

United States Government

Department of Energy

memorandum

DATE: February 23, 1996
REPLY TO:
ATTN OF: IG-30
SUBJECT: Western Area Power Administration Fiscal Year 1995
Financial Statement Audit Under the Chief Financial Officers
Act (WR-FC-96-04)

TO: Administrator, Western Area Power Administration

The attached report presents the results of the independent certified public accountant's audit of the Department of Energy's Western Area Power Administration's (Western) combined financial statements as of September 30, 1995. The auditors have expressed an unqualified opinion on Western's 1995 statements. Their reports on Western's internal control structure and on compliance with laws and regulations are also provided.

The 1995 financial statement audit was made under the provisions of the Inspector General Act (5 U.S.C. App.), as amended, the Chief Financial Officers (CFO) Act (31 U.S.C. 1500), and Office of Management and Budget implementing guidance to the CFO Act. The auditor's work was conducted in accordance with generally accepted government auditing standards. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG Peat Marwick (KPMG) to conduct the audit for us, subject to our review.


The auditor's report on Western's internal control structure disclosed no reportable conditions that could have a material effect on the financial statements. The report also disclosed the status of three reportable conditions from prior years' findings. Western provided concurrence and a corrective action plan for these reportable conditions. The auditor also considered the overview and performance measure data for completeness and material consistency with the basic financial statements as noted in the internal control report.

The auditor's report on compliance with laws and regulations disclosed no new instances of noncompliance by Western. The report also disclosed the status of four instances of noncompliance by Western from prior years' findings. In one instance corrective action has been developed with guidance on recovery of postretirement benefits costs is provided by

the Office of Management and Budget. However, the report disclosed one instance of noncompliance by the Department of the Interior, Bureau of Reclamation.

During the course of the audit, KPMG identified certain other matters which, although not material to the financial statements, nevertheless warrant management's attention. Further discussion on steps to improve the conditions noted are included in the attached management letter.

We believe that the financial statements, together with KPMG's opinion and our review of that work, provide Western management and the Department of Energy's Chief Financial Officer with a basis for evaluating Western's financial position and progress. In accordance with DOE Order 2320.2B, "Establishment of Departmental Position on Inspector General Reports," as amended by the October 11, 1994, memorandum on "Implementing Guidelines for Streamlining Pilot," additional management comments are not required because the audit disclosed no new reportable conditions



Gregory H. Friedman
Deputy Inspector General
for Audit Services

Attachments

cc: Audit Liaison, Western Area Power Administration
(w/o attachments)
Director, Audit Liaison Division (CR-33)
(w/o attachments)

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The Global Leader

WESTERN AREA POWER ADMINISTRATION

Combined Power System Financial Statements

September 30, 1995 and 1994

(With Independent Auditors' Report Thereon)

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WESTERN AREA POWER ADMINISTRATION

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OVERVIEW

The Western Area Power Administration (Western) was established December 21, 1977, under Section 302 of the Department of Energy Organization Act. Power marketing responsibilities previously managed by the U.S. Bureau of Reclamation (Reclamation) were transferred to Western.

Western's mission is to market Federal hydroelectric resources " . . . in such a manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles . . . "(Flood Control Act of 1944).

Western has the capability to market and transmit more than 10,000 megawatts (MW) of hydropower from 54 powerplants operated primarily by Reclamation, the U.S. Army Corps of Engineers and the International Boundary and Water Commission. Western also markets the United States' 547 MW entitlement from the coal-fired Navajo Generating Station near Page, Arizona. These generation facilities and Western's transmission facilities are part of 11 ratesetting systems made up of 15 multipurpose water resource projects and a transmission project. Each project maintains separate financial systems and accounting records.

Western and the generation agencies, identified above, though separately managed and financed, operate and maintain portions of the multipurpose projects, allocating their operating expenses among the projects. Costs are allocated based on individual project purposes, which include power, navigation, irrigation, flood control, and recreation. Western's financial statements include only those amounts allocated to power for repayment for each of the four entities.

Western's goals (in response to the Energy Policy Act of 1992) include maintaining a safe, efficient and reliable transmission system; providing reliable, low-cost electricity to power customers; maintaining a safe, accident-free work place; protecting and enhancing the environment; providing for national energy security, economic development and energy diversity; and implementing quality improvements through management initiatives.

In FY 1995, Western sold more than 34 billion kilowatt-hours of energy to 599 wholesale power customers, including municipalities, cooperatives, public utility and irrigation districts, Federal and state agencies and investor-owned utilities. They, in turn, provided retail electric service to millions of consumers in these central and western states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming.

Western operates and maintains an extensive, integrated and complex high-voltage power transmission system to supply power to its customers. This system consists of 16,760 miles (26,967 kilometers) of transmission lines, 257 substations and other complex electrical facilities in a 1.3 million square mile service area.

Western's 1,417 Federal employees, located in 50 duty stations throughout the service area, operate and maintain this system. Staff at the Headquarters Office in Golden, Colorado, and five area offices (Billings, Montana; Loveland, Colorado; Phoenix, Arizona; Sacramento, California; and Salt Lake City, Utah) manage power sales from the 11 ratesetting systems. Customer service and system operations also are supported by district office staff in Bismarck, North Dakota; Fort Peck, Montana; Huron, South Dakota; and Montrose, Colorado; and an Operations Office staff in Watertown, South Dakota.

Appropriations are obtained to finance the expenses of most of the power systems. However, Western's operations and maintenance and power marketing expenses for the Colorado River Storage Project, the Colorado River Basin Project, and the Seedskeedee, Dolores, and Fort Peck Projects are financed from power revenues. The Colorado River Basin Project includes Western's expenses associated with the Central Arizona Project and the United States' entitlement from the Navajo coal-fired powerplant. Funding is provided from the Colorado River Dam Fund to carry out the power marketing and transmission activities of the Boulder Canyon Project. Western also does work for other Federal and non-Federal organizations under authority of the Economy Act and the Contributed Funds Act.

Western generated \$796.5 million in gross operating revenue in FY 1995. Annual expenses for Western and the generating agencies included \$225.2 million for operations and maintenance, \$48.3 million for administrative and general expenses, \$84.8 million for depreciation, and \$188.4 million in power purchases. Interest expense totaled \$144.9 million. Western's power generation and transmission activities provided \$44 million for repayment of unpaid Federal investment in FY 1995.

PERFORMANCE MEASURES

FINANCIAL PERFORMANCE MEASURES

NOTE: As described in note 1(c) of the combined financial statements, Western acts as the power marketing agent for the United States Bureau of Reclamation's (Reclamation) power entitlement in the Navajo generating station, as prescribed by law. Revenues collected by Western are subsequently transferred to Reclamation's Central Arizona Project (RCAP) which is primarily an irrigation project. Such transfers are included in "income transfers, net" in the combined statement of revenues, expenses, and accumulated net revenues. Western's combined financial statements exclude all assets, liabilities, and operating expenses of RCAP. For purposes of the following financial performance measures, Central Arizona Project revenues transferred to Reclamation have also been excluded.

Debt Service Coverage Ratio:

The debt service coverage ratio measures revenues in excess of operating expenses available to make principal and interest payments. A ratio of 1.0 indicates sufficient cash flow to meet these payments, in addition to all other cash expenses. Comparability between Western's FY 1995 and FY 1994 ratios was influenced by an increase in the FY 1994 net interest expense as a result of prior year adjustments, as offset by a change in cost allocation for the Fryingpan-Arkansas Project. Additionally, Western's purchased power expenses decreased \$46.5 million providing additional net operating revenue.

<u>FY</u>	<u>Rate</u>
1995	1.47
1994	1.03

Cumulative Principal Payments as a Percent of Total Federal Investment (Investment Repaid):

This indicator measures the progress toward reduction of cumulative principal over time. It compares the cumulative principal payments made relative to the total Federal investment to date. The FY 1995 rate decreased from the FY 1994 rate as a result of a \$449.1 million increase in Federal investment in FY 1995. This increase included \$281 million in the Boulder Canyon Power System (replacements, the Hoover Dam visitor facilities, and the uprating program) and \$160 million in the Pick-Sloan Missouri Basin Power System (transmission line and substation rehabilitation, replacement, and new construction, as well as the modification of the Buffalo Bill Dam). The increase was offset by an \$86.6 million decrease in the Colorado River Storage Project as a result of revised cost estimates and allocations from Reclamation related to irrigation projects.

<u>FY</u>	<u>Rate</u>
1995	35.82%
1994	37.70

Percent Variance of Actual From Planned Annual Principal Payments:

Western's power generation and transmission activities provided \$44 million for repayment of unpaid Federal investment during FY 1995, \$21 million more than planned. This indicator measures the variance of actual from planned principal payments to the U.S. Department of the Treasury and other third parties. The indicator will be zero if the actual payment is equal to the planned payment. Western's ratio is currently increasing with additional funds available for repayment as a result of decreased purchased power cost. In both FY 1995 and 1994, Western's actual principal payments exceeded the planned amounts.

<u>FY</u>	<u>Rate</u>
1995	91.41%
1994	60.15

NOTE: The latest industry statistics currently available are provided in the report titled, "Selected Financial and Operating Ratios of Public Power Systems, 1993," dated February 1995 as prepared by the American Public Power Association. Statistics are calculated based on data from over 400 of the largest publicly owned electric utilities in the United States.

Operation and Maintenance (O&M) Cost/Kilowatt-hour (kWh) Sold:

O&M costs per kWh sold is a measure of the cost to operate and maintain Western's transmission system, based on firm energy sales, and is measured as a cost per kWh sold. The ratio (i.e., cost per kWh sold) increased in FY 1995 due to a \$20.3 million increase in O&M expenses. However, after omitting the effect of a one-time adjustment in FY 1994 to align the Corps' incorrect O&M expense allocation methodology in the Pick-Sloan Missouri Basin Program, the FY 1995 O&M expenses would show no significant increase. The FY 1993 industry average was \$0.047/kWh.

<u>FY</u>	<u>Rate</u>
1995	\$0.0092
1994	0.0085

Operating Ratio - Total Operation and Maintenance (O&M) Expenses/Total Operating Revenues:

This indicator measures the proportion of revenues received from electricity sales, rate adjustments, and other activities required to cover O&M costs associated with producing and selling electricity. Western's FY 1995 rate decreased from the FY 1994 rate due to a 20 percent (\$46.5 million) decrease in purchased power expenses. Improved water conditions and higher reservoir levels resulted in increased generation and decreased power purchases, most evident in the Central Valley Power System where purchases decreased \$23.7 million in FY 1995. The FY 1993 industry rate was \$0.780.

<u>FY</u>	<u>Rate</u>
1995	\$0.651
1994	0.691

Revenue/Kilowatt-hour (kWh) Sold:

This indicator measures the amount of revenue (cents) received for each kWh of electricity sold to ultimate customers. Western's rate remained constant between FY 1994 and FY 1995 as a reflection of Western's rate stability. The FY 1993 industry rate was \$0.060/kWh.

<u>FY</u>	<u>Rate</u>
1995	\$0.018
1994	0.018

Total Power Supply Expense/Kilowatt-hour (kWh) Sold:

This indicator measures all power supply costs, including generation and purchased power, associated with the sale of each kWh of electricity. Western's FY 1995 cost decreased as a result of a decrease in purchased power expenses, as previously identified. The FY 1993 industry average was \$0.038/kWh.

<u>FY</u>	<u>Rate</u>
1995	\$0.014
1994	0.015

Purchased Power Cost/Kilowatt-hour (kWh) Purchased:

This indicator measures the purchased power component of power supply costs, using power marketing, as opposed to financial statement numbers. The marketing numbers identify the cost of purchased power, excluding interchange and transmission costs. The increase in the FY 1995 rate was influenced by a shift in various geographic locations where purchases were required and the cost of power available in those areas. The FY 1993 industry average was \$0.040/kWh.

<u>FY</u>	<u>Rate</u>
1995	\$0.026
1994	0.024

OPERATIONAL PERFORMANCE MEASURES

Western's goals include commitments to maintaining a safe, accident-free work place, and a safe, efficient, and reliable transmission system. In as much, Western also reports on a number of operational measures for occupational safety and health and transmission system efficiency.

Occupational Safety and Health Performance Measures

NOTE: The following measures, as adopted by the U.S. Department of Energy (DOE) for occupational injuries and illnesses, are recognized throughout the industry (public and private utilities) and by statistical gathering entities to include the National Safety Council, Bureau of Labor Statistics and National Institute for Occupational Safety and Health. Industry statistics are provided on a calendar-year (CY) basis; accordingly, Western's measures have been calculated for the same timeframe.

Lost Workday Case Rate (Lost-Time Injury Frequency Rate):

This indicator measures the number of accidents (cases) per 200,000 hours worked. A comparison of Western's rate to the industry average is provided below.

<u>Western</u>		<u>Industry</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1995	0.8	1995	2.5
1994	1.0	1994	2.5

Total Recordable Case Rate (Recordable Accident Frequency Rate):

This indicator measures the recordable accident frequency rate by multiplying the number of recordable injuries by 200,000 then dividing by the total hours worked. A comparison of Western's rate to the industry average is provided below.

<u>Western</u>		<u>Industry</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1995	2.1	1995	5.8
1994	2.0	1994	5.1

Motor Vehicle Accident (Frequency) Rate:

This indicator measures the accident frequency rate by multiplying the number of recordable accidents by 1,000,000, and then dividing by the recorded miles driven. This rate does not distinguish between "preventable" or "non-preventable" accidents. A comparison of Western's rate (per million miles driven) to the DOE average is provided as follows:

<u>Western</u>		<u>DOE</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1995	1.6	1995	2.4
1994	1.7	1994	2.4

Transmission System Performance Measure

Operations Performance Measure: Area Control Error (ACE):

ACE measures the instantaneous difference between actual and scheduled electrical power interchange including the effects of deviation from 60 hertz frequency. Each control area should be in compliance with A1 and A2 Criteria at least 90 percent of the time. Control criteria compliance is a measure used to determine if utility employees, control equipment, and generation are responsive to the minute-by-minute load changes throughout the year. Good control performance is required to maintain system reliability and to reduce losses, as well as a matter of equity among interconnected systems.

<u>Western</u>		<u>Industry</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1995	99.0	1995	92.8
1994	98.1	1994	88.6

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Independent Auditors' Report

The Administrator
Western Area Power Administration
United States Department of Energy:

We have audited the accompanying combined power system statements of assets, Federal investment, and liabilities of the Western Area Power Administration (Western) as of September 30, 1995 and 1994, and the related combined power system statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These combined power system financial statements are the responsibility of Western's management. Our responsibility is to express an opinion on these combined power system financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined power system financial statements referred to above present fairly, in all material respects, the financial position of Western as of September 30, 1995 and 1994, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 15, 1995 on our consideration of Western's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the combined power system financial statements taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the combined power system financial statements rather than to present the financial position, results of operations, and cash flows of individual projects. The combining information has been subjected to the auditing procedures applied in the audits of the combined power system financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined power system financial statements taken as a whole.

The information presented in management's *Overview and Performance Measurements* is not a required part of the combined power system financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the combined power system financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined power system financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview and Performance Measurements* is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

This report is intended for the information of the management of Western and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1995

WESTERN AREA POWER ADMINISTRATION

Combined Power System Statements of Assets, Federal Investment, and Liabilities

September 30, 1995 and 1994

(In thousands)

	<u>1995</u>	<u>1994</u>
<u>Assets</u>		
Utility plant:		
Completed plant	\$ 4,888,929	4,552,502
Accumulated depreciation	<u>(1,585,133)</u>	<u>(1,511,430)</u>
	3,303,796	3,041,072
Construction work-in-progress	<u>362,501</u>	<u>520,647</u>
Net utility plant	<u>3,666,297</u>	<u>3,561,719</u>
Cash	341,655	448,838
Accounts receivable	143,236	114,861
Other assets	<u>96,678</u>	<u>107,450</u>
Total assets	<u><u>\$ 4,247,866</u></u>	<u><u>4,232,868</u></u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 8,030,506	7,759,921
Interest on Federal investment	2,765,029	2,653,585
Transfer of property and services, net	<u>678,918</u>	<u>643,211</u>
Gross Federal investment	11,474,453	11,056,717
Funds returned to U.S. Treasury	<u>(7,816,918)</u>	<u>(7,401,853)</u>
Net outstanding Federal investment	3,657,535	3,654,864
Accumulated net revenues	<u>288,421</u>	<u>267,081</u>
Total Federal investment	<u><u>3,945,956</u></u>	<u><u>3,921,945</u></u>
Commitments and contingencies (notes 5, 7 and 8)		
<u>Liabilities</u>		
Accounts payable	46,940	68,608
Other liabilities	<u>254,970</u>	<u>242,315</u>
Total liabilities	<u><u>301,910</u></u>	<u><u>310,923</u></u>
Total Federal investment and liabilities	<u><u>\$ 4,247,866</u></u>	<u><u>4,232,868</u></u>

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Combined Power System Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1995 and 1994

(In thousands)

	<u>1995</u>	<u>1994</u>
Operating revenues:		
Sales of electric power	\$ 693,519	645,250
Other operating income	<u>103,002</u>	<u>122,527</u>
Gross operating revenues	796,521	767,777
Income transfers, net	<u>(83,594)</u>	<u>(61,266)</u>
Total operating revenues	<u>712,927</u>	<u>706,511</u>
Operating expenses:		
Operation and maintenance	225,221	204,902
Administrative and general	48,264	47,722
Purchased power	188,402	234,897
Depreciation	<u>84,762</u>	<u>84,580</u>
Total operating expenses	<u>546,649</u>	<u>572,101</u>
Net operating revenues	<u>166,278</u>	<u>134,410</u>
Interest on Federal investment:		
Interest on Federal investment	185,272	220,753
Allowance for funds used during construction	<u>(40,334)</u>	<u>(36,192)</u>
Net interest expense	<u>144,938</u>	<u>184,561</u>
Net revenues (deficit)	21,340	(50,151)
Accumulated net revenues:		
Balance, beginning of year	<u>267,081</u>	<u>317,232</u>
Balance, end of year	<u>\$ 288,421</u>	<u>267,081</u>

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Combined Power System Statements of Cash Flows

Years ended September 30, 1995 and 1994

(In thousands)

	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Net revenues (deficit)	\$ 21,340	(50,151)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:		
Depreciation	84,762	84,580
Interest on Federal investment	133,899	173,801
(Increase) decrease in assets:		
Accounts receivable	(28,375)	(55,995)
Other assets	10,771	(3,290)
Increase (decrease) in liabilities:		
Accounts payable	(21,668)	(45,933)
Other liabilities	<u>14,343</u>	<u>23,503</u>
Net cash provided by operating activities	<u>215,072</u>	<u>126,515</u>
Cash flows from investing activities - investment in utility plant	<u>(149,553)</u>	<u>(210,256)</u>
Cash flows from financing activities:		
Congressional appropriations	243,855	392,481
Funds returned to U.S. Treasury	(415,065)	(370,960)
Customer advances	3,400	6,000
Principal payments to upraters	<u>(4,892)</u>	<u>(4,777)</u>
Net cash provided by (used in) financing activities	<u>(172,702)</u>	<u>22,744</u>
Decrease in cash	(107,183)	(60,997)
Cash at beginning of year	<u>448,838</u>	<u>509,835</u>
Cash at end of year	<u>\$ 341,655</u>	<u>448,838</u>
<u>Supplemental Schedule of Noncash Investing and Financing Activities</u>		
Capitalized interest during construction	\$ 40,334	36,192
Transfer of construction work-in-progress to completed plant	353,146	124,943

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

September 30, 1995 and 1994

(1) Basis of Preparation of Financial Statements and Summary of Significant Accounting Policies

(a) General

Western Area Power Administration (Western) combined power system financial statements include the individual power projects listed in Note 2 to these financial statements. Western is the Federal power marketing administration for these power projects. Except for the Central Arizona Project and the Pacific Northwest-Pacific Southwest Intertie, these power projects are part of multipurpose water resource projects and include certain transmission facilities of Western, an agency of the U.S. Department of Energy (DOE), and certain generating facilities of the U. S. Department of Interior, Bureau of Reclamation (Reclamation); the U.S. Department of Defense, Army Corps of Engineers (the Corps); and the U.S. Department of State, International Boundary and Water Commission (IBWC). The United States has no ownership in power facilities of the Central Arizona Project but does have an entitlement to power from the project generating facility and a transmission capacity entitlement to transmission facilities.

Western, Reclamation, the Corps, and IBWC are separately managed and financed. Each maintain separate accounting records. Reclamation, the Corps, and IBWC operate and maintain generating facilities that are part of multipurpose water resource projects, and accordingly allocate certain operating expenses and net assets among the projects' activities. Costs of the multipurpose projects are allocated to individual purposes (principally power, irrigation, municipal and industrial water, navigation, and flood control) through cost allocation processes. (See note 5b.) The accompanying combined financial statements include only those expenses and net assets which are expected to be recovered through the sale of power and other related income.

Accounts are maintained in accordance with generally accepted accounting principles (GAAP) and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). Accounting policies also reflect specific legislation and executive directives issued by Federal government departments. Western's combined power system financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*. The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

(b) Confirmation and Approval of Rates

The Secretary of Energy (Secretary) has delegated authority to Western's Administrator to develop power and transmission rates for the power projects. The Deputy Secretary of Energy has the authority to confirm, approve, and place such rates in effect on an interim basis.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(b) Confirmation and Approval of Rates (continued)

The Secretary delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis; remand; or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if rates finally approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No significant refunds are anticipated in connection with rates approved on an interim basis through September 30, 1995.

(c) Operating Revenues

Operating revenues are recorded on the basis of power and services provided. Except for power projects using revolving funds, cash received is deposited directly with the U.S. Department of the Treasury (U.S. Treasury) and is reflected as "Funds returned to U.S. Treasury" in the accompanying combined statements of assets, Federal investment, and liabilities. Projects using revolving funds do not receive Congressional appropriations to fund the cost of operations. For such projects, cash is deposited in the U.S. Treasury but remains available to the project based on current and future cash needs and repayment status at year-end.

Power and transmission rates are established under requirements of the power projects' authorizing legislation and related Federal statutes and are intended to provide sufficient revenue to recover all costs allocated to power, and, in some projects, a portion of irrigation-related costs (when such costs are beyond the ability of the irrigation users' ability to repay). Costs allocated to power include repayment to the U.S. Treasury of its investment in power facilities and interest thereon. Rates are structured to provide for repayment of investment in power facilities, generally over 50 years, while operation and maintenance costs and interest on Federal investment are recovered annually. The projects' enacting legislation does not recognize annual depreciation based on actual service lives as a measure of the required repayment for investment in utility plant.

Plant assets of the power systems are currently depreciated using the straight-line method over estimated service lives ranging from 16 years to 89 years. This results in some assets being fully depreciated before costs are recovered whereas annual depreciation costs on other assets continue after such costs have been recovered through revenues. Western matches these costs and revenues by deferring the unmatched portion of the revenues as accumulated net revenues. Because Western is a nonprofit Federal power marketing agency, accumulated net revenues are committed to repayment of the Federal investment.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of recognition of expenses and the related revenues, with the primary cause related to the difference between the recognition of depreciation expense and the related recovery of the U.S. Treasury's investment in utility plant. At any given time, the accumulated net revenue (deficit) balance is deemed to represent net deferred revenue or expense, respectively.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Operating Revenues (continued)

Income transfers, net, represent the amount of funds collected but subsequently transferred relating to the surplus generation marketed from the Navajo Generating Station on behalf of Reclamation's Central Arizona Project and the Central Arizona Water Conservation District.

(d) Cash

For purposes of reporting cash flows, cash consists principally of the unexpended balance of funds authorized by Congress, which is available with the U.S. Treasury for designated power project purposes.

(e) Utility Plant

Utility plant is stated at original cost, net of contributions in aid of construction by entities outside of the combined power system. Costs include direct labor and materials, payments to contractors, indirect charges for engineering, supervision and administrative and general expense, and interest during construction (IDC). The costs of additions, major replacements, and betterments are capitalized, with the exception of the Boulder Canyon and Parker-Davis Projects for which costs are charged to operation and maintenance expense. Repairs are charged to operation and maintenance expense. The cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation at the time the plant retired is removed from service. Plant assets of the power systems are currently depreciated using the straight-line method over estimated service lives ranging from 16 years to 89 years.

(f) Interest on Federal Investment

Interest is accrued annually on the Federal investment as mandated by Federal statute and project legislation. Such interest is reflected as an annual expense in the accompanying combined statements of revenues, expenses, and accumulated net revenues with a corresponding increase in the gross Federal investment. Western calculates interest on Federal investment based on the annual unpaid balance using rates set by law, administrative orders pursuant to law, or administrative policies. Western follows the provisions of DOE Order RA 6120.2 which sets forth the priority of repayment. DOE Order RA 6120.2 requires annual net revenues available for repayment to be applied first to annual operating expenses and then to investment in facilities bearing the highest interest rate. Interest rates range from 2.5 percent to 12.4 percent depending on the year in which construction on the transmission and generation facilities was initiated.

As allowed under Federal law, interest is not accrued on Federal investment in irrigation facilities anticipated to be repaid through power sales. (See note 7b).

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(g) Interest During Construction (IDC)

The practice of capitalizing IDC is followed for all generating and transmission facilities with the exception of certain portions of Central Valley Power System's generating facilities, which are currently exempt from IDC. Western generally calculates IDC based on the average annual outstanding balance of construction work-in-progress. Western's policy is to capitalize IDC through the end of the fiscal year in which assets are placed in service. IDC is realized over the repayment period of the related plant asset through increased revenues resulting from higher recoverable investment. Applicable interest rates ranged from 7.1 percent to 12.4 percent for the years ended September 30, 1995 and 1994.

(h) Retirement Benefits

Western, Reclamation, the Corps, and IBWC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), both of which are contributory pension plans. Retirement benefit expenses under CSRS are equivalent to 7 percent of eligible employee compensation. Under FERS, expenses are variable based on the options chosen by the participant, but do not exceed 18.4 percent of eligible employee compensation. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM).

The contribution levels as legislatively mandated do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations as provided to OPM, not the individual agencies. The costs of health and life insurance benefit programs are similarly administered and paid through OPM.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, directs the full cost reporting of employment benefits by employing entity. Under this concept, Western (and the agencies identified above comprising the reporting entity) will be required to accrue the costs to the Federal government of providing pension, life, health, and other post-employment benefits (severance payments, counseling and training, workers compensation benefits, etc.), "regardless of whether the benefits are funded by the reporting entity or by direct appropriations to the trust funds". SFFAS No. 4 will be effective after September 30, 1996.

(i) Income Taxes

The facilities and income included in these combined financial statements are exempt from taxation.

(j) Reclassification

Certain amounts in the prior year's combined financial statements have been reclassified to conform with the fiscal year 1995 presentation.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(2) Power Projects and Authorizing Legislation

Western's combined power system financial statements include the financial position, results of operations, and cash flows of 15 separate power projects. The following is a list of the Federal power projects and related authorizing legislation. The transmission and generating facilities are operated as individual integrated power projects with the financial results combined in these financial statements.

Boulder Canyon Power System

Boulder Canyon Project Act of 1928, as amended

Central Arizona Project

Colorado River Basin Project Act of 1968, as amended

Central Valley Power System

Act of August 26, 1937, as amended

Collbran Power System

Act of July 3, 1952

Colorado River Storage Power System

Colorado River Storage Project Act of 1956, as amended

Dolores Power System

Colorado River Basin Project Act of 1968, as amended

Falcon-Amistad Power System (International Boundary and Water Commission)

Act of June 18, 1954, and July 7, 1960

Fryingpan-Arkansas Power System

Act of August 16, 1962, as amended

Pacific Northwest-Pacific Southwest Intertie Project

Act of August 31, 1964

Parker-Davis Power System

Act of May 28, 1954

Pick-Sloan Missouri Basin Power System

Flood Control Act of 1944, as amended

Provo River Power System

Finding of Feasibility by the Secretary of the Interior, November 13, 1935

Rio Grande Power System

Act of February 25, 1905

Seedskadee Power System

Act of April 11, 1956 (70 Stat. 105)

Washoe Power System

Act of August 1, 1956

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(3) Other Assets

Other assets as of September 30, 1995 and 1994, consist of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Movable equipment, net	\$ 51,473	53,201
Stores inventory	22,819	23,564
Miscellaneous deferred debits	13,372	15,918
Prepayments and advances to others	6,145	10,350
Deposit funds available	<u>2,869</u>	<u>4,417</u>
Total	<u>\$ 96,678</u>	<u>107,450</u>

(4) Utility Plant

Major classes of utility plant and related accumulated depreciation as of September 30, 1995 and 1994, consist of the following (in thousands):

	<u>1995</u>			<u>1994</u>		
	<u>Western</u>	<u>Generating agencies</u>	<u>Total</u>	<u>Western</u>	<u>Generating agencies</u>	<u>Total</u>
Completed plant:						
Generating plant \$	-	2,805,795	2,805,795	-	2,634,955	2,634,955
Transmission plant	<u>2,083,134 *</u>	<u>-</u>	<u>2,083,134</u>	<u>1,917,547 *</u>	<u>-</u>	<u>1,917,547</u>
	2,083,134	2,805,795	4,888,929	1,917,547	2,634,955	4,552,502
Accumulated depreciation	<u>(651,659)</u>	<u>(933,474)</u>	<u>(1,585,133)</u>	<u>(614,124)</u>	<u>(897,306)</u>	<u>(1,511,430)</u>
	<u>1,431,475</u>	<u>1,872,321</u>	<u>3,303,796</u>	<u>1,303,423</u>	<u>1,737,649</u>	<u>3,041,072</u>
Construction work-in-progress:						
Generating plant	-	91,805	91,805	-	223,844	223,844
Transmission plant	<u>270,696</u>	<u>-</u>	<u>270,696</u>	<u>296,803</u>	<u>-</u>	<u>296,803</u>
	<u>270,696</u>	<u>91,805</u>	<u>362,501</u>	<u>296,803</u>	<u>223,844</u>	<u>520,647</u>
Net utility plant	<u>\$ 1,702,171</u>	<u>1,964,126</u>	<u>3,666,297</u>	<u>1,600,226</u>	<u>1,961,493</u>	<u>3,561,719</u>

* Includes approximately \$24 million of intangible assets representing power rights.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(5) Federal Investment and Cost Allocation

(a) General

Federal investment consists of Congressional appropriations, transfers of property or costs from other Federal agencies, and accumulated interest on the net unpaid Federal investment. Construction and operation of the power projects are principally financed through Congressional appropriations.

The Federal investment in the combined power system's utility plant is to be repaid to the U.S. Treasury within 50 years from the time the facilities are placed in service or are commercially operational. Replacements to Federal investments are generally to be repaid over their expected service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis. However, operating expenses (excluding depreciation expense) and interest on the unpaid Federal investment should be paid annually. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from subsequent years' revenue prior to any repayment of Federal investment. Interest is accrued on cumulative annual net deficits until paid. As of September 30, 1995 and 1994, the cumulative unpaid annual operating expenses (excluding depreciation expense) and interest on Federal investment were approximately \$195 million and \$250 million, respectively.

(b) Federal Investment in Multipurpose Facilities

The Federal investment in certain multipurpose facilities (primarily dams and appurtenant structures integral to the generation of power), required to be repaid from the sale of power, has been determined from preliminary cost allocation studies based on standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, an allocation standard cannot be changed unless the change is also approved by Congress.

Final studies will be performed by Reclamation and the Corps, as appropriate, upon completion of each of the individual power projects and are still pending for all but the Fryingpan-Arkansas (FryArk), Boulder Canyon, and Parker-Davis projects. The FryArk final study was completed by Reclamation in fiscal year 1993. Boulder Canyon and Parker-Davis are not subject to cost allocation studies since these projects' enacting legislation required the cost of the dams and appurtenant structures to be repaid through power sales.

As final cost allocation studies are still pending for many of the individual projects comprising the combined power system, potential exists for significant future adjustment in the Federal investment for the cost of multipurpose facilities allocated to power, and the related accrued interest on unpaid investment. Changes in the allocation of operating and maintenance expenses are accounted for prospectively, unless specific legislation requires retroactive application.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Shasta Cold Water Releases

For the years ended September 30, 1995 and 1994, bypass releases at the Shasta Dam resulted in Western increasing its purchased power and wheeling costs by \$8.3 million and \$5.4 million, respectively. As part of the Energy and Water Development Appropriations Act, Congress included a provision stating that any increase in purchased power cost incurred by Western after January 1, 1986, resulting from bypass releases for temperature control purposes related to preservation of anadromous fisheries in the Sacramento River shall not be allocated to power. Accordingly, such costs have been charged against Congressional appropriations in the accompanying combined statements of assets, Federal investment and liabilities; thus increasing the net revenue applied to the Federal investment subject to repayment.

(d) Pick-Sloan Missouri Basin Power System

In 1994, Western concluded that the Corps utilized an unauthorized standard for allocating operations and maintenance (O&M) expense for the Pick-Sloan Missouri Basin Power System dating back to 1988, resulting in a cumulative over allocation of O&M expense totaling \$11.6 million. Accordingly, for the fiscal year ended September 30, 1994, Western recorded a decrease in O&M expense in the accompanying combined statement of revenues, expenses, and accumulated net revenues for the cumulative effect of a change in the method used by the Corps.

(6) Other Liabilities

Other liabilities as of September 30, 1995 and 1994, consist of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Customer advances	\$ 174,759	151,621
Deferred credits	60,592	76,737
Cooperative and reimbursable work-trust fund liability	16,750	9,902
Deposit funds	<u>2,869</u>	<u>4,055</u>
Total	<u>\$ 254,970</u>	<u>242,315</u>

Customer advances primarily consist of two components. The first component consists of the principal and interest payable to contractors/customers of the Boulder Canyon Power System who provided financing for the cost of upgrading each of the generating units at Hoover Dam. The liability to such customers is being relieved through the issuance of credits on the subsequent sale of power. The obligation is scheduled to be relieved over a period through and including the year 2017, with interest at rates ranging between 5.5 percent and 8.2 percent. The second component consists of principal payable to the State of Wyoming, which provided partial financing for the cost of improvements at the Buffalo Bill Dam and associated power plants. The liability to the State of Wyoming is scheduled to be relieved over a period of 35 years beginning in 1996, with an interest rate of 11.07 percent.

Deferred credits consist primarily of interchange energy and accrued annual leave.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(7) Commitments and Contingencies

(a) General

Western, Reclamation, the Corps, and IBWC are involved in various claims, suits, and complaints which are routine to the nature of their business. In the opinion of management and their legal counsel, the actions are either without merit or involve amounts which are not material to these combined power system financial statements.

The accompanying September 30, 1995, combined power system statement of assets, Federal investment, and liabilities includes investment in completed plant for the Hoover Dam visitor facilities. Presently, the total cost to complete the facilities, including IDC, is approximately \$123 million and contingent upon the settlement of the following claim.

The construction contractor for the Hoover Dam visitors center and parking structure submitted a \$31 million breach of contract claim to Reclamation on July 28, 1995. The Contracting Officer issued a final decision on the claim on September 21, 1995, stating that the claim, as submitted, was denied. Subsequently, the contractor filed a breach of contract lawsuit against Reclamation with the Court of Federal Claims on October 4, 1995.

Reclamation believes the claim is excessive and unsupported, although Reclamation acknowledges that the construction contractor may be due some consideration as a result of some necessary contract modifications. Reclamation plans to complete a technical evaluation of the project in early 1996. This evaluation is expected to provide the basis for a determination of an appropriate amount, if any, to be paid to the construction contractor for the contract modifications.

(b) Irrigation Assistance

Federal statute requires the use of the combined power system's net revenues to repay the U.S. Treasury a certain portion of Reclamation project capital costs allocated to irrigation purposes determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to repay. Although these costs may be paid through sales of power, such costs do not represent an operating cost of the combined power system. Accordingly, neither the costs, nor the related revenues, will be reflected in the financial statements of the combined power system at the time such revenues are collected and returned to the U.S. Treasury. No such payments were made during the 2-year period ended September 30, 1995.

(c) Financing of Boulder Canyon Project Improvements

In 1987, Reclamation initiated a project designed to increase (uprate) the generating capacity of the Boulder Canyon Project (the Project). Certain customers of the Project agreed to provide funding for the cost of the improvements, primarily through the issuance of long-term bonds. In some cases, proceeds from the issuance of the bonds exceed the amounts required to fund the cost of the improvements.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Financing of Boulder Canyon Project Improvements (continued)

For purposes of measuring the liability related to the Upgrading Program (the Program), Reclamation reports only the total amount of the advances received from customers in the accompanying combined statements of assets, Federal investment, and liabilities (note 6). Bond issuance costs are being included in the determination of annual interest expense to be recognized over the term of the debt repayment. The net proceeds from the issuance of the debt, in excess of the amount advanced to Reclamation, have similarly been excluded from the assets of the Project.

Presently, interest expense on the liability is measured based on the total outstanding bonded indebtedness. Interest income from excess proceeds will reduce future interest costs subject to arbitrage regulations. Until all improvements are complete, and any remaining excess funds are applied against outstanding debt, the total interest cost of financing the Program will be subject to uncertainty.

(d) Colorado River Storage Project

In October 1992, Congress passed the Grand Canyon Protection Act of 1992 (the Act). The purpose of the Act was to "protect . . . and improve the values for which the Grand Canyon National Park and Glen Canyon National Recreation Area were established."

The Act no longer requires certain costs of environmental impact studies related to Glen Canyon Dam to be paid by power customers of the Colorado River Storage Project. However, in connection with this legislation, Congress included a provision that such costs could become the responsibility of the power customers if the overall provisions of the Act cause net offsetting receipts to increase. Sufficient data does not exist to determine whether the overall provisions of the Act will result in a future obligation by the power customers. Any future obligations related to the allocation of these costs will be reflected in the period in which such obligations become evident.

The Secretary of Interior determines the effect of all the provisions of the Act and submits a report to the appropriate House and Senate committees by January 31 of each fiscal year. This report includes an accounting of expenditures incurred and offsetting receipts generated by the Act for the prior fiscal year. At such time, any increase or reduction in net offsetting receipts will determine whether such costs are reimbursable or nonreimbursable.

For the years ended September 30, 1995 and 1994, Western and Reclamation incurred \$13.9 million and \$12.5 million, respectively, of environmental costs which were deemed nonreimbursable.

(e) Pacific Gas & Electric Company Settlement

On April 7, 1993, Western filed with FERC a settlement agreement (the Agreement) between itself and Pacific Gas & Electric Company (PG&E) in connection with the resolution of a continuing lawsuit relating to the pricing of energy exchanged between the entities from 1982 through 1992. Under the terms of the Agreement, Western paid PG&E \$124.1 million and PG&E refunded Western \$46.8 million, including \$17.1 million in interest payments.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(e) Pacific Gas & Electric Company Settlement (continued)

Through the end of fiscal year 1992, Western accrued liabilities, net of amounts due from PG&E totaling \$219.5 million. Based on the final terms of the Agreement, Western overestimated its liability by approximately \$142 million. Of this amount, \$70.1 million has been applied toward repayment of the Federal investment. This was accomplished as a non-operating credit in fiscal year 1993 in the combined statement of revenues, expenses, and accumulated net revenues. Western's plan to apply \$65 million against the Federal investment was disclosed in the rate order filed with FERC in April 1993, and approved on September 22, 1993.

The remaining \$71.9 million was returned to Western's customers in the form of credits applied against monthly power bills. Revenue credits began in the service month of July 1993. Credits in fiscal year 1993 totaled \$41.7 million. The balance was applied in fiscal year 1994.

(f) Power Contract Commitments

Western has entered into numerous long-term agreements for power purchases to meet its power sales contract obligations. For the years ended September 30, 1995 and 1994, purchased power expenses totaled \$188 million and \$235 million, respectively.

(8) Other

(a) Washoe Project

The Washoe Project Power Repayment Study dated January 18, 1995, indicates the project requires a rate of at least 110.1 mills per kWh to cover annual operating expenses (excluding depreciation expense) plus interest to repay the Federal investment in project facilities allocated to power. At this time, Western is selling the output of the Stampede power plant at 19.2 mills per kWh.

Cumulative unpaid annual operating expenses plus interest and the net unpaid Federal investment in Washoe Project facilities total approximately \$3.9 million and \$8.9 million as of September 30, 1995, respectively. Based on current conditions, it is unlikely the project will be able to generate sufficient revenues to repay the Federal investment. Power rates currently in place at the Washoe Power System have been approved by FERC.

(b) PG&E Energy Settlement for Energy Account No. 2 Rates

On February 2, 1992, Western and Pacific Gas and Electric (PG&E) entered into a settlement agreement on the methodology to be used to calculate PG&E's thermal rates for PG&E capacity and energy purchases under Contract No. 14-06-200-2948A (Thermal Rate Settlement). The Thermal Rate Settlement provides for the reconciliation of costs for energy withdrawals and deposits from Energy Account No. 2 (EA2). The settlement period for the reconciliation of costs of energy deposits and withdrawals covers 1985 through 1992.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(b) PG&E Energy Settlement for Energy Account No. 2 Rates (continued)

On April 18, 1994, PG&E filed a Rate Schedule with FERC acknowledging the reconciliation of the energy account costs. The reconciliation of the rates for the 1985 through 1992 period, including interest, resulted in PG&E owing Western \$39.8 million. It was agreed that PG&E would apply the refund as a credit against Western's energy bills starting with the month of October 1993.

For the years ended September 30, 1995 and 1994, refunds totaled \$8.2 million and \$14.4 million, respectively. The remaining credit will be returned to the rate payers as the credit is applied against PG&E billings.

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statements of Assets, Federal Investment, and Liabilities

September 30, 1995 and 1994

(In thousands)

	1995			1994		
	Western	Generating agencies ¹	Total	Western	Generating agencies ¹	Total
<u>Assets</u>						
Utility plant:						
Completed plant	\$ 2,083,134	2,805,795	4,888,929	1,917,547	2,634,955	4,552,502
Accumulated depreciation	(651,659)	(933,474)	(1,585,133)	(614,124)	(897,306)	(1,511,430)
	1,431,475	1,872,321	3,303,796	1,303,423	1,737,649	3,041,072
Construction work-in-progress	270,696	91,805	362,501	296,803	223,844	520,647
Net utility plant	1,702,171	1,964,126	3,666,297	1,600,226	1,961,493	3,561,719
Cash	276,784	64,871	341,655	388,490	60,348	448,838
Accounts receivable	143,105	131	143,236	114,624	237	114,861
Other assets	82,796	13,882	96,678	90,147	17,303	107,450
Total assets	\$ 2,204,856	2,043,010	4,247,866	2,193,487	2,039,381	4,232,868
<u>Federal Investment and Liabilities</u>						
Federal investment:						
Congressional appropriations	\$ 3,771,784	4,258,722	8,030,506	3,608,155	4,151,766	7,759,921
Interest on Federal investment	1,087,499	1,677,530	2,765,029	947,152	1,706,433	2,653,585
Transfer of property and services, net	2,354,087	(1,675,169)	678,918	2,311,170	(1,667,959)	643,211
Gross Federal investment	7,213,370	4,261,083	11,474,453	6,866,477	4,190,240	11,056,717
Funds returned to U.S. Treasury	(4,917,824)	(2,899,094)	(7,816,918)	(4,507,954)	(2,893,899)	(7,401,853)
Net outstanding Federal investment	2,295,546	1,361,989	3,657,535	2,358,523	1,296,341	3,654,864
Accumulated net revenues (deficit)	(196,617)	485,038	288,421	(306,715)	573,796	267,081
Total Federal investment	2,098,929	1,847,027	3,945,956	2,051,808	1,870,137	3,921,945
Commitments and contingencies						
<u>Liabilities</u>						
Accounts payable	40,057	6,883	46,940	55,032	13,576	68,608
Other liabilities	65,870	189,100	254,970	86,647	155,668	242,315
Total liabilities	105,927	195,983	301,910	141,679	169,244	310,923
Total Federal investment and liabilities	\$ 2,204,856	2,043,010	4,247,866	2,193,487	2,039,381	4,232,868

¹ Generating agencies are the Bureau of Reclamation, Army Corps of Engineers, and International Boundary Water Commission.

See independent auditors' report.

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statements of Revenues, Expenses, and Accumulated Net Revenues (Deficit)

Years ended September 30, 1995 and 1994

(In thousands)

	1995			1994		
	Western	Generating agencies ¹	Total	Western	Generating agencies ¹	Total
Operating revenues:						
Sales of electric power	\$ 693,519	-	693,519	645,250	-	645,250
Other operating income	96,524	6,478	103,002	118,116	4,411	122,527
Gross operating revenues	790,043	6,478	796,521	763,366	4,411	767,777
Income transfers, net	(173,996)	90,402	(83,594)	(259,573)	198,307	(61,266)
Total operating revenues	616,047	96,880	712,927	503,793	202,718	706,511
Operating expenses:						
Operation and maintenance	121,478	103,743	225,221	109,030	95,872	204,902
Administrative and general	41,815	6,449	48,264	41,936	5,786	47,722
Purchased power	188,402	-	188,402	234,897	-	234,897
Depreciation	46,504	38,258	84,762	47,523	37,057	84,580
Total operating expenses	398,199	148,450	546,649	433,386	138,715	572,101
Net operating revenues (deficit)	217,848	(51,570)	166,278	70,407	64,003	134,410
Interest on Federal investment:						
Interest on Federal investment	133,124	52,148	185,272	144,057	76,696	220,753
Allowance for funds used during construction	(25,374)	(14,960)	(40,334)	(20,464)	(15,728)	(36,192)
Net interest expense	107,750	37,188	144,938	123,593	60,968	184,561
Net revenues (deficit)	110,098	(88,758)	21,340	(53,186)	3,035	(50,151)
Accumulated net revenues (deficit):						
Balance beginning of year	(306,715)	573,796	267,081	(253,529)	570,761	317,232
Balance, end of year	\$ (196,617)	485,038	288,421	(306,715)	573,796	267,081

¹ Generating agencies are the Bureau of Reclamation, Army Corps of Engineers, and International Boundary Water Commission.

See independent auditors' report.

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statement of Assets, Federal Investment, and Liabilities, By Project

September 30, 1995

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
<u>Assets</u>							
Utility plant:							
Completed plant	\$ 470,631	-	513,571	14,306	999,563	17,422	44,437
Accumulated depreciation	(133,496)	-	(221,821)	(4,049)	(274,349)	(694)	(11,444)
	337,135	-	291,750	10,257	725,214	16,728	32,993
Construction work-in-progress	22	2	46,899	147	43,917	10,938	-
Net utility plant	337,157	2	338,649	10,404	769,131	27,666	32,993
Cash	35,025	6,000	64,317	252	67,142	1,856	17
Accounts receivable	6,841	7,674	69,581	-	16,135	-	278
Other assets	2,461	113	10,146	554	15,575	31	-
Total assets	\$ 381,484	13,789	482,693	11,210	867,983	29,553	33,288
<u>Federal Investment and Liabilities</u>							
Federal investment:							
Congressional appropriations	\$ 618,196	76	1,942,923	20,246	665,536	22,680	57,799
Interest on Federal investment	203,934	-	339,173	10,605	611,767	6,828	34,830
Transfer of property and services, net	(30,787)	36	298,780	7,149	24,364	546	365
Gross Federal investment	791,343	112	2,580,876	38,000	1,301,667	30,054	92,994
Funds returned to U.S. Treasury	(594,247)	-	(2,276,837)	(28,146)	(661,285)	-	(59,270)
Net outstanding Federal investment	197,096	112	304,039	9,854	640,382	30,054	33,724
Accumulated net revenues (deficit)	26,756	13,572	132,064	1,262	211,677	(502)	(436)
Total Federal investment	223,852	13,684	436,103	11,116	852,059	29,552	33,288
Commitments and contingencies							
<u>Liabilities</u>							
Accounts payable	1,379	74	22,006	53	6,255	1	-
Other liabilities	156,253	31	24,584	41	9,669	-	-
Total liabilities	157,632	105	46,590	94	15,924	1	-
Total Federal investment and liabilities	\$ 381,484	13,789	482,693	11,210	867,983	29,553	33,288

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
149,440 (23,040)	60,958 (34,087)	279,316 (119,902)	2,307,252 (755,421)	1,515 (628)	12,422 (2,725)	7,269 (2,075)	8,822 (1,026)	2,005 (376)	4,888,929 (1,585,133)
126,400	26,871	159,414	1,551,831	887	9,697	5,194	7,796	1,629	3,303,796
55	118,217	28,927	111,705	-	927	115	-	630	362,501
126,455	145,088	188,341	1,663,536	887	10,624	5,309	7,796	2,259	3,666,297
762	14,568	20,653	49,869	78	542	1,663	175	78,736	341,655
1,249	586	6,060	33,386	33	-	-	140	1,273	143,236
36	4,474	9,333	38,464	82	13	-	20	15,376	96,678
<u>128,502</u>	<u>164,716</u>	<u>224,387</u>	<u>1,785,255</u>	<u>1,080</u>	<u>11,179</u>	<u>6,972</u>	<u>8,131</u>	<u>97,644</u>	<u>4,247,866</u>
149,008 99,406	220,215 77,232	678,894 131,957	3,488,416 1,225,710	3,481 32	44,102 15,690	2,280 3,849	9,502 3,658	107,152 358	8,030,506 2,765,029
12,714	(4,984)	(3,385)	375,441	256	8,100	3,127	37	(12,841)	678,918
261,128 (108,707)	292,463 (77,707)	807,466 (653,775)	5,089,567 (3,278,681)	3,769 (3,508)	67,892 (69,356)	9,256 (1,638)	13,197 (697)	94,669 (3,064)	11,474,453 (7,816,918)
152,421 (24,717)	214,756 (52,409)	153,691 60,268	1,810,886 (82,685)	261 452	(1,464) 12,487	7,618 (701)	12,500 (4,456)	91,605 (4,211)	3,657,535 288,421
127,704	162,347	213,959	1,728,201	713	11,023	6,917	8,044	87,394	3,945,956
572 226 798	997 1,372 2,369	1,717 8,711 10,428	6,328 50,726 57,054	30 337 367	18 138 156	8 47 55	17 70 87	7,485 2,765 10,250	46,940 254,970 301,910
<u>128,502</u>	<u>164,716</u>	<u>224,387</u>	<u>1,785,255</u>	<u>1,080</u>	<u>11,179</u>	<u>6,972</u>	<u>8,131</u>	<u>97,644</u>	<u>4,247,866</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statement of Assets, Federal Investment, and Liabilities, By Project

September 30, 1994

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
<u>Assets</u>							
Utility plant:							
Completed plant	\$ 348,621	-	495,267	13,660	954,771	24,606	44,437
Accumulated depreciation	(124,874)	-	(213,876)	(3,949)	(257,279)	(10)	(10,703)
	223,747	-	281,391	9,711	697,492	24,596	33,734
Construction work-in-progress	104,694	-	51,449	332	76,158	15,923	-
Net utility plant	328,441	-	332,840	10,043	773,650	40,519	33,734
Cash	30,044	3,055	139,761	344	72,827	5	19
Accounts receivable	6,408	8,011	54,019	86	10,310	-	-
Other assets	2,387	218	8,734	735	17,427	6	-
Total assets	\$ 367,280	11,284	535,354	11,208	874,214	40,530	33,753
<u>Federal Investment and Liabilities</u>							
Federal investment:							
Congressional appropriations	\$ 608,609	76	1,911,786	20,880	682,917	34,840	57,043
Interest on Federal investment	191,591	-	345,398	10,222	559,309	5,464	32,510
Transfer of property and services, net	(29,188)	36	300,997	5,337	24,963	233	365
Gross Federal investment	771,012	112	2,558,181	36,439	1,267,189	40,537	89,918
Funds returned to U.S. Treasury	(589,101)	-	(2,198,457)	(26,252)	(621,285)	-	(56,275)
Net outstanding Federal investment	181,911	112	359,724	10,187	645,904	40,537	33,643
Accumulated net revenues (deficit)	25,066	9,354	107,020	884	215,552	(7)	109
Total Federal investment	206,977	9,466	466,744	11,071	861,456	40,530	33,752
Commitments and contingencies							
<u>Liabilities</u>							
Accounts payable	3,441	65	27,005	88	8,772	-	1
Other liabilities	156,862	1,753	41,605	49	3,986	-	-
Total liabilities	160,303	1,818	68,610	137	12,758	-	1
Total Federal investment and liabilities	\$ 367,280	11,284	535,354	11,208	874,214	40,530	33,753

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
<u>148,845</u> <u>(20,322)</u>	<u>61,878</u> <u>(32,330)</u>	<u>284,065</u> <u>(114,949)</u>	<u>2,144,486</u> <u>(726,822)</u>	<u>1,137</u> <u>(646)</u>	<u>12,628</u> <u>(2,526)</u>	<u>7,269</u> <u>(1,927)</u>	<u>8,823</u> <u>(884)</u>	<u>2,009</u> <u>(333)</u>	<u>4,552,502</u> <u>(1,511,430)</u>
<u>128,523</u>	<u>29,548</u>	<u>169,116</u>	<u>1,417,664</u>	<u>491</u>	<u>10,102</u>	<u>5,342</u>	<u>7,939</u>	<u>1,676</u>	<u>3,041,072</u>
<u>9</u>	<u>64,752</u>	<u>22,219</u>	<u>183,607</u>	<u>419</u>	<u>398</u>	<u>115</u>	<u>-</u>	<u>572</u>	<u>520,647</u>
<u>128,532</u>	<u>94,300</u>	<u>191,335</u>	<u>1,601,271</u>	<u>910</u>	<u>10,500</u>	<u>5,457</u>	<u>7,939</u>	<u>2,248</u>	<u>3,561,719</u>
<u>2,634</u>	<u>51,228</u>	<u>18,993</u>	<u>63,025</u>	<u>76</u>	<u>455</u>	<u>2,052</u>	<u>232</u>	<u>64,088</u>	<u>448,838</u>
<u>1,985</u>	<u>252</u>	<u>3,063</u>	<u>29,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42</u>	<u>1,610</u>	<u>114,861</u>
<u>22</u>	<u>8,958</u>	<u>12,411</u>	<u>41,744</u>	<u>82</u>	<u>12</u>	<u>4</u>	<u>22</u>	<u>14,688</u>	<u>107,450</u>
<u>133,173</u>	<u>154,738</u>	<u>225,802</u>	<u>1,735,115</u>	<u>1,068</u>	<u>10,967</u>	<u>7,513</u>	<u>8,235</u>	<u>82,634</u>	<u>4,232,868</u>
<u>145,252</u> <u>94,883</u>	<u>211,080</u> <u>69,137</u>	<u>652,369</u> <u>124,597</u>	<u>3,284,736</u> <u>1,197,981</u>	<u>3,376</u> <u>16</u>	<u>45,036</u> <u>15,782</u>	<u>4,227</u> <u>3,251</u>	<u>9,704</u> <u>3,145</u>	<u>87,990</u> <u>299</u>	<u>7,759,921</u> <u>2,653,585</u>
<u>11,010</u>	<u>(4,870)</u>	<u>(611)</u>	<u>336,643</u>	<u>192</u>	<u>5,187</u>	<u>2,497</u>	<u>37</u>	<u>(9,617)</u>	<u>643,211</u>
<u>251,145</u> <u>(93,478)</u>	<u>275,347</u> <u>(72,507)</u>	<u>776,355</u> <u>(625,760)</u>	<u>4,819,360</u> <u>(3,043,676)</u>	<u>3,584</u> <u>(3,376)</u>	<u>66,005</u> <u>(66,429)</u>	<u>9,975</u> <u>(1,638)</u>	<u>12,886</u> <u>(697)</u>	<u>78,672</u> <u>(2,922)</u>	<u>11,056,717</u> <u>(7,401,853)</u>
<u>157,667</u> <u>(25,369)</u>	<u>202,840</u> <u>(51,319)</u>	<u>150,595</u> <u>64,567</u>	<u>1,775,684</u> <u>(79,737)</u>	<u>208</u> <u>490</u>	<u>(424)</u> <u>11,165</u>	<u>8,337</u> <u>(876)</u>	<u>12,189</u> <u>(4,083)</u>	<u>75,750</u> <u>(5,735)</u>	<u>3,654,864</u> <u>267,081</u>
<u>132,298</u>	<u>151,521</u>	<u>215,162</u>	<u>1,695,947</u>	<u>698</u>	<u>10,741</u>	<u>7,461</u>	<u>8,106</u>	<u>70,015</u>	<u>3,921,945</u>
<u>361</u> <u>514</u> <u>875</u>	<u>2,217</u> <u>1,000</u> <u>3,217</u>	<u>2,611</u> <u>8,029</u> <u>10,640</u>	<u>14,674</u> <u>24,494</u> <u>39,168</u>	<u>60</u> <u>310</u> <u>370</u>	<u>142</u> <u>84</u> <u>226</u>	<u>6</u> <u>46</u> <u>52</u>	<u>2</u> <u>127</u> <u>129</u>	<u>9,163</u> <u>3,456</u> <u>12,619</u>	<u>68,608</u> <u>242,315</u> <u>310,923</u>
<u>133,173</u>	<u>154,738</u>	<u>225,802</u>	<u>1,735,115</u>	<u>1,068</u>	<u>10,967</u>	<u>7,513</u>	<u>8,235</u>	<u>82,634</u>	<u>4,232,868</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit), By Project

Year ended September 30, 1995

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Operating revenues:							
Sales of electric power	\$ 50,447	87,602	209,120	1,894	112,901	1,841	3,331
Other operating income	2,583	1,233	12,820	24	9,146	-	-
Gross operating revenues	53,030	88,835	221,940	1,918	122,047	1,841	3,331
Income transfers, net	(161)	(83,432)	18	-	(14)	36	-
Total operating revenues	52,869	5,403	221,958	1,918	122,033	1,877	3,331
Operating expenses:							
Operation and maintenance	23,916	673	32,568	951	43,012	331	812
Administrative and general	4,684	512	9,237	24	8,257	17	3
Purchased power and transmission	46	-	138,438	-	14,185	-	-
Depreciation	8,621	-	8,175	183	17,269	684	741
Total operating expenses	37,267	1,185	188,418	1,158	82,723	1,032	1,556
Net operating revenues (deficit)	15,602	4,218	33,540	760	39,310	845	1,775
Interest on Federal investment:							
Interest on Federal investment	23,149	-	12,883	382	51,428	1,364	2,320
Allowance for funds used during construction	(9,237)	-	(4,387)	-	(8,243)	(24)	-
Net interest expense	13,912	-	8,496	382	43,185	1,340	2,320
Net revenues (deficit)	1,690	4,218	25,044	378	(3,875)	(495)	(545)
Accumulated net revenues (deficit):							
Balance, beginning of year	25,066	9,354	107,020	884	215,552	(7)	109
Balance, end of year	\$ 26,756	13,572	132,064	1,262	211,677	(502)	(436)

See independent auditors' report.

Fryingpan- Arkansas Power System	Pacific Northwest- Pacific Southwest Intertie Project	Parker- Davis Power System	Pick- Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seeds- kadee Power System	Washoe Power System	Other	Combined total
13,046	-	14,271	194,448	198	2,927	1,340	153	-	693,519
(40)	5,532	17,210	52,426	15	3	85	-	1,965	103,002
13,006	5,532	31,481	246,874	213	2,930	1,425	153	1,965	796,521
-	-	31	84	-	-	-	-	(156)	(83,594)
13,006	5,532	31,512	246,958	213	2,930	1,425	153	1,809	712,927
2,761	1,261	14,397	102,271	151	1,319	489	155	154	225,221
289	628	6,062	18,373	51	24	15	6	82	48,264
2,636	-	575	32,522	-	-	-	-	-	188,402
1,946	1,732	5,366	39,556	19	200	148	79	43	84,762
7,632	3,621	26,400	192,722	221	1,543	652	240	279	546,649
5,374	1,911	5,112	54,236	(8)	1,387	773	(87)	1,530	166,278
4,723	3,150	13,620	71,210	30	65	598	286	64	185,272
(1)	(149)	(4,209)	(14,026)	-	-	-	-	(58)	(40,334)
4,722	3,001	9,411	57,184	30	65	598	286	6	144,938
652	(1,090)	(4,299)	(2,948)	(38)	1,322	175	(373)	1,524	21,340
(25,369)	(51,319)	64,567	(79,737)	490	11,165	(876)	(4,083)	(5,735)	267,081
(24,717)	(52,409)	60,268	(82,685)	452	12,487	(701)	(4,456)	(4,211)	288,421

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit), By Project

Year ended September 30, 1994

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power Sytem	Falcon- Amistad Power System (IBWC)
Operating revenues:							
Sales of electric power	\$ 58,659	56,102	209,411	2,023	101,709	-	3,312
Other operating income	3,796	6,597	24,876	23	10,005	-	-
Gross operating revenues	62,455	62,699	234,287	2,046	111,714	-	3,312
Income transfers, net	161	(59,159)	-	-	2	36	-
Total operating revenues	62,616	3,540	234,287	2,046	111,716	36	3,312
Operating expenses:							
Operation and maintenance	25,194	982	25,219	795	42,531	11	722
Administrative and general	4,555	609	9,031	34	7,705	12	4
Purchased power and transmission	3,379	-	162,158	-	24,733	-	-
Depreciation	8,583	-	8,988	171	20,032	10	750
Total operating expenses	41,711	1,591	205,396	1,000	95,001	33	1,476
Net operating revenues (deficit)	20,905	1,949	28,891	1,046	16,715	3	1,836
Interest on Federal investment:							
Interest on Federal investment	22,665	-	12,539	520	77,592	984	2,321
Allowance for funds used during construction	(7,791)	-	(4,265)	-	(574)	(881)	-
Net interest expense	14,874	-	8,274	520	77,018	103	2,321
Net revenues (deficit)	6,031	1,949	20,617	526	(60,303)	(100)	(485)
Accumulated net revenues (deficit):							
Balance, beginning of year	19,035	7,405	86,403	358	275,855	93	594
Balance, end of year	\$ 25,066	9,354	107,020	884	215,552	(7)	109

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick- Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
12,745	53	15,891	180,662	271	2,918	1,354	140	-	645,250
<u>1,772</u>	<u>5,423</u>	<u>15,987</u>	<u>53,756</u>	<u>7</u>	<u>(61)</u>	<u>53</u>	<u>-</u>	<u>293</u>	<u>122,527</u>
14,517	5,476	31,878	234,418	278	2,857	1,407	140	293	767,777
-	-	29	(2,042)	-	-	-	-	(293)	(61,266)
<u>14,517</u>	<u>5,476</u>	<u>31,907</u>	<u>232,376</u>	<u>278</u>	<u>2,857</u>	<u>1,407</u>	<u>140</u>	<u>-</u>	<u>706,511</u>
2,594	1,236	12,559	89,119	199	1,586	783	284	1,088	204,902
336	725	6,019	18,505	40	26	12	4	105	47,722
2,725	-	1,306	40,596	-	-	-	-	-	234,897
<u>1,944</u>	<u>1,617</u>	<u>4,808</u>	<u>36,750</u>	<u>19</u>	<u>194</u>	<u>536</u>	<u>137</u>	<u>41</u>	<u>84,580</u>
<u>7,599</u>	<u>3,578</u>	<u>24,692</u>	<u>184,970</u>	<u>258</u>	<u>1806</u>	<u>1,331</u>	<u>425</u>	<u>1,234</u>	<u>572,101</u>
6,918	1,898	7,215	47,406	20	1,051	76	(285)	(1,234)	134,410
(12,632)	8,134	16,053	91,016	(1)	394	642	474	52	220,753
<u>(6)</u>	<u>(3,312)</u>	<u>(7,485)</u>	<u>(11,669)</u>	<u>-</u>	<u>(157)</u>	<u>-</u>	<u>-</u>	<u>(52)</u>	<u>(36,192)</u>
<u>(12,638)</u>	<u>4,822</u>	<u>8,568</u>	<u>79,347</u>	<u>(1)</u>	<u>237</u>	<u>642</u>	<u>474</u>	<u>-</u>	<u>184,561</u>
19,556	(2,924)	(1,353)	(31,941)	21	814	(566)	(759)	(1,234)	(50,151)
<u>(44,925)</u>	<u>(48,395)</u>	<u>65,920</u>	<u>(47,796)</u>	<u>469</u>	<u>10,351</u>	<u>(310)</u>	<u>(3,324)</u>	<u>(4,501)</u>	<u>317,232</u>
<u>(25,369)</u>	<u>(51,319)</u>	<u>64,567</u>	<u>(79,737)</u>	<u>490</u>	<u>11,165</u>	<u>(876)</u>	<u>(4,083)</u>	<u>(5,735)</u>	<u>267,081</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System Statement of Cash Flows, By Project

Year ended September 30, 1995

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Cash flows from operating activities:							
Net revenues (deficit)	\$ 1,690	4,218	25,044	378	(3,875)	(495)	(545)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:							
Depreciation	8,621	-	8,175	183	17,269	684	741
Interest on Federal investment	2,873	-	8,496	382	43,185	1,340	2,320
(Increase) decrease in assets:							
Accounts receivable	(433)	337	(15,562)	86	(5,825)	-	(278)
Other assets	(74)	105	(1,413)	181	1,852	(25)	-
Increase (decrease) in liabilities:							
Accounts payable	(2,062)	9	(4,999)	(35)	(2,517)	1	(1)
Other liabilities	1,079	(1,722)	(17,021)	(8)	5,683	-	-
Net cash provided by (used in) operating activities	11,694	2,947	2,720	1,167	55,772	1,505	2,237
Cash flows from investing activities - investment in utility plant	(7,925)	(2)	(17,921)	(291)	(7,447)	-	-
Cash flows from financing activities:							
Congressional appropriations	7,850	-	18,137	926	(14,010)	346	756
Funds returned to U.S. Treasury	(5,146)	-	(78,380)	(1,894)	(40,000)	-	(2,995)
Customer advances	3,400	-	-	-	-	-	-
Principal payments to upraters	(4,892)	-	-	-	-	-	-
Net cash provided by (used in) financing activities	1,212	-	(60,243)	(968)	(54,010)	346	(2,239)
Increase (decrease) in cash	4,981	2,945	(75,444)	(92)	(5,685)	1,851	(2)
Cash at beginning of year	30,044	3,055	139,761	344	72,827	5	19
Cash at end of year	\$ 35,025	6,000	64,317	252	67,142	1,856	17

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest Pacific Southwest Intertie Project</u>	<u>Parker Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seedskaadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
652	(1,090)	(4,299)	(2,948)	(38)	1,322	175	(373)	1,524	21,340
1,946	1,732	5,366	39,556	19	200	148	79	43	84,762
4,722	3,001	9,411	57,184	30	65	598	286	6	133,899
736	(334)	(2,997)	(4,311)	(33)	-	-	(98)	337	(28,375)
(14)	4,484	3,078	3,280	-	(1)	4	2	(688)	10,771
211	(1,220)	(894)	(8,346)	(30)	(124)	2	15	(1,678)	(21,668)
(288)	372	682	26,232	27	54	1	(57)	(691)	14,343
<u>7,965</u>	<u>6,945</u>	<u>10,347</u>	<u>110,647</u>	<u>(25)</u>	<u>1,516</u>	<u>928</u>	<u>(146)</u>	<u>(1,147)</u>	<u>215,072</u>
<u>(45)</u>	<u>(47,561)</u>	<u>(4,858)</u>	<u>(63,290)</u>	<u>-</u>	<u>(213)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,553)</u>
5,437	9,156	24,186	174,492	159	1,711	(1,317)	89	15,937	243,855
(15,229)	(5,200)	(28,015)	(235,005)	(132)	(2,927)	-	-	(142)	(415,065)
-	-	-	-	-	-	-	-	-	3,400
-	-	-	-	-	-	-	-	-	(4,892)
<u>(9,792)</u>	<u>3,956</u>	<u>(3,829)</u>	<u>(60,513)</u>	<u>27</u>	<u>(1,216)</u>	<u>(1,317)</u>	<u>89</u>	<u>15,795</u>	<u>(172,702)</u>
(1,872)	(36,660)	1,660	(13,156)	2	87	(389)	(57)	14,648	(107,183)
2,634	51,228	18,993	63,025	76	455	2,052	232	64,088	448,838
<u>762</u>	<u>14,568</u>	<u>20,653</u>	<u>49,889</u>	<u>78</u>	<u>542</u>	<u>1,663</u>	<u>175</u>	<u>78,736</u>	<u>341,655</u>

WESTERN AREA POWER ADMINISTRATION
Combining Power System Statement of Cash Flows, By Project

Year ended September 30, 1994

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Cash flows from operating activities:							
Net revenues (deficit)	\$ 6,031	1,949	20,617	526	(60,303)	(100)	(485)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:							
Depreciation	8,583	-	8,988	171	20,032	10	750
Interest on Federal investment	3,934	-	8,274	520	77,018	103	2,322
(Increase) decrease in assets:							
Accounts receivable	2,755	(2,349)	(45,897)	(86)	(298)	-	-
Other assets	2,130	(105)	(557)	100	4,856	19	592
Increase (decrease) in liabilities:							
Accounts payable	(2,947)	(11)	(46,660)	(41)	2,375	-	(6)
Other liabilities	(5,850)	1,753	29,365	18	(2,050)	-	(296)
Net cash provided by (used in) operating activities	<u>14,636</u>	<u>1,237</u>	<u>(25,870)</u>	<u>1,208</u>	<u>41,630</u>	<u>32</u>	<u>2,877</u>
Cash flows from investing activities - investment in utility plant	<u>(28,090)</u>	<u>-</u>	<u>(26,418)</u>	<u>(101)</u>	<u>(13,692)</u>	<u>(14,443)</u>	<u>-</u>
Cash flows from financing activities:							
Congressional appropriations	17,310	-	56,295	708	(13,522)	14,416	461
Funds returned to U.S. Treasury	(5,311)	-	(89,633)	(2,024)	(20,000)	-	(3,341)
Customer advances	6,000	-	-	-	-	-	-
Principal payments to upraters	(4,777)	-	-	-	-	-	-
Net cash provided by (used in) financing activities	<u>13,222</u>	<u>-</u>	<u>(33,338)</u>	<u>(1,316)</u>	<u>(33,522)</u>	<u>14,416</u>	<u>(2,880)</u>
Increase (decrease) in cash	(232)	1,237	(85,626)	(209)	(5,584)	5	(3)
Cash at beginning of year	<u>30,276</u>	<u>1,818</u>	<u>225,387</u>	<u>553</u>	<u>78,411</u>	<u>-</u>	<u>22</u>
Cash at end of year	<u>\$ 30,044</u>	<u>3,055</u>	<u>139,761</u>	<u>344</u>	<u>72,827</u>	<u>5</u>	<u>19</u>

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest Pacific Southwest Intertie Project</u>	<u>Parker Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seedskaadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
19,566	(2,924)	(1,353)	(31,941)	21	814	(566)	(759)	(1,234)	(50,151)
1,944 (12,638)	1,617 4,822	4,808 9,091	36,750 79,003	19 (1)	194 237	536 642	137 474	41 -	84,580 173,801
(109) (1)	470 (6,310)	307 (962)	(10,330) (4,984)	- -	3 11	1 (4)	(33) (22)	(429) 1,947	(55,995) (3,290)
(103) (189)	1,146 (15)	694 1,164	(1,689) (3,061)	(29) 303	67 34	(17) (40)	(2) 102	1,290 2,265	(45,933) 23,503
<u>8,460</u>	<u>(1,194)</u>	<u>13,749</u>	<u>63,748</u>	<u>313</u>	<u>1,360</u>	<u>552</u>	<u>(103)</u>	<u>3,880</u>	<u>126,515</u>
<u>(3)</u>	<u>(30,819)</u>	<u>(11,588)</u>	<u>(84,914)</u>	<u>(27)</u>	<u>(161)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(210,256)</u>
8,510 (14,739)	43,764 (5,943)	27,960 (31,495)	198,138 (194,917)	(70) (271)	1,764 (2,919)	1,176 -	204 (69)	35,367 (298)	392,481 (370,960)
-	-	-	-	-	-	-	-	-	6,000
-	-	-	-	-	-	-	-	-	(4,777)
<u>(6,229)</u>	<u>37,821</u>	<u>(3,535)</u>	<u>3,221</u>	<u>(341)</u>	<u>(1,155)</u>	<u>1,176</u>	<u>135</u>	<u>35,069</u>	<u>22,744</u>
2,228	5,808	(1,374)	(17,945)	(55)	44	1,728	32	38,949	(60,997)
406	45,420	20,367	80,970	131	411	324	200	25,139	509,835
<u>2,634</u>	<u>51,228</u>	<u>18,993</u>	<u>63,025</u>	<u>76</u>	<u>455</u>	<u>2,052</u>	<u>232</u>	<u>64,088</u>	<u>448,838</u>

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Independent Auditors' Report on the Internal Control Structure

The Administrator
Western Area Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 15, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement.

Management of Western, a unit of the U.S. Department of Energy (DOE); management of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of Interior; management of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and management of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State; collectively referred to as "Western" management, are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the combined power system financial statements and any other laws and regulations that OMB, Western management, or the DOE have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable combined power system financial reports in accordance with generally accepted accounting principles and to maintain accountability over the assets; and that data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the combined power system financial statements of Western for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Western has responsibility for certain administrative and financial reporting activities of the combined power system. The generating agencies have certain administrative responsibilities. Accordingly, comments and recommendations contained in this report will be communicated to the other participants in the combined power system.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved.

Those matters that we consider to be reportable conditions are summarized below:

Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention.

1. Timely Calibration of Meters

We commented in the report on the internal control structure for fiscal year 1994 that Western should enforce the requirement to calibrate all meters at least once a year. Management concurred with the audit recommendation and stated that the Loveland Area office (LAO) would review the schedule for meter testing and recalibration to ensure requirements are enforced timely. Limited testing of 14 meter records at LAO showed that LAO had not calibrated four meters; OLT1301J11, VAL1301H11, VAL1301H11, and ANP0083R22, since 1993. LAO stated that operating and maintenance personnel lack sufficient time, because of recent downsizing and higher priority work, to calibrate all meters annually. The lack of annual meter calibrations expose Western to potential incorrect metering of electrical power charged to customers.

Recommendation

Western should publicize the requirement to calibrate all meters at least once a year. If this is deemed to be unnecessary, the Areas should, upon approval from power customers, determine other reasonable testing requirements. Western should also consider establishing an unannounced inspection schedule to ensure compliance with the meter testing requirement.

Management's Response and Status

Concur. Western has seen some delays in annual calibration of meters due to time constraints and numerous duties required of metering personnel. However, the Rocky Mountain Regional Office is in the process of performing a cost benefit analysis of the frequency of meter tests. The results of this analysis will provide support for a Western-wide policy regarding meter calibration. Implementation of corrective action will be effective prior to 1996 fiscal year-end.

2. Modification of Power Billing Master File Data

Segregation of functional responsibilities is an integral part of an overall system of sound internal control. We commented in the report on the internal control structure for fiscal year 1994 that the Watertown Operations office power billing personnel also have access to data on customer contract master files. Western agreed to explore developing an edit log and a status report for the master files. The edit log would record all modifications to the master file, along with the log-in name performing the modifications, and would be periodically reviewed by the billing department work leader. The status report would list all current components in the master files and would be checked quarterly for conformity to the individual contracts by the billing contract department.

Western has developed the edit log; however, a segregation of duties still does not exist because the team leader responsible for doing the review is also responsible for many of the changes to the master file. In addition, the computer specialists in the Billings Area office have access to modify power billing data including customer master files, and have the authority to make changes to the power billing program software. Also, power billing personnel are responsible for data entry of multipliers into the power billing system from meter mechanics at each of the Billings field offices. All of these situations noted violate the segregation of duties tenet, whereby no one person has the ability to initiate transactions, modify master files or application programs, process the data, or reconcile and distribute the processing output.

Recommendation

Western should implement procedures that include an independent review of the master file edit log to ensure proper authorization and accuracy. This independent review should also apply to billing software modifications made by the computer specialists.

Management's Response and Status

Concur. Procedures have been implemented that include an independent review by supervisory personnel of the master file edit log to ensure proper authorization and accuracy. Contract specialists are reviewing all billings annually for contract compliance. The Upper Great Plains Region has also initiated a biennial rotation program for billing specialists for the various project's billing responsibilities and between billing and scheduling staff functions. Implementation of this action is scheduled for completion by 1996 fiscal year-end.

3. Power Billing Contracts

In the report on the internal control structure for fiscal year 1993, we reported that the Phoenix Area office (PAO) frequently had to adjust power billings because (i) power was delivered to customers with expired contracts and subsequent contract renewals provided for different rates or (ii) a renewal contract was not received timely in the billing department. Western agreed to establish procedures that provide adequate lead-time for negotiating contract renewals before existing contracts for selling electrical power expire. Management also agreed to establish procedures to ensure that contractual information is furnished to the billing department timely.

The PAO is working to develop a system for tracking contract expiration dates to provide adequate lead-time for negotiating contracts. The system is not expected to be fully operational until sometime in fiscal year 1996. Meanwhile, the reported problem continues to occur.

Recommendation

Western should monitor the development and implementation of the tracking system to ensure that the corrective plan is carried out timely.

Management's Response and Status

Concur. The Desert Southwest Regional Office (DSW) has made a commitment to ensure that the Power Billing Interface Program is operational. A programmer from Montrose spent the week of January 8, 1996, in Phoenix training data processing and billing personnel on usage of the program. DSW will test the Interface Program during the billing cycles in February and March 1996, with implementation by May 1996.

* * * * *

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance data, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Western and Reclamation in a separate letter dated December 15, 1995.

This report is intended for the information of the management of Western, Reclamation, the Corps, and IBWC. The restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1995

60 East South Temple
Suite 900
Salt Lake City, UT 84111

Independent Auditors' Report on Compliance with Laws and Regulations

The Administrator
Western Area Power Administration
U. S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 15, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the combined power system financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the individual combined power system financial statements is the responsibility of Western, a unit of the U.S. Department of Energy (DOE); of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of the Interior; of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State, collectively referred to as "Western" management. As part of obtaining reasonable assurance about whether the combined power system financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the combined power system financial statements and certain other laws and regulations designated by OMB and DOE, including:

- Boulder Canyon Project Act of 1928, as amended
- Act of August 26, 1937, as amended (Central Valley Power System)
- Act of July 3, 1952 (Collbran Power System)
- Colorado River Storage Project Act of 1956, as amended
- Act of August 16, 1962, as amended (Fryingpan-Arkansas Power System)
- Act of August 31, 1964 (Pacific Northwest-Pacific Southwest Intertie Project)
- Act of May 28, 1954 (Parker-Davis Power System)
- Flood Control Act of 1944, as amended - Authorized the construction of certain public works on rivers and harbors for flood control, and for other purposes (Pick-Sloan Missouri Basin Power System)
- Reclamation Project Act of 1939
- Finding of Feasibility by the Secretary of the Interior, November 13, 1935 (Provo River Power System)
- Act of February 25, 1905 (Rio Grande Power System)
- DOE Order RA 6120.2, Power Marketing Administration Financial Reporting
- 10 CFR 903 - Power and Transmission Rates
- 10 CFR 904 - General Regulations for the Charges for the Sale of Power from the Boulder Canyon Project
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Chief Financial Officers (CFO) Act of 1990
- 18 CFR Part 300
- DOE Delegation Order 02304-108
- Budget and Accounting Procedures Act
- Corps Engineering Regulation 37-2-10
- Anti-deficiency Act

Western Area Power Administration,
U.S. Department of Energy

However, the objective of our audit of the combined power system financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

As part of our audit, we obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared Western's most recent FMFIA reports with the evaluation we conducted of the combined power system's internal control structure.

The results of our tests disclosed the following instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, for which the ultimate resolution cannot presently be determined. Accordingly, the financial statement impact that may result has not been recognized in the combined power system financial statements.

**Bureau of Reclamation (Reclamation)
U.S. Department of Interior**

1. Interest on Federal Investment (IOI) in Movable Equipment

Federal regulation and Reclamation instructions (Series 480 Accounting Policy, Part 499.1.4B) require that Reclamation recover power project costs, plus IOI, through electric rates charged to customers. Interest should accrue on Federal investment in any long-term asset not recovered within the normal operating cycle.

Reclamation categorizes long-term assets as either utility plant or movable equipment. Reclamation generally recovers investment in utility plant, with interest, over a 50-year period. Reclamation recovers the costs of movable equipment through a systematic depreciation charge over a period from 5 to 15 years. However, with the exception of the Salt Lake City (SLC) region office, Reclamation does not accrue interest on the undepreciated movable equipment resulting in under-recovery of costs. The allocated power balance in undepreciated movable equipment, excluding the SLC region, is approximately \$9 million. At the annual rate of seven percent, Reclamation is not recovering approximately \$630 thousand in annual interest costs.

Recommendation

Reclamation should accrue interest on all unpaid Federal investment, including unpaid investment in movable equipment. For those projects where Western calculates interest expense on unpaid Federal investment, Reclamation should provide Western with the amounts for capitalized movable equipment relating to power. Furthermore, we recommend Reclamation apply procedures to determine a retroactive adjustment relating to IOI in movable equipment.

Management's Response

Concur. Starting in fiscal year 1996, Reclamation will begin accruing IOI on power movable equipment in accordance with Federal regulations and will also determine a retroactive adjustment. Furthermore, on an annual basis, Reclamation will provide Western with information concerning the amount of capitalized movable equipment related to power.

Western Area Power Administration,
U.S. Department of Energy

Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention:

1. Interest on Federal Investment in Movable Equipment

In the fiscal year 1993 report, we reported Western was not recovering about \$3 million annually in interest on the undepreciated movable equipment because of inconsistent treatment by area offices. Western developed a common approach for all projects to recover the cost of principal and interest and all area offices implemented the procedures for fiscal year 1995. As part of this approach, Western requires that each of the area offices calculate IOI on an allocated amount of undepreciated movable equipment located at headquarters. Western made the allocation to the area office in a letter dated September 6, 1995. In fiscal year 1995, three area offices did not calculate or record IOI costs related to the headquarters allocation of capitalized movable equipment. One office believed that it did not need to calculate and record such IOI because the office did not have its own balance of undepreciated movable equipment. The other two offices claimed that they were not aware of the memorandum or the requirement. As a result, Western's financial statements understated the IOI for movable equipment. Furthermore, we reported in 1994 that Western should include within their procedures a mandate to capture interest on undepreciated movable equipment balances retroactively for a period of 5 years. Western's headquarters power marketing branch developed such procedures during 1995 and distributed them to the various power marketing departments throughout Western for their consideration. However, the adoption and implementation of the procedures remains outstanding.

Recommendation

Western's headquarters should ensure that the area offices are aware of and comply with the requirement for determining and recording IOI costs for the movable equipment amount it allocates to each area office. Alternatively, the calculation could be made to determine the appropriate amount of IOI on undepreciated movable equipment located at headquarters with headquarters making the appropriate entry to the general ledger for the respective project.

Management's Response and Status

Concur. The Regional Offices are aware and agree that the interest costs for the movable equipment located in the Corporate Services Office needs to be allocated to each Region. Coordination with Regional management is underway, with implementation of this issue scheduled for completion by 1996 fiscal year-end.

2. Recovery of Power Project Costs

Federal statute requires power marketing agencies to establish power rates at levels sufficient to allow for repayment of the Federal investment and related interest, plus power project operating costs. In our 1994 report, we reported that Western is not including the costs of certain post-employment benefits paid by the Office of Personnel Management in rates charged to utility users, and is therefore, not fully recovering the costs of operating the power projects. Our report also included a recommendation that Western work with the Office of Personnel Management to obtain the information necessary to include post-employment benefit costs in its rate structure and accrue such costs in Western's combined power system financial statements in accordance with the Standards of the Federal Accounting Standards Advisory Board.

Western Area Power Administration,
U.S. Department of Energy

The DOE's Chief Financial Officer, in a departmental position issued September 29, 1995, concurred in principle with our recommendation. The departmental position states, Statement of Federal Financial Accounting Standards Advisory Board No. 4 *Managerial Cost Accounting Concepts and Standards for Federal Government* (Statement No. 4) requires, for cost accounting purposes, that employee benefits incurred by 'responsibility segments' be directly traced or assigned to outputs, regardless of whether they are funded by the reporting entity or by direct appropriation to the trust funds. Agencies are not required to implement this requirement of Statement No. 4 until implementation guidance is issued by OMB. When this guidance is issued by OMB, the Department will implement the requirement accordingly."

Therefore, Western cannot implement our recommendation to recover all power project costs until implementation guidance for Statement No. 4 is issued by OMB.

Recommendation

We are making no further recommendation, pending the issuance of implementation guidance by OMB.

Management's Response and Status

Concur.

3. Recovery of Abandoned Project Costs

In the fiscal year 1993 report, we reported that Western should review \$14.9 million of costs incurred on an abandoned transmission line to determine whether the costs can be recovered through the sale of power to customers and, if not, to take action to write off the costs as nonreimbursable. Western agreed to review the costs and take appropriate action, including obtaining a general counsel opinion on whether Western has authority to write off the costs as nonreimbursable or whether Western would need to seek Congressional action. Management indicated that this matter would be resolved by the end of fiscal year 1995.

During fiscal year 1995, Western thoroughly researched this matter and accumulated substantial data. Furthermore, management presented a discussion paper to the project's customers describing the nature of the costs and the options available to resolve this matter. Subsequently, the project customers requested that Western seek approval, through the budget process, to have the abandoned plant declared nonreimbursable. Western is in the process of determining the approach to be taken in order to resolve this matter. However, no final resolution has been made.

Recommendation

Western should continue to monitor the issue and seek a satisfactory solution as soon as possible.

Management's Response and Status

With customer support, Western will seek authority from Congress to declare the \$11.1 million of abandoned plant as nonreimbursable. Resolution of this issue will be addressed in the fiscal year 1998 budget cycle in January 1997.

4. Loss on Washoe Project's Stampede Dam Power Operations

In the fiscal year 1993 report, we reported that Western should evaluate the economic feasibility of continuing to operate the power generating facilities at the Stampede Dam (Washoe Power Project) or possibly integrating the Washoe Power Project with the Central Valley Power System as an integrated project for rate-making purposes. Western began the effort to improve the status of the project in 1994 by performing certain procedures to review Reclamation costs allocated to power over a six-year period. This effort resulted in minor savings to the project.

Western Area Power Administration,
U.S. Department of Energy

During fiscal year 1995, Western continued making efforts to improve revenues and reduce expenses for the Washoe Power Project. These efforts included negotiating contracts with the U.S. Fish and Wildlife service, Reclamation, and Sierra Pacific Power Company to provide project use power to the loads of the Lahontan National fish hatchery and Marble Bluff fish facility (i.e., power used by another Federal agency). The authorizing legislation of the project deems all costs relating to Fish and Wildlife as nonreimbursable. Thus, this action has effectively reduced expenses allocated to the Washoe Power Project by approximately forty-four percent. However, the reduction will not produce sufficient savings such that the revenues derived by the project are adequate to cover all project costs plus principal and interest.

Recommendation

Western should explore other options available to improve the financial status of the Washoe Power Project and encourage Reclamation to monitor the economic feasibility of continuing operations.

Management's Response and Status

In the development of the Programmatic Environmental Impact Statement for the Central Valley Project (CVP) 2004 Marketing Plan, Western will consider the integration of the Washoe Power Project with CVP for rate-making purposes. By May 1996, members of the Sierra Nevada Region's management team will also meet with Reclamation to discuss the economic feasibility of the continued operation of the Washoe Project powerplant.

* * * * *

We considered these instances of noncompliance in forming our opinion on whether Western's 1995 combined power system financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 15, 1995 on those financial statements.

Except as described above, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 93-06.

Western has received a waiver from OMB with respect to the financial statement provisions of OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, however, Western is required to comply with the overview and performance measures requirements of the OMB Bulletin.

This report is intended for the information of the management of Western, Reclamation, the Corps, and IBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1995

60 East South Temple
Suite 900
Salt Lake City, UT 84111

The Administrator
Western Area Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 15, 1995. In planning and performing our audit of the combined power system financial statements of Western, we considered the internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies.

**Western Area Power Administration (Western)
U. S. Department of Energy (DOE)**

1. Undue Delays in Properly Classifying Plant Costs

Western regulations require that plant costs not remain unclassified (held in the plant-not-classified account) for more than three months. Western has \$344 million of plant assets recorded as plant-not-classified for periods of time significantly exceeding the three month criteria. Area offices placed much of the costs into this account several years ago pending work order cost reviews. Work order interest during construction (IDC) may be overstated if delays existed in transferring costs from construction work-in-process (CWIP) to plant-not-classified. Western has not established a system to review the aging of the account or a schedule to reduce the backlog of costs recorded as plant-not-classified. Western's delay in properly classifying the value of plant assets could result in the overstating of depreciation expense and interest on federal investment (IOI) in its annual financial statements. The delayed reviews also mask potentially significant audit adjustments to IDC and IOI. To illustrate, the Phoenix Area Office hired a contractor to review some of its plant-not-classified amounts in 1995 and corrections resulted in over \$4.5 million in adjustments.

Recommendation

Western should establish a procedure for aging work orders for amounts recorded as plant-not-classified. Once established, Western should give priority to reducing the age to less than the three month maximum. If area offices lack personnel with sufficient understanding for conducting such reviews, Western should consider alternative sources of help or providing training to alleviate the problem.

Management's Response

Concur. Western has a procedure for aging work orders for amounts recorded as plant-not-classified. An aging report exists which identifies work orders in plant-not-classified that have fully closed to plant and are over 90 days old. Other reports indicating the costs and date of transfer by work order within plant-not-classified are also available. Western will ensure that staff is focused on resolving this issue. Resolution will be implemented by 1996 fiscal year-end.

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2. Movable Equipment Depreciation Expense

Generally accepted accounting principles require the depreciation of assets over their normal life expectancy. Western uses depreciable lives on office equipment and tools that are significantly longer than lives required by the Internal Revenue Code. Western's depreciable (useful) lives for these types of assets range between 15 to 20 years as contained in their Financial Management System (FMS) Standards Manual. The Internal Revenue Code indicates that such assets have depreciable lives of 7-10 years. In recent years, Western has not reviewed the propriety of the depreciable lives as provided for in the FMS standards manual. As a result, Western may be understating yearly depreciation expense and not fully recovering such costs from power revenues in a timely manner.

Recommendation

Western should evaluate the reasonableness of the depreciable life schedules for movable equipment to determine if they accurately reflect the annual costs associated with using such equipment.

Management's Response

Concur. The recommendation will be implemented by 1996 fiscal year-end.

3. Other Assets Accounts

Generally, amounts posted as deferred expenses (account 18690) or deferred income (account 25590) should clear an account record within a reasonable period of time. A review of the account balances noted above showed no change during the past several years. Western does not have procedures requiring a periodic comparative examination to determine the accuracy or correctness of individual account balances. As a result of potentially inaccurate balances, the other assets and liability categories on Western's financial statements could be over- or understated.

Recommendation

Western should establish procedures requiring at least an annual year-end review of the accuracy of individual balances within the other assets and liability accounts. Western could initiate any required corrective actions at that time to properly reflect accurate balances at year-end.

Management's Response

Concur. Procedures to ensure the accuracy and correctness of individual account balances will be established and in place by 1996 fiscal year-end.

4. Closing of Books Before Year-End

Generally accepted accounting principles require that financial statements account for all income and expenses occurring during the entity's financial accounting period. Western closed their fiscal year accounting records (books) for fiscal year 1995 on September 27, 1995, for all income and expense transactions, rather than on the fiscal year ending date of September 30, 1995. FMS processes all transactions on a linear basis; this means that everyday Western's close is delayed, the opening of the new fiscal year is also delayed (i.e. no dual year processing). Thus, in order to facilitate data input and payment disbursement for the new fiscal year, management chose to close fiscal year 95 early. Western's actions to close its books before September 30, 1995, however, created numerous problems in identifying and initiating correcting entries for income and expense transactions occurring between September 27 and September 30, 1995. Two of these problems are summarized as follows:

- Western established an accrual for payroll number #20 which related to wages for the first two full weeks of September. The payroll was actually paid on September 28, resulting in an audit adjustment of \$3.5 million to correct the accrual. Western processed the accrual because the year-end closing occurred before the payment date, which was within the accounting period.

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- Western did not record additional liabilities between September 22 and September 30 as accounts payable, resulting in an audit adjustment of \$1.4 million to the accounts payable balance. Western had established the deadline of September 22 as the last date that accruals could be input for processing by the financial document coordinators due to the fact that the income statement overhead and clearing accounts needed to be distributed prior to September 27. Thus, many invoiced costs were received after the deadline date and not properly recorded as liabilities in the accounting records for fiscal year 1995.

Recommendation

Western should establish procedures which ensure that its financial records, as well as financial transaction processing for accruals, are not closed before the actual date of its fiscal year-end.

Management's Response

Concur. Western will ensure that the financial records, as well as financial transaction processing for accruals, are not closed before the actual date of fiscal year-end.

5. Value of Retired Plant Assets

Utility industry standards require that any remaining net book value and/or gain or loss from the retirement (disposal) of an asset be included as an element within the accumulated depreciation account with amortization of these amounts occurring over future years rather than as an immediate entry to the income statement.

Western calculates depreciation on the plant account balance excluding the net book value of any disposals or retirement of plant assets (i.e., retirements included within accumulated depreciation). Western was not aware that it should periodically evaluate and adjust, and/or continue calculating depreciation on the undepreciated balance of retired assets. As a result, the undepreciated balance of retired assets will remain on Western's records until the various projects end. This situation effectively overstates the book value of plant assets for all projects.

Recommendation

Western should consider establishing procedures requiring that depreciation be charged on the undepreciated balances of retired plant assets. In addition, Western should determine the amount that its plant asset accounts are overstated or understated because of the past practice of excluding undepreciated balances associated with retirements from depreciation calculations.

Management's Response

Western concurs with the recommendation to consider establishing procedures requiring that depreciation be charged on the undepreciated balances of retired plant assets. Western will investigate the establishment of depreciation on retired plant assets.

6. Interest on Investment

Federal Statute requires power marketing administrations (PMA's) to accrue IDC on Federal projects constructed with appropriations. Federal Statute also requires the accrual of IOI for the unpaid balance after costs are transferred from CWIP to completed plant. In practice, the application of this IOI requirement is inconsistent within Western.

Three of Western's projects (Colorado River Storage Project, Pick-Sloan Missouri Basin, and Fryingpan-Arkansas) maintain that the requirement is being complied with as Western's FMS computes a full year of IDC on any transfers to completed plant during the year. IOI expense is calculated on additions to completed plant in the year following transfer.

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The remaining projects operate under the assumption that additions to completed plant are transferred from CWIP evenly throughout the year. Accordingly, these projects accrue one-half year of IOI in the year of addition (i.e., the one-half year convention method). Furthermore, as Western's FMS is programmed to compute one full year's IDC on all current year transfers to completed plant, any transfers to completed plant during the year are effectively charged interest expense twice over a six-month period.

In comparing Western's methodologies to Southeastern and Southwestern Power Administrations, we noted that these PMA's operate under the one-half year convention method with respect to IOI and only record one-half year's IDC. We also noted that these PMA's have incorporated these procedures within their accounting handbooks and cite RA 6120.2 as the underlying authoritative guidance for such procedures. As a result of the inconsistent applications indicated above, Western's projects may not be complying with the original intent of the Federal Statute.

Recommendation

In order to achieve consistency within Western and among PMA's, Western should review the basis and methodology for applying IOI and IDC for current year additions to completed plant for both the transmission and generating facilities. Policy and procedures should be modified as appropriate, and the accounting manual should be updated accordingly. Western should also evaluate the historical application of the modified policies and procedures to each of the power projects and record appropriate accounting adjustments as necessary.

Management's Response

Concur. Western will assign the appropriate personnel to review the basis and methodology for applying IOI and IDC for current year additions to completed plant. If required, accounting adjustments will be initiated by 1996 fiscal year-end and will continue until action is completed.

Bureau of Reclamation (Reclamation) U. S. Department of the Interior

1. Value of Retired Plant Assets

Utility industry standards require that any remaining net book value and/or gain or loss from the retirement (disposal) of an asset be included as an element within the accumulated depreciation account with amortization of these amounts occurring over future years rather than as an immediate entry to the income statement.

Reclamation calculates depreciation on the plant account balance excluding the net book value of any disposals or retirement of plant assets (i.e., retirements included within accumulated depreciation). Reclamation was not aware that it should periodically evaluate and adjust, and/or continue calculating depreciation on the undepreciated balance of retired assets. As a result, the undepreciated balance of retired assets will remain on Reclamation's records until the various projects end. This situation effectively overstates the book value of plant assets for all projects.

Recommendation

Reclamation should consider establishing procedures requiring that depreciation be charged on the undepreciated balances of retired plant assets. Reclamation can accomplish this through a coordinated effort with Western rates personnel to determine the appropriate useful life for the retirement. In addition, Reclamation should determine the amount that its plant asset accounts are overstated or understated because of the past practice of excluding undepreciated balances associated with retirements from depreciation calculations.

Management's Response

Concur. In cooperation with Western, Reclamation will consider establishing procedures for continuing to depreciate the undepreciated balance of plant assets which have been retired or disposed, and determine the impact on plant assets as result of past practices.

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2. Power Rights

Generally accepted accounting principles require that an entity be able to support the basis for the cost of assets recorded in their accounting records and the basis of accounting treatment of these assets.

Reclamation has two balances totaling \$6.7 million in an "Other Assets" account (1991-P-19C) identified as power rights. Accounting personnel at Reclamation could not provide any specific information or support for these two balances. Limited research by accounting personnel at Reclamation showed that the \$6.7 million has been on Reclamation's records for about 25 years. However, Reclamation could not provide any documentation or support to show the source or current value, if any, of such power rights. Further, Reclamation could not support whether the assets should or should not be amortized.

Reclamation does not have procedures established to periodically conduct analytical reviews for asset account balances where no change occurs over time. Possible inaccurate or unrealistic asset values relating to power can cause over- or understatement of the asset value. Furthermore, if amortization is appropriate, operation and maintenance (O&M) expenses are not being recovered through rates charged to power users.

Recommendation

Reclamation should determine whether the \$6.7 million shown for power rights is reasonable, supportable, and/or amortizable.

Management's Response

Concur. Reclamation will analyze the \$6.7 million in charges to power rights and determine the appropriate treatment of these costs.

3. Interest During Construction at Central Valley Project

Federal Statutes require charging and capitalizing IDC and recovering the expense from rate payers in future years. Reclamation is not charging or capitalizing IDC for construction additions to the Central Valley Project (CVP). Reclamation officials believe that CVP additions, except those additions requiring congressional approval, are exempt from IDC because of interpretive authority by Reclamation's commissioner in 1955.

Legislative intent of forty years ago may not be consistent with the intent of Congress at the present time. CVP's current year CWIP balances relating to power are about \$5.5 million. At an interest rate of seven percent annually, the IDC on \$5.5 million is \$385,000 annually which could be recovered from rate payers.

Recommendation

Reclamation should re-evaluate interpretive authority, using a practical business perspective, and determine whether the interpretive authority by the commissioner in 1955 is still applicable. If no longer considered applicable, Reclamation should begin charging IDC on CWIP for additions to the CVP.

Management's Response

Concur. Reclamation will re-evaluate the Commissioner's 1955 interpretation concerning the applicability of charging IDC on CWIP for additions to the CVP.

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Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention:

1. Power Billing Data Input Twice

In prior years' management letters, we reported that Western's power billing systems at each area office do not interface with the financial management system, resulting in an inefficient use of personnel. This lack of interface requires that each power bill be entered twice by data entry personnel -- once to produce the power bill and again to record the receivable in the financial system. Western has completed the functional requirements documentation for interfacing the two systems and programming is in process. Western programming efforts to integrate the two systems were scheduled for completion in March 1995 but are still in process.

Recommendation

Western's management should continue monitoring the progress of the power billing system interface effort to ensure that the task is completed as soon as possible.

Management's Response and Status

Concur. During fiscal year 1995, development of the Power Billing Interface System was completed by the CSO and made available to all Regional Offices. The Colorado River Storage Project Customer Service Center, the Upper Great Plains, and Sierra Nevada Regional Offices are successfully using the new system. The Desert Southwest and Rocky Mountain Regional Offices will be fully utilizing the system by 1996 fiscal year-end.

2. Dual Processing of Financial Data

In the prior year, we reported that the Joint Financial Management Improvement Program Core Financial System Requirements cite that a desired characteristic of Federal agency financial systems is that the systems allow for dual processing--the ability to enter financial data into the current period or into a prior period at any time. Western enters all post-closing transactions and prior year audit adjustments into current-year activity because the financial management system does not allow dual processing. This lack of dual processing capability continues to require Western and audit personnel to spend significant time and effort, potentially 1,000 hours, to identify and account for such transactions when preparing and auditing the financial statements. Management indicated that Western would conduct a study to identify the costs and benefits associated with automated dual year processing. However, we noted that no substantial conclusions or resolutions have been reached during 1995 and the condition still exists.

Recommendation

Western should establish a team dedicated to either making the necessary modifications to FMS or implementing a new system. The resolution of this condition will expedite Western's preparation of its annual financial statements.

Management's Response and Status

Concur. In fiscal year 1995, Western established a task group to study and identify the costs and benefits associated with implementing an automated system for dual-year processing. However, implementation of this recommendation was postponed for two reasons: (1) conversion of the current financial management system (FMS) would be too costly; and (2) FMS is being evaluated for replacement with one of the requirements of the new system being dual processing capabilities. This evaluation to identify the replacement or revamp of FMS will require an estimated 3-5 years based on the approach taken.

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3. Interest on Federal Investment

In the prior year, we reported that interest expense on net outstanding Federal investment should be recovered in accordance with the policies established by the Federal agencies associated with production and distribution of power. The details of our prior year finding are as follows:

DOE Order RA 6120.2 requires recovery of interest expense on the net outstanding Federal investment in power projects through power revenues. The criteria for determining the interest rate applicable to each project as it pertains to additions to utility plant is prescribed in each project's enacting legislation, DOE Order RA 6120.2, Department of the Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and a September 1, 1983, tri-agency agreement between the PMA's, U.S. Army Corps of Engineers (the Corps), and Reclamation. The calculation of interest expense between the various power projects and agencies should be consistently applied. Consistency of application requires that a position be taken, and a consensus be reached, among management responsible for transmission and generation, as to the proper interest rate to be applied to the outstanding Federal investment. Management should document the position taken, in consideration of and in reference to, the appropriate laws, regulations, guidelines, and agreements indicated above, which have been established for purposes of operating the various power projects.

Each of the agencies noted above calculate interest on investment in plant facilities related to their participation in the projects. We noted inconsistent application of interest rates to the outstanding Federal investment, in particular as it pertains to calculating interest for replacements and additions to plant on the Pick-Sloan and Colorado River Storage Project (CRSP) power projects. The guidelines for determining interest expense, which are prescribed in the enacting legislation, appear to be very similar in nature. However, management of the two projects clearly interpret the guidelines differently. The generating agency for the CRSP project calculates interest expense on replacements and additions using the rate determined by the Secretary of the Treasury at the time the construction funds were appropriated for the project. The transmission agency calculates interest using a current rate. Both the transmission and generating agencies for the Pick-Sloan project calculate interest expense on replacements and additions using a current rate as determined by the Treasury. The inconsistency in application is a result of unclear guidelines which have contributed to management interpreting these guidelines on a project-by-project basis without a centralized person or department taking responsibility to assure that the interpretation was consistent for the power system as a whole. The inconsistency in interpretation may have resulted in an under- or over recovery of interest expense through power revenues. We are uncertain of the amount of interest on Federal investment which may have or may have not been collected in excess of the proper amount.

We recommended that Western's headquarter management thoroughly research the following documents for each power project: the original enacting legislation, DOE Order RA 6120.2, Department of Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and the September 1, 1983, tri-agency agreement between the PMA's, the Corps, and Reclamation.

Upon review of these documents management should establish and document their position as it relates to their interpretation of the above mentioned documents on a project-by-project basis. Once this position is determined it should be conveyed to the generating agencies (i.e., the Corps and Reclamation). Both the transmission and generating agencies should come to an agreement with the interpretation. Once this process is complete interest expense as historically recorded should be evaluated and adjusted in order to comply with applicable laws and regulations.

Management agreed to conduct a review of the interpretation of the original enacting legislation, orders, and circular by the generating agencies, to identify inconsistencies in the calculation of interest on federal investment. Furthermore, Western agreed to perform a review of the application of interest rate policies and collaborate with the generating agencies to resolve differences in calculating interest expense by all agencies and develop a common way to calculate interest and an approach to application. However, we noted that these reviews and analyses were not performed during fiscal year 1995.

Recommendations

Given the potential magnitude of the adjustments to interest expense which may result from these reviews, we strongly recommend that the analyses should be conducted immediately and given priority by management.

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Management's Response and Status

Concur. A review will be conducted of the interpretation of the original enacting legislation, Orders, and Circular to identify inconsistencies in the calculation of interest on federal investment. Western will review the application of interest rate policies and collaborate with the generating agencies to resolve differences in calculating interest expense among all agencies. This issue is a high priority of the Chief Financial Officer's Office and will be resolved by 1996 fiscal year-end.

* * * * *

Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

This report is intended for the information and use of the management of Western, Reclamation, the Corps, and IBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1995