

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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Madam Chairwoman and members of the Subcommittee, I am Leon Jourolmon, Acting Administrator of the Southeastern Power Administration (Southeastern), and I appreciate this opportunity to present a written statement today at this Oversight Hearing on the Fiscal Year 2009 Budget Request 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 principles to public bodies and cooperatives in accordance with Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s).

With an authorized staff of 44 full time employees, Southeastern markets power produced at 22 multiple-purpose projects operated and maintained by the U.S. Army Corps of Engineers (Corps of Engineers). These 22 projects are separated into four marketing systems. The individual systems are integrated hydraulically, financially and electrically. Each system has separate rate and repayment schedules. Hydroelectric power generated at these projects is marketed in an 11-state marketing area.

Southeastern coordinates the operations of the projects using customers' load schedules and meets the North American Electric Reliability Corporation's control area criteria, while complying with Corps of Engineers' operational and environmental requirements. All of

Southeastern's system operators meet North American Electric Reliability Corporation 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 contracts with area transmission providers that agree to deliver power to preference customers. In turn, Southeastern compensates the transmission provider for its services.

Rate schedules are formulated to repay all of Southeastern's costs, as well as all Corps of Engineers costs allocated to power. Rate schedules are designed to recover operation and maintenance expenses, purchased power and transmission 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

In spite of the drought of record, in fiscal year 2007 Southeastern sold 5,232 gigawatt-hours of energy, with revenues totaling \$207 million, and repaid approximately \$2.1 million in capital costs to the Treasury.

By the end of Fiscal Year 2007, Southeastern recovered all costs associated with drought-related power purchases made during the Fiscal Year, including \$36 million financed using an

emergency Continuing Fund. Continuing Fund expenditures were recovered by passing-through the cost to Southeastern's customers.

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 to ensure that the performance measures are focused and useful in making management decisions. Southeastern has consistently achieved high ratings on Department of Energy's quarterly President's Management Agenda Scorecard process and met the criteria for annual targets specified in the Program Assessment Rating Tool. We continue to use this as an improvement tool.

Southeastern has an active succession management plan that is reviewed on an ongoing basis. The succession plan addresses the need of replacing several members of its executive management team and other critical staff, and recruiting highly-skilled technical personnel over the next two years.

CLIMATE CHANGE, ALTERNATIVE ENERGY, AND ENERGY CONSERVATION

Southeastern supports Climate Change activities by reducing carbon emissions through generation of hydroelectric power which has zero carbon dioxide emissions. Southeastern's generation of 5,232 gigawatt-hours in fiscal year 2007 offset the equivalent of the amount of energy in 9.1 million barrels of oil, 2.2 million tons of coal, or 50.6 billion cubic feet of gas.

Southeastern's hydroelectric generation reduced overall carbon dioxide emissions by 4.4 million metric tons, sulfur dioxide emissions by 15,506 tons, and nitrogen oxide emissions by 5,271 tons. By working with area utilities, Southeastern supports the Climate Change and Technology Program by promoting residential, commercial and industrial energy efficiency as well as development of wind, solar, and biomass technologies when they are economically feasible. Southeastern works closely with the Department of Energy's Wind Powering America Program to ensure that customers in areas with category 3 winds or higher have the information necessary to benefit from implementing advanced wind technology.

PROGRAM GOALS

Cumberland River System

Power operations on the Cumberland River have been significantly impacted due to seepage undermining the foundations of the Wolf Creek and Center Hill projects. After rigorous testing and numerous studies, dam safety experts have concluded that both projects have serious dam safety issues. Southeastern's goal is to cooperatively engage the Corps of Engineers and our customers in order to get these projects repaired and online as soon as possible. Southeastern will take advantage of every opportunity to enable our customers to receive any additional hydropower benefits which may become available during the remedial efforts at the projects. The following summaries describe the structural problems, study findings, and operational modifications that have been undertaken in order to address the seepage problems.

Wolf Creek Project

During fiscal years 2008 and 2009, Southeastern will continue to work with the Corps of Engineers regarding the Wolf Creek Dam Safety issue. Over the course of the last fiscal year, Cumberland System river basin operations were severely impacted by the operational restrictions that were necessitated as a result of dam safety concerns at the project. In order to reduce imminent risk to human life, health, property, and severe economic loss in the region, in January 2007, Corps of Engineer officials elected to lower the elevation of the Wolf Creek Project in response to numerous studies conducted by dam safety experts which concluded that the dam was at high risk of failure. On January 22, 2007, the lake elevation of the Wolf Creek Project was lowered to an elevation of 680 feet with the intent that this level would be maintained until such time as ongoing remedial efforts at the project indicated a reduced level of risk of failure.

Over the past year the Corps of Engineers has undertaken a grouting program at the project in an effort to fill all the cavities and voids under the foundation which are providing paths for seepage. Work is currently underway on installation of the first line of grout, with installation of a second line expected to begin shortly after its completion. It is currently anticipated that work on the installation of the cutoff wall through the project's earthen embankment will begin in the late fall 2008 timeframe. If the results of the current grouting program are satisfactory, the Corps of Engineers may consider an incremental increase of five to ten feet from the current elevation of 680 feet.

The decrease in the lake elevation of the Wolf Creek Project has resulted in a significant reduction in the quantity of water stored in the Cumberland System. Due to the large volume of system storage normally provided by the Wolf Creek Project, virtually all in lake and in-stream purposes in the entire Cumberland River System were dramatically impacted by the reduced storage and corresponding reduction to flows which occurred during the year. In-stream flows and the operation of all hydroelectric projects in the basin were directly or indirectly impacted by the lack of system storage and the revised river basin operational criteria, which call for the maintenance of a relatively constant elevation in lake levels at Wolf Creek. Consequently, dramatic impacts were experienced by stakeholders throughout the river basin including marina operators, recreation related businesses, environmental purposes, navigation, municipal and industrial water supply, and power generating facilities. The impact to Southeastern's hydropower program was very significant. The 216 municipalities and cooperatives located in the states of Tennessee, Kentucky, Georgia, Illinois, Mississippi, Alabama, and North Carolina that normally receive Cumberland System generation as a dependable peaking resource were forced to replace this generation with costly alternative sources of power. At the onset of the altered run of the river operation for the Cumberland System, Southeastern implemented an interim marketing strategy for system generation in order to provide a method of sharing any remaining system generation benefits among all of Southeastern's customers on a ratable basis. This revised operation for the Cumberland System provides some level of generation benefits to each customer on an as-available-basis as power is made available by the Corps of Engineers. Southeastern will continue this method of operating until it can once again resume a more normal operation.

Center Hill Project

Center Hill Dam is located on the Caney Fork River in DeKalb County, Tennessee, approximately 30 miles upstream from the river's confluence with the Cumberland River. Construction on the project was completed in 1951 and it is operated for flood control, hydropower, recreation, navigation, water supply, and water quality. Since the 1960's, the Center Hill Project has experienced serious seepage problems as a result of the Karst limestone features which comprise the project's foundation.

Through the years the foundation features have allowed for the seepage of water to occur under the project which has eroded material and created voids and cavities in the abutments. This uncontrolled progressive seepage of water through the rock foundation and abutments has resulted in the development of muddy downstream flows and the formation of large sinkholes in the left abutment. All previous attempts at remedying the foundation conditions with grouting material have been ineffective since previous methods did not meet current standards for grouting.

Based on the findings of the External Peer Review Panel for Dam Safety, the situation at the Center Hill Project has been classified as Corps of Engineers' Class I designation (Urgent and Compelling) under the Corps of Engineers' Dam Safety Action Classification System. The Panel recommended an immediate lowering of the reservoir elevation at the Center Hill Project, and as a result, the Corps of Engineers has implemented a revised operating plan for the Center Hill Project which will maintain a lower reservoir level to relieve pressure and stress on the

foundation. The range of operation for the project will be from a low elevation of 620 feet to high elevation of 630 feet during the year. The Panel also recommended a comprehensive grouting program and installation of a cutoff wall as soon as possible. The work is tentatively scheduled to begin in 2008 and should be completed in 2014. Southeastern will continue to work with the Corps of Engineers as they implement their operational plan for the Center Hill Project.

Compliance Requirements

In order to maintain compliance with North American Electric Reliability Corporation and the 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. Southeastern continues to train its contracting officers to meet the mandated requirements for Contracting Officers.

Drought

This past year, the southeast experienced what is currently being considered to be a new drought of record. The severe dry conditions, with multiple consecutive weeks of temperature readings in excess of 100 degrees, stretched generation resources to the limits. Throughout the summer and into the fall, Southeastern worked closely with the Corps of Engineers' Water Management personnel in an attempt to preserve the remaining storage in the projects to allow maximum operating flexibility in satisfying customer generation requirements. Although the southeast has

had some rain over the winter we are headed into the spring and summer with a significant deficit. A return to average rainfall patterns will not refill the reservoirs to full pool levels over the remainder of the calendar year.

SOUTHEASTERN'S RELATIONSHIP WITH ITS CUSTOMERS AND THE CORPS

Southeastern maintains a cooperative working relationship with its customers and the Corps of Engineers in both the South Atlantic and Great Lakes and Ohio River Divisions. Financial and operating issues are discussed regularly within the Southeastern Power Alliance. The Alliance was established in 1991 and includes representatives from Southeastern, the Corps of Engineers' South Atlantic Division, and preference customers located in the Georgia-Alabama-South Carolina, Kerr-Philpott, and Jim Woodruff Systems. Team Cumberland was formed in 1992 and includes representatives from Southeastern, the Corps of Engineers' Great Lakes and Ohio River Division, and preference customers located in the Cumberland System. Financial and operating issues are also discussed in bi-annual Team Cumberland meetings. Southeastern is committed to maintaining open communications with its customers and the Corps of Engineers.

2009 BUDGET REQUEST

The fiscal year 2009 budget request, Attachment 1, provides for \$7.420 million in appropriations for Program Direction and \$63 million for Purchase Power and Transmission. Southeastern relies on existing transmission providers to transmit Federal Power to its customers at a cost of \$35 million. Southeastern also purchases \$28 million in replacement power and pump storage

energy. Purchase Power and Transmission expenses are financed entirely with offsetting collections and net billing. The 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 transmission costs rather than relying upon appropriations. There are no new program starts included in Southeastern's Fiscal Year 2009 budget request.

Madam Chairwoman, this concludes my presentation of Southeastern's Fiscal Year 2009 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 2007 Appropriation	FY 2008 Appropriation	FY 2009 Request
Program Direction.....	5,602	6,404	7,420
Purchase Power and Wheeling (PPW)			
Purchase Power.....	12,000	26,370	28,349
Transmission.....	35,198	35,845	35,173
Subtotal, Purchase Power and Wheeling.....	47,198	62,215	63,522
Offsetting Collections, PPW.....	-32,713	-48,413	-49,520
Alternative Financing/Net Billing.....	-14,485	-13,802	-14,002
Total, Budget Authority, Southeastern Power			
Administration.....	5,602	6,404	7,420