

**Testimony of Administrator of Mike Wech**

**Southwestern Power Administration**

**U.S. Department of Energy**

**Subcommittee on Water, Wildlife and Fisheries**

**Committee on Natural Resources**

**U.S. House of Representatives**

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**Examining the President's Fiscal Year 2024 Budget Proposal for the U.S. Bureau of Reclamation, U.S. Fish and Wildlife Service, National Oceanic and Atmospheric Administration, and the Power Marketing Administrations**

Subcommittee Chairman Bentz, Ranking Member Huffman, and Members of the Subcommittee, thank you for the opportunity to share information about our program and highlights of the President's Budget Proposal for Fiscal Year (FY) 2024 for the Southwestern Power Administration (Southwestern).

This year – 2023 – marks Southwestern's 80<sup>th</sup> anniversary, and our four score years of experience marketing and delivering low-cost, clean, renewable, and emissions-free hydropower generated at Federal projects in the southwest region of this great Nation has also generated decades of growth and opportunity for towns, businesses, and citizens alike.

The customers we serve are our partners, as are the people we work with at the U.S. Army Corps of Engineers (Corps), the U.S. Department of Energy (DOE), state and Federal resource agencies like the U.S. Fish and Wildlife Service, and you – the Members of Congress who directly represent the beneficiaries of Federal hydropower.

I appreciate the opportunity to appear before you today to present details about Southwestern's program.

**Southwestern Profile**

Southwestern markets a combined capacity of 2,194 megawatts (MW) of hydroelectric power from 24 multi-purpose dams owned by the Corps. On average, Southwestern markets 5,600,000 MW-hours of energy annually, with revenue of approximately \$200 million per year.

We operate and maintain 1,381 miles of high-voltage transmission lines, 26 substations and switching stations, and a communications system that includes digital microwave, VHF radio, and fiber optic components. Federal workers and contractors serve from offices located in Gore,

Oklahoma; Jonesboro, Arkansas; Springfield and Nixa, Missouri; and Tulsa, Oklahoma, and many also work remotely from field sites and home offices as necessary.

Our customers are not-for-profit electric cooperatives, municipalities, and military installations located in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas. Wholesale Federal hydropower allocations range from the largest at 478 MW, and the smallest at just 100 kilowatts. Regardless of customer size, each is integral to our success and all contribute to Southwestern's revenue and to repayment of the Nation's investment in our program. The concept of "beneficiary pays" is alive and well at Southwestern, where rates are designed to recover the cost, with interest, of the generating plants, transmission equipment, communication systems, and administrative and overhead expenses.

### **Hydro Only System**

Unlike two of our three sister agencies in the more mountainous regions of the country, where there is water storage in the form of snowpack, Southwestern's system has no long-term storage of water. Instead, Southwestern depends almost entirely on rainfall to refill the reservoirs in our region and, consequently, storage is often monitored on a month-to-month basis.

Waterpower is the nation's oldest source of renewable energy and is integral to the clean energy solutions used in our fight against climate change. When it rains, the hydropower flows, but when there are extended dry periods, Southwestern must rely on other arrangements to meet our contractual obligations to our customers, most often through power purchases with marketers and with temporary self-supply provisions with our customers.

With the full implementation of electricity markets and with the impending increases in capacity reserves to assure electrical reliability by the Regional Transmission Organizations (RTOs), the competition for affordable capacity can be fierce. Southwestern performs both short and long-term planning to address capacity shortfalls, but an important aspect of planning is having reliable funding to increase flexibility.

### **Funding**

Southwestern has been fortunate for some years now to have our program funded through a combination of appropriations and congressional authorities, providing us the opportunity to operate according to sound business principles.

Last year's enacted budget provided Southwestern Congressional authority to use our power receipts to cover the cost of any extended purchases we might have to make to cover capacity shortfalls during extended dry periods. It was the first time in five years such authority was granted, and the President's FY 2024 Budget requests a continuation of this authority for power purchases.

Without such authority, Southwestern must rely on the Continuing Fund<sup>1</sup>, which must be repaid within 12 months, to fund power purchases during drought and extended dry periods. Southwestern designs its rates to recover the cost of routine and known power purchases, but power purchases over an extended period of time using the Continuing Fund will result in significant rate spikes, which would be keenly felt by our customers and the citizens they serve. Use of receipts authority smooths out the cost of extended power purchases and provides for better long-term planning.

In addition to the authority to use receipts for power purchases, Southwestern's program is also funded by alternative financing and other authorities approved by Congress, including appropriations, which, incidentally, represents only about 6% of Southwestern's total program needs. Generally, the more funding flexibility we have, the more efficiently we can operate our business and provide a high-value product to our customers.

### **Safety and National Energy Security**

In Southwestern's role as an electric utility, safety is hands-down the number one goal. Our dispatchers, maintenance workers, communications crews, and information technology and cyber security professionals work around the clock to make sure our systems are secure and available to support not only Southwestern and its customers but also the bulk electrical grid that is vital to our Nation's energy security. Hydropower generators respond quickly to changes in electrical demand and provide valuable and flexible support to the bulk electric grid in times of crisis.

Weather is often the cause of crises to the electrical grid, and two recent examples where Southwestern was able to provide support are Winter Storm Uri in February 2021 and Winter Storm Elliot in December 2022.

During Uri, Southwestern was asked by the Southwest Power Pool (SPP) RTO to reduce electrical demand due to a surge in electricity use in the region. Southwestern was able to work with its customers to reduce demand and to bring customer behind-the-meter generation online so generation from Corps hydropower plants could be used for voltage support to contribute to the electrical stability of the bulk electrical grid.

Though not as severe as Uri, Elliot was also a significant weather event. The SPP RTO issued conservation operations alerts and Southwestern and its customers once again were able to reduce demand to help shore up the grid.

Southwestern, along with other entities in the SPP RTO footprint and nationwide, has become increasingly aware of the necessity of improving our situational awareness of our customers and

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<sup>1</sup> The Southwestern Continuing Fund (16 U.S. Code § 825s-1) is a mandatory Treasury fund established with appropriations in 1949 (amended in 1951 and 1989) which allows for access to funding to ensure continuity of operations and delivery of power in emergency circumstances. The fund is replenished through power receipts upon use and all costs are recovered through power rates. Existing one-year cost recovery policy established in 2008 limits Southwestern's use of the fund for replacement energy and drought mitigation needs due to the projected rate impacts this funding source would have on rates charged to customers.

utility neighbors and the need for everyone to work together to maintain reliability across a combined footprint.

### **Reliability and Infrastructure**

As the examples above illustrate, we work closely with the SPP RTO to keep the lights on, but we also work with SPP on many other initiatives vital to Southwestern's program and to the region in general. As a contract participant with SPP, we coordinate transmission planning, repair, and system protection activities. We also participate in SPP working groups and region-wide initiatives dedicated to the reliability of the Nation's bulk electric grid.

Our agency specific planning includes a long-term construction plan to prioritize investments, and we evaluate and plan yearly to make sure the appropriate work is being done, even as we strive to keep downward pressure on expenditures.

We are also actively engaged in investing in the Corps-owned generating assets in our marketing region. With the Corps' partnership and the unwavering support of our customers, we have a well-established customer funding program that allows for reinvestment in critical infrastructure so that Federal hydropower will continue to be competitive for future generations.

As of this – our 80<sup>th</sup> – year, over \$1 billion in funding has been approved under the customer funding program. There are over 500 completed and ongoing projects to replace or repair aging equipment, such as turbines, generators, gates, pipes, cranes, and electrical components, in the Corps powerhouses. To date, we have completed three major plant rehabilitations under the program, with three more in the construction phase, and six more in the design and planning stage.

### **Sustainable Workforce**

Along with planning for sustainable funding and infrastructure comes planning for a sustainable workforce. As my fellow Power Marketing Administrators may agree, recruiting and keeping good workers is an ongoing challenge.

Recent initiatives, including the formulation of a new strategic plan in 2020, have put the focus on recruiting for activities critical to Southwestern's success. Dispatchers, high-voltage electricians, and craft workers are being actively recruited, as are employees in financial management, contracting, reliability compliance, resources, power marketing, and engineering.

Our strategic direction regarding our workforce is to strive to be fully staffed, with a team of highly-qualified, engaged professionals who are excited to work for Southwestern. Our strategic values support this effort, and we ask that Southwestern employees work together, dedicate themselves to Southwestern's success, and engage, embrace, and address changes and challenges.

### **Federal Hydropower Council and Water Storage Reallocations**

I have thus far presented many successes and challenges related to Southwestern's program, and I would like to conclude my summary with by sharing the successes and challenges of one our most valuable partnerships.

In 2016, in response to significant Federal hydropower reinvestment activities in Corps hydropower facilities across the Nation and to address growing concerns from the marketing agencies over pending water storage reallocations, the Corps convened a meeting of its own leadership and that of the PMAs under the Federal Hydropower Council (FHC). The Bureau of Reclamation joined the FHC the following year, and 2023 marks the seventh anniversary of the group.

The FHC has allowed interagency collaboration to identify best practices for the acquisition of equipment, development of a first of its kind training program specifically for hydropower acquisitions, adoption of industry standard approaches for operations and maintenance of the powerhouses, standardization of hydropower asset management, and a unified message about the benefits of Federal hydropower nationwide.

Yet two areas of the FHC collaboration remain unresolved. We are having ongoing discussions regarding water storage reallocations and the appropriate assignment of costs for joint-use of the multi-purpose projects from which the PMAs market power. Southwestern is optimistic continued discussions will yield resolutions.

In the end, the FHC has the common goal of doing things better, faster, and cheaper to improve the Federal hydropower product, and Southwestern is proud to be a part of this effort to benefit the Federal hydropower program, our collective customers, and the Nation.

### **Budget Highlights**

Southwestern's FY 2024 request for appropriations is \$11.44 million (Attachment 1). The use of alternative financing and offsetting collection authorities to fund expenses and Purchase Power and Wheeling are all essential to Southwestern accomplishing its mission with minimal Congressional appropriations.

### **Conclusion**

For 80 years, Southwestern has worked with its partners to successfully market and deliver Federal hydropower in the southwest region. I am committed to working together through these partnerships so that Southwestern can continue to provide low-cost, clean, renewable, and emissions-free hydropower for the benefit of the Nation.

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

Southwestern Power Administration  
 FISCAL YEAR 2024 BUDGET REQUEST SUMMARY  
 (dollars in thousands)

	FY 2023 Enacted	FY 2024 Request
Program Direction (PD)	38,250	39,172
Operation and Maintenance (O&M)	15,517	16,759
Construction (CN)	16,035	13,806
Purchase Power and Wheeling (PPW)	93,000	120,000
Subtotal, Southwestern Power Administration	162,802	189,737
Offsetting Collections, PD (annual expenses)	-34,882	-32,002
Offsetting Collections, O&M (annual expense)	-7,998	-8,884
Offsetting Collections, PPW	-70,000	-80,000
Alternative Financing, PD	-0.00	-4,217
Alternative Financing, O&M	-5,279	-4,388
Alternative Financing, CN	-11,035	-8,806
Alternative Financing, PPW	-23,000	-40,000
Total, Southwestern Power Administration	10,608	11,440