

**Statement of Virgil G. Hobbs III
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U.S. Department of Energy**

**Subcommittee on Water, Wildlife and Fisheries
Committee on Natural Resources
U.S. House of Representatives**

May 16, 2024

**Examining the President's Fiscal Year 2025 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 Committee, I am Virgil Hobbs, Administrator of the Southeastern Power Administration (Southeastern). I appreciate the opportunity to share the Fiscal Year (FY) 2025 budget request for Southeastern, including current program issues, recent agency accomplishments and upcoming activity.

Southeastern Power Administration Profile

Southeastern's mission 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 a staff of 44 full-time employees, Southeastern markets approximately 3400 megawatts of power produced at 22 multipurpose projects, operated and maintained by the U.S. Army Corps of Engineers (Corps). The projects are separated into four marketing systems and serve an eleven-state area, including Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. Each marketed electrical system is integrated hydraulically and financially with separate cost-based power rates and repayment schedules. In FY 2023, Southeastern sold nearly seven and a half billion kilowatt-hours of energy to 471 wholesale customers with revenue totaling \$307 million. Southeastern's Federal hydropower extends to over twelve million residential and industrial consumers.

Southeastern coordinates the operation of these Federal carbon free generation assets from our dispatch centers in rural Elberton, Georgia. We use customer determined load schedules and the North American Electric Reliability Corporation's (NERC) power balancing control performance criteria, while complying with the Corps' water management and environmental requirements.

Southeastern does not own any transmission facilities but delivers allocations of Federal power through transmission lines and substations owned and operated by neighboring utilities. Electric power sales revenue is used by Southeastern to compensate these transmission service providers through long-term energy Purchasing Power and Wheeling contracts.

Rates charged to our wholesale customers recover all of Southeastern's and the Corps' power related costs. Southeastern's rate schedules are designed to recoup expenses, on an annual basis, for operations, maintenance, purchased power, transmission, and interest. Rates also recover infrastructure improvement investments which are capitalized over an appropriate number of years.

Southeastern's mission is achieved in a manner promoting the maintenance and upgrade of our region's Federal energy infrastructure. These efforts help to ensure reliable and efficient delivery of Federal carbon free hydroelectric power, which is an integral part of the Nation's overall security and electric energy supply.

Federal Hydropower Program in Evolving Energy Markets

Southeastern is committed to the mission detailed in our governing law, the Flood Control Act of 1944, to employ sound business principles in delivering power to our customers at the lowest possible rates. Federal hydropower must remain a competitive and viable component of the customer's energy resource portfolios to support the region as the energy landscape in the Southeast evolves. Energy variables including the reduction of base load coal generation, new nuclear reactors connected to the local grid, fluctuations in natural gas prices and intermittent alternative renewable resources have made affordable, reliable Federal hydropower vitally essential to our customers. Southeastern's ability to consistently deliver energy, such as through Winter Storm Heather in January 2024, has earned high praise and appreciation from our consumers.

The Southeastern Energy Exchange Market (SEEM) was established in the Fall of 2022 as a bilateral energy trading platform and uses an algorithm to match power buyers and sellers while further optimizing available generation and transmission assets. As a cost-free participant in SEEM, Southeastern will lower replacement and pumping energy purchase price by expanding the pool of potential power providers. Southeastern will pass on savings achieved by participation in SEEM to our Federal power customers.

Jim Woodruff Power Marketing Policy

The transmission service provider at the Jim Woodruff project notified Southeastern in 2022 of their intent to terminate a 66-year-old interchange agreement in favor of modern Open Access Transmission Tariff service. The original 1957 contract was a bundled arrangement where deficient stream flow energy was purchased from, and excess Federal hydropower was sold to, an investor-owned utility. Southeastern formalized and implemented a power marketing policy to address generation capacity and energy delivery decisions associated with this single project, run-of-the-river electrical system and has begun delivering all available power to only public and cooperative power customers in the central panhandle Florida. No changes in stream flow operations or to the amount and timing of energy production was required to initiate the policy.

Renewable Energy Certificates

Efforts to provide Renewable Energy Certificates (REC) associated with Southeastern's Federal hydropower generation began in 2019 and REC distributions are enthusiastically proceeding. The potential REC volume is approximately six million per year across all four of Southeastern's marketed systems. Since program inception, over 25 million RECs have been verified as generated and 15 million RECs have been distributed to our Federal power customers having purchased the associated energy. Southeastern's customers are extremely grateful to be accessing this intrinsic additional economic benefit linked to Federal hydropower.

Federal Hydropower Infrastructure Investment

The Water Resources Development Act of 1996 section 216, as amended by section 212 of the Water Resources Development Act of 2000 (33 U.S.C. 2321a), enables hydropower customers to provide the Corps funding to improve generation infrastructure reliability and capability. Since 2004, at the direction of our customers, Southeastern has transferred \$872 million of energy and capacity sale receipts to accomplish hydropower equipment replacements and renewals.

In 2012, Southeastern's Cumberland System customers agreed to fund \$1.2 billion of planned rehabilitations of all 28 generation assets housed in the nine hydroelectric facilities operated by the Corps' Nashville District. With three units complete, eight more generators and seven turbines at the Barkley and Old Hickory projects are being replaced to improve reliability and increase maximum energy output. Perpetuating the cleanness and greenness of hydropower, Cumberland power customers also authorized \$24 million to commission a dissolved oxygen injection system upstream of the Wolf Creek project to reestablish year-round full power output by providing downstream fish friendly habitat.

Southeastern's Kerr-Philpott System customers are excited to be rehabilitating the smallest Federal hydropower plant, Philpott, by authorizing \$23 million to increase the station's output. Located in southwestern Virginia and operated by the Corps' Wilmington District, Philpott is a 14 megawatt two generator facility which will be upgraded nearly 30% to 20 megawatts! The contractor has completed both generator stator rewinds, is fabricating two new turbines, is well ahead of schedule and will be finished before the local utility can complete the transmission line replacement.

Upcoming Rate Developments

Southeastern formulates and proposes marketed power system rates through a public process and places rates into effect on an interim basis. The Federal Energy Regulatory Commission (FERC) confirms all of Southeastern's rates on a final basis for a five-year term. Annual adjustments, based on actual operational results and infrastructure investment placed into service, enable rates to respond accordingly within the term to assure proper repayment. Southeastern reviews all marketed system rates annually to ensure revenue is adequate to meet repayment obligations. In 2025, Southeastern will propose new rates for the Cumberland and Kerr-Philpott Systems.

Workplace Transformation Response

Southeastern ensures available Federal power is delivered to the grid for the benefit of regional public customers. Southeastern is determined to accomplish this mission with shared vision and values. Southeastern is implementing a 2025-2029 Strategic Plan with initiatives dedicated to Employee Engagement, Relationship Enhancement, and Organizational Modernization. This year, Southeastern petitioned personnel to form small, voluntary and comfortable focus groups, moderated by our Human Resource Business Partner, to share perspectives and office improvement ideas. Senior leadership will hear directly from our most valuable asset, our employees, to better the work experience at Southeastern.

Customer and Federal Partner Relationship

Southeastern maintains strong cooperative working relationships with our customers and the Corps. Future success of the Federal hydropower program in the southeast relies heavily on the success of those relationships and our ability to find solutions to complex challenges threatening the program through higher costs and reduced generation capability. Financial and operational issues are discussed at the Southeastern Federal Power Alliance and Team Cumberland biannual meetings.

The Southeastern Federal Power Alliance was established in 1991 and includes representatives from Southeastern, the Corps' South Atlantic Division and Southeastern's customers served by the Georgia-Alabama-South Carolina, Kerr-Philpott and Jim Woodruff Systems. Team Cumberland was formed in 1992 and includes representatives from Southeastern, the Corps' Great Lakes and Ohio River Division and Southeastern's Cumberland System customers, which are located both inside and outside the Tennessee Valley Authority's area of operation.

Over the past seven and a half years, fellow Administrators and I have met with Corps Commanding Generals to discuss topics critical to the sustainability of our jointly managed Federal Hydroelectric Power Program. Areas identified where changes can reap benefits include infrastructure acquisition strategies, cost accounting, water storage management, operations and maintenance staffing efficiencies and common communication plans.

Southeastern's Fiscal Year 2025 Budget Request

Southeastern's FY 2025 operating budget request of approximately \$98.9 million results in a net appropriation of \$0 (Attachment 1). The FY 2025 budget request provides \$9.1 million for Program Direction expenses, which are completely offset by collections for these annual expenses and use of prior year balances, and \$89.8 million for Purchase Power and Wheeling costs, which are entirely supported with offsetting collections and net billing. Southeastern contracts with interconnected utilities for transmission service to deliver Federal power to customers at an estimated annual cost of \$45 million. In recent years, dependent on hydrology and energy market volatility, Southeastern's purchases has varied between \$4 million and \$85 million for replacement energy and pumped storage energy to fulfil Federal power customer contracts. The use of offsetting collections and net billing enables Southeastern to operate in a business fashion by allowing Southeastern's revenues to pay for purchase power and transmission costs rather than relying on appropriations. No new program starts are planned in this FY 2025 Budget Request.

Fiscal Year 2025 marks Southeastern's 75th anniversary of proudly delivering Federal carbon free hydroelectric power in an energetic electric energy environment at the lowest possible cost, consistent with sound business principles. Thank you for the opportunity to submit this testimony.

**Southeastern Power Administration
Overview
Appropriation Summary by Program
(dollars in thousands)**

| | FY 2023 Enacted | FY 2024 Enacted | FY 2025 Request | FY 2025 Request vs FY 2024 Enacted (\$) | FY 2025 Request vs FY 2024 Enacted (%) |
|--|--------------------|--------------------|--------------------|--|---|
| Southeastern Power Administration | | | | | |
| Purchase Power and Wheeling (PPW) | 92,687 | 86,019 | 89,816 | 3,797 | 4% |
| Program Direction (PD) | 8,273 | 8,449 | 9,127 | 678 | 8% |
| Subtotal, Southeastern Power Administration | 100,960 | 94,468 | 98,943 | 4,475 | 5% |
| Offsetting Collections, PPW | -78,696 | -71,850 | -75,778 | -3,928 | 5% |
| Alternative Financing, PPW | -13,991 | -14,169 | -14,038 | 131 | -1% |
| Offsetting Collections, Annual Expenses, PD | -8,173 | -8,449 | -9,127 | -678 | 8% |
| Alternative Financing, PD | -100 | 0 | 0 | 0 | 0% |
| Total, Southeastern Power Administration | 0 | 0 | 0 | 0 | 0% |
| Federal FTEs | 44 | 44 | 44 | 0 | 0% |