

STATEMENT OF
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
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EXAMINING THE PROPOSED FISCAL YEAR 2014 SPENDING, PRIORITIES AND THE
MISSIONS OF BUREAU OF RECLAMATION, THE FOUR POWER MARKETING
ADMINISTRATIONS AND THE U.S.GEOLOGICAL SURVEY'S WATER PROGRAM

Thank you, Mr. Chairman and Members of the Committee. My name is Mark Gabriel. I am the new Administrator of the Western Area Power Administration (Western). I am pleased to represent Western today as we discuss Western's portion of the President's Fiscal Year (FY) 2014 Budget.

In this testimony, I will highlight Western's accomplishments and progress in delivering clean, reliable, hydropower to the western United States, while ensuring that beneficiaries pay cost-based rates that are as low as possible, consistent with sound business principles. I will talk about how our strategic initiatives and plan are addressing the opportunities created by some of the issues we face. Finally, I will provide an overview of the FY 2014 budget.

Western markets and delivers cost-based hydroelectric power and related services within a 15-state region of the central and western U.S. It is one of four power marketing administrations within the U.S. Department of Energy (DOE) whose role is to market and transmit wholesale electric power from 14 multi-use water projects for the public benefit. Western's transmission system carries electricity from 56 hydro power plants, operated by the Bureau of Reclamation (BOR), U.S. Army Corps of Engineers (COE), and the International Boundary and Water Commission (IBWC) and one coal plant, operated by Salt River Project, on behalf of the project participants. Together, these plants have an installed capacity of 10,479 megawatts.

As an essential part of its mission to deliver Federal hydropower, Western owns, operates, and maintains a high-voltage transmission system that spans more than 17,000 circuit miles in 13 states and includes 321 substations and related facilities. The combined physical assets represent just over 4 percent of the U.S. transmission system. Western's advanced and complex grid, which delivers power to millions of Americans, has fueled rural electrification throughout our service area.

Strategic Plan

Western's Strategic Plan is driven by our vision to continue to provide premier power marketing and transmission services to our customers, as well as contribute to enhancing America's energy security and sustaining our Nation's economic vitality. Annual strategic targets link our day-to-day activities with our Strategic Plan to ensure limited resources are directed to the most important activities.

Our Strategic Plan emphasizes three strategic goals that drive our success in operations, process efficiencies, and spending priorities:

1. providing reliable, cost-based power and transmission services to our customers
2. contributing to creating a more reliable, flexible, and robust U.S. energy infrastructure, ensuring our efforts are funded and paid for by the beneficiaries
3. ensuring Western has the organizational capabilities, people, and resources to satisfy growing demands

Western Success Stories

Power Marketing – Strategic Plan Goal 1

Water is the lifeblood of the West, and Western, just like the farms and ranches we serve through our rural electric cooperative customers and irrigation districts, depends upon this precious resource. Last December, Western celebrated its 35th anniversary. For those 35 years, Western has been critical in providing reliable electricity to light homes and drive industry in small towns and large communities, rural areas, on tribal lands and military bases.

We sell Federal hydropower and transmission according to Federal law at rates designed to recover all the costs of providing this power, including annual operating expenses and annual capital payments, the latter with interest. In cases where non-power project beneficiaries, such as irrigators, are unable to fully repay their allocated share of capital expenses, Congress has directed that such costs may be reassigned to the power users for repayment.

As a whole, we experienced below average water during FY 2012. However, due to above average water in FY 2011, Western's net generation was average for the second consecutive year after more than a decade of drought in most regions. Also in FY 2012, Western had lower than anticipated purchase power costs because of low market prices for energy at the time. The current hydrologic forecast for FY 2013 is for below average water for four of Western's five regions and average water for one region. Unless water conditions improve, there will be upward pressure on our rates from reduced generation and increased purchase power expenses.

We continue to work with the generating agencies to ensure the price competitiveness of the Federal hydropower product. Hydropower resource availability is impacted by potential changes in climate, and increased environmental regulatory considerations – the net effect is that the price

competitiveness of the Federal hydropower product is impacted as the quantity, timing, and reliability of the Federal hydropower resource has deteriorated over time.

Each of our 14 projects is marketed to preference power customers for a set term. Western periodically conducts open and transparent efforts to remarket the Federal resources of a project when approaching the end of a term. Western is currently conducting remarketing efforts on three projects: Pick-Sloan Missouri Basin Program—Eastern Division, the Loveland Area Projects (LAP) and the Hoover Power Allocation Act of 2011 (HPAA).

HPAA prescribes several key aspects for remarketing the Boulder Canyon Project (BCP) power post 2017, including 50-year contract terms, the amount of marketable resource, and a five-percent resource pool for new customers. According to the act and other pertinent existing regulations, Western will market BCP power resources after the current contracts expire on September 30, 2017.

Western is conducting a public process to allocate the five-percent resource pool created for new customers. Marketing criteria were proposed with the comment period on these proposals closing in January 2013. After considering all comments received, Western will announce final marketing criteria and make a call for applications in the summer of 2013.

Transmission Services – Strategic Plan Goal 1

While originally constructed to deliver Federal hydropower to our customers, Western's transmission system now provides much of the critical backbone of the interconnected grid in the western United States.

As our Nation's electrical infrastructure developed, rules, regulations and laws were established to ensure the seamless, reliable and safe operation of the interconnected system, including reliability standards and open-access tariffs. Western is, however, a transmission provider subject to the Federal Power Act Sections 211-213 and has provided open and non-discriminatory transmission service since its inception in 1977. So we have transmission responsibilities and requirements in addition to delivering Federal hydropower. A significant portion of our transmission revenue comes from transmission customers who are not firm electric service customers.

The responsibility to operate our transmission system safely and reliably is paramount. Western's customers, their customers and our employees depend on it, and we're proud of our record. In 2012, Western's Sierra Nevada and Rocky Mountain Regions both had audits from the Western Electricity Coordinating Council (WECC) to evaluate compliance with North American Electric Reliability Corporation's (NERC) reliability standards. The audits again confirmed Western's outstanding reliability record.

Western is proactively taking a number of steps to ensure the reliability of our system, continually improving our reliability practices, and utilizing best practices consistently throughout our system, actively participating in industry forums and the development of NERC Reliability Standards, and automating our documentation of compliance-related work.

Western was involved in the September 8, 2011, Southwest Outage and is taking actions to help reduce the probability of another event, including the installation of new capacitor banks at Western's Kofa and Bouse Substations with direct involvement of other utilities in the southwest. Also, Western has been a leader in establishing a southwest industry next-day studies coordination group to ensure better and more timely coordination and communication among neighboring utilities.

Western was also recognized by the American Public Power Association with its Safety Award of Excellence for our safe operating practices in 2012. Last year, Western crews—including electricians, meter and relay craftsmen and linemen—spent more than 2.6 million hours working in the field with a recordable injury frequency rate far below the industry average.

The spirit of cooperation and mutual aid throughout the electrical industry also helps keep the grid resilient. This has never been more evident than in the response to Hurricane Sandy, and Western is proud of the role we played in restoring power following the storm. Western crews were assigned to work with Jersey Central Power & Light, a First Energy company, in some of the hardest hit areas of New Jersey. In all, Western sent 91 employees, along with two helicopters and numerous trucks, to help with the power restoration effort. Western crews worked almost 19,000 hours with no accidents or injuries.

Management Excellence – Strategic Plan Goal 3

Based on our history and mission, Western has a strong culture of cost awareness and containment. It makes good business sense, and our customers expect it. We have taken a number of important steps in the past year to ensure we make the most efficient use of our resources as possible.

To protect the significant investment in the Federal transmission system, Western has initiated an effort to define, formalize, and strengthen asset management of our resources. The Asset Management Program Improvement Project will develop and establish processes to produce an up-to-date list of assets ranked by condition, risk, criticality, and priority for future funding requests and decisions. By the end of 2014, we anticipate completing this process for three transmission components—circuit breakers, power transformers, and transmission lines—with the expectation that the Asset Management program will be expanded to encompass all transmission components and related services. The goal is to ensure we are making risk-informed capital investment decisions that produce the best value for our customers and maintain system reliability.

We continue to implement our Operations Consolidation Project, which consolidates the operations and transmission service functions within our Desert Southwest Region, Rocky Mountain Region, and Colorado River Storage Project Management Center. We expect to improve organizational effectiveness by reducing overall resources required to develop and maintain multiple operations systems. The project also optimizes workload to ensure reliability standards and Open Access Transmission Tariff requirements are addressed consistently and efficiently. Western's customers will experience cost savings based on the long-term benefits of integrated life-cycle facility investments, elimination of duplicative activities and costs, reduction in anticipated required resources and sharing of common Information Technology tools.

Western also has made significant progress consolidating administrative information technology systems into two data centers to reduce costs and provide consistent, standardized cyber security for our facilities and assets. We expect to see significant savings in procurement, operating, and maintenance costs through management efficiencies, such as reduction of data centers, expanding virtualization, and consolidation of applications, software licenses/maintenance, and functions. The consolidation also provides enhanced cyber security by eliminating multiple internet connections and required monitoring.

We are also completing the transition to an enterprise-wide common power and transmission billing system, using an existing solution developed in house to promote consolidation, optimization and reduced costs of hardware and software. Replacing four separate Power Billing Systems with one integrated system will improve business efficiencies by standardizing billing products and reducing overhead expenses.

The focus of all these efforts is to keep our rates as low as possible by making Western as efficient as possible, maximizing the resources available to us and ensuring that we remain nimble to keep pace with industry changes and issues.

Transmission Infrastructure Program – Strategic Plan Goal 2

Consistent with our mission to deliver Federal hydropower, Western has a long history of constructing transmission lines. Western has played important roles in the construction of such major transmission facilities as the California-Oregon Transmission Project, the Mead-Phoenix Transmission Line, and the Path 15 Transmission Upgrade, among many others. In the Recovery Act of 2009, Congress amended the Hoover Power Plant Act of 1984 to grant Western \$3.25 billion in borrowing authority to construct, finance, facilitate, plan, operate, maintain or study new or upgraded transmission facilities that would deliver, or facilitate the delivery of, renewable energy. Western continues to implement this borrowing authority through our Transmission Infrastructure Program (TIP). Since its inception, Western's TIP has recorded some notable achievements, including:

- TIP has facilitated completion of the Montana Alberta Tie Ltd. (MATL) Project.

- The MATL Project was the first project using Western’s borrowing authority. We successfully concluded our role as senior lender in the MATL Project when Enbridge, the project developer, paid the outstanding principal and interest in full to the U.S. Treasury. Completion of the MATL Project allowed for the construction of the 189 megawatt Rim Rock wind farm near Cut Bank, Montana.
- TIP initiated a regional construction project, the Electrical District No. 5 to Palo Verde Hub Project (ED5-PVH).
 - The ED5-PVH Project is the first partnership with existing Western Federal power project customers to construct transmission infrastructure facilities to expand renewable resource development. The ED5-PVH Project is a 109-mile long transmission project that would provide a path to and from the very active energy marketplace at the Palo Verde Hub to the Electrical District No. 5 Substation south of Phoenix to facilitate the delivery of emerging renewable resources in the area to markets.
- TIP is participating in the development phase of the TransWest Express (TWE) Project, a 725-mile, 3,000 megawatt, 600-kilovolt, direct-current transmission system between south-central Wyoming and southern Nevada.
 - The TWE Project would deliver Wyoming’s wind energy resources to population centers in Arizona, California, and Nevada that need renewable energy. In addition, the line would provide important electricity capacity, reliability, and stability for the Western Interconnection. Western’s commitment of borrowing authority funds is backed up by an irrevocable letter of credit and parental guarantee from the Anschutz Corporation, the project developer, meaning Western will be repaid for all its development costs should we decide not to participate in construction and operation of the project.
- In FY 2012, TIP executed two separate Advance Funding Agreements (AFA) with two individual project sponsors – Southline Transmission, LLC, and Centennial West Clean Line, LLC – in support of two projects seeking the use of TIP borrowing authority.
 - The Southline Transmission Project is a proposed 360-mile transmission line project from southern New Mexico to south of Phoenix, Arizona. The project would improve reliability in the area south of Phoenix, relieve identified/anticipated congestion, sustain and support anticipated customer load growth and facilitate transmission access for planned renewable resource development.
 - The Centennial West Clean Line Transmission Project is a proposed 900-mile, overhead, high-voltage, direct-current transmission project from New Mexico to southern California that would connect California with the renewable energy resources of the southwest United States. The completed line and associated converter stations would be capable of transferring 3,500 MW of power.

- Under the terms of the AFAs, the project sponsor pays all costs associated with Western's resources (employees and contractors) used during the project developmental/evaluation period.

Continuous improvement of TIP is ongoing and the lessons learned from the first three years are being incorporated into program improvements through a joint DOE and Western optimization effort. These improvements focus on communication, transparency, vetting of potential projects that seek borrowing authority financing, and prioritization and selection of potential TIP projects. Recommendations from the optimization process are being integrated into plans for implementation and will be released soon.

Strategic Initiatives and Opportunities

Western's accomplishments last year, and throughout our 35-year history, continue to bolster the economy of the western United States by delivering Federal hydropower and all its benefits to help meet the region's demand for energy. However, we must also look proactively toward the future in the rapidly changing electricity industry. The operation and usage of the bulk electrical system continues to evolve; in turn, the way Western operates must evolve as well. At the same time, we cannot forfeit the gains we've made in the last 35 years. Western will continue to work together with our customers and stakeholders as we explore the opportunities these challenges present.

Access to Capital – Strategic Plan Goals 1, 2 and 3

One of the most critical needs facing Western today is the ability to acquire adequate capital funding to make infrastructure investments and sustain the level of reliability that Western and its customers have historically enjoyed and expect, while at the same time maintaining affordable services. Western, working with its customers and in consultation with DOE, is evaluating capital requirements for Western's transmission system assets and exploring opportunities to expand Western's financial flexibility in order to meet these needs.

Joint Outreach Team Recommendations – Strategic Plan Goal 2

The Western and DOE Joint Outreach Team (JOT) was created to engage Western's customers, stakeholders, and tribes to gather input and develop draft and final recommendations for the Secretary of Energy in response to a memorandum sent to the four Power Marketing Administrations (PMA) on March 16, 2012. The Secretary's memo called on the PMAs to take a leadership role in transforming and modernizing the nation's electric grid for the 21st century. The Secretary elected to begin this effort with Western in April 2012.

The Secretary returned JOT's final recommendations to Western's Administrator asking that the Administrator create an implementation plan. As the Secretary recognized in his memo accepting the JOT's recommendations, due to limited resources, not all of the recommendations

can be implemented immediately. Western is now reviewing the recommendations to identify those that we are already working on and those that will require additional study. We will continue to work together with our customers, stakeholders and tribes as we prioritize our work to implement the recommendations.

Cyber Security – Strategic Plan Goals 1, 2 and 3

Western continuously evaluates and improves its cyber security posture and operational monitoring measures through a comprehensive Cyber Security Program designed to protect Western from a constantly evolving threat.

Over the past year, Western actively enhanced its cyber security program by identifying and implementing improvements. Western is continuing to migrate its overall cyber program from a compliance-based approach to the National Institute of Standards and Technology Risk Management Framework, an approach designed to continuously identify and eliminate or mitigate cyber security risks while still following all required mandates such as Federal Information Security Management Act and NERC Critical Infrastructure Protection.

Western's FY14 Budget Request

We can't do any of this without resources, including support from Congress and the support of our customers.

A considerable portion of Western's mission requirement is dependent on a combination of offsetting collections and alternative financing, which are used to fund a variety of Western activities including annual expenses, purchase power, and wheeling and construction. Through the Administration's support and customer participation, we continue to pursue and use alternative financing to meet our power delivery obligations.

Much of Western's 17,000 miles of integrated high-voltage transmission infrastructure was constructed in the 1950s and 1960s, with an anticipated useful lifespan of 50 years. More than half of Western's infrastructure has reached or exceeded its anticipated useful life. Significant reinvestment in the system is required to maintain reliable power delivery.

Western is requesting \$95.9 million for its Construction, Rehabilitation, Operation, and Maintenance Account and \$0.4 million for the Falcon and Amistad Operating and Maintenance Fund in FY 2014 as seen in Attachment 1.

Western estimates the FY 2014 priority construction program need is \$122.4 million. Of this amount, we will be seeking alternative financing of \$105.7 million, or approximately 86 percent of the FY 2014 requirement to fund Western's Construction and Rehabilitation program.

CONCLUSION

Working together with our customers, we are repaying our expenses with interest, ensuring that the beneficiary pays and keeping costs down through sound business practices to be good stewards of the public's resources. In our role as a power marketer, Western continues to ensure our customers can depend on low-cost Federal hydropower. As a transmission provider, Western is a leader both in improving the reliability of the Nation's grid and in safety. Finally, I am excited by the way Western is strategically seizing the opportunities that we face.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you or the Subcommittee members may have.

Attachment 1

**Western Area Power Administration
Overview
Appropriation Summary by Program**

(Dollars in Thousands)

FY 2012 Current	FY 2013 Annualized CR	FY 2014 Request
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Western Area Power Administration			
Construction, Rehabilitation, Operation and Maintenance (CROM)			
Operation and Maintenance	72,863	73,309	82,843
Construction and Rehabilitation	110,459	111,125	122,437
Purchase Power and Wheeling	471,535	474,421	407,109
Program Direction	205,247	206,503	217,709
Utah Mitigation and Conservation	3,375	3,396	0
Subtotal, CROM-Gross Program	863,479	868,754	830,098
Alternative Financing	-266,207	-267,836	-293,349
Offsetting Collections from Colorado River Dam Fund	-4,821	-4,851	-6,092
Offsetting Collections, annual Operation and Maintenance and Program Direction	-189,932	-191,094	-203,989
Offsetting Collections, Purchase Power and Wheeling	-306,541	-308,417	-230,738
Total, CROM	95,978	96,556	95,930
Falcon and Amistad Operating and Maintenance Fund	4,169	4,194	6,196
Offsetting Collections, annual Operation and Maintenance	-3,949	-3,973	-4,911
Alternative Financing	0	0	-865
Total, Falcon and Amistad	220	221	420
Colorado River Basins Power Marketing Fund (CRBPMF)	220,397	221,746	180,844
Offsetting Collections	-243,397	-244,887	-203,844
Total, CRBPMF	-23,000	-23,141	-23,000
Transmission Infrastructure Program (TIP) Fund (TIP)	50,098	204,278	30,259
Offsetting Collections	-50,098	-204,278	-30,259
Total, TIP	0	0	0
Total, Western Area Power Administration	73,198	73,636	73,350