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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS
DIVISION
B-200760

NOVEMBER 25, 1980

Mr. S. David Freeman
Chairman, Board of Directors
Tennessee Valley Authority



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Dear Mr. Chairman:

Subject: Tennessee Valley Authority Needs A Written
Policy On The Use Of Power System Revenues
For Research, Development, and Demonstration
(EMD-81-16)

We recently began an evaluation of the Tennessee Valley Authority's (TVA's) Office of Power research, development, and demonstration (RD&D) programs. One objective was to compare TVA's overall level of RD&D expenditures with that of investor-owned utilities. According to Office of Power officials, TVA has an informal policy that limits expenditures of power funds for RD&D to no more than 2 percent of annual gross power system revenues. That level of expenditures would place TVA among the utility industry leaders in RD&D spending.

The informal 2-percent policy apparently was established during budget review meetings between the Board and Office of Power staff. However, at the time of our review, Office of Power officials were uncertain about the criteria for identifying all expenditures that are subject to the 2-percent ceiling.

It does not appear that the 2-percent ceiling has been exceeded, but we believe that TVA needs to establish a formal policy on what level of expenditures TVA will make for RD&D and what constitutes those expenditures. We therefore recommend the Board present in a written policy

--the level of power funds TVA is willing to spend annually on RD&D,

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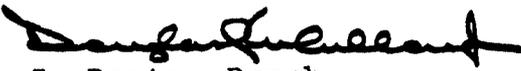
- the rationale for selecting that level of spending, and
- the criteria to be used in identifying the types of expenditures covered by the spending ceiling.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving a copy of your statement when it is provided to the congressional committees and to be informed of any action taken on our recommendations.

We are sending copies of this report to the Director, Office of Management and Budget, and the House and Senate Committees having oversight and appropriation responsibilities for TVA.

Sincerely yours,

for 
J. Dexter Peach
Director