheeling costs rather than using appropriations. There are no new program starts included in Southeastern's FY 2008 budget request.

Madam Chairwoman, this concludes my presentation of Southeastern's FY 2008 budget request and program status. If you or any of the Subcommittee members have questions, I will be pleased to answer them.

BUDGET REQUEST SUMMARY

(dollars in thousands)

	FY 2006 Appropriation	FY 2007 Continuing Resolution Appropriation	FY 2008 Request
Program Direction	5,544	5,602	6,463
Purchase Power and Wheeling (PPW).....			
Purchase Power.....	12,000	12,000	26,370
Wheeling.....	35,198	35,198	35,845
Subtotal, Purchase Power and Wheeling	52,742	52,742	62,215
Offsetting Collections, PPW.....	-32,713	-32,713	-48,413
Alternative Financing/Net Billing.....	-14,485	-14,485	-13,802
Total, Budget Authority, Southeastern Power			
Administration	5,544	5,602	6,463