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STATEMENT OF F. KEVIN BOLAND  
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RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
COMMITTEE ON ENERGY AND NATURAL RESOURCES  
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

We appreciate this opportunity to discuss the Bonneville Power Administration's (Bonneville's) repayment to the Treasury of the federal investment in the Columbia River Power System as well as prior GAO work in this area.

The federal investment in the Columbia River Power System stands at about \$7.9 billion. Federal law requires Bonneville to repay this investment. The Bonneville Project Act of 1937 (16 U.S.C. 832f) requires that power rates be set to include the recovery of the cost of producing and transmitting the electricity as well as the "amortization of the capital investment over a reasonable period of years." Subsequent legislation, including the 1974 Federal Columbia River Transmission System Act (16 U.S.C. 838g) and the 1980 Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839e), require Bonneville to repay the federal investment and set electric power rates at the lowest possible level consistent with sound business practices. However, the Transmission Act also provides that Bonneville apply revenues to pay for the costs of (1) operation and maintenance, (2) purchased and exchange power, and (3) transmission service before paying the amortization of the federal investment. The federal investment is the lowest category for payment, therefore,

if revenues are insufficient to cover all expenses the federal investment is deferred.

Except for a requirement of the 1974 Transmission Act that transmission lines be repaid within 35 years and the authorizing legislation for the third powerhouse at Grand Coulee Dam that it be repaid in 66 years, Bonneville's other legislation is silent with regard to what constitutes a "reasonable period of years" for repayment. The Department of Energy has adopted a repayment period for each project of 50 years. This means that Bonneville expects to pay off each project within 50 years after it is placed in service.

Bonneville began repaying the federal investment in 1939 using a cost-based method to determining revenue needs which incorporated a fixed annual repayment schedule. Using the fixed repayment schedule, it repaid about \$364 million through fiscal year 1965. At that time, Bonneville switched to a repayment study method for determining revenue requirements when it became apparent that power rates would have to be increased to cover the scheduled repayments. Under the repayment study method, according to Bonneville, annual repayments are not required to be made; Bonneville need only repay the federal investment by the end of the project's repayment life rather than satisfy fixed annual repayments.

Between fiscal years 1966 and 1972, Bonneville repaid about \$231 million toward the federal investment using the repayment study method. During the past 11 years (fiscal years 1973 to 1983), however, Bonneville has repaid only about \$43 million toward the federal investment in the Columbia River Power System. Bonneville experienced operating losses in 9 of the last 11 fiscal

years which impacted on its ability to repay the federal investment. Since revenues were insufficient to cover expenses, Bonneville deferred the repayment of the federal investment into the future. At the close of fiscal year 1983, Bonneville had paid the U.S. Treasury a total of \$638.3 million or about 8 percent of the total federal investment.

#### REPAYMENT STATUS

In March 1982, Bonneville's Administrator made a commitment to reduce costs and increase rates in order to prevent nonrepayments on the federal investment from occurring in the future. Bonneville provided in its fiscal year 1983 rate filing for recovery of deferred interest. In recognition of the economic condition of the region, the Administrator determined that this burden would be built into the rates over a 3-year period. Bonneville developed revenue estimates to repay \$595 million through fiscal year 1985 including \$217 million of interest and deferred interest and \$378 million scheduled for amortization to repay the portion of the federal investment in the Federal Columbia River Power System that Bonneville's repayment study showed would be payable 1983 through 1985. Payments were to be made in each of the fiscal years 1983 to 1985.

However, Bonneville experienced an operating loss in fiscal year 1983 and no payments were made. Bonneville's rates for the period November 1, 1983, to July 1, 1985, were designed to recover the \$217 million interest and deferred interest plus \$247 million scheduled for amortization in fiscal years 1984 to 1985 for a total repayment of \$464 million.

For fiscal year 1984, the first year of that rate filing, Bonneville estimated that it would pay \$153.4 million in deferred

interest. Bonneville has indicated that it may be able to pay more than this amount by the end of fiscal year 1984.

#### GAO REPORTS ON REPAYMENT

Since 1981 we have been concerned about Bonneville's repayment situation. In both a June 1981<sup>1</sup> report and an October 1983 report,<sup>2</sup> we recommended that in order to assure timely and equitable repayment of the federal investment, Bonneville should replace its repayment study method of determining revenue requirements with a cost-based method incorporating a fixed annual repayment schedule. In the October 1983 report, we noted Bonneville's efforts to catch-up on repayments by fiscal year 1985, but also noted that while Bonneville raised its power rates to increase revenues by 58 percent in fiscal year 1983 it still expected a revenue shortfall. This shortfall ultimately occurred and no payments were made. We believe that a cost-based method would provide the discipline needed for revenue and repayment sufficiency. Further, we recommended that a cost-based method should provide a provision that late or missed repayments incur interest costs at a higher project interest cost or the Treasury's cost of borrowing at the time.

Bonneville has not adopted our recommendations. Bonneville and the Department of Energy's basic concern with our recommendation is that a cost-based method incorporating a fixed annual repayment schedule would reduce the Administrator's flexibility to

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<sup>1</sup>Policies Governing the Bonneville Power Administration's Payment of Federal Investments Need Revision, EMD-81-94, June 16, 1981.

<sup>2</sup>Policies Governing the Bonneville Power Administration's Payment of Federal Investments Still Need Revision, EMD-84-25, Oct. 26, 1983.

deal with changing conditions and that revenue shortfalls could still occur. While we recognize their concern, we believe options are available to address them. For example, the Tennessee Valley Authority (TVA), which is required to repay \$1 billion of federal investment, is on a fixed annual repayment system and is allowed to defer repayment for up to 2 years when unusual circumstances occur. Such an option or others could accomodate Bonneville's concerns with regard to needed flexibility.

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To sum up, we recognize that Bonneville's Administrator has made recent efforts to catch-up on repayments by fiscal year 1985. While the Administrator's current commitments are commendable, we believe a cost-based method with a fixed annual repayment schedule would place more discipline in the repayment process and help assure its consistent application over the long run. This is important when one considers that 92 percent of the federal investment in the Columbia River Power System remains to be paid in future years.

This concludes my prepared statement. I would be pleased to respond to any questions you may have.