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United States General Accounting Office 128617

Fact Sheet for the Honorable Howard M.
Metzenbaum United States Senate

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November 1985

FEDERAL POWER

Additional Information on Repaying Federal Investments in Electric Power Facilities



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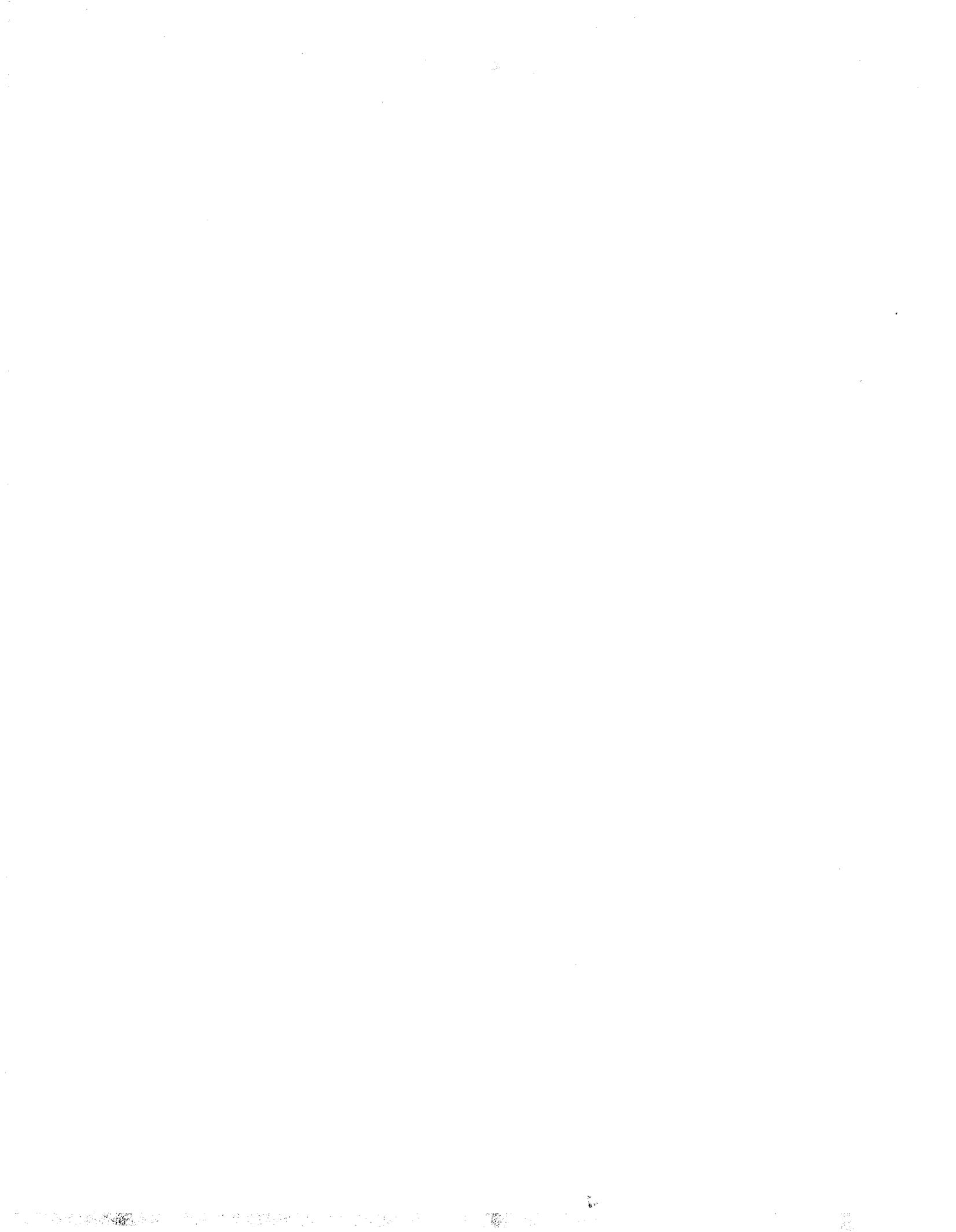
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FEDERAL POWER

Additional Information on Repaying Federal Investments in Electric Power Facilities







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

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

NOV 12 1985

B-218903

The Honorable Howard M. Metzenbaum
United States Senate

Dear Senator Metzenbaum:

On July 26, 1985, we issued a report to you entitled Recovering a Portion of Federal Irrigation Project Construction Costs Through Department of Energy Electric Power Sales (GAO/RCED-85-128) and, on August 7, 1985, we briefed your office on our examination of the current basis that the Department of Energy's (DOE's) Power Marketing Administrations (PMAs) use to price federal electric power and transmission services. On October 10, 1985, we provided, at your request, additional information pertaining to this work (Additional Information Concerning Irrigation Project Costs and Pricing Federal Power (GAO/RCED-86-18FS)).

We noted in the October 10 report that we had not obtained all the information you had requested and the remaining information would be provided at a later date. The remaining information is provided in the attached appendixes and concerns the basis for the PMAs' practice of (1) repaying the federal investment in power facilities within 50 years and (2) charging an interest penalty when interest payments on the federal investment are deferred.

The information in the appendixes was obtained through discussions with officials from DOE and the Department of the Interior (Interior) and a review of pertinent documents and records of DOE's Bonneville and Western Area Power Administrations and Interior's Bureau of Reclamation. We also reviewed the legislative history for the Northwest Electric Power Planning and Conservation Act. Our review was performed between August and October 1985 and was in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we will not distribute this fact sheet further until 30 days from its publication date.

Sincerely yours,

A handwritten signature in cursive script that reads "Keith O. Fultz".

Keith O. Fultz
Associate Director

REQUEST: What is the basis for the administrative determination that 50 years is a "reasonable period of years" to amortize the federal investment in a project?

RESPONSE: In our discussions with DOE and Interior Officials and review of DOE records and pertinent legislation, we found no definitive documentation to explain the basis for the administrative determination that 50 years is a "reasonable period of years" to amortize the federal investment in a project. However, as DOE noted in a 1983 report to the Office of Management and Budget,¹ the 50-year amortization period has become a well-established administrative practice, and in authorizing certain individual projects, the Congress has specified a repayment period of 50 years.

In the 1983 report, DOE speculates that the 50-year period may have been chosen initially simply because 50 years had been established in reclamation laws as the period of time in which irrigation water users have to pay the costs of irrigation projects. According to the report, when it was realized that irrigation dams offered opportunities for power development, "[it] followed logically that power investment, being part of total project costs, would be repaid within the same time period as the rest of the project investment."

DOE pointed out that the first administrative recognition of a 50-year repayment period was contained in a 1945 Federal Power Commission decision (FPC).² In that decision, the FPC approved of the Bonneville Power Administration's use of a 50-year repayment period. The FPC offered no explanation of the basis for that approval. DOE's analysis shows that, with few minor exceptions, the 50-year period has been accepted consistently since the 1945 decision. Indeed, the FPC reaffirmed use of the 50-year period in a 1965 decision, again without explanation. DOE reported that the Federal Energy Regulatory Commission has followed FPC's decisions.

¹Law and Practice on Amortization Period and Interest Rates for Amortization of Federal Power Investment: A Report to the Office of Management and Budget, DOE, Apr. 28, 1983, p. 7.

²The FPC was replaced by the Federal Energy Regulatory Commission and the DOE in August 1977 under the DOE Organization Act, Public Law 95-91.

REQUEST: What is the basis for charging an interest penalty when PMAs defer interest payments on the federal investment?

RESPONSE: Section 8 (c)(2) of DOE Order RA 6120.2, September 20, 1979, required DOE's PMAs to charge interest on deferred interest:

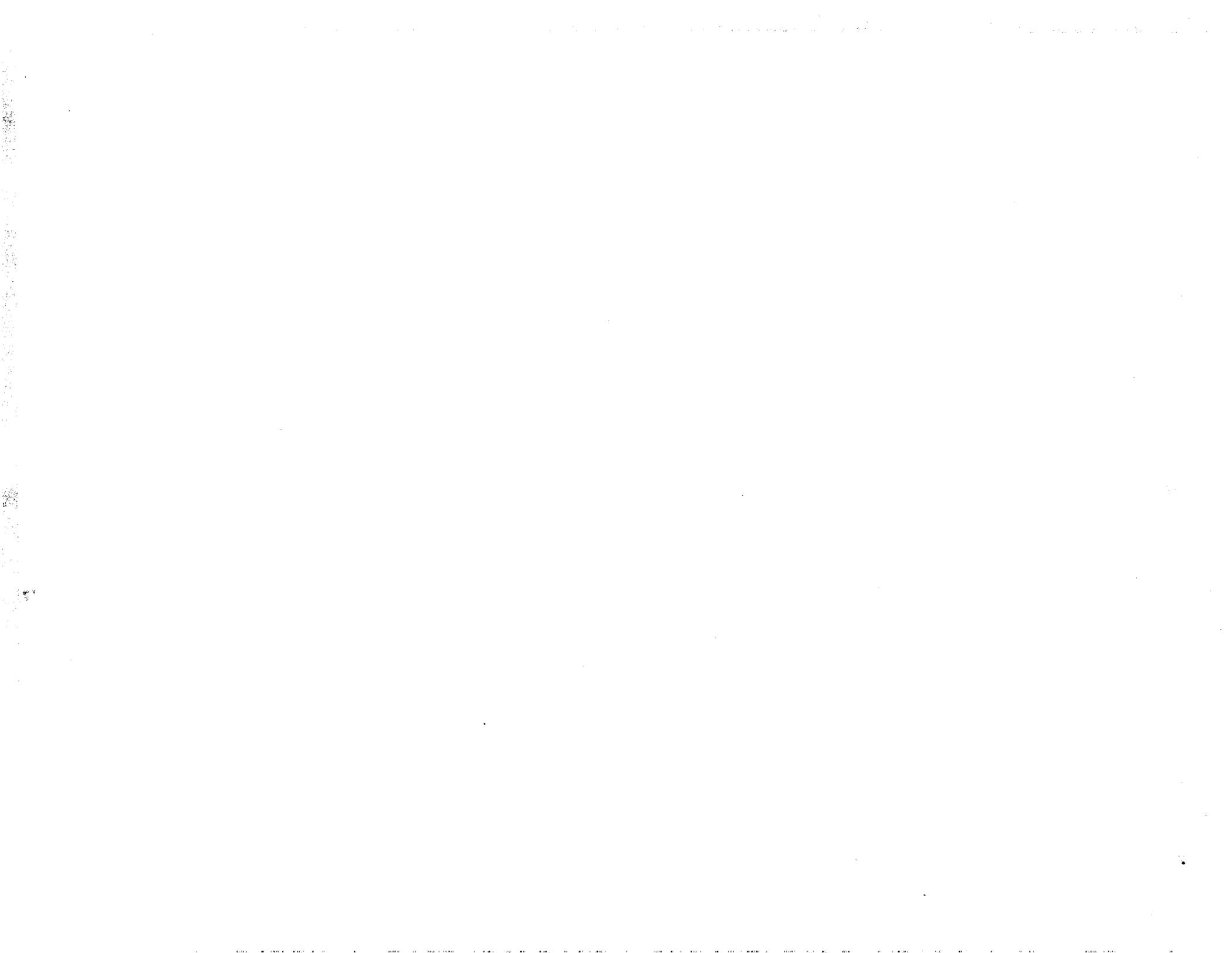
"Deficits (or uncovered expenses) which occur in any year in which revenues fail to recover . . . interest expense shall be accrued on the balance sheet as a liability with interest at the rate prescribed in paragraph 11 [of the Order]"

In our discussions with agency officials and review of DOE records and pertinent legislation, we found no documentation to explain the rationale for this policy. DOE's Deputy Solicitor for Power, and the Chief, Rates and Statistics Branch, Western Area Power Administration, suggested that the policy was derived from Interior Secretarial Order 2929.³ They stated that some of the PMAs, after the Secretarial Order was issued in 1970, began charging interest on deferred interest using the formula prescribed in the secretarial order. In 1976 Interior established such a policy in its Departmental Manual for all PMAs. The 1979 DOE Order simply restated the 1976 Interior policy.

While we have found no explanation for Interior's policy, the Congress, in at least one instance, viewed the interest penalty as an incentive to make timely repayments to the Treasury Department. The Congress, in Section 8(d)(4) of the Pacific Northwest Electric Power Planning and Conservation Act of 1980, provided that if the Bonneville Power Administration failed to make a repayment to the Treasury as projected, the Secretary of the Treasury may increase the interest rate charged the Bonneville Power Administration, with respect to the debt projected to be repaid, by as much as 1 percent. The legislative history of Section 8(d)(4) states that the interest penalty was meant to serve as an incentive to the Bonneville Power Administration to make timely repayments to the Treasury.

³Interior Secretarial Order 2929 was issued on January 29, 1970, to establish a standard repayment interest rate formula for new federal power projects and system transmission facilities. All operating functions of the PMAs were transferred from Interior to DOE in 1977 under the DOE Organization Act, Public Law 95-91.

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