



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable
The Secretary of the Interior

... 1975
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Dear Mr. Secretary:

We have examined the Statement of Assets and Liabilities of the Southeastern Federal Power Program (see note 1 to the financial statements) as of June 30, 1974, and the related Statements of Revenues and Expenses and of Changes in Financial Position for fiscal year 1974. We made our examination in accordance with generally accepted auditing standards and included tests of the accounting records of the Corps of Engineers and the Southeastern Power Administration and such other auditing procedures as we considered necessary in the circumstances. We did not confirm accounts receivable; however, we did satisfy ourselves as to the fairness of accounts receivable at June 30, 1974, by other auditing procedures.

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

In our opinion the accompanying financial statements (exhibits 1, 2, and 3), subject to the financial effects of future adjustments related to the adoption of firm cost allocations, as explained in note 6, present fairly the financial position of the program at June 30, 1974, the financial results of its power operations, and the changes in financial position for the year then ended, in conformity with accounting principles and standards prescribed by the Comptroller General of the United States.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairman, Federal Power Commission; the Administrator, Southeastern Power Administration; the Secretary of the Army; and the Chief of Engineers.

Sincerely yours,

Comptroller General
of the United States

Enclosures - 4

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SOUTHEASTERN FEDERAL POWER PROGRAM

STATEMENT OF REVENUES AND EXPENSES
 FOR THE FISCAL YEARS ENDED JUNE 30, 1974 AND JUNE 30, 1973
 (NOTES 1, 2, and 3)

	<u>June 30</u>	
	<u>1974</u>	<u>1973</u>
OPERATING REVENUES:		
Sales of electric energy by Southeastern Power Administration:		
Electric cooperatives	\$14,510,154	\$12,821,925
Municipalities	5,535,594	5,517,843
Privately owned utilities	8,159,378	9,618,092
Other public utilities	<u>13,159,894</u>	<u>12,096,999</u>
Total	<u>41,365,020</u>	<u>40,054,859</u>
Other electric revenues:		
Inter-departmental sales	25,782	29,904
Other revenues	1,569,760	117,307
Total (Note 9)	<u>1,595,542</u>	<u>147,211</u>
Total power system operating revenues	<u>42,960,562</u>	<u>40,202,070</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION:		
Purchase power	826,915	1,258,016
Transmission expense	3,380,539	3,412,916
Operation and maintenance expense:		
Operation expense (Note 7)	6,050,402	5,641,407
Maintenance expense	<u>2,715,771</u>	<u>2,287,649</u>
Total operation and maintenance expenses	<u>8,766,173</u>	<u>7,929,056</u>
Total operating expenses other than depreciation	<u>12,973,627</u>	<u>12,599,988</u>
Net operating revenues	<u>29,986,935</u>	<u>27,602,082</u>
INTEREST EXPENSE:		
Interest on Federal investment (includes projects under construction) (Note 5)	17,708,661	17,428,877
Related interest charged to construction	<u>4,557,124*</u>	<u>4,770,771</u>
Net interest expense	<u>13,151,537</u>	<u>12,658,106</u>
NET REVENUES AVAILABLE FOR REPAYMENT	16,835,398	14,943,976
LESS DEPRECIATION (Note 4)	<u>3,280,942</u>	<u>3,032,035</u>
NET REVENUES	<u>\$13,554,456</u>	<u>\$11,911,941</u>

* Denotes deduction

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

SOUTHEASTERN FEDERAL POWER PROGRAM
STATEMENT OF ASSETS AND LIABILITIES
AS OF JUNE 30, 1974 AND JUNE 30, 1973
(NOTES 1, 2, and 3)

<u>ASSETS</u>	June 30		<u>LIABILITIES</u>	June 30	
	1974	1973		1974	1973
FIXED ASSETS:			PROPRIETARY CAPITAL:		
Completed plant (Schedule A)	\$697,146,509	\$645,706,483	Investment of U. S. Government:		
Retirement work in progress	18,448	15,329	Congressional appropriations	\$ 937,206,994	\$ 890,549,285
	697,164,957	645,721,812	Revenues transferred to Continuing Fund	355,696	331,935
Less accumulated depreciation (Note 4)	41,640,500	38,449,774	Transfers from other Federal agencies, net	5,278,389	5,011,859
	655,524,457	607,272,038	Interest on Federal investment (Note 5)	287,051,696	269,807,956
Construction work in progress (Schedule A)	186,076,757	188,443,473	Gross Federal investment	1,229,892,775	1,165,701,035
Total fixed assets	841,601,214	795,715,511	Less funds returned to U. S. Treasury	477,246,127	438,579,368
			Net investment of U. S. Government	752,646,648	727,121,667
CURRENT ASSETS:			Accumulated net revenues:		
Unexpended funds	15,072,138	21,100,017	Balance at beginning of year	88,281,018	76,051,563
Accounts receivable	3,114,413	2,271,259	Net revenues - current year (Exhibit 1)	13,554,456	11,911,941
Accrued utility revenues	2,267,980	2,620,089	Prior year adjustments (Note 11)	226,341	317,514
Total current assets	20,454,531	25,991,365	Balance at end of year	102,061,815	88,281,018
OTHER ASSETS AND DEFERRED CHARGES:			Total proprietary capital	854,708,463	815,402,185
	7,691	8,553	CURRENT LIABILITIES: (Note 10)		
TOTAL ASSETS	\$862,063,436	\$821,715,749	Accounts payable	6,848,581	5,916,817
			Employees accrued leave	64,158	63,757
			Other liabilities	397,299	295,442
			Total current liabilities	7,310,038	6,276,016
			CONTRIBUTIONS IN AID OF CONSTRUCTION	44,935	37,548
			TOTAL LIABILITIES	\$ 862,063,436	\$ 821,715,749

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

BEST DOCUMENT AVAILABLE

SOUTHEASTERN FEDERAL POWER PROGRAM

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 1974 AND JUNE 30, 1973
(NOTES 1, 2, and 3)

	June 30	
	<u>1974</u>	<u>1973</u>
SOURCE OF FUNDS:		
Net revenues available for repayment (Exhibit 1)	\$ 16,835,398	\$ 14,943,976
Prior year adjustments (Note 11)	226,341	317,514
Net funds from operations	<u>17,061,739</u>	<u>15,261,490</u>
Federal investment:		
Congressional appropriations	46,657,709	66,084,159
Transfers from other Federal agencies, net	266,530	219,133
Interest on Federal investment (a)	17,243,740	16,932,571
Transfers to continuing fund	23,761	-
Total funds from Federal investment	<u>64,191,740</u>	<u>83,235,863</u>
Other sources:		
Decrease in current assets net of current liabilities	6,570,876	-
Decrease in other assets and deferred charges	1,162	-
Increase in contributions in aid of construction	7,387	7,387
Total other sources	<u>6,579,425</u>	<u>7,387</u>
Total source of funds	<u>\$ 87,832,904</u>	<u>\$ 98,504,740</u>
APPLICATION OF FUNDS:		
Investment in electric utility plant and facilities, net (a)	\$ 49,166,645	\$ 53,862,564
Increase in current assets net of current liabilities	-	9,422,158
Funds returned to U. S. Treasury	<u>38,666,259</u>	<u>35,220,018</u>
Total application of funds	<u>\$ 87,832,904</u>	<u>\$ 98,504,740</u>

(a) Includes capitalized interest on projects in service, and on projects under construction.

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

SOUTHEASTERN FEDERAL POWER PROGRAM
AMOUNT AND ALLOCATION OF PLANT INVESTMENT
AS OF JUNE 30, 1974
(NOTES 1, 2, and 3)

Project	Total	POWER		NONREIMBURSABLE					Percent of Total Plant Investment Returnable from Power Revenues	
		Completed Plant (Notes 6 & 8)	Construction Work in Progress	Total	Navigation	Flood Control	Fish and Wildlife	Recreation		Other
Projects in Service										
Marketing facilities	\$ 93,120	\$ 93,120	-	\$ 93,120	-	-	-	-	-	100.0
Allatoona	36,018,761	25,595,976	354,417	26,250,793	-	7,585,306	-	1,950,646	232,016 ^{b/}	72.9
Huford	52,969,887	43,693,773	94,842	43,788,615	1,840,143	4,114,030	-	3,227,104	-	82.7
Clark Hill	87,419,528	76,135,611	-	76,135,611	4,395,206	1,043,406	-	2,845,305	-	87.1
Walter F. George	99,064,671	54,424,314	433,371	54,769,685	41,911,497	-	\$ 348,012	2,035,477	-	55.3
Hartwell	95,650,819	86,726,785	-	86,726,785	2,194,263	4,191,237	-	2,536,534	-	90.7
Millers Ferry	68,077,665	40,125,974	177,957	40,303,931	25,573,570	-	-	2,200,164	-	59.2
Total Ga. Ala. Projects	439,201,311	326,904,438	1,072,977	327,977,415	75,914,679	19,933,979	348,012	14,795,230	232,016	74.7
Jim Woodruff Project	55,440,417	47,032,668	44,314	47,076,982	25,511,026	-	-	1,829,409	-	45.2
Barkley	157,059,513	45,156,799	20,140	45,477,279	86,524,122	19,493,666	-	5,594,426	-	28.9
J. Percy Priest	59,087,412	11,032,891	5,071	11,037,962	-	23,558,239	-	24,491,211	-	16.7
Cordell Hull	82,084,199	48,990,861	321,037	49,311,898	14,552,695	-	-	8,672,971	9,516,632 ^{d/}	60.1
Cheatham	34,112,043	15,951,811	-	15,951,811	14,725,829	-	-	431,373	-	55.6
Old Hickory	54,682,979	32,996,370	31,750	33,028,120	19,461,556	-	-	2,193,273	-	60.4
Center Hill	52,573,741	28,592,441	615,134	29,207,575	-	18,323,652	-	4,345,965	696,550 ^{e/}	55.6
Dale Hollow	28,860,443	17,785,942	73,093	17,859,035	-	10,204,465	-	796,943	-	61.9
Wolf Creek (Note 12)	92,060,520	61,140,628	160,641	61,299,909	-	79,651,143	-	872,374	245,700 ^{e/}	66.6
Total Cumberland Basin	500,550,256	284,917,826	1,227,115	286,144,941	135,297,242	101,231,155	-	47,398,536	10,458,882	47.5
John H. Kerr	93,246,596	72,758,864	-	72,758,864	-	17,662,238	-	1,825,494	-	78.0
Philpott	14,863,147	7,419,593	-	7,419,593	-	6,772,255	-	671,299	-	49.9
Total Kerr-Philpott Proj	108,109,743	80,178,457	-	80,178,457	-	24,434,493	-	2,496,793	-	74.2
Total Operating Projects	1,163,395,467	807,146,509	2,344,130	809,490,639	29,745,937	146,599,657	348,012	66,519,968	10,690,898	60.1
Projects under Construction										
Carters	103,726,604	-	87,591,756	103,726,604	-	11,403,047	-	1,431,671	-	84.7
Jones Bluff	42,343,613	-	41,329,145	41,329,145	206,017	-	-	808,451	-	97.6
Laurel River	31,879,156	-	13,073,673	31,879,156	-	-	-	10,643,966	8,161,847 ^{d/}	41.0
West Point	103,717,330	-	41,437,567	103,717,330	1,592,065	20,794,720	11,248,933	28,644,045	-	40.0
Total Proj. under Const.	281,666,703	-	182,430,471	281,666,703	1,790,082	35,197,767	11,248,933	41,526,133	8,161,847	65.2
Total	\$1,445,062,170	\$807,146,509	\$182,430,471	\$989,576,980	\$21,536,019	\$181,797,424	\$11,596,945	\$108,046,101	\$18,852,745	61.1

(a) Costs of \$2,127,609 have been incurred on the Richard B. Russell project but are not included above as percentages have not been determined for allocation of joint costs to project purposes.

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

(b) Water Supply
(c) World War II Suspension Costs
(d) Area Redevelopment

SOUTHEASTERN FEDERAL POWER PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Basis for Southeastern Federal Power Program Financial Statements

The Southeastern Federal Power Program (SEFPP) as used herein consists of all Federal activities associated with the production, transmission, and disposition of all Federal power marketed under Section 5 of the Flood Control Act of 1944 in the ten southeastern states of Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. The SEFPP is not an official Government agency, nor is it an individual legal entity. Rather, it encompasses the power activities of two separate Government agencies, the Southeastern Power Administration of the Department of the Interior and the U. S. Army Corps of Engineers, which are separately managed and financed. The agencies maintain separate accounting systems. However, by combining activities related to electric power marketed under the 1944 Flood Control Act, the financial statements prepared for the SEFPP show the combined financial results of the total Federal power program in the area administered by the Southeastern Power Administration and the Corps of Engineers.

Note 2. Power Production, Transmission, and Marketing Activities of the Southeastern Federal Power Program

As of June 30, 1974, there were seventeen hydro-electric generating projects in commercial service which had been constructed and were being operated by the U. S. Army Corps of Engineers. These projects had a total installed generating capacity of 2,010,000 kilowatts and are listed in Schedule A, together with those additional projects which are presently under construction by the Corps of Engineers. The total output from all these projects is marketed by the Southeastern Power Administration, whose physical facilities are composed entirely of general plant required in the operations of its office in Elberton, Georgia, for a work force composed of 37 people. While Southeastern Power Administration has no power production or transmission facilities, it does incur costs for the purchase of power and for transmission service charges under contracts with various power customers and such costs are included in the financial statements.

Note 3. Relationship of Financial Statements to Repayment Studies

The financial statements are presented on an accrued cost accounting basis, which includes depreciation computed under the compound interest method as one of the elements of cost. These statements do not show financial results on a repayment basis. Power rates are established by using a separate repayment analysis. The major difference between the financial statements and the historical data on the repayment analysis is the treatment of fixed assets. In the financial statements fixed assets are depreciated over service lives up to a maximum of 100 years but, for rate making purposes

the investment in such assets must be repaid within 50 years. Accumulated net revenues as given in the financial statements are not, therefore, a measure of the adequacy of the overall power structure to accomplish repayment of project costs within a 50-year period.

The investment allocated to power in the Corps accounting records and shown in these financial statements is approximately \$9,000,000 more than the completed plant shown on the repayment studies prepared by the Southeastern Power Administration for rate making purposes. The difference relates primarily to adjustments that the Southeastern Power Administration has made for repayment purposes, to the Corps' tentative cost allocations and to the firm cost allocations which have not been recorded in the Corps' accounting records as of June 30, 1974. The amount of the investment allocated to power may change when the Corps makes retroactive adjustments to its financial records for firm cost allocations (see note 6).

Note 4. Depreciation Costs

Southeastern Power Administration and the Corps of Engineers in fiscal year 1967 adopted the compound interest method of depreciation for the Southeastern Federal Power Program. Under the compound interest method of depreciation a significant feature is that depreciation charges applicable to a project are lower in the early years of the project's life and higher in the later years. The average number of years in operation is 15.9 for the seventeen hydroelectric plants in the southeastern power marketing area.

Note 5. Interest Costs

Interest costs in the financial statements include both capitalized interest during construction for all projects and annual expensed interest on the unpaid Federal investment. An interest rate of 2.5% was used for all interest computations made for projects in operation as of June 30, 1969. A rate of 2.625% was used for both J. Percy Priest and Millers Ferry projects which became operational during fiscal year 1970, and for Cordell Hull in fiscal year 1974. The interest rates applicable to the projects under construction as of June 30, 1974, are as follows:

Carters	2 5/8%	Laurel River	3%
Jones Bluff	2 5/8%	West Point	3%

The interest rates have been set by law or by administrative policies pursuant to law. They have not necessarily been designed to recover the interest costs to the U. S. Treasury to finance the investment. The interest rates included in these financial statements are the same as the interest rates used by the Southeastern Power Administration in preparing repayment studies, with the following exception:

For the Cumberland projects, Center Hill, Dale Hollow, and Wolf Creek, a 2% interest rate was used prior to June 30, 1964, in the repayment studies. As stated in the FPC Order, Document No. E 7188, approving the rates and charges for these projects, the additional interest costs which would result from applying a 2.5% interest rate prior to June 30, 1964, are to be repaid by revenues from these projects received immediately following the initial repayment period. For this reason a portion of the interest costs included in the financial statements is considered to be deferred costs in the repayment studies. Approximate amounts for these deferred costs were \$265,000 in FY 1974 and \$10,900,000 cumulative to date.

Interest expense for John H. Kerr, Philpott, Clark Hill, Hartwell, and Millers Ferry projects has been revised since initial submission of Corps data to correct about \$1 million in understatements of interest expense. The Corps plans to adjust its records for these corrections during fiscal year 1975.

Note 6. Cost Allocations

Cost of facilities which serve only one purpose are assigned to that purpose. For projects which serve more than one purpose (e.g., power, navigation, flood control, etc.,) it is necessary to allocate the costs of joint-use facilities among the purposes served. The term "cost allocation" is used to describe this process and result. The discussion which follows pertains to the cost allocation of joint-use facilities.

Cost allocations are designed as firm or tentative. A tentative allocation is one which may be adjusted retroactively when it is made firm. A firm allocation may be changed in the future, if conditions warrant, but only prospectively. All allocations for the projects under construction are considered to be tentative at this time. The following table presents the status of cost allocation for the generating projects in operation at June 30, 1974.

STATUS OF COST ALLOCATIONS

<u>Project</u>	<u>Status</u>
1. John H. Kerr	Firm
2. Philpott	Firm
3. Clark Hill	Firm
4. Allatoona	Firm
5. Buford	Firm
6. Hartwell	Tentative
7. Walter F. George	Firm <u>1/</u>
8. Millers Ferry	Firm <u>2/</u>

<u>Project (Cont'd)</u>	<u>Status (Cont'd)</u>
9. Jim Woodruff	Firm
10. Dale Hollow	Firm
11. Center Hill	Firm
12. Wolf Creek	Firm
13. Old Hickory	Firm
14. Cheatham	Firm
15. Barkley	Firm <u>2/</u>
16. J. Percy Priest	Tentative
17. Cordell Hull	Tentative

1/ This allocation was adopted May 9, 1973, and revised costs based on the firm allocation were estimated by the Corps for these statements. Detailed computations of the revised costs will be reflected in next years financial statements.

2/ These allocations were adopted May 24, 1974, and revised costs will be reflected in next years financial statements.

Note 7. Cost Incurred by Other Agencies

Current year costs charged to power reflect imputed General Services Administration rents of \$22,243 and Field Office of Solicitor costs of \$49,080 for a total of \$71,323. These imputed costs are included in the operation expenses for the Southeastern Power Administration. These statements do not include imputed rent costs for facilities provided by the General Services Administration to the Corps because the Corps believes that such costs are not significant.

Note 8. Preliminary Survey and Investigation Costs

The Corps of Engineers does not include preliminary survey and investigation costs prior to project authorization as part of project costs. The amount of such costs reported by the Corps of Engineers totals \$1,095,799 for the seventeen projects operating on June 30, 1974, and \$205,165 for four projects under construction.

Note 9. Other Revenues and Nonoperating Revenues - Exhibit 1

This account, for Other Revenues, includes the following:

Corps of Engineers			
Inter-Departmental sales of Electricity		\$25,782	
Sale of water from Allatoona project		50,751	
Headwater Benefit Revenues applicable to projects:			
Buford	\$585,797		
Clark Hill	45,847		
Hartwell	31,253		
John H. Kerr	819,548		
Philpott	33,522	1,515,967	\$1,592,500
Miscellaneous Nonoperating Revenues are from thirteen of the operating projects			<u>3,042</u>
Total Other Revenues and Nonoperating Revenues			<u>\$1,595,542</u>

Note 10. Contingent Liabilities

Estimated contingent liabilities total \$6,980,595 and represent various contractors' claims and claims under the Federal Tort Claims Act.

Note 11. Adjustments to Accumulated Net Revenues

The following tabulation summarizes the adjustments made during fiscal year 1974 which result in the net increase in the accumulated net revenues of \$226,341 as shown in Exhibit 2.

Corps of Engineers:			
(a) Net loss on retirement of land at two operating projects			(\$15,789)
(b) Adjustment due to prior year rounding			(2)
(c) Prior year adjustment due to revised percentage for allocation of joint costs at W. F. George project			242,111
Southeastern Power Administration:			
(d) Prior Year Revenue Adjustments: Kerr-Philpott Projects			60
(e) Prior Year Expense Adjustments: Jim Woodruff Project			(3)
(f) Depreciation adjustment			<u>(42)</u>
Total Adjustments			<u>\$226,341</u>

Note 12. Major Rehabilitation at Wolf Creek Dam

The Corps of Engineers estimates that about \$71 million may be required to construct a concrete wall near the center line of the earth embankment portion of the Wolf Creek Dam for most of its 3,940 feet length. The rehabilitation work is needed to correct a leakage problem which could affect the stability of the structure. During the rehabilitation work, which may require several years to complete, power generation and related revenues probably will be reduced below present levels. The amount of costs and revenue reductions will depend on conditions found to exist as the rehabilitation work progresses.