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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

CIVIL DIVISION

MAR 26 1969

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Dear Mr. Dominy:

The General Accounting Office has made a limited review of a March 22, 1966, letter agreement which amended contract No. 14-06-200-290 of the Bureau of Reclamation (Bureau) for providing electric service to the Sacramento Municipal Utility District (SMUD) of Sacramento, California. We have examined into the reasonableness of the amended method provided by the letter agreement for computing SMUD's billing demand for power purchased from the Bureau's Central Valley Project (CVP), and have found that the application of this method has caused, and can continue to cause, a reduction in CVP power revenues. Furthermore, this new billing procedure appears inequitable because SMUD is allowed a discount for power purchases that is not given to other CVP preference customers. In view of the Bureau's recently expressed concern relative to the repayment capacity of the CVP, we believe that the Bureau should initiate negotiations with SMUD with a view toward terminating the revised billing procedure.

The Bureau and SMUD, a preference customer of the CVP, entered into an electrical service contract on December 11, 1952. On March 22, 1966, a letter agreement amended the basic contract. This letter agreement provided, in part, for a new method of computing SMUD's billing for power purchased from the Bureau. The agreement states:

> "Commencing with the first billing period following execution of this letter agreement, billing demand will be determined as follows: For each billing period the SMUD billing demand will be the greater of (a) 290,000 kilowatts, or (b) SMUD's contribution to the Central Valley Project system maximum simultaneous demand for that period, plus one-half the difference between SMUD's contribution to the Central Valley Project system maximum simultaneous demand for that period and SMUD's contract rate of delivery in effect during that period."

The contract rate of delivery is the maximum amount of demand which the Bureau is responsible for delivering to a customer. SMUD's current contract rate of delivery is 360,000 kilowatts (KW) consisting of 290,000 KW, their original CVP allocation which is not withdrawable, and 70,000 KW provided by the Trinity Unit of the CVP. The

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Trinity allocation is withdrawable by the Federal Government for use by customers in Trinity County and/or for use by the CVP to meet project pumping requirements. Such withdrawal of power can be made upon 17 months' notice.

All CVP preference customers, prior to the SMUD letter agreement, were billed on the basis of the maximum demand—which may or may not have been equal to the contract rates of delivery. SMUD considered this billing procedure inequitable as its load increased beyond the contract rate of delivery since the contract rate of delivery represented the maximum amount of power the other customers of CVP could purchase, but in SMUD's case, as shown below, the contract rate of delivery, in effect, equaled the amount purchased.

SMUD's contract rate of delivery equaled the purchased amount because the utility is a joint service customer obtaining its power requirements from (1) the CVP, (2) existing company hydroelectric capacity, and (3) purchases from the Pacific Gas and Electric Company (PG&E). Because of the difficulty in determining what source is providing the power, the three interested parties have agreed in the accounting for power deliveries that SMUD's contract rate of delivery with the Bureau would be first applied to its requirements. SMUD's available hydroelectric generation is then applied and the remaining requirements are assumed to be provided by PG&E. Prior to the letter agreement, if SMUD's requirements were 500,000 KW during a billing period, the contract rate of delivery (290,000 KW) was first assumed to be provided by the CVP and the remaining 210,000 KW was provided by SMUD's own generation plus purchases from PG&E. According to a Bureau official, SMUD's requirements prior to the letter agreement were in excess of its contract rate of delivery. Therefore, because SMUD's contract rate of delivery is used first to satisfy their requirements, SMUD's contract rate of delivery would be equal to the amount of power purchased from the Bureau.

Under the letter agreement, however, SMUD receives a discount equal to one-half the difference between their monthly contribution to the maximum simultaneous demand of the CVP system and their contract rate of delivery. SMUD's contribution to the maximum simultaneous demand of the CVP system is computed by taking SMUD's load at the time the CVP system experienced its maximum simultaneous demand and multiplying this figure by the ratio of SMUD's contract rate of delivery divided by SMUD's maximum demand during the period. SMUD's bill for the month of July 1968 illustrates the manner in which SMUD's discount is computed.

During July 1968, SMUD's load at the time the CVP system experienced its maximum simultaneous demand was 755,588 KW and SMUD's demand during the month was 793,188 KW. Therefore, SMUD's contribution to the maximum simultaneous demand of the CVP system was 342,935 KW (755,588 x 360,000/793,188) and SMUD was billed for 351,468 KW representing one-half the difference between the 342,935 KW and their contract rate of delivery of 360,000 KW. During the 29 months that the new billing procedure has been in effect, May 1966 through September 1968, SMUD's monthly maximum demand was always in excess of its contract rate of delivery and has ranged from 477,988 KW to 793,188 KW. For 23 of the 29 months SMUD received discounts totaling about $165,000 which it would not have received under the old billing procedures.

During the letter agreement negotiations, the Bureau estimated that this billing procedure change would result in an annual loss of $50,000 in CVP power revenues. However, for the first two years this procedure was in effect, the annual revenue loss was about $67,000. We believe that this loss is significant in view of the Bureau's recent concern about the CVP's repayment capability, and the Bureau's current study on the feasibility of increasing CVP power rates.

While we do not believe that an inequity existed under the original billing procedure, our evaluation of the new SMUD billing procedure indicates that other CVP preference customers are not being treated in an equitable manner in relation to SMUD. The new billing procedure allows SMUD a discount on its power purchases not enjoyed by other CVP preference customers. Other preference customers are billed solely on their maximum demand without any consideration as to their contribution to the CVP system maximum simultaneous demand. In our opinion, SMUD should be billed on the same basis. We realize that even though SMUD's maximum demand will probably continue to exceed their contract rate of delivery of 360,000 KW, they will not be billed for more than that amount, assuming the contract rate of delivery remains the same, because of the agreement that is followed by PG&E, the Bureau, and SMUD, in accounting for SMUD's power deliveries.

Recommendation

We recommend that you take the necessary action to initiate negotiations with SMUD with a view toward terminating the revised billing procedure thereby precluding further loss of CVP revenues.

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We shall appreciate being advised of any action you may take on the matter discussed in this report.

A copy of this report is being sent to the Director, Office of Survey and Review, Department of the Interior.

Sincerely yours,

Allen R. Voss

Allen R. Voss
Assistant Director

The Honorable Floyd E. Dominy
Commissioner, Bureau of Reclamation
Department of the Interior
Washington, D. C. 20240