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12-28-73



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-114858

The Honorable
The Secretary of the Interior

DEC 28 1973

Dear Mr. Secretary [Examination of

We have examined the Statement of Assets and Liabilities of the Federal Columbia River Power System (~~see note 1 to the financial statements~~) as of June 30, 1973, and the related Statements of Revenues and Expenses and of Changes in Financial Position for fiscal year 1973. Our examination was made in accordance with generally accepted auditing standards and included tests of the accounting records of the Corps of Engineers, the Bureau of Reclamation, and the Bonneville Power Administration and such other auditing procedures as we considered necessary in the circumstances.

The accompanying financial statements were prepared on a cost-accounting basis which included depreciation. The statements do not present the financial results on a basis designed to show whether power rates are adequate to repay the Federal investment in the System, either for the fiscal year or cumulatively.

Subject to the financial effects of future adjustments related to the adoption of firm cost allocations, as explained in note 2, the accompanying financial statements, in our opinion, present fairly the assets and liabilities of the System at June 30, 1973, the financial results of its power operations, and the changes in financial position for the year then ended, in conformity with accounting principles and standards prescribed by the Comptroller General of the United States.

Copies of this report are being sent to the Director, Office of Management and Budget, the Chairman, Federal Power Commission, the Administrator, Bonneville Power Administration, the Commissioner of Reclamation, the Secretary of the Army, and the Chief of Engineers.

Sincerely yours,

[Deputy Comptroller General
of the United States

Enclosures - 5

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FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF REVENUES AND EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 1973 and JUNE 30, 1972
(In thousands)

EXHIBIT 1

	<u>1973</u>	<u>1972</u>
OPERATING REVENUES:		
Bonneville Power Administration		
Sales of electric energy:		
Publicly owned utilities	\$ 74,670	\$ 69,392
Privately owned utilities	37,147	37,848
Federal agencies	3,083	4,572
Aluminum industry	39,361	40,423
Other industry	<u>4,653</u>	<u>5,310</u>
Total	<u>158,914</u>	<u>157,545</u>
Other operating revenues:		
Wheeling revenues	11,263	11,391
Other revenues	<u>4,316</u>	<u>4,014</u>
Total	<u>15,579</u>	<u>15,405</u>
Total Bonneville Power Administration revenues	<u>174,493</u>	<u>172,950</u>
Associated projects:		
Other operating revenues	<u>2,881</u>	<u>3,035</u>
Total power system operating revenues	<u>177,374</u>	<u>175,985</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION:		
Purchase and exchange power (Note 7)	<u>48,255</u>	<u>32,794</u>
Operation and maintenance expense:		
Operation expense (Note 8)	31,466	31,558
Maintenance expense	<u>21,972</u>	<u>17,335</u>
Total operation and maintenance expense	<u>53,438</u>	<u>48,893</u>
Total operating expense		
other than depreciation	<u>101,693</u>	<u>81,687</u>
Net operating revenues	<u>75,681</u>	<u>94,298</u>
INTEREST EXPENSE:		
Interest on Federal investment (projects in service)	88,147	74,612
Related interest charged to construction	<u>18,829*</u>	<u>10,200*</u>
Net interest expense	<u>69,318</u>	<u>64,412</u>
NET REVENUES AVAILABLE FOR REPAYMENT	6,363	29,886
LESS DEPRECIATION	<u>30,418</u>	<u>25,788</u>
NET (LOSS), REVENUES (Schedule B)	<u>(\$ 24,055)</u>	<u>\$ 4,098</u>

* Denotes deduction

"Notes to the Financial Statements" are an integral part of this statement.

FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF ASSETS AND LIABILITIES
AS OF JUNE 30, 1973 AND JUNE 30, 1972

(In thousands)

	<u>ASSETS</u>			<u>LIABILITIES</u>	
	June 30			June 30	
	<u>1973</u>	<u>1972</u>		<u>1973</u>	<u>1972</u>
FIXED ASSETS			PROPRIETARY CAPITAL		
Completed plant (Schedule A)	\$3,466,817	\$3,045,072	Investment of U.S. Government		
Retirement work in progress	25,805	26,253	Congressional appropriations	\$4,888,238	\$4,575,475
	<u>3,492,622</u>	<u>3,071,325</u>	Revenues transferred to Continuing Fund	4,390	4,287
Less accumulated depreciation	295,455	275,489	Transfers from other Federal agencies, net	33,056	31,274
	<u>3,197,167</u>	<u>2,795,836</u>	Interest on Federal investment (Note 6)	<u>1,049,149</u>	<u>948,597</u>
Construction work in progress (Schedule A)(Note 8)	897,213	1,031,977	Gross Federal investment	5,974,833	5,559,633
Total fixed assets	<u>4,094,380</u>	<u>3,827,813</u>	Less funds returned to U.S. Treasury	<u>2,086,170</u>	<u>1,957,148</u>
			Net investment of U.S. Government	3,888,663	3,602,485
			Accumulated net revenues (Schedule B)	328,546	354,155
			Total proprietary capital	<u>4,217,209</u>	<u>3,956,640</u>
CURRENT ASSETS			COMMITMENTS (Note 4)		
Unexpended funds	139,092	137,572			
Special funds	12,336	7,033	CURRENT LIABILITIES:		
Accounts receivable	24,733	26,259	Accounts payable	62,998	57,742
Materials and supplies	14,907	14,968	Employees accrued leave	5,473	4,639
Total current assets	<u>191,068</u>	<u>185,832</u>	Total current liabilities	<u>68,471</u>	<u>62,381</u>
DEFERRED CHARGE FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A)(Note 3)	<u>438,720</u>	<u>415,548</u>	LIABILITY OF U.S. GOVERNMENT FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A)(Note 3)	<u>438,720</u>	<u>415,548</u>
OTHER ASSETS AND DEFERRED CHARGES			OTHER LIABILITIES AND DEFERRED CREDITS		
Trust funds	14,649	5,912	Trust fund advances	14,649	5,912
Other assets and deferred charges	6,693	10,443	Other deferred credits	6,461	5,067
Total other assets and deferred charges	<u>21,342</u>	<u>16,355</u>	Total other liabilities and deferred credits	<u>21,110</u>	<u>10,979</u>
TOTAL ASSETS	<u>\$4,745,510</u>	<u>\$4,445,548</u>	TOTAL LIABILITIES	<u>\$4,745,510</u>	<u>\$4,445,548</u>

"Notes to the Financial Statements" are an integral part of this statement.

FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 1973 AND JUNE 30, 1972

(In thousands)

	<u>1973</u>	<u>1972</u>
SOURCE OF FUNDS:		
Net revenues available for repayment (Exhibit 1)	\$ 6,363	\$ 29,886
Prior years adjustments	<u>1,554*</u>	<u>1,535*</u>
Net funds from operations	<u>4,809</u>	<u>28,351</u>
Federal investment:		
Congressional appropriations	312,763	394,107
Transfers from other Federal agencies, net	1,782	3,291
Interest on Federal investment(a)	100,552	90,950
Transfers to continuing fund	<u>103</u>	<u>254</u>
Total funds from Federal investment	<u>415,200</u>	<u>488,602</u>
Other sources:		
Decrease in current assets net of current liabilities	854	43,662*
Decrease in other assets net of other liabilities	<u>5,144</u>	<u>5,163*</u>
Total other sources	<u>5,998</u>	<u>48,825*</u>
Total source of funds	<u>\$426,007</u>	<u>\$468,128</u>
APPLICATION OF FUNDS:		
Investment in electric utility plant and facilities, net(a)	\$296,985	\$333,147
Funds returned to U.S. Treasury	<u>129,022</u>	<u>134,981</u>
Total application of funds	<u>\$426,007</u>	<u>\$468,128</u>

(a) Includes capitalized interest on projects in service, and on projects under construction. In FY 1973 these amounts were \$18,829 and \$12,405.

* Denotes deduction

"Notes to the Financial Statements" are an integral part of this statement.

FEDERAL COLUMBIA RIVER POWER SYSTEM

SCHEDULE A

AMOUNT AND ALLOCATION OF PLANT INVESTMENT

AS OF JUNE 30, 1973

(In thousands)

Allocated To

Project	Total	Commercial Power			Irrigation			Nonreimbursable					Percent of Total Returnable From Commercial Power Revenues	
		Completed Plant	Construction Work in Progress	Total Commercial Power	Returnable From Commercial Power Revenues	Returnable From Other Sources	Total Irrigation	Navigation	Flood Control	Fish and Wildlife	Recreation	Other		
Projects in Service														
Transmission facilities (BPA)	\$1,406,279	\$1,257,496	\$148,783	\$1,406,279									100.0	
Alberi Falls (CE)	33,006	31,915		31,915									96.7	
Boile (BR)	65,867	4,931	172	5,103	\$ 10,683	\$ 35,130	\$ 45,813						24.0	
Bonneville (CE)	106,850	61,732	14,448	76,180				30,284				\$ 7	71.3	
Chief Joseph (CE)	158,678	155,006		157,662	710		710					251	99.8	
Columbia Basin (BR)	908,681	179,541	253,923	433,464	360,308	68,189	428,497	1,000	45,543				87.4	
Cougar (CE)	58,263	17,918		17,918									30.8	
Detroit-Big Cliff (CE)	66,567	40,403	41	40,444									60.8	
Dworshak (CE) (c)	292,795	264,003		264,003				9,139	17,264			2,389	90.2	
Green Peter-Foster (CE)	88,948	49,300	22	49,322		5,721	5,721	360	29,841			1,643	55.5	
Hills Creek (CE)	48,795	17,314	3	17,317		4,314	4,314	626	26,266			272	35.5	
Hungry Horse (BR)	102,183	77,521	19	77,540					24,643				75.9	
Ice Harbor (CE)	150,274	95,212	9,697	104,909				44,110			1,255		69.8	
John Day (CE) (c)	500,192	370,758	8	370,766					81,859	14,015			74.1	
Little Goose (CE) (c)	167,188	115,596	208	115,804				45,632			1,989	3,763	69.3	
Lookout Point-Dexter (CE)	94,846	45,787	7	45,794		1,322	1,322		708	46,722		206	48.3	
Lower Monumental (CE) (c)	194,668	146,445	42	146,487					46,653			1,528	75.3	
Mohary (CE)	309,177	256,107	495	256,602					51,563			1,012	83.0	
Minidoka-Faliscades (BR)	96,951	13,364		13,364	10,040	43,351	53,391			29,730			24.1	
The Dalles (CE)	316,419	261,697	11,153	272,850				41,979				1,568	86.2	
Yakima (BR)	63,610	4,771		4,771	8,695	48,943	57,638		49	\$1,152			21.2	
Projects Under Construction (c)														
Libby (CE)	407,135		300,714	300,714						70,200			36,221	73.9
Lost Creek (CE)	46,528		6,195	6,195		764	764			19,558			4,106	13.3
Lower Granite (CE)	194,231		145,842	145,842				47,205				517	667	75.1
Teton (BR)	24,205		2,785	2,785	13,104	3,673	16,777			4,275			368	65.6
Irrigation Assistance at All Projects Having No For Generation														
Subtotal Plant Investment	5,936,657	3,466,817	897,213	4,364,030	4,37,861	219,102	656,963	401,996	400,761	9,678	28,660	74,569 (a)		80.9
Repayment Obligation Retained by Columbia Basin Project (b)														
Total	2,211	1,352		1,352	859		859							100.0
Total	\$5,938,868	\$3,468,169	\$897,213	\$4,365,382	\$4,38,720	\$219,102	\$657,822	\$401,996	\$400,761	\$9,678	\$28,660	\$74,569 (a)		80.9

BPA - Bonneville Power Administration
 CE - Corps of Engineers
 BR - Bureau of Reclamation

(a) Included in this amount are nonreimbursable road costs amounting to \$69 million.

(b) Joint facilities transferred to Bureau of Sport Fisheries and Wildlife Power portion is included in Exhibit 2 as a Deferred Item

(c) Projects in service that have tentative cost allocations at June 30, 1973, projects under construction have tentative cost allocations (Note 2)

"Notes to the Financial Statements" are an integral part of this schedule

SCHEDULE B

FEDERAL COLUMBIA RIVER POWER SYSTEM

CHANGES IN ACCUMULATED NET REVENUES

FOR THE FISCAL YEAR ENDED JUNE 30, 1973
(In thousands)

	Cumulative Balance <u>June 30, 1972</u>	Fiscal Year <u>1973</u>	Prior Years Adjustments (Note 9)	Cumulative Balance <u>June 30, 1973</u>
OPERATING REVENUES	<u>\$2,103,333</u>	<u>\$177,374</u>		<u>\$2,280,707</u>
EXPENSES:				
Purchase and Exchange Power	108,538	48,255		156,793
Operation and Maintenance Expense	581,109	53,438	\$ 787	635,334
Interest Expense	<u>725,664</u>	<u>69,318</u>		<u>794,982</u>
Total	<u>1,415,311</u>	<u>171,011</u>	<u>787</u>	<u>1,587,109</u>
NET REVENUES AVAILABLE FOR REPAYMENT	688,022	6,363	787*	693,598
LESS DEPRECIATION	<u>333,867</u>	<u>30,418</u>	<u>767</u>	<u>365,052</u>
ACCUMULATED NET REVENUES (Exhibit 2)	<u>\$ 354,155</u>	<u>\$ 24,055*</u>	<u>\$ 1,554*</u>	<u>\$ 328,546</u>

* Denotes deduction

"Notes to the Financial Statements" are an integral part of this schedule.

FEDERAL COLUMBIA RIVER POWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Major Accounting Considerations

The Federal Columbia River Power System (FCRPS) consists of the Bonneville Power Administration (BPA) and the generating facilities of the Corps of Engineers (Corps) and the Bureau of Reclamation (Bureau) for which BPA is the power marketing agent. Each entity is separately managed and financed but the facilities are operated as an integrated power system with the financial results consolidated under the FCRPS title.

These financial statements are prepared on a cost accounting basis including compound interest depreciation and interest on the unamortized Federal investment.

Costs of multi-purpose Corps and Bureau projects are assigned to the individual purposes through a cost allocation process. The portion of total project costs allocated to power is included in these statements.

BPA wholesale power rates are established by using a separate repayment analysis. The major difference between the financial statements and the historical data on the repayment analysis is the treatment of fixed assets. In the accompanying statements, the depreciation life for fixed assets allocated to power averages about 61 years with the transmission system averaging 40 years and generating projects averaging 87 years. However, the repayment periods used to establish power rates are 50 years for the generating projects and 40 years for the transmission system for an average of 46 years. Schedule A lists the projects included in FCRPS and the

allocation of plant investment to the various purposes. Schedule B provides a correlation between the accompanying cost statements and cumulative totals shown in the first line of the separate repayment analysis.

Note 2. Tentative Cost Allocations

Plant cost and operation and maintenance expenses based on tentative allocations between power and non-power purposes are included for eight of the projects listed in Schedule A. In the past, adjustments have been made to plant cost and accumulated net revenues when firm allocations were adopted. At June 30, 1973, total joint plant costs for these eight projects are about \$1.2 billion of which \$.9 billion are tentatively allocated to power and subject to retroactive adjustment. The amount of adjustments that may be necessary when the allocations become firm are not determinable at this time.

Note 3. Repayment Responsibility for Irrigation Costs

The law requires that FCRPS net revenues be used to repay to the U.S. Treasury the construction costs of Bureau irrigation facilities which benefiting water users are unable to repay. Investment made through June 30, 1973 results in estimated irrigation costs to be repaid from FCRPS revenues of \$439 million. Repayments on this amount are due to start in 1997.

Congress may also authorize additional assistance of up to \$19.8 million for investment allocated to irrigation at six Corps projects.

Note 4. Commitments to Exchange Power and Acquire Project Capability

BPA has made commitments with various customers to acquire all or part of the generating capability of various thermal power plants. These commitments

are basically to accept the power generated and in exchange to pay each participant's share of the costs of the plants. BPA is obligated to pay its share of the project costs whether or not the project is completed, operable or operated. The table below shows significant statistics regarding these projects. The "Present Termination Commitment" represents those costs (without credit for assets) which would be payable if the project terminated at this time. The Hanford Project is expected to terminate on October 31, 1977. Thus, the sunk capital of Hanford is included in the Washington Public Power Supply System (WPPSS) Nuclear Project #1 capital costs, which will use the existing generating facilities along with a new steam supply system.

<u>Project Name</u>	<u>Commitment Period</u>	<u>Estimated BPA Portion</u>			
		<u>Capacity (Megawatts)</u>	<u>Annual Cost (In Thousands)</u>	<u>Total Capital Cost (In Thousands)</u>	<u>Present Termination Commitment (In Thousands)</u>
Hanford	1974-1978	800	\$11,000	\$ 80,000	\$ 61,000
Centrelia	1974	173*	10,800	-	-
Trojan Nuclear Plant	1976-2011	339	15,100	112,000	100,500
WPPSS Nuclear Project #1	1982-2017	820	59,600	607,000	25,000
WPPSS Nuclear Project #2	1979-2014	1100	55,800	476,000	150,000
WPPSS Nuclear Project #3	1982-2017	840	54,500	529,000	29,000

* At tested capability of 1200 megawatts

BPA has also entered into agreements with 41 utilities to exchange an agreed amount of power for their rights to the Canadian Entitlement. The Canadian Entitlement is one-half of the additional power benefits realized from three Canadian Treaty dams. It was purchased for a 30-year period by the 41 utilities with a \$314.1 million bond issue. BPA furnishes a specified amount of power regardless of the actual additional power generated.

Note 5. Contingent Liabilities

Contingent Liabilities total approximately \$62.8 million of which \$60.5 million represent various contractor claims and \$2.3 million represent claims under the Federal Tort Claims Act.

Note 6. Interest Rates

Rates of interest applied to the unamortized Federal investment for each generating project and for each year's investment in the transmission system, as shown below, have been set either by law, by administrative order pursuant to law, or by administrative policies. The rates have not necessarily been designed to recover the interest costs to the U.S. Treasury to finance the investment.

Generating Projects

Albeni Falls	2 1/2%	Lower Granite	2 1/2%
Boise	3%	Lower Monumental	2 1/2%
Bonneville	2 1/2%	McNary	2 1/2%
Bonneville Second Power House and Peaking Modifications	3 1/4%	Minidoka	3%
Chief Joseph	2 1/2%	Palisades	3%
Chief Joseph Additional Units	3 1/4%	Teton	3.342%
Columbia Basin	3%	The Dalles	2 1/2%
Columbia Basin Third Power Plant	3 1/8%	The Dalles Additional Units	3 1/8%
Covgar	2 1/2%	Yakima - Rosa Division	3%
Detroit-Big Cliff	2 1/2%	Yakima - Kennewick Division	2 1/2%
Dworshak	2 5/8%	<u>Transmission Facilities - BPA</u>	
Green Peter-Foster	2 1/2%	Through Fiscal Year 1963	2 1/2%
Hills Creek	2 1/2%	Fiscal Year 1964	2 7/8%
Hungry Horse	3%	Fiscal Year 1965	3%
Ice Harbor	2 1/2%	Fiscal Year 1966 thru 1968	3 1/8%
John Day	2 1/2%	Fiscal Year 1969 and 1970	3 1/4%
Libby	3 1/8%	Fiscal Year 1971	4 7/8%
Little Goose	2 1/2%	Fiscal Year 1972	5 3/8%
Lookout Point-Dexter	2 1/2%	Fiscal Year 1973	5 7/8%
Lost Creek	3 1/8%		

Note 7. Purchase and Exchange Power

The current year increase in this expense is primarily the result of purchases from Centralia, which increased by approximately \$13.8 million over FY 1972.

Note 8. Imputed Rent

The General Services Administration provides facilities to BPA, the Corps and the Bureau. Although the Bureau and BPA impute a rent expense on these facilities, the Corps does not. Fiscal Year 1972 was the only year the Corps recognized these costs in the accounts. However, in FY 1973, they again decided to exclude these costs because they considered them to be immaterial. The Corps has estimated these rental costs at \$625,000 for FY 1972 and \$529,000 for FY 1973, of which \$170,000 and \$158,000 respectively, are applicable to expense accounts and \$455,000 and \$371,000 respectively, are applicable to capital accounts. These figures were

estimated by the Corps on an informal basis to evaluate the potential materiality. The Corps is reviewing this matter further to ascertain whether a practical method can be devised to allocate these costs.

Note 9. Adjustments to Accumulated Net Revenues

The following table lists the adjustments which have caused the net decrease in Accumulated Net Revenues of \$1,554,000 shown in Exhibit 3 and Schedule B.

	<u>In Thousands</u>
1. Settlement of tort claim on Hills Creek Project	\$ 899
2. Extraordinary retirements caused by construction of the third power plant at Columbia Basin Project	740
3. Reversal of GSA rental expense imputed during FY 1972 at the Corps Projects (See Note 8.)	(170)
4. Adjustment for a change in the cost allocation at Little Goose Project	58
5. Adjustment at several Corps Projects for fee land payments	<u>27</u>
Total	<u>\$1,554</u>