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REPORT BY THE

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Comptroller General

OF THE UNITED STATES

Status Of Bonneville Power Administration's Efforts To Improve Its Oversight Of Three Nuclear Power Projects

In the early 1970 s, the Department of Energy's Bonneville Power Administration acquired all or part of the power-generating capability of three nuclear projects being constructed in the Pacific Northwest by the Washington Public Power Supply System. Under its contracts with the Supply System, Bonneville has certain oversight rights and responsibilities to help ensure that the plants are constructed and operated in an efficient manner.

GAO found that Bonneville had improved its oversight efforts since a 1979 GAO review. For example, agreements between Bonneville and the Supply System improved Bonneville's ability to access key project information. In late 1983, as GAO was completing its field work, Bonneville restructured its oversight organization and formed a top management steering committee to coordinate its oversight programs.

While GAO agrees that Bonneville has taken positive steps to improve its oversight efforts, additional steps are needed. In particular, Bonneville needs to develop roles, policies, and procedural statements which clearly and specifically define the interrelationships and responsibilities of the various groups at Bonneville involved with oversight. Bonneville should then review the adequacy of oversight staffing against its defined oversight responsibilities.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-204636

The Honorable James Weaver
House of Representatives

Dear Mr. Weaver:

Enclosed is GAO's report Status of Bonneville Power Administration's Efforts to Improve Its Oversight of Three Nuclear Power Projects. As you requested this report discusses Bonneville's oversight of three nuclear projects being constructed by the Washington Public Power Supply System. Specifically the report identifies needed improvements in Bonneville's oversight program. This report contains recommendations to the Secretary of Energy that he direct Bonneville to

- define Bonneville's organizational oversight roles and procedures,
- assure Bonneville's oversight authorities are fully implemented, and
- review Bonneville's oversight organization and staffing to assure full support for the achievement of Bonneville's oversight objectives.

As arranged with your office, unless you publicly announce the contents of the report earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies of the report to the Director, Office of Management and Budget; the Secretary of Energy; interested congressional committees, subcommittees, and Members of Congress; and other interested parties. Copies will be made available to others on request.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

D I G E S T

In the early 1970's, the Department of Energy's (DOE's) Bonneville Power Administration acquired the rights to all or part of the electric power-generating capability of three nuclear power projects to be constructed and operated by the Washington Public Power Supply System.¹ Under a series of complex contractual agreements with the Supply System, Bonneville committed itself to paying all of the costs associated with two of the projects (Washington Nuclear Projects (WNP) 1 and 2) and 70 percent of the third (WNP-3).

PROJECT CONSTRUCTION HISTORY

The construction history of the projects reflects substantial cost overruns and schedule delays. The three projects were originally projected to cost about \$1.4 billion. As of March 1984, the last official estimates projected the costs at about \$9.9 billion. All of the projects are at least 5 years behind schedule, and construction on two of the projects (WNP-1 and WNP-3) has been suspended due to financing problems.

Although the projects are not yet in commercial operation, Bonneville, under the conditions of the agreements, must make principal and interest payments on the bonds used to finance the construction of the projects. Bonneville does this by collecting the necessary revenues through its power rates. As the costs of the projects have been melded into Bonneville's rates, the rates have been increased. For fiscal year 1984, the Supply System cost component is approximately 40 percent of Bonneville's standard rate charged to the majority of its customers. (See pp. 5 to 7.)

¹Formed in 1957 under the laws of the State of Washington, the Supply System is authorized to acquire, construct, and operate generating plants and other related facilities for its public utility members.

WHY GAO REVIEWED BONNEVILLE
PROJECT OVERSIGHT

The Supply System cost overruns and associated Bonneville rate increases have prompted concern in the Pacific Northwest over Supply System management of the projects and Bonneville's oversight role. In a 1979 report entitled Impacts and Implications of the Northwest Power Bill (EMD-79-105, dated September 4, 1979), GAO reported that Bonneville did not have the needed contractual authorities to perform an assertive oversight role.

Subsequently, the Chairman, Subcommittee on Mining, Forest Management, and the Bonneville Power Administration, House Committee on Interior and Insular Affairs, requested that GAO review Bonneville's oversight rights and authorities and its policies, procedures, and staffing for implementing those authorities.

BONNEVILLE'S EFFORTS TO IMPROVE
IMPLEMENTATION OF ITS OVERSIGHT
RIGHTS AND AUTHORITIES

Under its agreements with the Supply System, Bonneville has certain oversight rights and authorities, including the authority to (1) disapprove Supply System annual budgets, (2) have access to Supply System and project contractor books, (3) have access to information on project planning and construction, and (4) maintain a representative at the project site. These rights and authorities are intended to help ensure that the plants are constructed and operated in an efficient manner. In 1979, GAO reported that these agreements, while allowing Bonneville the right to monitor and critique Supply System actions, did not give Bonneville the ability to participate fully in the Supply System decisionmaking process. (See p. 11.)

In this review GAO found that while Bonneville's authorities under the project agreements remain limited, overall oversight opportunities since 1979 have improved. For example, a 1980 Memorandum of Understanding between Bonneville and the Supply System improved Bonneville's ability to access key project information. In addition, the Supply System's current Executive Board and management support an active Bonneville oversight role. (See pp. 13 and 14.)

However, GAO also found that Bonneville can further improve implementation of its contractual authorities in areas such as Supply System audits, staffing and organization, budget review, and project meeting attendance.

For example, Bonneville has reduced its audit coverage at the Supply System and, as of April 1984, was not in a position to undertake all of the high priority audits, such as contract reviews, that Bonneville and others have identified as necessary to protect ratepayers from inappropriate costs. Consequently, Bonneville cannot be assured that its payments to the Supply System are correct and justifiable. Also, Supply System audit coverage provided by the Washington State Auditor, the Supply System Internal Auditor, and the Executive Board Administrative Auditor has decreased because of staff reductions. (See pp. 27 to 30.)

GAO also found that Bonneville was not reviewing and monitoring Supply System reorganizations and staff reductions to assure that they were consistent with efficient operations and management. For example, when the Supply System's fiscal year 1983 budgets were approved, Bonneville was unaware that the Supply System Financial Office, which is responsible for providing financial controls and information, contemplated a staff reduction of 30 positions. At that time the office had only 208 of its 374 authorized positions filled. Bonneville should have been aware of the anticipated cutback and should have been prepared to reject that portion of the budget if the cutbacks would result in a level of financial information and controls unacceptable to Bonneville. Although Bonneville has the authority to monitor Supply System staffing and organization, Bonneville officials did not believe it appropriate to do so, as this was a management function outside the purview of its oversight authorities. (See pp. 30 to 32.)

Under its agreements with the Supply System, any Bonneville action to disapprove Supply System annual budgets for the projects must be done on a line-item basis.² Such reviews are

²A line-item review entails evaluating the specific expenses related to individual categories of cost, e.g., salary costs as a part of administrative or maintenance costs.

intended to identify potentially inappropriate expenditures. Bonneville, in 1979 testimony before the House Subcommittee on Energy and Power, Energy and Commerce Committee, indicated that it would use the line-item process in the future.

GAO found, however, no evidence that Bonneville conducted line-item reviews. Instead Bonneville reviews the Supply System budget development process. While the budget process is an important and relevant area for Bonneville's attention, it is not a substitute for line-item reviews. A process review does not allow Bonneville to monitor actual expenditures against approved budget items and question the appropriateness of cost increases or other discrepancies. (See pp. 32 to 34.)

In response to past problems in obtaining access to Supply System meetings and, consequently, key information on project costs and status, a 1980 Memorandum of Understanding between Bonneville and the Supply System established a policy to open these meetings to Bonneville representatives. However, GAO found that the Supply System has not always informed Bonneville about key project-related meetings such as budget development sessions. Participation in such meetings would help to ensure that Bonneville is informed on project costs, scheduling, and licensing matters and participates in the decisionmaking process. (See p. 34.)

OVERSIGHT ROLES, POLICIES,
AND PROCEDURES NEED TO BE CLEARLY
AND SPECIFICALLY DEFINED

To be effective in supporting agency management in its oversight efforts, Bonneville's oversight staff must have a clear understanding of how Bonneville's objectives are to be achieved, including what role each of the organizational units involved with oversight is expected to play. Procedures are needed to assure that Bonneville is monitoring all facets of plant management and taking full advantage of all available oversight authorities. The oversight organization should be in a position not only to anticipate problems at the Supply System, but also to assist in their early resolution. GAO found, however, that Bonneville's oversight roles, policies, and procedures were not clearly defined, and as a result the various oversight groups were not

coordinating their efforts and managers were not routinely receiving the information necessary to pursue effective oversight. (See pp. 17 to 20.)

In addition, Bonneville management indicated to GAO, during its review, that additional oversight staff was needed. However, it was not possible for GAO to review the adequacy of Bonneville's oversight staffing, as Bonneville had not developed policies and procedures for achieving its oversight objectives. (See pp. 25 and 26.)

RECOMMENDATIONS

To improve the effectiveness of Bonneville's oversight efforts, GAO recommends that the Secretary of Energy have Bonneville clearly and specifically define its oversight roles and policies and adopt procedures for implementing its oversight authorities. After this has been completed, Bonneville should review its staffing and organization to assure that they are adequate and appropriate to support a comprehensive oversight program. (See pp. 35 to 36.)

AGENCY COMMENTS AND GAO'S EVALUATION

DOE agreed with the general thrust of GAO's recommendations for improving its oversight program but believed that actions taken by Bonneville as GAO was completing its field work addressed GAO's concerns. For example, DOE noted that:

--In August 1983, Bonneville formed a Generating Projects Steering Committee chaired by the Deputy Administrator and composed of members of Bonneville's top management to coordinate Bonneville's oversight programs. (See p. 37.)

--In November 1983, Bonneville restructured its oversight organization for the stated purpose of assuring full use of its available oversight authorities. In establishing the Program Office, Bonneville developed "functional statements" addressing the responsibilities of various individuals and groups in Bonneville involved in oversight. (See p. 37.)

--Bonneville has assigned an additional position to facilitate improvements in its auditing of the Supply System. Also, line-item budget reviews are being conducted and Bonneville is notified about Supply System meetings. (See pp. 41 to 44.)

GAO agrees that the Steering Committee and the Program Office are positive steps to improve the effectiveness of Bonneville's oversight program. GAO believes, however, that additional steps should be taken.

For example, the functional statements developed by Bonneville are too general to effectively establish responsibility or accountability for adequate implementation of Bonneville's oversight authorities. Specifically, the statements still do not define the interrelationships or individual responsibilities of the various groups within Bonneville involved with oversight. In addition, it is unclear how the new audit position will function or when additional audit staff will be made available. Bonneville was also not able to provide, in response to GAO's request, specifics on when or how line-item budget reviews are conducted or clarify how the meeting notification problem was resolved.

Thus, GAO believes that Bonneville needs to pursue further improvement in its oversight program, including the development of more clearly and specifically defined oversight roles, policies, and procedures, and to review the adequacy of the oversight staff to support its defined oversight program.

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ABBREVIATIONS

DOE	Department of Energy
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The Congress established the Bonneville Power Administration (Bonneville) in 1937 to market and transmit electric power-- initially from the Bonneville Dam and later from other federal dams in the Columbia River basin. In the early 1970's when it was anticipated that federal hydropower would be inadequate to meet the Pacific Northwest's future electricity needs, Bonneville contracted to buy the electric power-generating capability from three nuclear powerplants to be constructed and operated by the Washington Public Power Supply System.¹ In complex contractual agreements with the Supply System, Bonneville, through its public utility customers, accepted the ultimate responsibility for all costs associated with two of the plants and 70 percent of the costs of the third plant. The construction history of the three nuclear plants reflects cost overruns and schedule delays, resulting in substantial increases in Bonneville's electricity rates.

The projects are in various stages of completion. As of March 1984, Washington Nuclear Plant (WNP) 2 was 98.7 percent complete; WNP-3, currently in a 3-year construction delay, was 76.1 percent complete; and WNP-1, currently in a 5-year construction delay, was 62.5 percent complete. Bonneville is obligated to pay principal and interest on \$6.1 billion in bonds issued to finance these three plants. Based on latest official Supply System estimates as of March 1984, another \$3.8 billion in financing may be necessary to complete the projects, bringing Bonneville's total obligation to \$9.9 billion for the three projects. Since the costs of the projects must be recovered through its electric power rates, Bonneville recognizes that it has a clear obligation to protect its customers and its ratepayers by overseeing the projects' efficient construction and operation.

Several reports have been issued on the responsibilities shared by Bonneville and the Supply System in assuring efficient construction of the plants and the relationship between the two entities. Our 1979 report entitled Impacts and Implications of the Pacific Northwest Power Bill" (EMD-79-105, Sept. 4, 1979) cited weaknesses in Bonneville's contractual agreements with the Supply System and in the way Bonneville was meeting its responsibilities to oversee the nuclear construction projects. We reported that, in contracting with the Supply System, Bonneville had not established oversight rights and prerogatives adequate to assure efficient construction of the three powerplants. The project agreements gave Bonneville budget review authorities and the

¹Formed in 1957 under the laws of the State of Washington, the Supply System is authorized to acquire, construct, and operate generating plants and other related facilities for its 23 public utility members.

right to monitor and evaluate Supply System actions, but did not assure full Bonneville participation in the decisionmaking process. Furthermore, although Bonneville had established a Thermal Projects Office to monitor the three construction projects, it was inadequately staffed to be effective. In 1979 Bonneville had only five professional staff overseeing the multi-billion-dollar construction program. None of the five had previous nuclear construction experience.

Since our 1979 report, a number of events have occurred in the region related to Bonneville's oversight efforts. In December 1980, the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839) was enacted giving Bonneville explicit authority for the first time to directly acquire new power resources to meet customer demands. The act requires that the Bonneville administrator exercise "effective oversight inspection, audit, and review of such (resource) construction and operation." Lessons learned from Bonneville's current oversight efforts for the Supply System plants can provide timely guidance to Bonneville in overseeing the future development of new power resources acquired under the act.

In January 1982, the Supply System Board of Directors terminated construction on two additional nuclear units (WNP-4 and WNP-5) not backed by Bonneville, due to an inability to raise funds through the financial markets to complete them. Subsequently, lawsuits and other events related to the terminations have created serious problems in continuing to finance construction of the Bonneville-backed units. Consequently, in April 1982 the Supply System Board of Directors deferred WNP-1 up to 5 years and on July 8, 1983, deferred WNP-3 for 3 years or until additional funding could be obtained. Since 1983, Bonneville has been financing the completion of WNP-2 directly from its power sales revenues.

Also, in June 1982, the Washington State Legislature restructured the Supply System Executive Board. The new Executive Board has afforded Bonneville expanded opportunities for oversight, particularly for involvement in key financial and construction schedule decisions.

OBJECTIVES, SCOPE, AND METHODOLOGY

In a June 10, 1982, letter (see app. I), the Chairman, Subcommittee on Mining, Forest Management, and the Bonneville Power Administration, House Committee on Interior and Insular Affairs, expressed concern as to what steps Bonneville had taken to fulfill its oversight responsibilities and protect regional electricity consumers from spiraling rate increases. Specifically, the Chairman asked us to review

- the impact of project-related costs on rates charged by Bonneville (see chapter 2);
- Bonneville contractual rights and authorities for oversight (see chapter 3);

- Bonneville's oversight policies, procedures, organization, and staffing arrangements (see chapter 4); and
- the adequacy of Bonneville's auditing of the Supply System (see chapter 4).

Our objective was to evaluate the adequacy of Bonneville's oversight efforts in terms of monitoring plant costs and where possible identify Bonneville actions to avoid passing on inappropriate costs to its ratepayers. Information on the electric rate impact of plant-related costs on Bonneville rates was obtained from the staff of the Bonneville Office of Financial Management and from Bonneville budget and rate-related documents.

To determine the nature and extent of Bonneville's oversight opportunities and authorities, contractual and other, we reviewed the project agreements, the 1980 Memorandum of Understanding between Bonneville and the Supply System, and reports issued by other audit groups and consultants. We discussed this topic with the Bonneville Administrator, Deputy Administrator, Executive Assistant to the Administrator, the Assistant Administrators for Financial Management and Engineering and Construction, and the Bonneville General Counsel. We also spoke with members of the Supply System's Board and Executive Board.

The Bonneville officials noted above, along with Bonneville's Assistant to the Administrator for Generating Projects, provided information on Bonneville oversight policies, procedures, organization, and staffing arrangements. The Bonneville documents we reviewed included organization charts, staffing analyses, consultant reports, Bonneville budget submissions, and internal memorandums.

To determine the adequacy of Bonneville's oversight program, we held discussions with Bonneville's oversight staff in Portland, Oregon, and at the nuclear powerplant project sites in Richland (WNP-1 and WNP-2) and Satsop, Washington (WNP-3). We discussed Bonneville's oversight practices with Supply System staff at Richland and Satsop. We also held discussions with and obtained documents from federal and state agencies/groups and private organizations directly or indirectly involved in the Supply System's construction of the three nuclear powerplants. These agencies included

- the Nuclear Regulatory Commission's Region 5 offices in Walnut Creek, California, and at the Richland, Washington, construction site;
- the Washington State Senate Energy and Utilities Committee in Olympia, Washington;
- the Washington State Auditors Office and Administrative Auditors Office in Richland and Seattle, Washington, respectively;

--Ernst and Whinney, certified public accounting firm in Spokane, Washington;

--Theodore Barry and Associates, consulting firm in Glendale, California; and

--the Pacific Power and Light Company in Portland, Oregon.

To analyze Bonneville's auditing efforts for the plants, we interviewed a former and the present chief auditor at Bonneville, and members of Bonneville's Financial Manager's audit staff. We also interviewed staff of the Washington State Auditor, the Supply System Internal Auditor, and the Executive Board Administrative Auditor, all of whom have authority to audit the Supply System. We also reviewed audit reports, audit programs, and internal Bonneville memorandum.

During an October 1982 briefing on our review, the Chairman also requested that we address the following areas if they were pertinent to assessing the adequacy of Bonneville's oversight:

--the Supply System's cash situation and the need for additional bond sales to complete WNP-2,

--the real cost of power produced by the plants, and

--Pacific Power and Light concerns about Supply System contingency funds.

Information on the first two items was provided by the Supply System. We did not address the last item in the report as the contingency fund issue proved not to be pertinent to our findings since it did not involve Bonneville.

The initial audit work for this report was completed in August 1983. Subsequently, in October and November 1983, Bonneville restructured its oversight staff. Due to the timing of the restructuring, it was not discussed in our draft report. In its comments, DOE provided us with information related to Bonneville's stated implementation of our recommendations. We reviewed this information prior to finalizing the report. Our review of the new organization is also included in this report. The new organizational structure and staffing commitments are discussed where appropriate in chapter 4 and in detail in chapter 5 as a part of our response to DOE's comments.

Our work was conducted in accordance with generally accepted government auditing standards.

CHAPTER 2

COST OVERRUNS AND SCHEDULE DELAYS COSTLY TO RATEPAYERS

The present cost and time estimates to complete the three nuclear power-plant projects greatly exceed the Supply System's original estimates. A Washington State study attributed the most significant cause of the cost overruns and schedule delays to mismanagement. These overruns and delays have and will continue to cost Northwest ratepayers through higher power bills. As shown in table 1, each project has been delayed at least 5 years and each has experienced cost overruns exceeding \$2 billion. As the graphs in appendix II illustrate, the construction budgets for all three projects have increased almost every year since their inception. The cost overruns for all three projects are currently estimated at more than \$7.6 billion, or 535 percent of the initial cost estimates.

Table 1

Project Schedule Delays and Cost Overruns

<u>Construction targets</u>	<u>Nuclear projects^a</u>			<u>Total</u>
	<u>WNP-1</u>	<u>WNP-2</u>	<u>WNP-3</u>	
	------(billions)-----			
Initial cost estimates ^b	\$0.515	\$0.333	\$0.581	\$1.429
Current cost estimates	\$3.311 ^c	\$2.491	\$3.266 ^c	\$9.068
Project overruns	\$2.796	\$2.158	\$2.685	\$7.639
Percentage overrun	543	648	462	535
Initial estimated date of commercial operation	9/80	9/77	9/81	
Current estimated date of commercial operation	6/91 ^d	7/84	12/89	

^aCost figures include total construction and fuel costs but exclude interest, financing, and reserves.

^bSource of initial cost estimates was a document entitled Supply System Project Construction Budget History dated June 1982. The information was developed by the Supply System for Bonneville.

^cLast official cost estimates for WNP-1 and WNP-3 included construction and fuel costs prior to 5-year and 3-year construction delays, respectively.

^dCurrent dates of commercial operation for WNP-1 and WNP-3 include 5-year and 3-year construction delays, respectively. These dates are consistent with current Bonneville estimates.

As of March 24, 1984, the Supply System had issued a total of \$6.1 billion in bonds to finance construction of the plants. This amount is about 62 percent of the estimated total financing needed to complete all three projects. Table 2 illustrates, by plant, total bond sales as of March 24, 1984,¹ and the estimated financing needed to complete construction, based on the last official estimates available.

Table 2

Financing Needs

	<u>Total bonds sold as of 3/24/84</u>	<u>Remaining esti- mated financing</u>	<u>Total estimated financing needed</u>
----- (millions) -----			
WNP-1	\$2,155	\$2,690 ^a	\$4,845 ^a
WNP-2	2,370	198	2,568
WNP-3	<u>1,600</u>	<u>961^b</u>	<u>2,561^c</u>
Total	<u>\$6,125</u>	<u>\$3,849</u>	<u>\$9,974</u>

^aBased on current plan to delay completion of WNP-1 for 5 years or until June 1991.

^bDoes not include costs of July 8, 1983, construction deferral.

^cBond data for WNP-3 represents financing for Bonneville's 70 percent interest.

Since 1977, Bonneville has been making payments for Supply System bonds, principal, and interest without receiving any electricity to market. This condition occurred because the plants will be completed much later than the original planned dates of commercial operation on which principal and interest payments were required to begin.

¹As of March 24, 1984, the Supply System reported remaining construction fund cash balances for the projects as follows: WNP-1, \$137.1 million; WNP-2, \$0.4 million; and WNP-3, \$10 million. Since August 1983, Bonneville has financed the completion of WNP-2 directly from revenues. On April 13, 1984, Bonneville estimated the WNP-3 construction fund would be exhausted on April 20, 1984. As of April 27, 1984, Bonneville anticipated funding its portion of WNP-3 costs directly from revenues.

Impact on power rates

Bonneville's financial commitment to the Supply System projects is very important to Bonneville's customers and their rate-payers. In dollar terms, Bonneville's commitment to WNP-1, WNP-2, and WNP-3 now exceeds the dollar amount of 40 years of federal investment in the Federal Columbia River Power System (FCRPS). As of 1983, the total federal investment in the FCRPS was \$7.7 billion. The FCRPS has generating capacity in excess of 19 million kilowatts. The three nuclear plants, having generating capacity in excess of 3.5 million kilowatts (about 20 percent of the federal hydropower capacity), will require a federal investment of about \$10 billion.

As the costs of nuclear generation have been melded into the federal hydropower base, Bonneville's rates have been increased. Power from the three nuclear projects was originally estimated to cost 6 mills/kilowatt hour (kWh) (a mill is one-tenth of a cent), roughly three times the cost of federal hydropower at that time. The Supply System now estimates that power will cost 62 mills/kWh for WNP-2, 93 mills/kWh for WNP-3, and 84 mills/kWh for WNP-1. Bonneville increased its rates 27 percent in 1974; 90 percent in 1979; 50 percent in 1981; 57 percent in 1982; and 22 percent in 1983. As shown below, substantial portions of the increases were attributable to the projects.

Bonneville Rate Increases

<u>Calendar year of rate increase</u>	<u>Fiscal year covered by rate increase</u>	<u>Total revenue requirement</u>	<u>Supply System cost requirement</u>	<u>Supply System percentage of total revenue requirement</u>
-----millions-----				
1974	1975-1979	\$ 316	\$ 23	7.1
1979	1980-1981	662	173	26.1
1981	1982	1,579	249	15.8
1982	1983	2,226	621	27.9
1983	1984-1985	2,770 ^a	822	29.6

^aRevenue and cost figures are for FY 1984.

Over 90 percent of the costs associated with the three plants are recovered through Bonneville's standard rate to the majority of its utility customers and its industrial rates. Those costs now account for a significant portion of those rates. For fiscal year 1984, the cost component included to recover Supply System costs represented 40 percent of the standard utility rate.

REGIONAL REACTIONS TO COST
OVERRUNS AND SCHEDULE DELAYS

Cost overruns and schedule delays experienced by the Supply System have created substantial concern in the Pacific Northwest. This concern prompted the Washington State Legislature to authorize an inquiry in 1980 and Washington State voters to approve an initiative in 1981 to control financing of publicly-owned powerplant construction.

Washington State Senate cited
Supply System inadequacies

In January 1981, after months of hearings and testimony, the Washington State Senate Energy and Utilities Committee issued a report entitled Causes of Cost Overruns and Schedule Delays on the Five WPPSS Nuclear Power Plants. The Committee report concluded that while some cost increases resulted from factors beyond the Supply System's control, Supply System mismanagement had been the most significant cause of cost overruns and schedule delays. The report identified the following more serious examples of counterproductive management practices:

- Failure to effectively manage construction contractors.
- Selection of inappropriate contracting methods, formats, and contractual terms.
- Failure to hold the architect-engineers and construction contractors accountable to the terms of their contracts.
- Decision to integrate construction management between Supply System and the architect-engineers.
- Failure to delegate adequate authority and responsibility for project management.
- Failure to develop a project management system which interrelates costs and schedules.
- Failure to develop schedules which integrate construction engineering and procurement.
- Failure to develop an effective change management system.

While Supply System management acknowledged the existence of most of the cited weaknesses, they did not agree with the committee report's conclusion that most cost increases were the result of mismanagement. They held that the delays and overruns could be attributed to new or revised regulatory criteria, low labor productivity, inflation, and design refinements.

The report noted, however, that the Supply System's new managing director (appointed Aug. 1, 1980) had acknowledged the existence of most of these problems and had taken action or had

recommended specific changes to the management system. The committee's findings were generally corroborated by the findings of various management consultants who had previously examined Supply System activities.

During legislative hearings, Supply System board members testified that the Supply System's mission was to build the powerplants irrespective of the costs. They said that they must continue to do so until the utilities scheduled to buy power from these plants tell them to stop.

Ratepayers attempt to gain control

On November 3, 1981, voters in the State of Washington attempted to gain control of the Supply System's expenditures by passing State Initiative 394. The initiative provided a mechanism for citizen review and approval of proposed financing for major public energy projects. It provided in part that no public agency could issue or sell bonds to finance the cost of construction of a major public energy project, or any portion thereof, unless it had first obtained authority to do so at a regular or special election by the voters of the local governmental agencies comprising the membership of the public agency.

On December 4, 1981, the bondholders' trustees for all three projects filed suit against the State of Washington and certain officials challenging the constitutionality of Initiative 394. The trustees alleged, in part, that Initiative 394

- denied the right to vote to many persons who share the burdens and benefits of these projects;
- impaired the covenants of the Supply System contained in Bond Resolutions, Project Agreements, and Net-Billing Agreements;
- caused injury to all bondholders in that the security for and value of the bonds have been substantially diminished; and
- as a state initiative, is preempted by existing federal legislation, including, among others, the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839).

On April 9, 1982, the U.S. Department of Justice also filed a complaint against the State of Washington and certain officials on substantially the same grounds.

On June 29, 1982, the United States District Court at Tacoma, Washington, held that Initiative 394 impaired certain contracts and obligations in violation of the U.S. Constitution. This decision was upheld by the Ninth U.S. Circuit court of appeals on January 11, 1983. The decision was appealed to the Supreme Court of the United States which, on April 18, 1983, refused to hear

the appeal. This action let the court of appeals decision stand, resolving the issue in favor of the bondholders' trustees.

REACTIONS IN THE FINANCIAL MARKETS

Throughout the 1970's, national investment banking and brokerage houses were enthusiastic marketers of the Bonneville-backed revenue bonds which the Supply System issued to finance projects WNP-1, WNP-2, and WNP-3. Supply System bonds were rated AAA, the highest rating which can be assigned to debt securities of this type.

Beginning in 1979, however, the volume of Supply System bond issues began to "saturate" institutional portfolios,² and some bond analysts began to question the wisdom of investing further moneys in projects so plagued with cost overruns and delays. Since termination of WNP-4 and WNP-5, and the ensuing legal suits, the prospects for bond sales by the Supply System to finance the construction of WNP-1, WNP-2, and WNP-3 in the foreseeable future appear unlikely.

²Portfolio saturation occurs when an institutional investor--for example, a pension fund--has invested up to a statutorily set limit in a particular stock or bond.

CHAPTER 3

BONNEVILLE'S OPPORTUNITIES FOR EFFECTIVE OVERSIGHT HAVE IMPROVED

In September 1979, we reported that project agreements¹ between Bonneville and the Supply System did not give Bonneville the assurance of full participation in the decisionmaking process. Since that time, Bonneville's opportunities for oversight have improved with the signing of a Memorandum of Understanding between Bonneville and the Supply System and management changes at the Supply System.

BONNEVILLE OVERSIGHT RIGHTS AND AUTHORITIES

Under its project agreements with the Supply System, Bonneville has certain oversight rights and authorities for the three nuclear projects. Specifically, Bonneville

- has access to information on project planning, engineering, and construction;
- may disapprove the annual construction budget and revised budgets;
- may disapprove bids, bid evaluations, contracts, and contract change orders over \$500,000;
- must approve bond resolutions;
- must approve project architect/engineers;
- may maintain a representative at the project sites; and
- has access to the books of the Supply System and project contractors.

In September 1979, we reported that, in contracting with the Supply System, Bonneville had not established rights and prerogatives adequate to protect regional power consumers. We reported that Bonneville's project agreements with the Supply System generally gave Bonneville review authorities and the right to monitor and evaluate the Supply System's actions, but did not assure full Bonneville participation in the decisionmaking process. We reported that the agreements

¹The agreements for the three projects are not identical but for the most part contain consistent provisions related to Bonneville oversight.

- authorized the Supply System, not Bonneville, to control the kinds of information which were disclosed during the planning, engineering, and construction phases, as well as the timing of such disclosures;
- provided Bonneville limited opportunities to participate in authorizing and pricing change orders to construction contracts;
- allowed Bonneville to maintain representatives at the project construction sites but provided them no authority regarding the administration or inspection of project construction;
- provided that unresolved conflicts between Bonneville and the Supply System would be decided by a project consultant using as a criterion the subjective concept of "prudent utility practice" (i.e., what would a reasonable utility do in this situation?); and
- established no limit or ceiling on the total costs which could be charged to Bonneville and its customers.

Our 1979 report and reports by other auditors and consultants also showed that there was room for substantial improvement in Bonneville's implementation of their oversight responsibilities for the nuclear construction program.

A Bonneville consultant, Theodore Barry and Associates, also reported in 1979 that Bonneville had very little leverage to affect Supply System decisions short of forcing disagreements into arbitration on the basis of "prudent utility practice." As the Theodore Barry report noted, the project agreements did not specify an oversight role, but the intent of the agreements appeared to provide Bonneville with the ability to ensure that the Supply System made decisions which would protect the interests of all Bonneville customers.

Theodore Barry and Associates identified a number of steps that would allow Bonneville to play a more effective oversight role. Included was the recommendation that a Memorandum of Understanding be developed that would clarify roles and responsibilities of Bonneville and the Supply System. The consultants also recommended that Bonneville

- should establish a partnership relationship with the Supply System's Executive Committee and its staff;
- should be represented at all the Executive Committee meetings by senior-level Bonneville management, i.e., the Administrator or the Deputy Administrator;
- be represented at the table with the Executive Committee members and actively participate in the discussions, but

should not have any voting rights in Executive Committee decisions; and

- should have senior management communicate more frequently with the Executive Board and Executive Committee members to facilitate proper understanding of each other's viewpoints.

According to the consultants, implementation of these recommendations would provide Bonneville with an improved mechanism for influencing Supply System actions, while strengthening the checks and balances on Supply System management by providing the Executive Board with a different point of view.

To improve the Supply System's management processes, Theodore Barry and Associates recommended

- more rigorous review of [Supply System] staffing levels,
- better insight into the causes and impact of change orders,
- a project management system which can more effectively correlate costs and schedules,
- establishment of work force and effective materials management systems,
- a more comprehensive financial forecasting and planning system,
- broader participation in the construction budget process, and
- more effective use of internal auditing.

BONNEVILLE'S POSITION HAS IMPROVED

Since 1979, Bonneville's opportunities to influence Supply System decisionmaking and to strengthen construction and financial management practices have improved. In particular, Bonneville has made progress in implementing the Theodore Barry and Associates recommendations. A Memorandum of Understanding was signed by Bonneville and the Supply System in 1980. The Memorandum of Understanding improved Bonneville's oversight opportunities because it

- provided for specific information to be made available to Bonneville by the Supply System on a routine basis, as well as any other specific information requested by Bonneville;
- established as a general policy that Supply System meetings would be open to Bonneville representatives;
- committed the Supply System to provide back-up documentation in sufficient detail to support a comprehensive Bonneville review of Supply System construction budgets; and

--authorized Bonneville to maintain representatives at the project sites to obtain information from project personnel pertaining to events which affect project cost or schedule and to evaluate for Bonneville the project control techniques and progress.

Bonneville's oversight position has also been improved by management changes within the Supply System. A new managing director was appointed by the Supply System in August 1980.² The new director took several steps to improve project management, including the appointment of several new members to the Supply System's top management team. Bonneville's Administrator told us that the Managing Director and his team are managing and directing the Supply System much more effectively than was the case during the period when the construction program was being established. The Administrator indicated that several construction performance records have been set since 1980 and that this demonstrates the effectiveness of the new leadership.

A restructuring of the Executive Board has also improved Supply System management and potentially the effectiveness of Bonneville's oversight. Effective June 19, 1982, the Washington State Legislature, with Bonneville's support, restructured the Supply System Executive Board and transferred virtually all decisionmaking powers from the Board of Directors to the Executive Board. The Executive Board now consists of 11 members, 5 appointed from the Board of Directors and 6 from "outside" the publicly owned utilities comprising the Supply System. The six outside members represent the construction, financial, and electric power utility communities. Three of the outside members are appointed by the Board of Directors and three are appointed by the Governor of Washington.

Our discussions with current Executive Board members, including the new Chairman, confirmed that the Board recognized Bonneville's responsibilities to its customers and the legitimacy of Bonneville's oversight role. They told us that they intend to work with Bonneville and will listen to anything Bonneville has to say concerning Supply System management of the plants. The Chairman of the Executive Board told us that "Bonneville is entitled to as much oversight as they want to exercise." He said that there was no reasonable way for Bonneville to engage in day-to-day Supply System management, but Bonneville should be able to do what it feels is needed.

²The managing director appointed in August 1980 resigned due to health reasons in June 1983. He was, however, replaced by a member of the management team he brought on in 1980.

Bonneville oversight philosophy and objectives

In an August 1982 memorandum to Bonneville's oversight staff and top management, the Bonneville Administrator stated, "The three most important objectives of [Bonneville] oversight are to cause the Supply System to succeed by:

- A. giving priority emphasis to the successful completion of WNP-2,
- B. assisting all projects to be completed within a schedule and within a budget which is cost-effective, and
- C. helping assure the quality, safety, and operating capability of the projects."

To accomplish these objectives, Bonneville's Administrator and his staff told us that Bonneville had adopted an oversight philosophy which called for a wide range of Bonneville involvement in Supply System management and decisionmaking related to the projects. This involvement was to occur before decisions were made and was intended to provide timely recommendations and enhancements prior to final decisionmaking while being minimally disruptive to orderly project design, development, and construction. The Administrator believed that a close working relationship with the Supply System's top management and Executive Board was the major means by which Bonneville could constructively influence the Supply System decisionmaking and management processes. He cited, for example, his participation in Executive Board meetings where key issues are debated and Bonneville recommendations to the Board on what action should be taken on critical decisions.

To enhance his ability to implement this philosophy, the Bonneville Administrator used the services of a consultant who is an expert in nuclear technology and powerplant construction and operation. According to Bonneville's Administrator, this consultant had the qualifications and stature to represent the Administrator in dealings with the Supply System, the Nuclear Regulatory Commission, and other governmental and private entities concerned with the nuclear construction projects.³

According to Bonneville's Administrator, the financial crisis facing the Supply System when he became Administrator in 1981 required that the construction program be brought under control and that the Executive Board be restructured to assure the presence of the skills and expertise necessary to manage the successful completion of the projects. Consequently, Bonneville's oversight

³The consultant is no longer in this role due to being appointed to a Department of Energy (DOE) position.

efforts from 1981 until late 1983 focused on working with the Governor of Washington to reformat the Executive Board, the completion of WNP-2, and the deferral and preservation of WNP-1 and WNP-3. According to the Administrator, the sensitive management nature of these efforts required his personal involvement and that of his top management. Due to the immediacy of the financial crisis, day-to-day oversight efforts related to budget review, auditing, etc., were, according to the Administrator, given limited priority. The Administrator believes that not only was this trade-off necessary, but that by deferring construction on WNP-1 and WNP-3 in an orderly manner while working to complete WNP-2, the region has saved millions of dollars.

Bonneville's approach to oversight depends on the Administrator, Bonneville's top management, and a consultant as the principal players who must effect improvements in the management of the projects through their interactions with and recommendations to the Executive Board and top management of the Supply System. Other members of the oversight staff, including those at the construction projects, were at the time of our review viewed as information sources only and were seldom authorized to act directly on any problems they identified with the management or construction processes. According to Bonneville officials, this was necessary because the Administrator has limited authority, a situation he inherited and cannot change unilaterally.

Now that WNP-2 is nearing operation and the immediate crisis jeopardizing WNP-1 and WNP-3 have been averted, the Administrator stated that greater emphasis was being placed on the ongoing monitoring of project-related activities. According to the Administrator, this increased emphasis is evidenced by Bonneville's late 1983 restructuring of its oversight program and staff, which is discussed in detail in chapter 5.

CHAPTER 4

BONNEVILLE'S OVERSIGHT COULD BE MORE EFFECTIVE

To successfully perform its oversight obligations and protect the interests of the region's ratepayers, Bonneville needs to take advantage of all the opportunities and authorities available to monitor the management of the Supply System and construction of the nuclear projects. The Administrator's and his key oversight managers' success in assessing and, where appropriate, guiding Supply System management and decisionmaking is dependent on their having accurate and timely information on the status and condition of the construction program.

For Bonneville's oversight staff to be effective in supporting agency management in its oversight efforts, the staff must have a clear understanding of how Bonneville's oversight objectives are to be achieved, including what role each of the organizational units involved with oversight is expected to play. Procedures are also needed to assure that Bonneville is monitoring all facets of project management. The oversight organization should be in a position not only to anticipate problems at the Supply System to assist in their early resolution, but also to assure that Supply System activities and programs support the efforts of the Executive Board and Bonneville in achieving the efficient construction completion and operation of the projects.

Our review found, however, that Bonneville's ability to effectively oversee the development of the projects was hampered by not having clearly and specifically defined organizational roles and procedures supporting the achievement of its oversight objectives. As a result, uncertainty existed within Bonneville to what was to be accomplished, by whom, and how. Between 1979 and 1983, Bonneville added three full-time oversight positions and a nuclear consultant. Bonneville currently has a total of 23 employees assigned to oversight activities. However, we found that in several areas Bonneville was underutilizing key oversight rights as set out by both the project agreements and the Memorandum of Understanding. As a result, Bonneville was not in a position to assure itself and the region's ratepayers that the Supply System is developing the projects in the most cost-effective fashion.

OVERSIGHT ROLES, POLICIES, AND PROCEDURES NEED TO BE CLEARLY AND SPECIFICALLY DEFINED

Although more than 10 years have passed since Bonneville signed its project agreements with the Supply System, Bonneville has yet to identify organizational roles and establish oversight policy and procedural guidance for achieving its oversight objectives. Past studies on Bonneville's oversight efforts have pointed to the need for defined roles, policies, and procedures as a cause of reduced oversight effectiveness, as well as uncertainty within Bonneville and the Supply System about the exact nature of Bonneville's oversight efforts. In September 1977, the Department of

the Interior's Office of Audit and Investigation reported that Bonneville had never formally defined its oversight role or developed a plan to accomplish it. The report recommended that

"Oversight program objectives should be defined in functional and organizational terms describing the duties and responsibilities for accomplishing oversight objectives, and the organizational channels through which problem areas are to be resolved."

In 1979, Theodore Barry and Associates reported that Bonneville had not defined its oversight role and procedures and that this resulted in uncertainty among both Bonneville and Supply System staffs and reduced the effectiveness of Bonneville's oversight. This report stated that:

"Because of a lack of specificity about. . . [Bonneville's] role in the construction of the net-billed projects, confusion exists about the role now played by . . . [Bonneville's] Thermal Projects personnel. Some . . . [Supply System] personnel have difficulty in understanding the exact nature of . . . [Bonneville's] activities as related to the net-billed projects. . . . [Bonneville] Thermal Projects personnel have difficulty in defining the exact nature of their own activities.

"The lack of a clear plan for the . . . Bonneville staff has diluted their effectiveness."

Also in 1979, the consulting firm of Cresap, McCormick, and Paget concluded that Bonneville needed to clearly document its definition of the oversight function.

In April 1980, another consultant, under contract to Bonneville, Decision Planning Corporation, also recommended that Bonneville clearly define the functions and activities associated with its oversight and prepare detailed written procedures defining the manner in which it intended to accomplish its oversight role.

Bonneville has tried without success
to define its oversight roles,
policies, and procedures

Bonneville has made several unsuccessful attempts to define and document its oversight roles, policies, and procedures. These attempts began as early as 1976 and more recently have included the following:

--In 1980, Bonneville's Thermal Projects staff attempted to develop a "Program Plan."

--In early 1981, the Acting Administrator directed Bonneville's Financial Manager to develop procedures for

exercising Bonneville's budget review authorities for the projects.

--In early 1982, the Administrator indicated that he would be developing new oversight policies and programs.

None of these efforts have been completed.

Prior to November 1983 when it was abolished, the Thermal Projects Office consisted of all oversight employees located within the Office of Engineering and Construction. In mid-1980, on their own initiative, the Thermal Projects staff attempted to draft an oversight Program Plan. This plan was to develop a consensus view of their obligations and responsibilities, as well as the authorities and methods of operation for Bonneville's oversight effort. The Program Plan's specific intent was to

--set forth the Thermal Projects Office methods, procedures, authorities, and responsibilities for oversight;

--define the interrelationships and responsibilities among all of the organizations within Bonneville involved in overseeing the Supply System; and

--identify and control the interfaces with the Supply System.

Although a draft Program Plan was essentially completed at the staff level, Bonneville management never adopted it because it could not reach a consensus on what the plan should contain. At the time of our review, Bonneville had made some preliminary moves to revive and revise the 1980 Program Plan developed by the Thermal Project Staff. The Administrator acknowledged, however, that Bonneville had not pursued this diligently.

Bonneville efforts to establish budget review procedures also have been unsuccessful. Shortly after the Office of Financial Management was established on January 18, 1981, the Acting Administrator directed the Financial Manager to establish definitive procedures governing the use of Bonneville's Supply System budget review authority. This directive was intended to (1) ensure that Bonneville adequately and efficiently carried out its financial responsibilities and (2) achieved coordination between the various divisions within Bonneville engaged in financial activities related to the three projects. The Office of Financial Management had, at the time of our review, coordinated Bonneville's review of three complete budget cycles (fiscal years 1982, 1983, and 1984) but had not documented policies and procedures to guide the review of Supply System budgets.

In early 1982, the Administrator told us that he intended to

--define and perfect Bonneville's oversight policies and program and

--coordinate and clear the policies and program with Supply System management, the Supply System Board and the investor-owned utilities by June 1982 and begin implementing the policies and program in June 1982.

Subsequently, in an August 1982 memorandum identifying Bonneville's oversight objectives, the Administrator requested that Bonneville top management and oversight staff "interpret [the objectives] from the standpoint of our respective functions, and list the things we individually can do to support these objectives." He also asked for suggestions to improve the objectives.

However, in an October 1982 letter to us clarifying Bonneville's oversight policies, the Administrator stated that:

". . .Due to the dynamic nature of the issues which must be addressed, it would not be practical or useful to attempt to write a document which would provide 'established policies and procedures.'"

The reasons behind Bonneville's shift in position from early 1982 to October 1982 are unclear. In January 1983, Bonneville again assigned staff to this task. However, by the end of our review, in August 1983, we had found no evidence of progress being made in developing organizational role statements and procedures for achieving Bonneville's oversight objectives.

DOE, in its comments on a draft of this report, stated that the "functional statements" developed by Bonneville in the fall of 1983 to describe the responsibilities of onsite staff now involved in oversight represent the roles, policies, and procedures necessary for an effective oversight program. However, our review of the functional statements found them to be too general to effectively establish responsibility or accountability for adequate implementation of Bonneville's oversight authorities and revealed that the statements themselves call for the development of additional policies and procedures. DOE's comments are discussed in detail in chapter 5.

We believe that specific policies and procedures are needed. Bonneville's oversight staff told us that their job was what they make of it. They explained that they were supposed to be the "eyes and ears of Bonneville" at the projects. However, they were not sure what they are expected to accomplish or how they were supposed to do it. Bonneville staff were uncertain as to what role they were to play in implementing the Administrator's philosophy of oversight or where their activities could support the participation of Bonneville top management in Supply System management and decisionmaking.

In addition, there was uncertainty within the Supply System about Bonneville's oversight efforts. A senior Supply System manager told us that "it is hard to understand how they [Bonneville] operate when they don't seem to know themselves."

The absence of established policies and procedures was particularly serious because Bonneville had, at the time of our field review, decentralized the oversight staff throughout its large organization. A decentralized organizational structure places a premium on role definition and procedural guidance to assure that

- Bonneville management knows where to go to get the information needed,
- the information is made available,
- all facets of project activity are consistently monitored for changes in key variables such as plant cost and the possible need for Bonneville action to protect its rate payers,
- the oversight program has adequate staff and expertise, and
- Bonneville's contractual authorities are adequately implemented.

We found, however, that in several oversight actions we examined, Bonneville management was not assured of the timely, accurate information it needed due to the decentralization of the staff and the lack of defined policies and procedures.

Oversight organization decentralized but not coordinated

Bonneville's oversight organization at the time of our review was considerably different than at the time of our 1979 review. In the intervening years, oversight responsibility had been decentralized throughout Bonneville without the procedures necessary for effective coordination or accountability for results. This had further complicated internal coordination of an oversight effort already handicapped by undefined roles, policies, and procedures. In November 1983, Bonneville adopted a new oversight structure which established a Supply System Program Office in the Office of the Administrator. This organization is close to what was in place during our 1979 review. However, even with the creation of the Program Office, the majority of Bonneville's oversight staff remain decentralized throughout the agency.

In 1977, Bonneville established an Assistant to the Administrator-Thermal Projects position and supporting staff positions in the Office of the Administrator. This position was established to administer and coordinate all aspects of Bonneville's responsibilities for overseeing the projects. Bonneville took this action to bring key personnel who were engaged in monitoring Supply System under the direct supervision of Bonneville's Deputy Administrator, who had the primary executive responsibility for the oversight program. Increased coordination and communication among Bonneville's oversight staff was believed necessary due to concerns about how the Supply System was managing its construction program. In July 1979, the consulting firm of Cresap,

McCormick, and Paget reaffirmed the appropriateness of locating Bonneville's oversight staff in the Office of the Administrator.

About the time we completed our 1979 review, Bonneville's top management proposed moving the Thermal Projects staff out of the Administrator's Office into the Office of Engineering and Construction. Cresap, McCormick, and Paget advised against this move and cited the following reasons.

- "-The importance, sensitivity and cost implications of the . . . [Supply System] oversight function require that it be placed at as high a level. . . as practical.
- Such a move might be construed as a reduction in importance of the . . . oversight function, and as such could have a further negative impact on the . . . [Supply System] relationship.
- Several recommendations in the report by Theodore Barry and Associates [TBA], . . . support the need for the . . . oversight function to operate at a high level within the . . . organization. For example, the TBA report recommends that . . . [Bonneville] exercise its oversight role with the . . . Executive Committee and, in general, that increased interaction take place between the senior levels of . . . the Supply System and Bonneville. Bonneville could risk a severe disadvantage by placing the responsibility for oversight essentially at the branch level.
- Closer ties with Engineering activities might miss the mark of needed improvements in the oversight function; these needs appear to be in the areas of project management and business management, and not engineering."

Bonneville's Thermal Projects staff also objected to the proposed reorganization. In a November 1979 letter to the Deputy Administrator, the Assistant to the Administrator-Thermal projects wrote:

". . . there is great potential for serious communication gaps, the overlap of duties, responsibilities, concerns, and misconceptions..."

"In summary, I emphasize our feeling that a move to E&C Engineering and Construction would give the appearance of deemphasizing oversight, would create what could be very serious [internal] communication problems which are harmful to morale and effectiveness, and would be very confusing for outsiders who interface with us."

The following month (Dec. 1979), the position of Assistant to the Administrator-Thermal Projects became vacant. Then, in May 1980, Bonneville proceeded with the proposed reorganization. All 10 authorized staff positions under the Assistant Administrator-Thermal Projects were transferred out of the Administrator's Office into the Office of Engineering and Construction. The vacant position of Assistant to the Administrator-Thermal Projects was retained to continue administering and coordinating Bonneville's oversight activities. However, the vacancy was not filled, and for 2-1/2 years responsibility for coordinating Bonneville's oversight efforts rested with the Administrator, his deputy, and his executive assistant.

In July 1982, the vacant position of Assistant to the Administrator-Thermal Projects was modified and retitled Assistant to the Administrator-Generating Projects. The first manager selected to serve in this position began working on a full-time basis in January 1983. His responsibilities included coordinating the efforts of Bonneville's line staff for Supply System matters and overseeing the budgets and schedules of future generating resources from which Bonneville may acquire capability or output.

Although this manager was responsible for coordinating the work of Bonneville's functional experts on Supply System matters, it is unclear how his coordination responsibilities would be accomplished. Unlike his predecessor, the manager had no direct authority over any of Bonneville's decentralized staff on Supply System matters. He supervised only one person, who was referred to as the Supply System Liaison. The Supply System Liaison, located at the Supply System headquarters, was responsible for facilitating and coordinating communication and information flows between Bonneville and the Supply System. However, functional oversight responsibilities for construction, finance, and power plant operations were assigned to a variety of functional units throughout Bonneville's organization, as figure 1 on the next page illustrates.

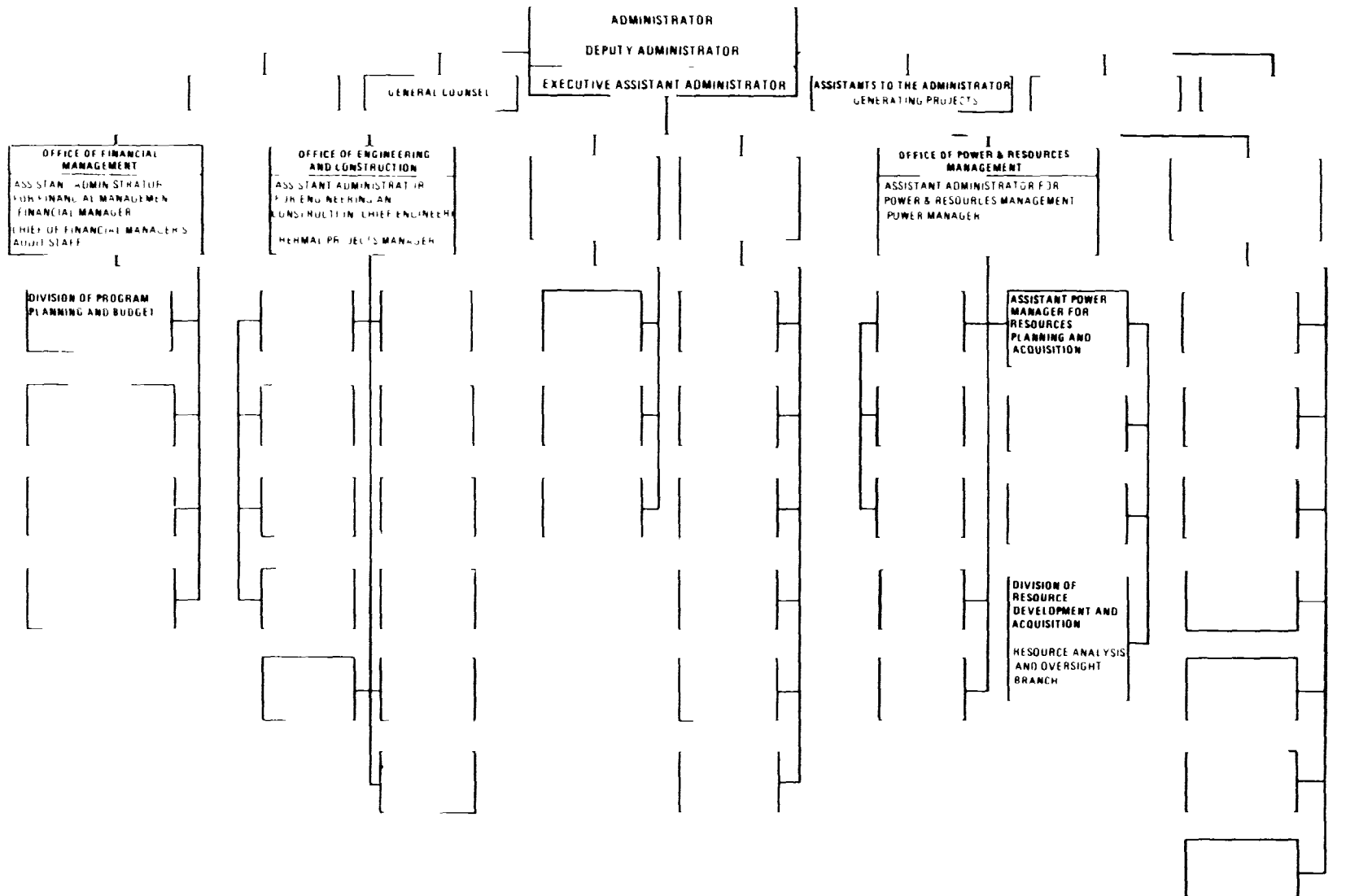
Bonneville managers need necessary information

To determine whether there were adverse impacts from Bonneville's decentralized approach to oversight accompanied by no role definition or operating procedures, we examined the oversight aspects of a decision related to WNP-3 identified by Bonneville's Administrator as a key oversight accomplishment.

Available cost data omitted in Bonneville analysis of WNP-3 schedule options

In June 1982, higher-than-expected construction productivity encouraged the Supply System to consider completing WNP-3 about 6 months early. Bonneville's Division of Power Resources Planning conducted an analysis to determine the net-benefit of adopting an

Figure 1



earlier completion date. The results of the analysis were summarized in an internal Bonneville document entitled Economic Analysis of WNP-3 Acceleration. Bonneville's analysis concluded that completing WNP-3 6 months early would increase net costs slightly, about \$11 million, ignoring any change in capital costs. The report indicated that if a small savings in capital costs were realized through early completion, then early completion would probably be favored. The report did not consider savings in capital costs because "No estimates of the change in capital costs due to acceleration were available."

During our review we asked Bonneville's project engineer at WNP-3 why an estimate of saved capital costs was unavailable. He said that the capital cost information needed for the analysis was available in Bonneville's Office of Engineering and Construction. Because the responsibilities of the various groups involved with oversight had not been identified, the Power Resources and Planning staff was unaware that the project engineers monitored this information or that the information was available.

The project engineer was aware of the potential capital cost savings through his review of the Supply System's 1983 budget, which estimated the savings in capital costs to be \$60 million for completing the project 6 months early. However, the project engineer did not know Bonneville's Division of Power Resources Planning was making the accelerated completion analysis and consequently was unaware that this particular information was needed. Had the estimated \$60 million in capital cost savings been included in the analysis, it would have shown a significant net benefit from early completion of WNP-3.

Subsequently, Bonneville's Administrator told the Supply System Managing Director that there were no benefits to early completion. The Supply System decided not to complete WNP-3 early and Bonneville concurred with this decision. Consequently, an opportunity to potentially reduce project costs was lost.

Recognizing that the subsequent deferral of construction on WNP-3 rendered the analysis and decision moot, our finding remains relevant. Due to incomplete information, Bonneville recommended a specific course of action to the Supply System for completing the project which, was in fact, not the most cost-effective alternative.

As pointed out previously, the Assistant to the Administrator-Generating Projects had no direct authority over any of Bonneville's decentralized staff or Supply System matters. Thus, coordination between groups would be difficult unless specific roles were defined and/or communication lines were clear.

OVERSIGHT STAFFING

Bonneville increased its oversight staff between 1979 and August 1983 by establishing three new full-time oversight

positions. Also, in 1982, the Administrator retained a nuclear consultant to assist him with Supply System oversight. At the time of our review, Bonneville had two full-time professionals--a project engineer and a program analyst--authorized for projects WNP-2 and WNP-3--and one professional, a project engineer for WNP-1. In total, excluding the Administrator and Deputy, there were 23 Bonneville employees with oversight responsibilities. The 23 employees were located in the following Bonneville offices.

Oversight Staff

<u>Office</u>	<u>Full time equivalent</u>	<u>Number of oversight employees</u>
Assistant to the Administrator- Generating Projects	0.75	1
Supply System Liaison	1.00	1
Office of Engineering and Con- struction (Thermal Projects Office)	6.15	7
Clerical	1.00	1
Office of Financial Management	2.20	5
Office of Power and Resources Management	1.85	5
General Counsel	<u>1.55</u>	<u>3</u>
Total	<u><u>14.50</u></u>	<u><u>23</u></u>

During our review, Bonneville management indicated that additional oversight staff was needed. Bonneville's nuclear consultant on Supply System matters also expressed concern over whether Bonneville devoted sufficient resources to its oversight program. Although this may be true--especially considering the size and history of the Supply System nuclear construction program, Bonneville management, at the time of our review, had not identified how many or what type of staff was needed.

Bonneville's oversight staff also indicated that the oversight effort could use more staff with expertise in contracting, accounting, and quality assurance. Without adequate procedures identifying how Bonneville will be implementing its oversight program in order to achieve its oversight objectives, we could not review the adequacy of Bonneville's oversight staffing.

In its comments on our draft report, DOE indicated that the staffing figures were out of date due to the reorganization of Bonneville's oversight staff in November 1983. At our request,

Bonneville provided an up-to-date list of full-time equivalent positions assigned to oversight. However, the new information is not comparable to the information originally provided by Bonneville as reflected in our draft report. According to Bonneville's Assistant to the Administrator for Generating Projects, the original information was incomplete because it did not include all Bonneville staff participating in oversight. The new information indicates that Bonneville has 60.7 full-time equivalents assigned to oversight activities. Bonneville was unable to determine how many additional full-time equivalents were provided as a result of the November 1983 reorganization. An additional six onsite positions were created in the Program Office, but it is unclear how the total number of full-time equivalents in other parts of Bonneville were affected through the consolidation of Bonneville's oversight functions into the Program Office. Chapter 5 provides additional details on current staffing levels.

BONNEVILLE SHOULD BETTER USE
AVAILABLE OVERSIGHT AUTHORITIES

Our review of Bonneville's oversight efforts also revealed that Bonneville was underutilizing certain key oversight rights and authorities established in the project agreements and the Memorandum of Understanding. Specifically we found limited use of Bonneville's authority to

- audit Supply System expenditures, activities, etc;
- evaluate Supply System staffing and organization;
- review Supply System annual budgets; and
- attend project meetings.

Audit coverage is incomplete

Under the terms of its Project Agreements with the Supply System, Bonneville has the right to access the Supply System's books and records for inspection and audit for a 3-year period. Bonneville is also authorized to review and audit the books and records of project contractors for the same length of time. Audit forms an integral part of oversight coverage because it provides the "feedback loop" on how well management is performing and if program goals and objectives are being efficiently achieved. Audits frequently provide management and other parties responsible for an effort with the first indication a problem exists. Past reviews of Bonneville's oversight efforts, including the 1979 Theodore Barry report, recognized the importance of audit in an effective oversight program, as does the 1980 Northwest Power Act.

At the time of our review, however, Bonneville was not fully exercising its audit authority for oversight due to a lack of audit staff and its philosophy of oversight, which emphasizes front-end involvement in Supply System management and decision-making and appears to underplay subsequent audit followup.

According to Bonneville's Chief of the Financial Manager's audit staff and the Assistant Administrator for Financial Management, they did not have adequate staff resources to do the Supply System work that was required and to cover all other high priority work. An April 5, 1983, memorandum from the Assistant Administrator for Financial Management to the Executive Assistant Administrator identified 12 plus staff-years of work for the Internal Audit staff including 4 staff-years of effort for Supply System audits.

At that time, 1.67 staff years out of an available 5 were being expended on the Supply System. In the memorandum the Assistant Administrator stated "I am convinced that the number of persons on the audit staff must be increased" and requested staff resources equal to two additional full-time employees to bring the Supply System work up to a minimum level of staffing. According to the Chief of the Financial Manager's audit staff, the staff limitations have prevented the group from undertaking audits with significant potential cost savings, such as the examination of the Supply System fuel management program requested by the Administrator's nuclear consultant.

Since our 1979 review, Bonneville has reduced its audit coverage for the Supply System. Bonneville reorganized its audit effort in December 1981, transferring four of the audit staff members responsible for reviewing Supply System activities from the Office of Audit located in the Office of the Administrator to a new audit group reporting to the Assistant Administrator for Financial Management. Staff members were assigned other internal audit responsibilities in addition to all audit responsibilities for Supply System activities. Since this reorganization, the majority of the work done related to the Supply System has been special analyses related to project slowdowns and terminations. No reports on Supply System financial management controls or construction programs have been issued.

In addition to Bonneville, four other groups have audit responsibility for the Supply System, they are

- the Washington State Auditor,
- the Supply System Internal Auditor,
- the Executive Board Administrative Auditor, and
- Ernst and Whinney, the Supply System certified public accountants.

At the time of our review three of these groups had also experienced staff reductions.

The Washington State Auditor's staff had been reduced from a high of about 13 staff-years to a level of 4 staff-years. The reduction in staff size has been attributed to the termination of WNP-4 and WNP-5 and the 5-year delay of WNP-1. The state's

regional audit manager said that at least two additional staff persons were needed for their present workload. The Executive Board Administrative Auditor also reported that two additional staff were needed to assure adequate audit coverage.

The Supply System's Internal Audit staff size had been reduced from a high of 27 full-time equivalents in October 1981 to 11 full-time equivalents in December 1982. Although the Supply System Internal Audit staff was supplemented by contracting for the services of 14 outside audit positions at the time of our review, the Chief of the Supply System's Internal Audit indicated that he could not meet his current workload and that a number of areas were not receiving attention. He explained that, currently, all his efforts are in contract auditing and that he has not reviewed corporate accounting and internal controls in over a year. Since that time, the Supply System Internal Audit staff has been increased to 19 authorized positions, 18 of which have been filled. Four additional positions have been requested for fiscal year 1985.

Concerns over staffing shortfalls by officials of the audit groups responsible for reviewing Supply System activities surfaced in December 1982 when the groups met to coordinate their work. Bonneville's minutes of that meeting showed that the various audit organizations identified 41 areas needing audit attention and narrowed that universe to 8 high priority areas requiring increased effort in the near future. The high priority areas consisted of fuels management, internal control of inventories and surplus material, contract audits, procurement procedures and contracting, operational audits of staffing levels and structural alignments, budget and financing forecasts, operational accounting issues, and cost sharing.

The auditors attending the coordination meeting recognized that some of the high-priority areas were being covered to a degree while other areas were not being covered at all. All four audit groups represented at the meeting envisioned shortfalls in Supply System audit coverage due to staffing limitations.

Although aware of these indications that audit coverage at the Supply System had been restricted by staffing limitations, Bonneville management, for reasons we could not determine, had not taken action to assure that adequate and appropriate audit resources were made available to conduct the high priority audits identified in the December 1982 audit coordination meetings.

In addition, Ernst and Whinney reviews of Supply System costs (conducted at the Supply System's request), indicated that problems existed in the audit work being performed by the Supply System's internal auditors, in the adequacy of the Supply System's followup action on the findings of its auditors, and in Bonneville's monitoring of these problems.

In late 1982, Ernst and Whinney issued two special reports that resulted from a request by the Supply System's Managing Director to

--evaluate the need to reaudit costs paid by the Supply System to the construction manager on WNP-3, for the period 1973 through 1980 and

--ascertain what monetary consideration, if any, the Supply System received from the construction manager as settlement for more than \$2.5 million in disallowed costs arising out of internal audits for the years 1978 and 1979.

The first report identified a potential for significant cost recoveries if the Supply System reaudited certain costs paid to the construction manager between 1973 and 1979. The auditors also identified potential cost recoveries which could amount to as much as \$4 million for calendar year 1978 and 1979. The auditors indicated that additional nonallowable costs might be found in legal expenses and uncollectable accounts in all years since the contract began in 1973. Ernst and Whinney did not attempt to quantify the potential recoveries for these years, however, because the Supply System's Internal Audit workpapers were either incomplete or insufficient.

In its second report, Ernst and Whinney said that they found no written evidence that the construction manager had been required to pay any of \$2.5 million in disallowed costs arising from the Supply System's internal audit findings for 1978 and 1979.

Bonneville's Financial Manager's audit staff were unaware that Ernst and Whinney had conducted these two special reviews. Regarding the \$2.5 million in disallowed costs, the Chief of the audit staff said that Bonneville had previously examined some questionable contract costs and discussed them with the Supply System's internal audit staff but that the audit staff took no further action because Bonneville believed that the Supply System's negotiations and recoveries were adequate. The Chief said that Bonneville had not established a systematic approach for following up to assure that audit coverage is adequate and that Supply System management properly implements auditors' recommendations.

The Ernst and Whinney reports raise questions from an audit standpoint because other contracts at the Supply System might be subject to the same findings. Unless Bonneville is aware of the work being done by the other audit groups and develops a systematic approach for determining the adequacy of their efforts, and is aware of Supply System management implementation and followup, Bonneville's own auditing and oversight efforts are weakened.

Bonneville not reviewing Supply System organization and staffing changes

We also found during our recently completed review that Bonneville was not monitoring the Supply System's organization and

staffing changes. The 1980 Memorandum of Understanding states that the Supply System shall provide Bonneville with reports on "manpower level changes and reorganizations of System and Architect-Engineer staffs that are charged to [the] projects with concise explanation of purposes." We found, however, that Bonneville had neither attempted to secure such information nor involved itself in meetings where Supply System reorganizations were discussed. Current Bonneville management believes these areas to be outside the purview of their oversight activities as they are a Supply System management function. However, we believe that Bonneville could be missing opportunities to make timely recommendations promoting Supply System management improvements.

We noted, for example, that Bonneville has repeatedly called for better financial information from the Supply System as well as better financial controls. In May 1982 Bonneville's Financial Manager told us that the Supply System does not appear to have an adequate financial organization or adequate financial controls in place and that Bonneville must work to assure that the Supply System has competent financial people, adequate controls, and the proper organization. We found, however, that

--total staffing of the Supply System's financial office at June 30, 1982, was only 56 percent of that authorized in the 1982 Supply System budget (208 positions were filled out of 374 authorized) and

--the 1983 budgets contemplated cutting the financial staff another 14 percent (30 positions) below June 1982 levels.

When Bonneville approved the fiscal year 1983 budgets, its oversight staff had no detailed knowledge of the Supply System's existing financial organization or the specific staff reductions targeted for fiscal year 1983. We believe that Bonneville should have been aware of the anticipated cutback and should have been prepared to reject that portion of the budget if the cutback would have resulted in a level of financial information and control unacceptable to Bonneville. Without such knowledge, Bonneville would seem greatly disadvantaged in trying to promote improvements in the Supply System's financial controls.

Bonneville has also been inattentive to major overall staff reductions at the Supply System. In October 1981 and again in May 1982, the Supply System implemented large-scale staff reductions primarily because WNP-4 and WNP-5 were terminated and completion of WNP-1 was extended. By June 30, 1982, Supply System staffing levels were 41 percent below budgeted levels, with additional reductions planned. Bonneville did not review information on the Supply System staffing reductions and related reorganizations either before or after they were implemented. Further, Bonneville approved the Supply System fiscal year 1983 budgets without knowing what the Supply System's new overall staffing patterns were. On November 15, 1982, shortly after Bonneville approved the 1983

budgets, Bonneville's Financial Manager told us that the Supply System had not yet provided Bonneville with staffing charts outlining the new Supply System organization. He said that without this information, Bonneville cannot evaluate the new Supply System organization and staffing structure. Bonneville review of Supply System staffing and organization is important because effective management of the projects will continue to depend on appropriate organization structures, staffing levels, and specialized skills within the Supply System.

Bonneville is not reviewing Supply System budgets in sufficient detail

Under the terms of its project agreements with the Supply System, Bonneville has the right to review and disapprove the Supply System's annual construction budget and any revised budgets. The Memorandum of Understanding signed in April 1980 strengthened Bonneville's review authority because it committed the Supply System to provide backup documentation in sufficient detail to support a comprehensive Bonneville review of the construction budgets.

The project agreements provide that any budget disapproval must apply to a specific line item in the budget.¹ Consequently, Bonneville's oversight staff must review the Supply System's construction budgets on a line-item basis before any meaningful action can be taken to challenge inappropriate or excessive costs through budget disapproval. We found, however, that at the time of our review, Bonneville did not conduct line-item reviews of the Supply System's proposed budgets, although

--line-item reviews are needed for effective oversight of the budget process and

--Bonneville indicated in a 1979 letter to the Chairman of the Subcommittee on Energy and Power, House Committee on Energy and Commerce, that it planned to conduct line-item reviews.

When we issued our 1979 report on oversight, the Subcommittee Chairman asked Bonneville for comments. Regarding its budget approval authority, Bonneville commented that the existing agreements provided Bonneville with sufficient authority to review Supply System budgets on a detailed line-item basis, and Bonneville intended to monitor future Supply System expenditures against approved budget line-items. Bonneville's Administrator stated that "in the future, the 'line-item' budget approach will be more effective than current practices."

¹A line-item review entails evaluating the specific expenses related to individual categories of cost, e.g., salary costs, as a part of administrative or maintenance costs.

Our current review disclosed, however, that Bonneville was principally concerned with the process by which the Supply System develops the budgets, not the validity of specific proposed expenses. Bonneville did not do line-item reviews or track actual costs against budgeted costs at this level. In a January 1981 letter to the Supply System, Bonneville's Financial Manager wrote:

"If we can establish that the process provides for reasonable checks and balances, for assuring access of the latest and best information, for allocation of responsibility and accountability commensurate with authority, and for documentation of the exercise of prudent management, I feel we both would then have a higher degree of confidence with which we can view the product than could be derived from any amount of line-item review."

Accordingly, Bonneville's budget review activities revolved around such items as

- who is involved in the budget development process,
- how they are involved,
- who is ultimately responsible for the products developed, and
- document flow through the system.

We believe that the overall adequacy of the Supply System's budgeting process is an appropriate and important concern for Bonneville. However, attention to the budget process alone decreases the chances of knowing whether specific expenditures are prudent or whether actual expenditures are consistent with budgeted amounts. Furthermore, the project agreements provide that any budget disapproval must apply to a specific line item. Therefore, any Bonneville action to identify and reject inappropriate project costs requires a line-item budget review.

We also identified conditions which indicate to us that Bonneville's Administrator may not have sufficient information on the Supply System's budget to protect ratepayer interests.

- Supply System officials excluded Bonneville from meetings when they were consolidating the fiscal year 1983 project budgets.
- Bonneville's budget analyst responsible for reviewing the Supply System corporate resources budget did not review the budget in a detailed line-item fashion. (The corporate resources budget for fiscal year 1983 totaled \$216 million.)

In the comments on our draft report, DOE stated that Bonneville does conduct line-item budget reviews. However, Bonneville was

unable to provide the information we requested to document this.

Bonneville not informed of important project meetings

During our 1979 review, Supply System officials were not including Bonneville's oversight staff in many meetings Bonneville officials considered important. After Bonneville signed its Memorandum of Understanding with the Supply System, Bonneville officials anticipated increased participation in project meetings. The Memorandum of Understanding provides that ". . . it is the policy of the System that, as a general rule, System meetings shall be open to [Bonneville] representation."

At the time of our review, however, we found that Bonneville was continuing to encounter difficulties in hearing about meetings dealing with cost, scheduling, and licensing of the projects. Bonneville's exclusion from Supply System budget development sessions provides an illustration of the problem. At the time of our 1979 review, Bonneville's process for reviewing Supply System budgets was in a period of evolution, characterized by substantial friction between Bonneville and the Supply System. Although their relationships have since improved, Bonneville has been unable to fully participate in the budgeting process. On December 1, 1982, Bonneville's Financial Manager reported that Bonneville's access to budget formulation meetings was inadequate. In a letter to the Supply System, the Financial Manager told the Supply Systems Chief Financial Officer that problems arose during Bonneville's review of the 1983 budget which could have been avoided if Bonneville representatives had not been excluded from budget review meetings. Once Supply System budgets are finalized and released for formal review, they are much less susceptible to change by Bonneville. If Bonneville cannot participate fully in the budget formulation process, it has lost a principal opportunity to oversee costs and schedules for the projects.

Bonneville officials have had difficulties attending other project meetings because they are not notified by the Supply System. In September 1982, for example, Bonneville became aware that the Supply System and the Nuclear Regulatory Commission had arranged a meeting to discuss potential safety-related problems that could delay the licensing of WNP-2. Bonneville representatives attempted to learn from the Supply System when and where the meeting would be held, but were unsuccessful. Finally, Bonneville had to contact the Nuclear Regulatory Commission in Walnut Creek, California, to learn about the meeting scheduled in Richland, Washington.

In its comments on our draft report, Bonneville indicated that the meeting notification problem had been resolved. Bonneville was not able to provide documentation or specifics on the resolution, however.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

In our 1979 report, we concluded that Bonneville, in contracting with the Supply System, did not establish oversight rights and prerogatives adequate to protect regional consumers from unnecessary costs associated with the construction of the three nuclear projects. The project agreements generally give Bonneville review authorities and the right to monitor and evaluate Supply System actions, but they do not assure full Bonneville participation in the decisionmaking process.

CONCLUSIONS

In general, our field work found that since 1979, Bonneville's oversight opportunities have improved with the signing of a Memorandum of Understanding between Bonneville and the Supply System and management changes at the Supply System. Bonneville's current approach to oversight emphasizes early involvement by the Administrator and his top managers in the Supply System management and decisionmaking processes. This approach places high priority on Bonneville's managers having current and accurate information on the projects. However, it is unclear who in Bonneville is responsible for assuring this information is available and accurate. We found the effectiveness of Bonneville's oversight is hindered by a need for clearly and specifically defined roles, policies, and procedures and by Bonneville's limited use of its contractual oversight authorities.

Our review of recent actions taken by Bonneville to improve its oversight efforts indicates that, while the creation of the Supply System Program Office and the Generating Projects Steering Committee are positive steps in improving the effectiveness of Bonneville's oversight program, additional steps are needed.

RECOMMENDATIONS

To improve the effectiveness of Bonneville's oversight efforts, we recommend that the Secretary of Energy have the Bonneville Administrator take the following steps to strengthen Bonneville's oversight program.

Bonneville should clearly and specifically define its organizational roles and policies and adopt procedures for implementing its oversight objectives. This should be done in both functional (i.e., where and how is Bonneville going to effect oversight) and organizational (i.e., who in Bonneville is responsible) terms. The guidelines should define responsibilities for accomplishing oversight objectives and the interrelationships between the various Bonneville groups involved in oversight. Bonneville should also provide for effective coordination between these groups with oversight responsibilities and identify organizational channels through which problems are to be resolved. The guidelines should

be in sufficient detail to assure that staff members are aware of their responsibilities and how they are expected to accomplish them.

Bonneville should also specifically outline how it intends to implement its contractual oversight authorities--both those contained in the project agreements and the Memorandum of Understanding to support the achievement of its oversight objectives. Specifically, Bonneville, at a minimum, should

- conduct line-item budget review,
- provide audit coverage adequate to address high-priority audit areas,
- reach agreement with Supply System management on a process which will assure staff notification and attendance at appropriate meetings, and
- comprehensively review and monitor Supply System's staffing and organizational format to assure full support for the objectives of Bonneville's oversight program.

After completing its oversight goals, policies, and procedures, Bonneville should review its oversight staffing and organizational format to assure that they are adequate and appropriate to support a comprehensive oversight program.

AGENCY COMMENTS AND OUR EVALUATION

DOE, in commenting on a draft of our report (see app. III), agreed with the general thrust of our recommendation that Bonneville's Administrator improve the effectiveness of his oversight program. DOE believes, however, that recent changes in Bonneville's oversight structure, which were designed to strengthen it, overcame many of the problem areas we identified. DOE expressed concern that the report contained outdated information on the status of the three Supply System projects and on Bonneville's performance of its oversight responsibilities.

The factual information DOE provided us regarding the status of nuclear projects¹ has been included throughout the report where appropriate. We also reviewed the recent modifications to Bonneville's oversight structure to determine if the intent of our recommendations had been accomplished, and where necessary requested additional information from Bonneville.

¹We do take one exception to the information DOE provided on plant status--we disagree with DOE's statement that WNP-2 is complete. We define complete as having achieved commercial operation.

Specifically, we requested that Bonneville provide documentation to support its views that it

- has defined its oversight organizational roles, policies, and procedures,
- performs line-item budget reviews,
- has resolved the access to meetings problem experienced by Bonneville staff, and
- has increased emphasis on auditing.

In addition, we requested updated information on staffing levels and organizational responsibilities.

Oversight program restructured

In late 1983, after our field work was completed, Bonneville created a Generating Projects Steering Committee, restructured its oversight program, and organizationally realigned and expanded its onsite staff.

Generating Projects' Steering Committee

Bonneville, in June 1983, formed a Generating Projects Steering Committee to review and coordinate its oversight programs, not only for the Supply System projects, but also for other power resource acquisitions. The Steering Committee is chaired by the Deputy Administrator, with Bonneville's General Counsel; Assistant Administrators for Power and Resource Management, Financial Management and Engineering and Construction; and the Assistant to the Administrator for Generating Projects serving as members. The Steering Committee is responsible for providing guidance and coordination for Bonneville's oversight efforts and for assuring that all of Bonneville's personnel cooperate in supporting the efforts of the staff assigned to oversight on an ongoing basis.

Shortly after the Steering Committee was formed, it began to consider alternate organizational formats for Bonneville's oversight staff. Several alternatives were considered, including maintaining the status quo, completely centralizing all oversight functions, and creating a Supply System Project Office. The Project Office alternative increased the number of onsite staff but retained certain oversight functions at Bonneville headquarters.

Supply System Program Office

In November 1983, Bonneville created a Supply System Program Office at the Supply System headquarters. The position of Supply System liaison was abolished and a new position, Assistant to the Administrator for Supply System Programs, was created to head the program. This position reports directly to the Deputy Administrator and is a member of the Steering Committee.

Bonneville's goals in establishing the Program Office were to consolidate the majority of its oversight functions and to create

a central focal point for communication and coordination between Bonneville and the Supply System. When the Program Office was created, the Thermal Projects Office was abolished and the positions transferred to the new group. The Supply System Liaison position was given expanded authority and reformatted as the Assistant to the Administrator for Supply System projects. Eleven professional staff and two support staff are assigned to the Program Office. Six of these positions are new. In addition to the Assistant to the Administrator, the Program Office is scheduled to have five professional staff providing program and technical support and five overseeing construction and operations. In addition to the onsite staff assigned to the Program Office, a new senior auditor position, assigned to the Financial Manager's audit group, is also to be located onsite.

The Program Office staff are, according to Bonneville, responsible for day-to-day monitoring of Supply System activities and for exercising Bonneville's various contractual approval/disapproval rights--as delegated by the Administrator. However, while Bonneville views it as a consolidation of many of their oversight functions it will not displace the direct involvement of other Bonneville staff. It is anticipated that the groups within the Offices of Financial Management and Power and Resources Management will continue to be routinely involved with Bonneville's oversight efforts as well the Administrator and Deputy Administrator.

Staffing

At the time of our review, Bonneville provided us with information indicating it had 14.5 full-time equivalents committed to oversight on an ongoing basis. DOE, in its comments on our draft report, stated that the information on staffing contained in the draft report was inaccurate and obsolete based on Bonneville's recent actions to restructure its oversight program. At our request, Bonneville provided an up-to-date list of full-time equivalents assigned to oversight. This information is illustrated on table 3. However, the new information is not comparable to that originally provided by Bonneville. According to Bonneville's Assistant to the Administrator for Generating Projects, the original information was incomplete because it did not include all Bonneville staff participating in oversight. The new information indicates that Bonneville has 60.7 full-time equivalents committed to its oversight activities. Bonneville was unable to determine how many additional full-time equivalents were provided as a result of the November 1983 reorganization. Six additional onsite positions were created in the Program Office, but it is unclear how the total number of full-time equivalents in other parts of Bonneville were affected through the consolidation of Bonneville's oversight functions in the Program Office.

Bonneville was also unable to provide us with the justification behind the number and types of staff which resulted from the restructuring or explain how the resulting staffing was appropriate to assure adequate implementation of Bonneville's oversight

Table 3

Oversight Staffing

<u>Organization</u>	<u>Staff</u>	<u>FTEs</u>
Office of Administrator		
Administrator	1	0.4
Deputy	1	0.4
Asst. to Administrator - Generating Projects	1	0.8
Asst. to Administrator - Supply System Programs	1	1
Program Office	11	10
General Counsel	27	22
Washington, D.C. Office	<u>2</u>	<u>0.2</u>
Total	<u>44</u>	<u>38.8</u>
Office of Financial Management		
Asst. Administrator	1	0.5
Special Asst. to Financial Manager	1	0.4
Financial Manager's Audit Staff	10	4
Other	<u>10</u>	<u>3.3</u>
Total	<u>22</u>	<u>8.2</u>
Office of Power and Resources Management		
Asst. Administrator	1	0.1
Division of Customer Service	7	3
Division of Power Supply	20	1.5
Division of Power Resource Planning	9	2.5
Other	<u>7</u>	<u>2.1</u>
Total	<u>44</u>	<u>9.2</u>
Office of Engineering and Construction		
Total	<u>9</u>	<u>0.8</u>
Office of Regional Operations		
Division of System Operations	48	0.5
Snake River Area Office	28	4.9
Other	<u>1</u>	<u>0.1</u>
Total	<u>77</u>	<u>5.5</u>
Office of Conservation	<u>3</u>	<u>0.2</u>
Administrative and Clerical Support	<u>10</u>	<u>2</u>
Agency total	<u>209</u>	<u>60.7</u>

objectives. As a result, we believe that after Bonneville develops and adopts oversight organizational roles and policies and procedures, the agency should review its oversight staff levels and expertise to assure that they support the implementation of its oversight objectives.

To evaluate whether Bonneville had implemented the recommendations contained in our report responding to problems limiting the effectiveness of Bonneville's oversight activities, we reviewed what Bonneville had done to

- develop organizational roles, policies, and procedures and
- improve its audit capability.

ROLES, POLICIES, AND PROCEDURES
NEED TO BE CLEARLY AND
SPECIFICALLY DEFINED

Bonneville, in justifying its oversight reorganization to DOE, states that the Program Office will

- strengthen (Bonneville's) oversight effort,
- help ensure that all (Bonneville) approval rights are exercised, and
- help clarify (Bonneville) roles and relationships as they relate to Supply System Program activities.

As part of this justification, Bonneville developed "functional statements" addressing the responsibilities of various individuals and groups involved with oversight. DOE believes these statements fulfill our recommendation for clearly defined organizational roles, policies, and procedures. In reviewing the functional statements, we found that they do provide some role and procedural guidance for Bonneville's oversight staff. However, they are too general to effectively establish responsibility or accountability for ensuring adequate implementation of Bonneville's oversight authorities.

For example, all of the following groups are identified as having some role in reviewing Supply System budgets:

- the Program and Technical Support group (Program Office),
- the Construction and Operation group (Program Office), and
- the Division of Program Planning and Budget (Office of Financial Management).

It is unclear, however, from the functional statements how these groups relate or what individual responsibilities are, nor do the statements discuss how budget review is to be performed to assure full support of Bonneville's oversight objectives. Consequently,

the functional statements are of limited use as role, policy, and procedural guidance.

In addition, we found that Bonneville also anticipates the need for further refinement of its oversight roles, policies, and procedures. Specifically, the description of duties for the Assistant to the Administrator for Supply System Programs states the position "must develop procedures to carry out the [oversight] program objectives and policies." Similar language is contained in the position descriptions for the Program and Technical Support Manager and the Construction and Operations Manager. Also, the functional statement for the Program and Technical support group charges this group with "* * * developing policies and procedures for [Bonneville] review of the Supply System budgets."

After creation of the Program Office, Bonneville continues to have a decentralized oversight organization with oversight functions performed by independent groups throughout the agency. According to table 3, Bonneville has at least 11 organizational entities outside the Program Office involved in oversight. The external entities represent over 80 percent of Bonneville's staff commitment. Specific policies and procedures as we recommend would help assure that all of Bonneville's oversight staff work efficiently and effectively toward achieving Bonneville's oversight objectives.

BONNEVILLE COULD BETTER UTILIZE AVAILABLE AUTHORITIES

Audit

At the time of our review, Bonneville was not adequately exercising its audit authority for oversight due in part to a need for additional staff. Further, three other groups with audit authority over the Supply System had reduced their audit staff. As a result, opportunities to recover inappropriate costs, which are then ultimately born by the regions' ratepayers through Bonneville's power rates, may be lost. In addition, Bonneville management was not able to obtain important "feedback" on program effectiveness and efficiency provided by audit followup.

DOE stated that the audit staff had been increased by the addition of a senior auditor to be located in the Program Office. With the 1.7 full-time equivalents committed to audit during our review, this brings the total to 2.7 full-time equivalents. The Financial Manager in April 1983 identified a minimum of 4.0 full-time equivalents needed to accomplish top-priority work. According to the Assistant to the Administrator for Generating Projects, Bonneville anticipates adding staff to the audit group to meet this minimum threshold at some time in the future after the senior auditor is on board. He stated that Bonneville currently has no one auditing the Supply System as all of the available staff are assigned to audits addressing Bonneville's conservation programs.

DOE also noted that the Supply System had significantly increased its audit staff. At the time of our review, the Supply System had 11 full-time equivalents assigned to audit, down from a high of 27 in October of 1981. To date, that level has been increased to 19 with one authorized position unfilled. Three of these positions were added after Bonneville notified the Supply System in August 1983 of its concern that the level of staff committed to audit was too low. The head of the Supply Systems Internal Audit has requested an additional four full-time equivalents for fiscal year 1985.

Supply System staffing and organization

Bonneville had also not adequately utilized its authority to review changes in Supply System staffing and organization at the time of our review. Bonneville has repeatedly called for better financial controls and information at the Supply System. However, we found that when approving the Supply System's fiscal year 1983 budgets, Bonneville staff was unaware the budgets contemplated cutting the financial staff--which was staffed at only 56 percent of its authorized level--an additional 14 percent. Further, when Bonneville approved the budgets it did not know what the Supply System's organization or staffing patterns would be although two major staff reductions took place in 1981 and 1982. As a result, Bonneville could not assure itself that Supply System staffing levels and organization supported the implementation of its oversight objectives. DOE's comments stated that the Program Office would give increased emphasis to this area, but Bonneville was unable to provide specifics on how or when.

Budget review

In reviewing the Supply System budgets Bonneville staff informed us that they did not review on a line-item level, although this is necessary before any meaningful action can be taken to challenge inappropriate or excessive costs. In 1979, Bonneville committed itself to doing line-item reviews and to monitoring future expenditures against approved budget line-items. Neither commitment has been implemented, however, with Bonneville in 1981 adopting a position that the process by which the Supply System develops the budgets was a more important focus for Bonneville's budget review. While recognizing the importance of process, we maintain line-item review is also a necessary function to track costs and assure cost control.

DOE, in its comments, stated that Bonneville does in fact do line-item budget review. It was, however, unable to provide us with documentation of this. According to Bonneville, this level of review is done by staff and simply is not documented. This is inconsistent with the information we received from staff involved with budget review. It is also inconsistent with evidence we found in reviewing reports from Bonneville's Supply System cost/performance reporting system.

According to DOE, Bonneville has initiated a cost/performance reporting system to track Supply System progress in completing the projects and routinely compares actual costs to approved budgets. Reports are prepared monthly by the Office of Financial Management and addressed to the Administrator and members of the Generating Projects Steering Committee. The first report was issued in August 1983. At our request, Bonneville provided us copies of two of the most current reports, dated February and April 1984, for our review.

The tables which make up the majority of the reports do in fact present information related to actual versus planned expenditures for the current month, and in the later report, for the year to date.² Construction progress for the month is also presented. However, in reviewing the reports and the process used to prepare them, we found several problems which undermine their effectiveness. First, the reports are a tabulation of information provided to Bonneville by the Supply System and do not represent an independent effort on Bonneville's part to monitor the construction costs or progress. Consequently, they cannot serve as a cross check or validation tool for Supply System information. Second, while the reports do provide information on actual versus planned current month, year to date, and projected fiscal year costs, the information is too general to be of use in tracking specific areas of potential or existing problems which are escalating costs or delaying schedules.

For example, in the April 1984 report, construction completion costs for WNP-2 are presented as one item. Even though for the time period covered by the report, February 1984, actual costs exceeded planned costs by 36.3 percent (\$15.4 million/\$11.3 million), there is no indication why the variation took place or what line items were responsible. The same is true for the fiscal year figures which indicated actual costs will exceed budget by 34 percent (\$202.5 million/\$151 million). According to the February report, information on cost variances by "major budget category" will be included in future reports. However, according to the Assistant Administrator for Generating Projects, developing the information for the reports is turning out to be a bigger problem than anticipated and when this information will be available is uncertain. Time constraints did not allow us to further analyze why Bonneville is unable to routinely produce this information, which should be a readily available product of a line-item budget review.

DOE also commented that the new financial analyst position located in the Supply System Program Office would provide

²Due to the fact this is a new effort by Bonneville, the format and content of the report is still evolving. Consequently, the information on the reports is not always consistent or comparable.

additional onsite emphasis on the review and monitoring of Supply System budgets. However, because Bonneville has not defined its budget review policies and procedures and was unable to provide us with specifics on how the recent restructuring of its oversight program would improve its budget review effectiveness, how the additional onsite position will improve this critical area of oversight remains unclear.

Meeting notification

Although the 1980 Memorandum of Understanding provides Bonneville access to Supply System meetings, we found that Bonneville staff continued to be uninformed about meetings which were critical to their performing an effective oversight role, particularly in their budget review efforts. This is critical because, under the agreements, Bonneville has only a 30-day period in which to disapprove a budget. Consequently, if Bonneville cannot participate in the budget formulation process, its ability to use its authorities to oversee costs and schedules is limited.

According to DOE's comments, Bonneville's meeting notification problem has been resolved. However, DOE was unable to provide us with any specifics as to how the problem was resolved.

IMPROVEMENTS HAVE BEEN MADE, BUT ADDITIONAL STEPS NEEDED

By creating the Generating Projects Steering Committee and the Supply System Program Office, Bonneville has taken positive steps to improve the effectiveness of its oversight program. The visibility of the Program Office has been enhanced both within Bonneville and the Supply System and a forum created to monitor and coordinate oversight activities at top management level. However, we believe that Bonneville needs to pursue further improvement.

Although a primary reason for restructuring Bonneville's oversight program was to assure full use of its available oversight authorities, Bonneville was unable to provide us with documentation verifying how this improvement was expected to occur. The justification for taking the organizational actions submitted to DOE and included in the agency's comments states the new positions in the Program Office are to ". . . (a) perform the oversight functions reassigned from other [Bonneville] organizations, and (b) expand oversight of the Supply functions not now sufficiently staffed." However, it is unclear how the Program Office will accomplish these things. Without clearly and specifically defined organizational roles, policies, and procedures for achieving its oversight efforts, Bonneville cannot be assured the oversight staff are aware of their responsibilities or hold them accountable.

In addition, although the Program Office was created in part to consolidate Bonneville's oversight functions, in fact over 80 percent of the full-time equivalents committed to oversight remain outside of the office. As stated earlier in our report, a

decentralized organization places a premium on operating policies and procedures to achieve the organization's objectives. While DOE states that the policies and procedures recommended by us have been developed in the form of the functional statements, we found these documents to be too general for effectively establishing responsibility or accountability for adequate implementation of Bonneville's oversight authorities.

Bonneville has taken positive steps to potentially improve its oversight, however, we believe that more is needed on the part of Bonneville to assure that its actions adequately address the problems we noted. Because Bonneville has not presented specific actions, we believe our recommendations are valid.

JIM WEAVER
4TH DISTRICT OREGON
—
COMMITTEES
AGRICULTURE
TERMINAL AND INSULAR AFFAIRS
—
JOE RUTLEDGE
ADMINISTRATIVE ASSISTANT

Congress of the United States
House of Representatives
Washington, D.C. 20515

June 10, 1982

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Mr. Charles A. Bowsher
Comptroller General
of the United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

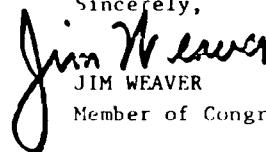
As you are undoubtedly aware, electricity costs in the Pacific Northwest have climbed dramatically in recent years. These rate increases have been attributed primarily to construction costs associated with three nuclear powerplants being built in the State of Washington. These plants referred to as WNP-1, WNP-2 and WNP-3, are being built and will be operated by the Washington Public Power Supply System (WPPSS)--a municipal corporation and a joint operating agency of the State of Washington, consisting of 19 operating public utility districts and 4 cities, all located in the State of Washington. In 1971, and 1973, the Bonneville Power Administration (BPA) acquired, through complex net-billing and power exchange agreements, the production capabilities of the 3 WPPSS nuclear powerplants. In essence, BPA has the ultimate responsibility for repayment of all costs associated with WNP-1 and WNP-2, and 70% of the costs associated with WNP-3.

In 1979, the General Accounting Office (GAO) issued a report entitled, "Impacts and Implications of the Northwest Power Bill" (EM-79-105). In that report, GAO stated that it had found weaknesses in BPA's agreements with WPPSS and in the way BPA had met its oversight responsibilities. On May 12, 1982, Mr. Peter Johnson, Administrator, BPA, testified before the House Subcommittee on Oversight and Investigations, Committee on Interior and Insular Affairs. In that testimony, Mr. Johnson stated that BPA oversight had been increased and improved. He did not, however, elaborate as to what BPA had done.

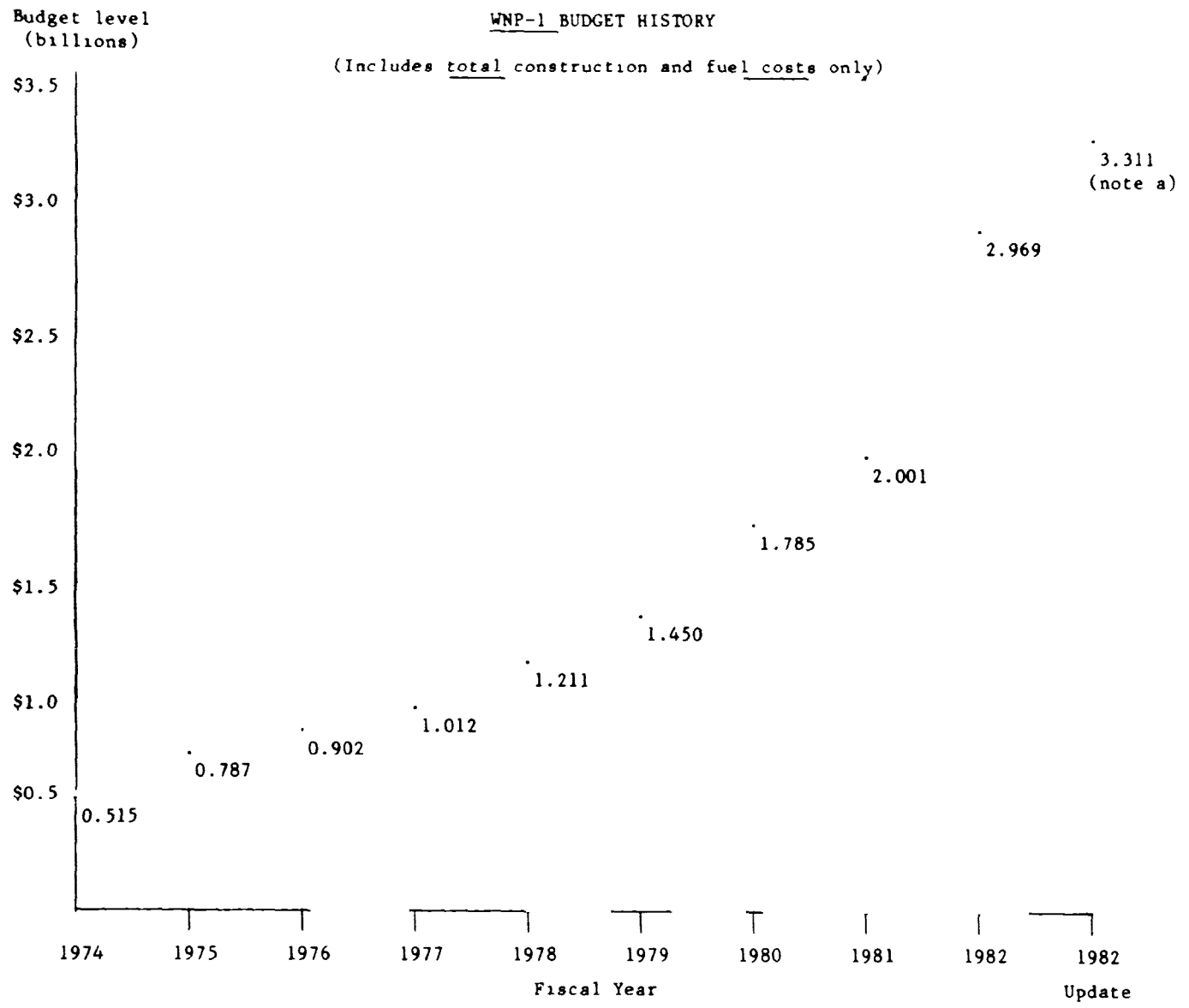
I am concerned with steps taken by BPA in fulfilling its oversight responsibilities and its effectiveness in protecting regional electricity consumers from spiraling rate increases. Therefore, I am requesting GAO to do a follow-up audit of the 1979 report and determine the specific actions taken by BPA to protect regional ratepayers. This should include, but not be limited to, a review of BPA/WPPSS contractual-type arrangements governing oversight, BPA oversight policies, procedures, organizations and staffing arrangements.

Because of the importance of this matter to the Pacific Northwest residents, I would like to have this information as soon as possible, but no later than BPA's next appropriation hearings.

Sincerely,


JIM WEAVER
Member of Congress

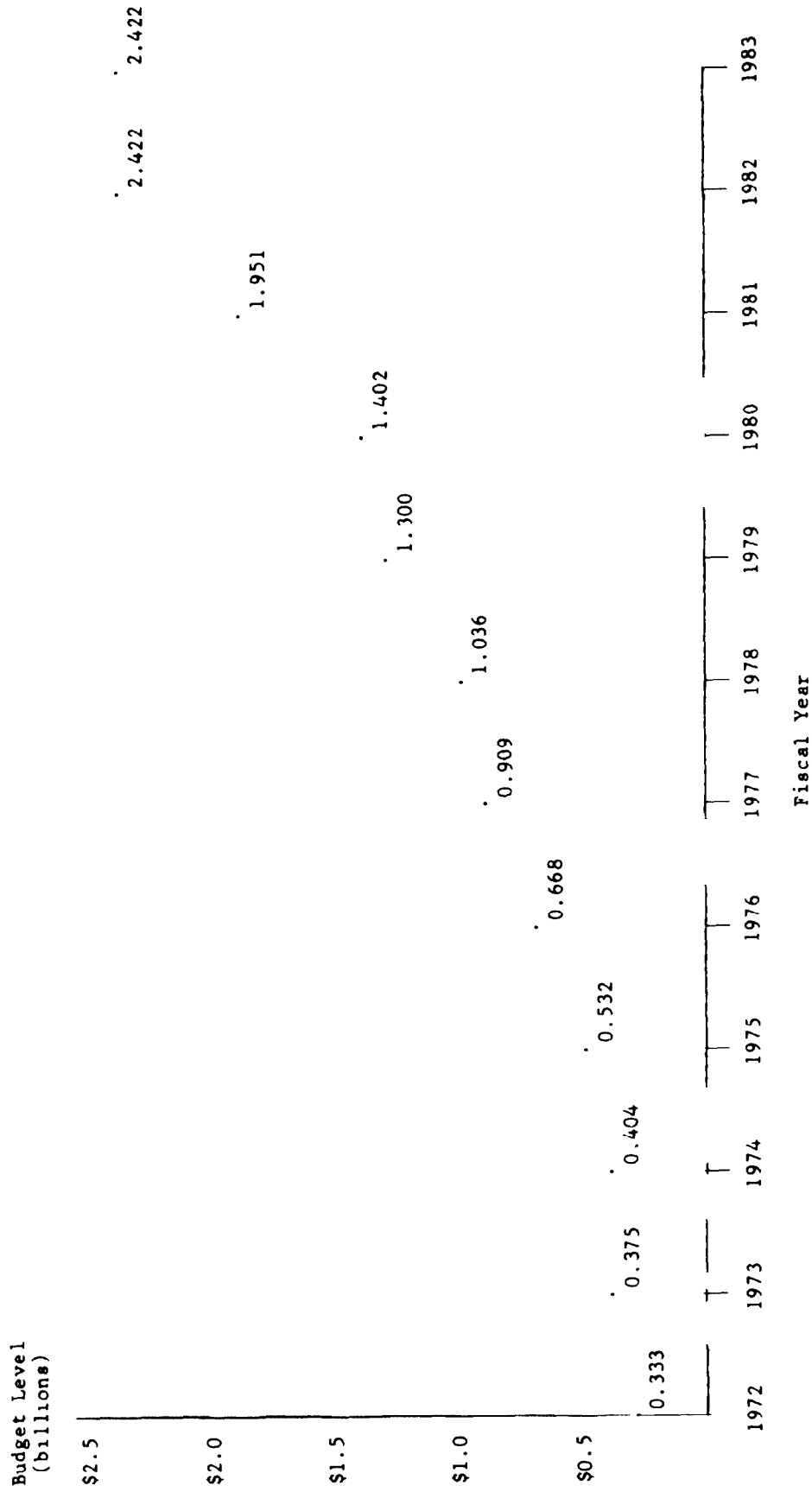
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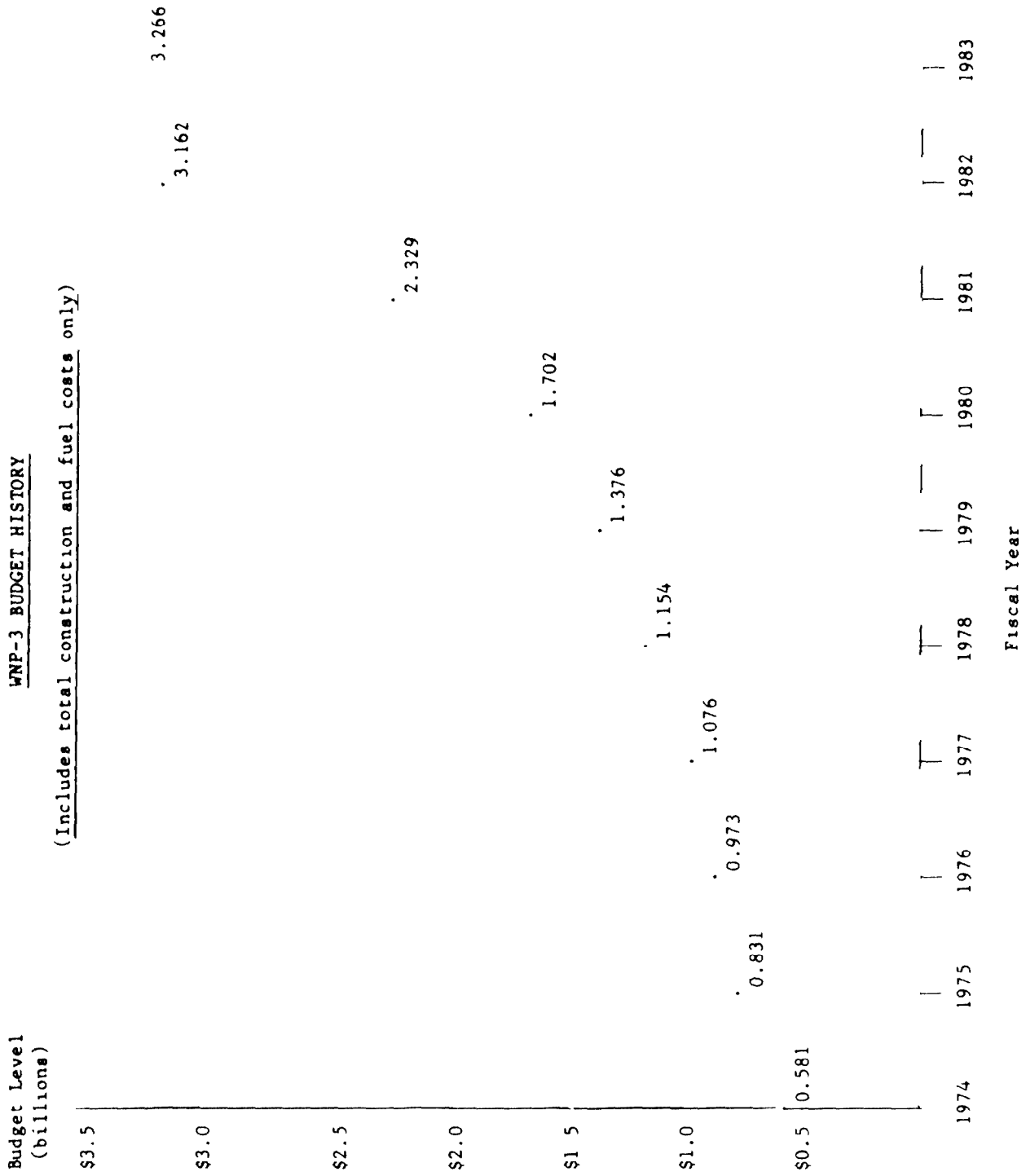


a/ Because of an indefinite delay in completion of WNP-1, the Supply System did not prepare a fiscal year 1983 budget-to-complete for WNP-1. The \$3.311 billion budget estimate is taken from a fiscal year 1982 budget update, the most recent budget-to-complete prepared by the Supply System.

WNP-2 BUDGET HISTORY

(Includes total construction and fuel costs only)







Department of Energy
Washington, D.C. 20585

MAR 13 1984

Mr. J. Dexter Peach
Director, Resources, Community, and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We appreciate the opportunity to review your draft report entitled "Improvements Needed in Bonneville Power Administration Oversight of Three Nuclear Power Plants," which you transmitted with your letter of February 24, 1984.

We support the general thrust of the recommendations set forth in the draft report, namely, that the Bonneville Power Administration (BPA) Administrator improve the effectiveness of his oversight of Washington Public Power Supply System (Supply System) projects WNP-1, WNP-2, and WNP-3, and thereby better protect the interests of BPA's ratepayers. We are concerned, however, about the fact that a number of the statements and conclusions contained in the draft report are based on an oversight structure within BPA which has been materially changed and strengthened to overcome many of the problem areas discussed in your report. These are specifically addressed in this letter and in attachment 2.

We understand the specific actions you are recommending include:

- Defining organizational roles and policies and adopting procedural guidelines for implementing BPA's oversight objectives;
- Conducting line item reviews of Supply System budgets;
- Providing audit coverage adequate to address high-priority audit areas;
- Reaching agreement with Supply System management on a process which will assure BPA staff notification and attendance at appropriate meetings;
- Comprehensively reviewing and monitoring Supply System staffing and organizational format to assure full support for the oversight program; and
- Reviewing BPA's oversight staffing and organizational format to assure they are adequate and appropriate to support a comprehensive oversight program.

We are pleased to report that, prior to receipt of your draft report, BPA, with Department of Energy (DOE) approval, consolidated most of its Supply System oversight functions in a new Supply System Program Office reporting directly to the Deputy Administrator. The DOE assisted BPA in defining how to structure the Program Office based on its experience in exercising oversight of large, complex operations such as the nuclear facilities at Savannah River. In its decision to implement these changes, BPA also drew on the findings and recommendations of previous GAO and consultant reports, such as the 1979 studies referenced in your draft report. Furthermore, the BPA Administrator discussed his intention of making such changes with GAO in September 1983. He specifically invited your input regarding the final shaping of these actions at that time.

An important feature of the Program Office is that, while it serves as the focal point for BPA's Supply System oversight, it is supported by the entire BPA staff whenever technical, legal, or administrative issues require more than the expertise available within the Program Office staff. Such support is coordinated via an Oversight Steering Committee comprised of the responsible Assistant Administrators and chaired by the Deputy Administrator. This provides a broad, comprehensive approach to oversight that can marshal BPA's entire resources when necessary to deal with the constantly changing and highly complex issues currently surrounding the Supply System.

We believe that the documentation of this organization change, a copy of which is enclosed as attachment 1, defines BPA's oversight functions and assigns responsibility for performance of these functions within the BPA organization. This organization change also addresses several of GAO's other specific recommendations. For example, the new organization includes a senior auditor position located at the Supply System headquarters to be devoted exclusively to performance and coordination of Supply System audits. The Supply System Program Office also includes a financial analyst to provide additional onsite emphasis on the review and monitoring of Supply System budgets.

The Supply System Program Office, while not yet fully staffed (staffing actions are currently in process), has been functioning since November 13, 1983, and has established an effective interface with the Supply System management that has resolved to BPA's satisfaction the problem noted in GAO's draft report concerning BPA staff access to Supply System meetings. The current Supply System management, as a matter of fact, has welcomed BPA's establishment of the new Program Office, and has cooperated fully with this arrangement.

As BPA understands the concept of line item budget review, it has always reviewed the line items in both the Supply System construction and annual budgets, i.e., those principal categories of costs set forth as line items in the budget documents. This concept is being given increased emphasis by the new Program Office, with particular attention being given to those line items in Supply System budgets that are the most significant or are amenable to more effective control. This includes such issues as the level of Supply System staffing, which is another of the items addressed in GAO's recommendations.

Our major concern with GAO's draft report is that, because of the time elapsed since the GAO staff performed this review, it does not accurately convey the current status of the Supply System projects WNP-1, WNP-2, and WNP-3, or BPA's current performance of oversight of these projects. We believe issuance of this report without updating it to reflect more recent actions and accomplishments by BPA and the Supply System would present the reader with such an obsolete view as to impede the generally good progress that BPA and the Supply System are currently achieving. For example, the following has occurred since GAO's draft was prepared:

1. WNP-2 has been completed, licensed, loaded fuel, achieved criticality (attained a sustained nuclear reaction), and is scheduled to be in commercial operation by the summer of 1984.
2. BPA and the Supply System are currently in the advanced stages of establishing a planned operating schedule for WNP-2 geared to achieving optimum plant reliability, safety, and economy.
3. The Supply System, with BPA support, has initiated a Project Enhancement Program (PEP) at WNP-1 to utilize the time during the construction deferral to improve the project design and work methods to reduce the cost of completing the project.
4. The Supply System, with close participation by BPA oversight staff, is currently establishing firm cost estimates and target dates for restarting construction and completing WNP-3 and WNP-1. (In addition, the Supply System has received conceptual proposals from construction firms for consolidated contracts for completing both projects at lower costs than previously estimated. PEP has already contributed to this effort.)
5. In addition to the Supply System Program Office, BPA management has established an Oversight Steering Committee which is contributing to improved internal coordination and communication on matters of oversight policy. Since this committee is comprised of the responsible Assistant Administrators and chaired by the Deputy Administrator, it assures that the Program Office receives the full support of the entire BPA organization.
6. BPA has initiated a cost/performance reporting system which covers all generating projects from which BPA has acquired capability. These reports, of course, cover all of the Supply System projects with which BPA is involved, and are used to track the performance of operating projects, the progress toward completion of those under construction, and, in all cases, costs actually incurred in comparison to approved project budgets.
7. BPA's current power rate schedules include a provision that, should unanticipated increases occur in Supply System costs paid by BPA through Annual Budgets, BPA may implement interim rate adjustments to protect BPA's financial integrity. As previously noted, BPA has at

the same time intensified its monitoring of Supply System costs and cash requirements which must be funded by BPA.

In view of the critical status of the Supply System projects, the huge financial stake that BPA has in the ultimate success of this venture, and the fact that many issues are currently in litigation, we believe most strongly that GAO's report should not be issued until it can be updated to reflect the current status and to correct misstatements of facts in the current draft. To do otherwise would be a disservice to the intensive efforts that BPA has been making, and is continuing to make, with respect to achieving a turnaround in the success of the Supply System projects and would misinform the public and other parties concerned with the Supply System. We believe the results achieved with WNP-2 substantiate that BPA and the Supply System have reached a major watershed. BPA stands ready to provide your staff whatever added information and/or documentation you feel will be necessary to support the aforementioned points.

In no way does this suggest that further improvements should not or cannot be achieved. To the contrary, and as discussed with GAO, we respect the thrust and substance of its recommendations and BPA will continue to improve and perfect its oversight accordingly.

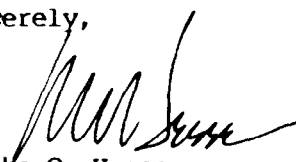
In addition, because of the extensive litigation involved and the likelihood that whatever report GAO issues can be expected to be utilized in court by various parties, it would be beneficial to the government that GAO's report clearly delineate that BPA has oversight responsibility only for Supply System projects WNP-1, WNP-2, and WNP-3, and that BPA has no responsibility for WNP-4/5.

Comments submitted by BPA concerning specific points in GAO's draft are set forth in Attachment 2. With regard to these comments, you should understand that, because of the limited time allowed for our response (considering the time requirements for transcontinent transmission, plus review of BPA's draft within the DOE, BPA had only 5 working days), these comments do not necessarily cover all possible deficiencies BPA believes are contained in GAO's draft.

Again, we appreciate the opportunity to review GAO's draft report and trust that you will find our comments responsive. We also appreciate the professionalism and courtesy shown by the GAO staff and officials during the course of this survey.

GAO NOTE: The two enclosures included as a part of DOE's comments are not reproduced here due to their length. The detailed comments have been addressed where appropriate in the body of the report.

Sincerely,



Martha O. Hesse
Assistant Secretary for
Management and Administration

2 Enclosures

(005290)

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