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# URGENT POWER SUPPLEMENTAL APPROPRIATION FOR 1978

(H.J. Res. 746)

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## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

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# URGENT POWER SUPPLEMENTAL APPROPRIATION FOR 1978

## SUBCOMMITTEE ON PUBLIC WORKS

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Staff Assistants

TUESDAY, FEBRUARY 21, 1978.

## DEPARTMENT OF ENERGY

### SOUTHWESTERN POWER ADMINISTRATION

#### WITNESSES

JOHN F. AHEARNE, ACTING ASSISTANT SECRETARY, RESOURCE  
APPLICATIONS  
JAMES B. HAMMETT, ACTING ADMINISTRATOR, SOUTHWESTERN  
POWER ADMINISTRATION  
WALTER M. BOWERS, CHIEF, DIVISION OF POWER MARKETING,  
SOUTHWESTERN POWER ADMINISTRATION  
FRANCIS R. GAJAN, CHIEF, DIVISION OF ADMINISTRATIVE MAN-  
AGEMENT, SOUTHWESTERN POWER ADMINISTRATION  
DELMAR D. MAYHEW, ACTING DIRECTOR OF BUDGET

Mr. BEVILL. The committee will come to order. We have President Carter's request for a fiscal year 1978 Supplemental Appropriation from the Department of Energy's Southwestern Power Administration, House Document Number 95-288. We also have a prepared statement from James B. Hammett, Acting Administrator of the Southwestern Power Administration, and the justification materials received from the Department of Energy. We will insert these in the record at this point.

[The information follows:]

THE WHITE HOUSE,  
Washington, February 14, 1978.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIR: I ask the Congress to consider a proposed supplemental appropriation for the fiscal year 1978 in the amount of \$13,114,000 for the Department of Energy.

The details of this proposal are set forth in the enclosed letter from the Acting Director of the Office of Management and Budget. I concur with his comments and observations.

Respectfully,

JIMMY CARTER.

Enclosure.

[Estimate No. 01; 95th Cong., 2d sess.]

EXECUTIVE OFFICE OF THE PRESIDENT,  
OFFICE OF MANAGEMENT AND BUDGET,  
Washington, D.C., February 14, 1978.

The PRESIDENT,  
The White House.

SIR: I have the honor to submit for your consideration a proposed supplemental appropriation for the fiscal year 1978 in the amount of \$13,114,000 for the Department of Energy. The details of this proposal are contained in the enclosure of this letter.

I have carefully reviewed the proposal contained in this document and am satisfied that this request is necessary at this time. I recommend, therefore, that this proposal be transmitted to the Congress.

Respectfully,

JAMES T. McINTYRE, Jr.,  
*Acting Director.*

Enclosure.

DEPARTMENT OF ENERGY  
SOUTHWESTERN POWER ADMINISTRATION  
OPERATION AND MAINTENANCE

For an additional amount for "Operation and maintenance",  
\$13,114,000.

This proposed supplemental appropriation will provide funds for purchase and transmission of electric power to meet contractual obligations of the Southwestern Power Administration. The Department of Energy estimates that currently available funds will permit the purchase of power only through mid-February. This proposal will increase fiscal year 1978 outlays by \$13,114,000.

STATEMENT OF JAMES B. HAMMETT, ACTING ADMINISTRATOR, SOUTHWESTERN  
POWER ADMINISTRATION, DEPARTMENT OF ENERGY, FISCAL YEAR 1978  
SUPPLEMENTAL APPROPRIATION HEARINGS

MISTER CHAIRMAN: Southwestern Power Administration received an Appropriation of \$8,193,000 for fiscal year 1978 for its Operation and Maintenance Program. Of this amount \$3,286,000 was the estimated amount required for the activity of purchase power and wheeling. This amount would have been adequate under then existing contracts to purchase the necessary electric energy needed to supplement the available hydroelectric resource to enable SWPA to meet its contract obligations in a year with average water conditions. As we have indicated to the committee in previous hearings, this means that about one-half of the time (low stream flow periods) SWPA may need additional funds for purchase power.

As of February 1, 1978, the obligations against the funds appropriated for purchase power and wheeling were \$2,984,000. Because of hydrological conditions and additional obligations incurred by new power marketing arrangements for Oklahoma and Arkansas, we find it necessary to request the committee to approve a supplemental appropriation of \$13,114,000.

For the second consecutive year the SWPA power marketing area has been subjected to drought and extremely cold and adverse weather conditions.

This has resulted in reduced inflow into the reservoirs and higher than usual loads on the interconnected system of reservoirs. As a result it has been necessary for SWPA to continue to purchase substantial quantities of thermal energy in order to meet its contract obligations.

At the end of January the reservoir system was approximately 70 percent full; however, the inflow at that time was only 40 percent of median.

The depletion of the funds for purchase power and wheeling has occurred much sooner than would ordinarily be the case because of the extremely high cost of thermal energy at this time. The extremely cold weather and the coal strike have no doubt contributed greatly to this high cost. Based on funds currently available, which include operating funds recently reprogrammed through a deficiency apportionment action, we estimate we will be able to purchase power only through March 31, 1977. Further, due to the reprogramming action, SWPA will be without operating funds on April 30, 1978.

In addition, under the new arrangements which commenced December 1, 1977, for marketing power to preference customers in Oklahoma and Arkansas, SWPA

requires appropriation funds to pay the investor-owned utility companies providing transmission service to customers for such wheeling and for purchases of energy needed to supplement the SWPA hydro. Although SWPA is then reimbursed by the customers for the purchased energy, revenues go to the Treasury and are not available to meet purchase power costs.

Based upon the assumption that the current reservoir conditions will be maintained, we estimate that the requested amount of \$13,114,000 will be adequate to meet our purchase power requirements through the balance of fiscal year 1978.

U.S. DEPARTMENT OF ENERGY FISCAL YEAR 1978 SUPPLEMENTAL BUDGET ESTIMATES

APPROPRIATION—OPERATING EXPENSES

(Dollars in thousands, except whole dollars in narrative material)

Southwestern Power Administration: Operating Expenses

Program Statement:

Previous estimate.....	\$8, 193
Estimate of supplemental.....	13, 114

Total estimate fiscal year 1978.....	21, 307
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This proposed supplemental appropriation will enable Southwestern Power Administration (SWPA) to fulfill purchase power and wheeling requirements for the remainder of the year, because of the current hydrological conditions that exist in the southwestern part of the country. In addition, the contract responsibilities with Oklahoma companies for service to municipalities and Federal installations in Oklahoma requires payment for transmission expenses for the use of company facilities and for the purchase of energy required to supplement the peaking power furnished by SWPA. The fiscal year 1978 appropriation did not include costs for these services and purchases. The present purchase power and wheeling allocation is \$3,286,000. A total of \$2,984,000 will be obligated by January 31, 1978, leaving a balance of approximately \$302,000.

Summary of estimates by subprogram,  
fiscal year 1978

Subprogram	Actual, fiscal year 1977	Presently available	Supplemental	Revised estimate
Operation and maintenance.....	\$3, 238	\$3, 684	-----	\$3, 684
Purchase of power and wheeling.....	23, 697	3, 286	\$13, 114	16, 400
Power contracts and rates.....	266	339	-----	339
General administration.....	812	884	-----	884
Total.....	28, 013	8, 193	13, 114	21, 307

JUSTIFICATION OF PROGRAM

The Southwestern Power Administration's overall marketing program is designed to sell the hydroelectric power and energy available from the multipurpose projects as peaking power and energy. These multipurpose reservoir projects, constructed by the Corps of Engineers, are located in the States of Arkansas, Missouri, Oklahoma, and Texas. Power is marketed in those States plus Kansas and Louisiana. Reserve power or power in excess of load requirements helps to assure adequate and reliable supply of power and energy to meet SWPA contract obligations.

Since SWPA's reservoir storage is limited and annual load requirements average slightly less than expected average annual generation, considerable amounts of thermal energy must be purchased during dry years to supplement available hydro energy. This year is no exception. The recent amount and distribution of rainfall in the area has been low enough to warrant sizable increases in purchased power. Also, record-breaking low temperatures in the Southwest have resulted in increased demand for hydroelectric power and energy. Current projections of purchase power requirements for fiscal year 1978 indicate a need for \$16,400,000. The estimate is based on energy purchases for the interconnected system, assuming a 62 percent median inflow, and purchases required to meet SWPA's contractual obligations.

In order to estimate the energy available from the reservoir projects, it is assumed that streamflows during the months of February through September 1978 will be 62 percent of the monthly median inflow experienced since records of the streamflow have been maintained. Further, purchases required to supplement the hydro available were estimated in amounts sufficient to keep the reservoirs from falling below 75 percent full at the end of the month of September. Clearly, with the physical conditions of small water storage capacity in the reservoirs, widely fluctuating reservoir inflows, and rapidly increasing purchase power and energy costs, requirements are difficult to predict accurately, however, the assumptions of a 62 percent median inflow is considered the most reasonable basis upon which to make the current projections.

The purchases required to meet SWPA contractual obligations are based on contracts with the Oklahoma power companies (Public Service of Oklahoma and Oklahoma Gas & Electric). Rates for SWPA power delivered to Oklahoma power companies under contractual agreements were under rates established by court order arising from legal action taken by the companies. The contract between SWPA and Oklahoma companies expired June 30, 1977, but continued through November 30, 1977, under FPC order. On December 1, 1977, a new contract with each of the companies became effective. Under the new contracts, SWPA pays the company for transmission of SWPA hydro power and energy over the companies' systems to SWPA's customers and for the purchase of energy needed to supplement SWPA hydro. SWPA is reimbursed by the customer. The entire cost of these contracts is not included in the fiscal year 1978 appropriations.

SUPPLEMENTAL NOW REQUESTED, EXISTING LEGISLATION

DEPARTMENT OF ENERGY, SOUTHWESTERN POWER ADMINISTRATION

PROGRAM AND FINANCING

[In thousands of dollars]

	1978 presently available	1978 revised estimate	1978 proposed supplemental
Program by activities:			
System operation and maintenance.....	3,830	3,830	-----
Purchase of power and wheeling.....	10,983	24,097	13,114
Power contracts and rates.....	372	372	-----
General administration.....	961	961	-----
Total operating costs.....	16,146	29,260	13,114
Total obligations.....	16,146	29,260	13,114
Financing: Non-Federal sources.....	-7,697	-7,697	-----
Budget authority.....	8,449	21,563	13,114
Budget authority:			
Appropriation.....	8,193	21,307	13,114
Transfer in for civilian pay raises.....	256	256	-----
Relation of obligation to outlays:			
Obligations incurred, net.....	8,449	21,563	13,114
Obligated balance, start of year.....	2,134	2,134	-----
Obligated balance, end of year.....	-1,627	-1,627	-----
Outlays excluding pay raise supplemental.....	8,700	21,814	13,114
Outlays from civilian pay raise supplemental.....	256	256	-----

OPERATION AND MAINTENANCE

OBJECT CLASSIFICATION

Personnel compensation:			
Permanent positions.....	3,325	3,325	-----
Positions other than permanent.....	160	160	-----
Other personnel compensation.....	90	90	-----
Total personnel compensation.....	3,575	3,575	-----
Personnel benefits:			
Civilian.....	341	341	-----
Travel and transportation of persons.....	396	396	-----
Transportation of things.....	4	4	-----
Standard level user chargers.....	225	225	-----
Communications, utilities, and other rent.....	176	176	-----
Printing and reproduction.....	8	8	-----
Other services.....	11,221	24,335	13,114
Supplies and materials.....	127	127	-----
Equipment.....	73	73	-----
Total.....	16,146	29,260	13,114

Mr. BEVILL. We are delighted to have you with us, Mr. Ahearne, and the representatives of the Southwestern Power Administration. You may proceed as you wish, sir.

#### STATEMENT OF MR. JOHN F. AHEARNE

Mr. AHEARNE. Thank you, Mr. Chairman.

My name is John F. Ahearne. For the past 3 weeks I have been acting as the Assistant Secretary for Resource Applications, and before turning to the expert witness, I would like to sketch some of the history of the request that we bring before you today.

#### NEED FOR SUPPLEMENTAL REQUEST

I reviewed how we got to this afternoon's request, and I will admit it is not really a praiseworthy set of circumstances that led us here. In fiscal year 1977, the Department of the Interior asked for about \$3 million for the purchase power and wheeling which ended up being substantially less than what was needed.

At the hearings last February before this subcommittee you, particularly, Mr. Chairman, pointed out that you hoped a repeat would not happen but, unfortunately, here we are with the same repeat because the fiscal 1978 budget from the Interior Department once again asked for about \$3 million, so we are here to ask for a supplemental.

I also recognize that the 1979 Department of Energy budget has the same flaw in it, and we are reviewing what can be done about correcting that.

The supplemental request itself is also late. The Department of the Interior forwarded it to us in October, and up until the mid or end of December, we believed that we could accomplish the funding through reprogramming from other power purchase funds within the Department. It was toward the end of December when we realized that that was not going to be possible and, at that time, the Southwestern Power people began to put together the material which has led us here today.

I do recognize that we have been essentially not doing things correctly or smoothly on two grounds. One, in the basic approach and, second, within the time limits of it.

With that, I would like to turn to the gentleman on my left who, I am sure, is known to the gentlemen of the committee, who brings 15 years of experience with the Southwestern Power Administration, as well as a year as Acting Administrator, Mr. Hammett.

#### STATEMENT OF MR. JAMES B. HAMMETT

Mr. HAMMETT. Thank you.

Mr. Chairman and members of the committee, I would like to present to you two members of my staff, Francis R. Gajan, Chief, Division of Administrative Management, Southwestern Power Administration, and Walter M. Bowers, Chief, Division of Power Marketing, Southwestern Power Administration.

We regret that we have to take the committee's time on rather an emergency basis. Mr. Ahearne has done a fine job of summarizing the events which have led us to this date.

We have submitted to the committee a written statement. I will be glad to read it or summarize it as you wish, Mr. Chairman.

Mr. BEVILL. Just summarize it. That will be fine.

Mr. HAMMETT. All right.

In our 1978 fiscal year appropriation, we requested and were granted a total of \$8,193,000 for our operation and maintenance activities. That appropriation included \$3,286,000 for the purchase power and wheeling activity.

Now, experience has indicated that half of the time over a given number of years, at least in the past, \$3.2 million for purchase power and wheeling activities was sufficient.

For the last 2 years in the Southwest area, we have been subjected to drought conditions and, at the same time, have experienced two extremely cold, adverse winters. Those weather conditions had driven the loads up and the demand for our resources have caused us to purchase more energy to satisfy our actual commitments than we otherwise would have been able to meet in a normal winter.

In addition, we have negotiated a new arrangement in the Oklahoma-Arkansas area for service to 19 municipals, 3 Defense installations, and 7 electric cooperatives. Those preference customers had been served since the early 1950's under a contract which expired under its own terms on July 1, 1977.

The Federal Power Commission ordered the contracts extended until December 1, 1977. The customers in that arrangement had filed a lawsuit in the Federal court back in late 1976 to prohibit the Southwestern Power Administration from continuing the negotiation and execution for a conceptual contract that we had at that time.

After the lawsuit was filed, and after the change in Administration, we negotiated a new arrangement with a new concept.

The old arrangement required the Southwestern Power Administration to furnish the capacity requirements of those customers, plus 1,800 hours per kilowatt per year of their demand. Our resources in the critical years, the years like we are having now, are good for only about 1,200 hours so, therefore, we had to buy just for that contract alone 600 hours times their contract demands.

Under the new concept we guaranteed 1,200 hours to the customer, and made an arrangement with the customer and with the companies to buy the additional energy from one of the two companies, whichever one served that particular customer, and we pass that cost through to the customer, kilowatt hour per kilowatt hour, dollar per dollar.

In the old arrangement we had a net billing provision. In the new arrangement the dollars that we receive in revenue go directly to the Treasury. We cannot use that money for the purchase power program.

In our first experience under this contract, the month of December, we had a net revenue to the Government of \$477,000. With the old arrangement, if it had been in force for that same month, we would have had a net loss of \$289,000.

In other words, there was a net benefit to the Government under the new arrangement for the month of December of some \$800,000.

In our \$3,286,000 purchase power activity account, we had an appropriation starting the first of October, which was running out by the last of January, and we requested the Department, and they approved, and OMB approved, reprogramming of \$1.9 million from our O. & M. account which will carry our activity for purchase power and wheeling through March 31.

Without a supplemental, we are out of business on April 30. All our O. & M. funds are gone. All our purchase power funds are gone. We regret that we did not comply with the committee's request of last year, not to come up on another short notice arrangement like this, but I hope that you can see the necessity of it and the predicament we are in now.

We will be very happy at this time to answer any questions that the committee might have.

Mr. BEVILL. Thank you very much.

I notice that we have in our audience our good friend and colleague, Congressman Ted Risenhoover, who is very interested in this matter.

We are glad that you could be with us, Congressman Risenhoover.

#### ADDITIONAL FUNDS MAY BE NEEDED

Mr. Assistant Secretary, you covered the background very nicely, but I am curious. You said, "we are looking at the 1979 fiscal year to try to avoid getting into this situation again." Certainly the committee wants you to avoid getting into this situation again.

I understand what you have said, but taking it just a little further, is this supplemental going to be all you need for 1978, fiscal year 1978?

Mr. AHEARNE. I believe so, Mr. Chairman.

Mr. HAMMETT. Mr. Chairman, we certainly hope so, but I cannot be sure.

As you recall, Mr. King came in last February and received from this committee approval for a \$6.4 million supplemental. The inflow conditions worsened. The conditions of our reservoir worsened. We came back for an additional \$13.8 million, which gave us about a \$20.2 million supplement. Out of that \$20.2 we did return at the end of the year \$9 million that it was not necessary to use.

Mr. BEVILL. So that would be \$11 million, roughly, that you actually used, Mr. Hammett?

Mr. HAMMETT. Yes.

You asked what the Department and Southwestern Power is doing to prevent this from occurring next year.

I might say, one, the Department is reviewing a revolving fund type of legislation that would be applicable not only to Southwestern Power, but to the Western Area Power Administration, Southeastern, and Alaska.

Mr. BEVILL. That will not have any effect on the 1979 request?

Mr. AHEARNE. Most likely not.

Mr. HAMMETT. We did request when this budget for 1979 was formulated, \$19.4 million through the Department of the Interior, which we think is a realistic figure.

As you know, and as we pointed out, we use only what we have to use, and the rest goes back to the Treasury. If we receive a plentiful rainfall next year, we will need very little purchase power money.

Mr. Ahearne and I discussed this this morning. He has taken steps to have this matter reviewed, because we are in for the traditional \$3.3 million figure, which has not seemed to work too well lately. Mr. Ahearne has assured me they are going to take a hard look at a realistic request.

Do you have anything to add?

Mr. AHEARNE. That is correct. Your question is, Mr. Chairman, is this the last time we will be in for 1978?

Mr. HAMMETT. No, we are not sure. There is no way to forecast it.

Mr. BEVILL. Is this your best estimate?

Mr. HAMMETT. Yes; we requested this supplemental in August. It is holding true. The inflows in January were about 40 percent. Historical inflows and experience indicate that we will need the amount requested here.

Mr. BEVILL. How much more would it take to be sure that you have enough until the regular appropriation for FY 1979?

Mr. HAMMETT. If you wish, I will ask Mr. Bowers to help. He is our hydrology man.

#### IMPROVING WATER CONDITIONS

Mr. BOWERS. We took a probability of 75 percent. We are 75 percent sure. Bear in mind these calculations were made a few months ago as this process was beginning. Now we have a little improved water condition in the Southwest with the snow and the rain that has come forth, so that is improving that 75-percent chance, and now with the level of the reservoirs, I frankly would be very surprised if we have to come in for any more at all.

Mr. BEVILL. So you say that the additional snow and rain has increased the probability to, say, 85 or 90 percent; is that right?

Mr. BOWERS. That is right.

Mr. BEVILL. The estimate is as accurate as you can make at this time?

Mr. BOWERS. That is right.

#### DELAY IN SUBMITTING SUPPLEMENTAL

Mr. BEVILL. All right, Mr. Bowers.

You have covered part of this next question, but I would like some additional information.

We understand the need for additional fiscal year 1978 funding was identified last fall. Why was not the supplemental requested at that time?

Mr. AHEARNE. If I can answer, as I understand, the Southwestern Power did make the request to the Interior Department in the summer.

Mr. HAMMETT. On August 29.

Mr. AHEARNE. They forwarded it to the Energy Department in the middle of October. At that time our people believed they could reprogram outside of Southwestern Power other power purchase within the budget, and the supplemental would not be needed. It was not until the middle or end of December that our people finally reached the conclusion that that was not going to be possible, that legally they could not do that.

## REPROGRAMMING

Mr. BEVILL. OMB has made a deficiency apportionment to allow you to operate while this supplemental is processed. How long will your present funding permit you to operate?

Mr. HAMMETT. With the reprogramming of the \$1.9 million, sir, we will be out of business April 30. We will be out of purchase power money by March 31, and operating and maintenance money by April 30.

## RECOVERY OF COSTS

Mr. BEVILL. Are your rates structured so that the additional power costs will be recovered?

Mr. HAMMETT. In the case of Oklahoma, yes.

In the case of other contracts not renegotiated since July 1, no. We are operating under rates that were last modified, changed or increased in 1956. In other words, we are selling 1978 power and energy at 1956 prices. I am sure you will want to know what we are planning to do about that.

One of our first acts after last February 1 was to call our staff together and discuss our rate and repayment situation. We know it is going to take an estimated \$18 million a year in revenues from our electric power customers to provide us with a 50-year repayment. We have started a new rate and repayment study. It is in the Department now. The Office of General Counsel is reviewing it.

On February 11, 1977, we were operating without approved rates. Our rate approvals from the Federal Power Commission ran out in November of 1976. We did make an appeal to the Federal Power Commission and they approved our existing rates for a period not to exceed May 31. We expect to go through our administrative procedures, have the customer meetings, acquaint them with the rate and repayment study, the necessity for increased rates, and we hope we can meet the May 31 deadline. We are certainly planning it that way.

We will continue following through until we do have new and proper rates.

Mr. BEVILL. You are selling at 1956 rates now?

Mr. HAMMETT. Yes.

Mr. BEVILL. Mr. Hammett, how much are you selling below cost of production?

Mr. HAMMETT. About \$18 million below.

Mr. BEVILL. Then, at this time, the taxpayers are subsidizing the people who are buying that power, are they not?

Mr. HAMMETT. That is exactly right, sir.

Mr. BEVILL. This is something that needs to be discussed further. I understand that you expect to update your rates on the 1st of May.

Mr. HAMMETT. We expect to have new rates submitted by ERA (Economic Regulatory Administration, Department of Energy) by March 31. That is our target date.

Mr. BEVILL. You expect those new rates to cover your cost of operation?

Mr. HAMMETT. Oh, yes, sir.

Mr. BEVILL. Mr. Hammett, would the rates be set just at cost of production or would they include recovery of principal and interest on the Government's investment?

Mr. HAMMETT. It would be sufficient to cover not only our cost of production but repayment of principal and interest of power facilities in the reservoir projects.

Mr. BEVILL. Which, really, is a cost of production?

Mr. HAMMETT. Right.

#### PURCHASED POWER

Mr. BEVILL. Where will you buy the additional power, how much will it cost and how much will you sell it for?

Mr. HAMMETT. We are buying the additional power from the public and private utility systems in our area which have agreed or will agree to sell us energy. To be more specific we buy from the municipal systems such as the city of Springfield, Mo., Jonesboro, Ark., from cooperatives such as Western Farmers in Oklahoma, the Arkansas Electric Cooperative and Associated Electric in Missouri, and from investor-owned utility systems such as Public Service Co. of Oklahoma, Oklahoma Gas & Electric, the Empire District Electric Co. of Missouri and the Southwestern Electric Power Co. in Louisiana.

This power is costing us between 15 to 30 mills per kilowatt-hour. We are selling it under our standard rate schedules which average 8 to 14 mills per kilowatt-hour.

#### NEW CONTRACT ARRANGEMENTS

Mr. BEVILL. Your prepared statement refers to "new arrangements" which commenced December 1, 1977, for marketing power to preference customers, which results in the need for appropriations to pay for transmission services and supplemental power, while offsetting receipts are deposited with the Treasury.

How much of the \$13 million is needed because of the new arrangements and why were these arrangements made on December 1?

Mr. HAMMETT. Approximately \$5.8 million of the \$13.1 million supplemental request can be attributed to the new Oklahoma arrangements wherein revenues are deposited to the Treasury and cannot be used to offset expenses incurred for purchase power and wheeling as before.

The new arrangements were necessary to replace arrangements that had been litigated, and a settlement reached. The imminent termination date was a factor in reaching a settlement. The companies would not extend the arrangements which were to expire July 1, 1977. Customers being served under these arrangements intervened with FPC and FPC ordered continued service past July 1, 1977, but not beyond December 1, 1977.

Service under the old arrangements did continue to December 1, 1977, and in the meantime new arrangements were negotiated under which service began on December 1, 1977.

#### WATER INFLOW AND RESERVOIR CAPACITY

Mr. BEVILL. Why are you projecting power purchases from February to September based on 62 percent of the monthly median inflow to your reservoirs? Why must the reservoirs be at 75 percent of capacity at the end of September?

Mr. HAMMETT. Sixty-two percent of median flow exceeds the streamflow experienced 3 out of 4 years over the 46 years of streamflow history studied and was considered a reasonable basis for estimating streamflow for the period of February to September 1978, in view of the 70 percent median streamflow experienced over the October 1975 to February 1978 period.

Hydroelectric power operations studies have indicated that power pools should be at least 75 percent full by the end of September in order to assure SWPA the ability to meet the power load during the winter peak assuming prudent operation which would include power purchases as needed to maintain the pool levels indicated by the system operation guide curve.

Mr. BEVILL. How much of the additional power to be purchased reflects increased demand?

Mr. HAMMETT. None, Mr. Chairman. The additional power to be purchased reflects only the need occasioned by inadequate streamflows.

#### CONTRACT RENEWALS

Mr. BEVILL. Last year you mentioned that several customer contracts were expiring and that you did not intend to renew those contracts with the same commitment for energy. What is the status of contract negotiations with your customers?

Mr. HAMMETT. The contracts renegotiated included: 19 municipalities, 3 Federal installations and 7 REA cooperatives that were receiving service through arrangements with the Public Service Co. of Oklahoma and the Oklahoma Gas & Electric Co.; Western Farmers Electric Cooperation; Arkansas Electric Cooperative; Jonesboro, Ark.; Kansas City, Kans.; Public Service Co. of Oklahoma; Oklahoma Gas & Electric Company.

These negotiations resulted in a reduction of SWPA's energy obligation of approximately 440 million kilowatt-hours (or 37 percent) per year and withdrew capacity and energy formerly sold to the Oklahoma companies for sale to preference customers.

Mr. BEVILL. If the low water of the past few years continues, will you consider further renegotiating your contracts to provide less electricity? If not, why?

Mr. HAMMETT. We expect to convert any power sales contract that requires more energy than 1,200 KWH/KW/year to a 1,200 KWH/KW/year peaking contract at the earliest opportunity.

The low water conditions of the past few years have not been low enough to establish a new critical power supply condition upon which the SWPA marketing is based. We, therefore, expect to continue to market peaking power with 1,200 KWH/KW/year of associated energy.

#### LEGAL BASIS FOR POWER PURCHASES

Mr. BEVILL. Provide for the record a detailed explanation of how your costs are recovered; how the revenues are applied; the citation to law that authorizes your administration to buy power to make up for shortfalls; and the one that allows you to purchase power at a higher cost than you sell it.

[The information follows:]

Cost associated with marketing power include O. & M. cost of Corps of Engineers projects, interest, and authorizations of generating

project investments allocated to power, SWPA O. & M. cost (including purchasing power) and interest and authorizations of transmission investments over a reasonable period of years. These costs are repaid with revenues received from power sales in the following order: (i) SWPA O. & M. cost; (ii) Corps O. & M. cost; (iii) interest (highest rate first); (iv) investment (highest interest rate first).

The amounts paid on interest and investment each year is determined from the balance of revenue remaining after paying O. & M. expenses. Any unpaid interest is capitalized and repaid with interest.

The SWPA receives its authority by delegation from the Secretary of the Department of Energy pursuant to section 5, 1944 FC Act (58 Stat. 887, 890; 16 U.S.C. 8259) and section 302(a)(1) of the Department of Energy Organization Act (91 Stat. 567, 578; 42 U.S.C. 7152) to market power and energy in such a manner as to encourage the most widespread use, at the lowest possible rates, consistent with sound business principles, and with preference in the sale of such power and energy given to public bodies and cooperatives.

All costs are to be recovered within 50 years. SWPA estimates current rates are deficient and approximately \$18 million per year additional revenues are required to meet the 50-year repayment criteria. A request for a rate increase to obtain these needed revenues, together with a rate and repayment study and other supporting documents, is being prepared for submission to the Energy Regulatory Administration.

#### SYSTEM CAPACITY AND POWER PURCHASES

Mr. BEVILL. What were your system outputs and how much power have you had to purchase in each of the last 5 years to make up short-falls in your system? How much did you pay for it and how much did you sell it for?

Mr. HAMMETT. I have a table which shows our system outputs for the last 5 years together with power purchases to support the reservoir systems. Also shown on this table is the average cost of purchased power together with the average revenue received for power sold under firm obligations—excluding revenue from sale of secondary energy.

[The table follows:]

SOUTHWESTERN POWER ADMINISTRATION SYSTEM GENERATIONS AND POWER PURCHASES

Fiscal year:	Total system generation (GWH)	Direct power purchases for system		Average revenue (mills/KWH) <sup>1</sup>
		Energy (GWH)	Cost (mills/KWH)	
1973	6,555.2	284.9	5.12	8.91
1974	8,081.5	12.2	15.57	8.83
1975	8,954.2	14.1	9.51	8.95
1976	3,852.7	133.9	8.36	9.31
1976 (transition quarter)	1,268.5	96.2	8.90	8.07
1977	3,262.1	866.7	17.56	8.98

<sup>1</sup>Without revenue from secondary energy sales

## DISPOSITION OF REVENUES

Mr. BEVILL. Provide an explanation of how your receipts are applied to ongoing operations, to recover annual appropriations and to recover the Government's investment and interest.

Mr. HAMMETT. Our financing procedures were established in section 5 of the Flood Control Act of 1944, 16 U.S.C. 825-S. The act provides that we obtain annual appropriations for operating expenses and to construct or acquire necessary transmission lines and related facilities. The act also requires that the rates for the sale of our power and energy be established at a level sufficient to recover all costs, which includes all appropriated funds for operating expenses and authorization of the investments in the hydrogeneration and transmission facilities.

Invoice to customers in which we are both selling and buying power during the same month are netted on a receivable or payable basis. All cash receipts are deposited directly into the general fund of the Treasury and are not available for our use.

In regard to the second part of your question, I have here a table of 5 years of actual financial results and a table of 5 years of projected financial results. These projections assume a substantial rate increase to be in effect beginning fiscal year 1979.

[The table follows:]

SOUTHWESTERN POWER ADMINISTRATION  
ESTIMATED PROGRAM, AVERAGE WATER CONDITIONS (FISCAL YEAR 1978-84)

	Fiscal year—				
	1978 actual 4 mo.	1979 estimated	1980 estimated	1981 estimated	1982 estimated
<b>Revenue:</b>					
Power sales .....	\$44,218	\$66,890	\$70,664	\$71,233	\$71,831
Miscellaneous (headwater ben.) .....	177	177	200	200	200
Total revenue .....	44,395	67,067	70,864	71,433	72,031
<b>Expenses:</b>					
O. & M. (SWPA) .....	4,907	5,391	5,687	5,997	6,316
O. & M. (Cofe) .....	11,254	13,515	14,551	15,672	17,060
Power purchases .....	27,658	6,046	7,924	9,806	10,803
Transmission wheeling .....	6,536	6,844	6,959	7,260	7,374
Interest .....	15,462	15,290	17,101	18,665	18,567
Total expenses .....	65,817	47,086	52,222	57,400	60,120
Net funds available for amortization require- ments .....	(21,422)	19,981	18,642	14,033	11,911
Amortization payments .....		19,981	18,642	14,033	11,911

Note: Rate increase effect Oct. 1, 1978 (fiscal year 1979).

SOUTHWESTERN FEDERAL POWER SYSTEM STATEMENT OF REVENUES AND EXPENSES FOR THE FISCAL YEARS  
1977 THROUGH 1973

	1977	Transition quarter	1976	1975	1974	1973
<b>Revenues:</b>						
Sales of electric power and energy.....	\$46,581,253	\$12,089,540	\$47,457,663	\$59,608,616	\$54,386,628	\$47,027,792
Other operating revenues and downstream benefits.....	4,441,070	1,041,190	3,945,755	541,282	328,823	278,826
Nonoperating income.....	6,931	727	4,602	7,199	3,779	111,374
<b>Total power system revenues.....</b>	<b>51,029,254</b>	<b>13,131,457</b>	<b>51,408,020</b>	<b>60,157,097</b>	<b>54,719,230</b>	<b>47,417,992</b>
<b>Expenses other than depreciation:</b>						
Purchase and exchange power.....	25,933,298	3,586,862	11,361,328	8,606,942	8,350,177	9,475,033
Operation and maintenance expense.....	14,862,971	3,452,125	12,572,979	11,191,320	9,600,677	8,740,181
Transmission service charges.....	4,751,404	1,158,155	4,717,927	4,713,462	4,751,404	4,751,404
Property losses.....	269,361	2,740	54,450	46,847	11,426	-----
<b>Total expenses other than depreciation.....</b>	<b>45,817,034</b>	<b>8,199,882</b>	<b>28,706,684</b>	<b>24,558,571</b>	<b>22,713,684</b>	<b>22,966,618</b>
Interest expense.....	14,974,208	3,637,696	14,670,640	15,229,576	15,635,322	14,882,585
<b>Net revenues available for repayment.....</b>	<b>9,761,988</b>	<b>1,293,879</b>	<b>8,030,696</b>	<b>20,368,950</b>	<b>16,370,224</b>	<b>9,568,789</b>
Less depreciation expense.....	3,989,736	1,121,687	3,610,358	3,715,176	3,525,881	3,150,278
<b>Net revenues.....</b>	<b>13,751,724</b>	<b>172,192</b>	<b>4,420,338</b>	<b>16,653,774</b>	<b>12,844,343</b>	<b>6,418,511</b>

Mr. BEVILL. The Chair recognizes Mr. Burgener.  
Mr. BURGNER. Thank you, Mr. Chairman.

SOURCES OF ELECTRICITY

Mr. Hammett, tell me your regular sources of electricity.

Mr. HAMMETT. We market the power from Corps of Engineers projects located in Oklahoma, Arkansas, Missouri, and Texas.

Mr. BURGNER. All hydroelectric?

Mr. HAMMETT. Yes.

Mr. BURGNER. You are entirely wholesalers?

Mr. HAMMETT. Yes, sir.

Mr. BURGNER. You have no retail?

Mr. HAMMETT. No retail.

CUSTOMERS FOR ELECTRICITY

Mr. BURGNER. Your customers then are either public or private utilities or both?

Mr. HAMMETT. Well, actually the only sale that we have, the only contract we have with a private or investor-controlled organization is a contract with the Empire District Electric Co. which terminates next year. All of our power goes to municipalities, rural cooperatives, and Federal defense installations.

Mr. BURGNER. How many are there?

Mr. HAMMETT. About 61 total customers.

## ELECTRICITY RATES

Mr. BURGNER. Are you allowed to increase your rates without approval of the Federal Power Commission?

Mr. HAMMETT. No, sir. Well, of course, the successor agency now——

Mr. BURGNER. Well, the Department of Energy?

Mr. HAMMETT. The Economic Regulatory Administration, ERA.

Mr. BURGNER. ERA, the initials are confusing.

When did you ask them for approval?

Mr. HAMMETT. The rate proposal is still within the Department.

Mr. BURGNER. They are not holding you up?

Mr. HAMMETT. No, sir.

## EFFECT OF DISAPPROVAL

Mr. BURGNER. I think the alternatives to this supplemental are probably not real choices.

What would happen if we failed to approve this request? I am not suggesting that we will not, but I am curious. What would happen?

Mr. HAMMETT. We could not meet our contractual commitments in our six-State area.

Mr. BURGNER. So they would run out of power, could they sue you?

Mr. HAMMETT. I would assume we would have lawsuits.

Mr. BURGNER. No one wants that to happen, of course.

Mr. HAMMETT. No.

Mr. BURGNER. Where do you buy the power you cannot supply?

Mr. HAMMETT. We have a number of sources, both generation and transmission companies in Oklahoma, Arkansas, and in Missouri with the city of Springfield, Mo., the city of Jonesboro, Ark., and then at least eight investor-owned utility companies.

Mr. BURGNER. They have some surplus?

Mr. HAMMETT. From thermal generation, coal fired or——

Mr. BURGNER. Burning coal, oil, or gas?

Mr. HAMMETT. Right.

Mr. BURGNER. But not hydroelectric?

Mr. HAMMETT. Yes.

## OFFSETTING RECEIPTS

Mr. BURGNER. In summary, a part of this money will find its way back to the Treasury, but not all of it? Is that a fair statement?

Mr. HAMMETT. When our new rates are approved, all of it will.

Mr. BURGNER. But until the new rates are approved, we will have a Federal subsidy?

Mr. HAMMETT. Yes.

Mr. BURGNER. I am sure the committee wants that corrected.

You say you are working on that aspect?

Mr. HAMMETT. Yes.

Mr. BEVILL. Is this the first time you have tried to increase rates to cover your costs?

Mr. HAMMETT. No. Our contracts are unlike the contracts in the Bonneville area. We can increase the rates at any time with our contracts.

Mr. BEVILL. Why have you not increased them before this to cover your costs?

Mr. HAMMETT. Mr. Bevill, I cannot answer that.

Mr. BEVILL. Could you answer it for the record? Could you give the information?

Mr. HAMMETT. I have some ideas.

Mr. BEVILL. You do not know personally. You have ideas, but you do not really know?

Mr. HAMMETT. Yes, sir.

Mr. BEVILL. Mr. Secretary, do you have anything you want to add?

Mr. AHEARNE. Not to my personal knowledge. I could try my best to give you a history of what has happened.

Mr. BEVILL. I am going to ask that you provide us an answer because, frankly, I do not understand it. It appears that you are keeping the taxpayer in the position of subsidizing these power costs. We will want to pursue this matter further during the regular hearings, next month, and you should be prepared to give us a detailed answer at that time.

Congressman Risenhoover, would you like to add to anything that has been said?

Mr. RISENHOOVER. I would like to thank you for the consideration you have given my district. You have heard Mr. Hammett's testimony that Oklahoma is paying its own way. Since he has been the Acting Administrator, things are a lot better, and I anticipate they will get even better.

I would appreciate it if the committee could expedite the supplemental appropriation.

Mr. BEVILL. Thank you Congressman Risenhoover.

Mr. MYERS. I am sorry I was not here for all of your testimony. This morning I had to attend a meeting in Indiana and caught the first airplane back.

Mr. BEVILL. I want to thank you, Mr. Secretary, and the other witnesses. The committee will stand adjourned.

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