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REPORT TO
THE CONGRESS OF THE UNITED STATES



LM087855

AUDIT OF
SOUTHEASTERN POWER SYSTEM AND RELATED ACTIVITIES
FISCAL YEARS 1961, 1962, AND 1963

CORPS OF ENGINEERS (CIVIL FUNCTIONS)
DEPARTMENT OF THE ARMY
AND
SOUTHEASTERN POWER ADMINISTRATION
DEPARTMENT OF THE INTERIOR



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

JUNE 1965

747540/087855



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

JUN 29 1965

B-125032

To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has made an audit of the power-generating and related activities of the Corps of Engineers (Civil Functions), Department of the Army, and the power-marketing activities of the Southeastern Power Administration, Department of the Interior, in the southeastern area of the United States, for fiscal years 1961, 1962, and 1963. We are issuing this report to advise the Congress of the actions taken on the recommendations in our prior reports, the status of repayment of the Federal investment allocated to power, and our opinion of the financial statements of the Southeastern Power System.

The financial statements included in this report were prepared by the General Accounting Office, as in past years, from the records of the Southeastern Power Administration and the Corps of Engineers. The continued preparation of combined statements is desirable in order to disclose fully on an integrated system basis, for the information of the Congress, the President of the United States, and the public, the financial position and the results of operations of the Southeastern Power System. In our opinion, however, the preparation of the combined financial statements is more properly a function of the executive branch of the Federal Government. The Department of the Interior has agreed that it is appropriate for the Southeastern Power Administration to prepare annual financial statements.

The Department of the Interior advised us that the necessary policies and procedures to be followed by the Southeastern Power Administration would include the reporting concepts being developed for the Bonneville Power Administration in cooperation with the General Accounting Office. Further, the Department of the Interior advised us that the development of the procedures for the Southeastern Power Administration would require coordination with the Corps of Engineers, particularly in the matters of depreciation rates and service-life determinations. We are recommending that the Secretary of the Interior

require the preparation of combined financial statements as soon as the necessary reporting policies and procedures are developed and that the preparation of these statements not be deferred solely because disagreements exist over the method to be used in computing depreciation.

Our prior report included a recommendation to the President of the United States concerning the failure of the Secretary of the Interior to comply with a specific requirement of existing law with respect to Federal Power Commission approval of rates and charges for the sale of power from the Wolf Creek, Center Hill, and Dale Hollow projects. At June 30, 1963, the Department continued to sell power from these projects under the disapproved rate schedules. On October 15, 1964, however, the Department submitted revised rate schedules to the Federal Power Commission for approval. Both the Department and the Corps subsequently agreed to a counterproposal made by the Federal Power Commission. The Federal Power Commission issued an order, dated December 23, 1964, approving the revised rate schedule.

Our prior reports to the Congress on Federal water resources development programs in the southeastern area also contained matters for consideration by the Congress on allocations of construction costs to power and other purposes. At June 30, 1963, the Department of the Interior and the Corps of Engineers had reached general agreement on the cost allocations for 8 of the 13 multiple-purpose projects with power facilities, that were then in operation. Negotiations between the Corps and the Southeastern Power Administration on the cost allocations for two other projects have been deferred pending a determination by the Corps on the criteria to be applied in reviewing and evaluating these projects. At June 30, 1963, a basic difference still existed between the Corps and the Department on the proper cost allocation method and interest rate on the Wolf Creek, Center Hill, and Dale Hollow projects. On April 9, 1965, however, the Corps, as a result of the Federal Power Commission's acceptance of the Department's method of cost allocation for rate-making purposes at these projects, issued instructions requiring a reallocation of the cost, on the same basis, in the Wolf Creek, Center Hill, and Dale Hollow project records.

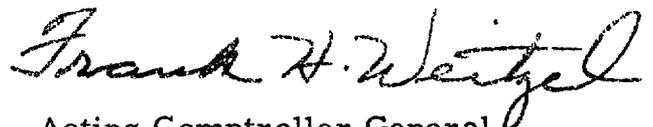
The report contains our opinion that, because of certain accounting deficiencies related to the depreciation of project facilities and the

disagreement between the Department and the Corps on the proper cost allocation method for certain projects, the accompanying financial statements (schedules 1 through 3) do not present fairly the financial position of the Southeastern Power System and Related Activities at June 30, 1963, and the results of operations for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

We are again reporting, as in prior audit reports, that the status of repayment of the Government's investment in the power program in the southeastern area of the United States is not adequately shown in repayment schedules prepared by the Southeastern Power Administration because no comparison is made between actual and scheduled repayment.

The report also includes our recommendation to the Chief of Engineers for recording in project accounts Court of Claims settlement costs arising from project activities and the recovery of these costs by the Government.

Copies of this report are being sent to the President of the United States, to the Secretary of the Army, and to the Secretary of the Interior.



Acting Comptroller General
of the United States

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REPORT ON AUDIT
OF
SOUTHEASTERN POWER SYSTEM AND RELATED ACTIVITIES
FISCAL YEARS 1961, 1962, AND 1963
CORPS OF ENGINEERS (CIVIL FUNCTIONS)
DEPARTMENT OF THE ARMY
AND
SOUTHEASTERN POWER ADMINISTRATION
DEPARTMENT OF THE INTERIOR

The General Accounting Office has made an audit of selected activities of the Corps of Engineers (Civil Functions), Department of the Army, and the Southeastern Power Administration, Department of the Interior, in the southeastern area of the United States, for fiscal years 1961, 1962, and 1963. This audit was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the audit work performed is described on page 21 of this report.

BACKGROUND

Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s) provides for delivery to the Secretary of the Interior of the excess electric power and energy generated at reservoir projects under the control of the Department of the Army. The Secretary of the Interior is directed to transmit and dispose of such power and energy in such a manner as to encourage the most widespread use thereof at the lowest possible rates to consumers, consistent with sound business principles, the rate schedules to become effective upon their confirmation and approval by the Federal Power Commission (FPC). To carry out these responsibilities, the Secretary of

the Interior established the Southeastern Power Administration (SEPA) as the power-marketing agent in the southeastern United States.

SEPA does not own or operate any transmission facilities. The power it sells is delivered to the Tennessee Valley Authority, electric utility companies, and preference customers either at the project site or by contractual arrangement over facilities of the electric utility companies. The office of SEPA is located at Elberton, Georgia, and is managed by an administrator appointed by the Secretary of the Interior.

Project authorizations to the Corps of Engineers (Corps) have provided for construction of hydroelectric power plants at many reservoir projects in the southeastern area of the United States.¹ Although by law the power program is generally collateral to the other purposes of multiple-purpose projects, it has developed into a major activity from a construction and operating standpoint, and the power program is the only major revenue-producing program.

The Corps had in operation or under construction on June 30, 1963, 18 multiple-purpose projects with power facilities in the southeastern area. These projects, when completed, will represent a Federal investment totaling about \$1.085 billion and will have an installed generating capacity of 2,110,620 kilowatts. Installed generating capacity at June 30, 1963, totaled 1,677,600 kilowatts.

¹See appendix I, page 43, for pertinent authorizing legislation.

In addition to the generation of hydroelectric energy, these projects provide flood control, navigation, recreation, and fish and wildlife benefits. The Corps has made expenditures for advance engineering and design on seven additional multiple-purpose projects with power facilities in the southeastern area.

The accounts for power operations are maintained by the Corps and SEPA, to the extent practicable, in accordance with the uniform system of accounts prescribed for public utilities by the Federal Power Commission under the Federal Power Act (16 U.S.C. 825b). The General Accounting Office has prepared financial statements combining the records and reports of the two agencies because neither of the agencies prepared combined financial statements. In combining the financial statements we have made certain reclassifications and eliminations; these revisions do not affect the combined net results of operations of these activities. We call this combined financial presentation the Southeastern Power System and Related Activities. The financial statements, schedules 1 through 3, appear on pages 27 to 32.

The amounts representing the assets and liabilities of generating projects and the operating expenses for power and nonpower operations used in this financial presentation are from Corps' accounting records and therefore reflect the use of Corps' cost allocations. The operating revenues are based on SEPA's accounting records. Our opinion of the financial statements appears on page 22.

The principal policy-making officials of the respective agencies responsible for the activities discussed in this report are as follows:

Tenure of office

From

To

DEPARTMENT OF THE ARMY

Secretary of the Army:

Wilber M. Brucker	July 1955	Jan. 1961
Elvis J. Stahr, Jr.	Jan. 1961	June 1962
Cyrus R. Vance	July 1962	Jan. 1964
Stephen Ailes	Jan. 1964	Present

Chief of Engineers:

Lt. Gen. Emerson C. Itschner	Oct. 1956	May 1961
Lt. Gen. Walter K. Wilson, Jr.	May 1961	Present

Director of Civil Works:

Maj. Gen. William F. Cassidy	Sept. 1959	Mar. 1962
Maj. Gen. R. G. MacDonnell	Apr. 1962	Feb. 1963
Maj. Gen. Jackson Graham	Mar. 1963	Present

DEPARTMENT OF THE INTERIOR

Secretary of the Interior:

Fred A. Seaton	June 1956	Jan. 1961
Stewart L. Udall	Jan. 1961	Present

Assistant Secretary--Water and Power
Development:

Fred G. Aandahl	Feb. 1953	Jan. 1961
Kenneth Holum	Jan. 1961	Present

Administrator, Southeastern Power

Administration:

Charles W. Leavy	Jan. 1953	Present
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STATUS OF PRINCIPAL FINDINGS
AND RECOMMENDATIONS IN PRIOR REPORTS

Our report to the Congress dated October 31, 1961 (B-125032), on the audit of the Southeastern Power System and Related Activities for fiscal years 1959 and 1960 and our prior reports have contained comments on a number of significant matters on which corrective action was needed. The principal findings and recommendations and their current status are summarized below.

SALE OF POWER BY THE DEPARTMENT OF THE INTERIOR
AT RATES DISAPPROVED BY THE
FEDERAL POWER COMMISSION--CORRECTED

We commented in our prior report that the schedule of rates and charges in the Department of the Interior (Department) agreement with the Tennessee Valley Authority (TVA) for sale of power generated at the Wolf Creek, Center Hill, and Dale Hollow projects was disapproved by the Federal Power Commission on May 20, 1958, as not being sufficient to repay the costs of these projects pursuant to the requirements of section 5 of the Flood Control Act of 1944. Further, we stated that the Department had continued to sell power to TVA at the rates provided in the contract, thereby failing to meet the legal requirement that schedules of rates and charges become effective only upon confirmation and approval by FPC. Accordingly, we recommended that the President of the United States direct the Secretary of the Interior to submit for FPC approval revised rates and charges for the sale of power from these projects, designed to comply with FPC's interpretation of existing requirements.

The agreement between the Department and TVA provides for the sale of energy from the Wolf Creek, Center Hill, and Dale Hollow projects at rates sufficient to repay the Federal investment of

\$102.6 million allocated to power, using the incremental cost method of cost allocation with interest on the unrepaid investment at the rate of 2 percent. On these same projects, the Corps has used the separable costs-remaining benefits method of cost allocation with a 2.5-percent interest rate and as a result has allocated \$114.3 million to power.¹ The FPC, in May 1958, found that the rates based on the Department's allocation were not sufficient to repay the cost of these projects allocated to power, pursuant to the requirement of section 5 of the Flood Control Act of 1944. Accordingly, FPC disapproved the schedule of rates.

At June 30, 1963, the Department continued to sell power from the Wolf Creek, Center Hill, and Dale Hollow projects under the disapproved schedule of rates. On October 15, 1964, however, the Department of the Interior submitted a revised rate schedule for the sale of power from the Corps of Engineers' Wolf Creek, Center Hill, and Dale Hollow projects to the FPC for approval. The revised rate schedule submitted by the Department utilized the incremental cost method of cost allocation, a 2-percent interest rate through June 30, 1964, and a 2.5-percent interest rate for the remainder of the payout period.

The FPC, on October 21, 1964, made a counterproposal to the Department of the Interior. In the counterproposal, the FPC concurred with the Department's use of the incremental cost method of cost allocation; however, the FPC did not concur in the use of the 2-percent interest rate through June 30, 1964. Instead, the FPC proposed that a 2.5-percent interest rate be used for all interest

¹See appendix II, page 45, for a summary of cost allocation methods used.

computations for these projects, which would include computing interest during construction and computing expensed interest beginning with the initial in-service date of the power features at each project. The FPC stated that the added costs due to applying the 2.5-percent interest charge retroactively could be repaid from power revenues realized after the scheduled repayment period.

Both the Department of the Interior and the Corps of Engineers concurred in the counterproposal, and on December 23, 1964, the FPC approved the revised rate schedule. The approved revised rate schedule is in fact the same as the rate schedule which the FPC had previously disapproved except for the increase in the interest rate from 2 percent to 2.5 percent. The rate schedule is effective for the period beginning with the date of the issuance of the FPC order approving the rates--December 23, 1964--and ending June 30, 1969.

DISAGREEMENT ON COST ALLOCATION
METHODS BETWEEN THE CORPS OF ENGINEERS
AND THE DEPARTMENT OF THE INTERIOR

In our prior report, we stated that at June 30, 1960, firm cost allocations had been made on only 4 of the 11 Corps of Engineers projects in operation in the southeastern area. The Corps and the Department had reached field-level agreement on the cost allocation for 4 other projects and, except for an expected minor adjustment, the allocations were considered firm. However, a basic difference existed between the two agencies on the proper cost allocation method and the interest rate for the Wolf Creek, Center Hill, and Dale Hollow projects.

Because of the lack of agreement on the cost allocations and certain other accounting deficiencies, we stated that we could not express an opinion as to whether the financial statements included in our report presented fairly the financial position of the

Southeastern Power System and Related Activities at June 30, 1960, and the financial results of operations for the fiscal year then ended.

At June 30, 1963, the Department of the Interior and the Corps of Engineers had reached general agreement on the cost allocations for 8 of the 13 multiple-purpose projects then in operation. Negotiations between the Corps and the Southeastern Power Administration on the cost allocations for two other projects have been deferred until the Corps decides on whether the new criteria for reviewing and evaluating water resources (S. Doc. 97, 87th Cong., 2d sess.) will be applied to these projects. A basic difference still existed at June 30, 1963, between the Corps and the Department on the proper cost allocation method and the interest rate for the Wolf Creek, Center Hill, and Dale Hollow projects. (See appendix II.)

On December 23, 1964, the FPC approved a revised rate schedule for the sale of power from the Wolf Creek, Center Hill, and Dale Hollow projects based on the incremental cost method of cost allocation used by the Department. (See pp. 5 through 7.) On April 9, 1965, the Corps, as a result of the FPC's acceptance of the incremental cost method of cost allocation for rate-making purposes at these projects, issued instructions requiring a reallocation of the cost of the Wolf Creek, Center Hill, and Dale Hollow projects, using the incremental cost method. Because the Corps is planning to adjust the Wolf Creek, Center Hill, and Dale Hollow project records in fiscal year 1965, the provisions for depreciation, accrual of interest on the Federal investment, and various other costs allocated to power and the other purposes included in the financial statements for fiscal year 1963 are subject to significant adjustment.

STATUS OF REPAYMENT OF FEDERAL INVESTMENT
ALLOCATED TO POWER, NOT SHOWN ADEQUATELY

In our prior report on the Southeastern Power System and Related Activities, we commented that repayment studies prepared by SEPA did not adequately show the status of the repayment of the Federal investment in power in the southeast because no comparison was made between actual and scheduled repayment. This condition continued to exist in fiscal years 1961, 1962, and 1963.

SEPA has prepared repayment studies for 11 of the 13 projects in operation at June 30, 1963. These repayment studies are the same type that SEPA was preparing at the time of our last audit. The studies are presented in a form different from the schedule included in appendix III in that they show for groups of projects the actual or estimated revenues, expenses, amortization, and unamortized investment for each year of the repayment period. These studies are used (1) to support rate submissions to the FPC, (2) to summarize repayment information for presentation at congressional hearings on appropriation requests, and (3) for internal reviews by SEPA and the Department. While these studies generally show adequate information regarding the expected future repayment of the Federal power investment, there is still no comparison made between actual repayment and scheduled repayment requirements, and, therefore, our previous objections to these studies are still valid.

The Administrative Assistant Secretary of the Interior indicated in his comments on our prior report that the Department did not need the type of repayment schedule that we had proposed. He stated that repayment studies being prepared provided necessary information to determine whether the Department was meeting its financial responsibility to recover the Federal investment in power within the established repayment period. In a letter dated

October 30, 1964, relating to this report, the Department of the Interior reconfirmed the position taken by the Administrative Assistant Secretary in commenting on our prior report.

We have included in this report, as in past reports, a schedule comparing SEPA net revenues available for repayment of the Federal investment in power with the estimated scheduled repayment requirements based on cost allocations made by the Corps. (See app. III.) The estimated scheduled repayment requirements for the Corps' Wolf Creek, Center Hill, and Dale Hollow projects, shown in appendix III, are based on the separable cost-remaining benefits method of cost allocation, while the revenues available to repay the Federal investment in power at these projects were determined on the basis of rates established using the incremental cost method of cost allocation. (See p. 5.) Since the incremental cost method of cost allocation has been accepted, it should be noted that the reduction in scheduled repayment requirements will, it appears, more than offset the repayment deficiency shown in appendix III.

In evaluating the status of repayment, shown in appendix III, consideration must be given to (1) fluctuating water flows in past years, with consequent fluctuating revenues, (2) revenue losses attributable to protracted negotiations of long-term contracts during the period of initial project development, and (3) differences in the method used by the Corps and by SEPA in providing for major replacements. Also, power rates are designed to produce revenues to repay an average amount of the investment over the years; rates cannot be frequently adjusted to coincide with fluctuating water flows. We have not attempted to evaluate these factors for purposes of this report.

In our opinion, a repayment schedule, to be meaningful to various levels of management, such as the Department of the Interior, the Bureau of the Budget, and the Congress, should demonstrate the adequacy of the results of operations to recover the Federal investment in power within a reasonable length of time and should be accompanied by a comprehensive analysis of repayment deficiencies, including comments regarding future repayment prospects.

DEFICIENCIES IN ACCOUNTING FOR AMORTIZATION
AND DEPRECIATION OF FACILITIES

Our prior years' reports on the Southeastern Power System and Related Activities included comments on (1) the need to adjust erroneous computations of interest on the Federal investment for the projects at the Corps district offices in Savannah, Georgia, and Nashville, Tennessee, (2) the need for the Corps of Engineers to amortize the costs of land and land rights (except land acquired in fee simple), relocation of facilities, and land clearing over the economic life of the project, and (3) the need for the Corps district offices to use a consistent basis in computing the amounts representing depreciation expense for the southeastern multiple-purpose projects that have power as a purpose. Our current review disclosed that the Corps had made appropriate adjustment in the interest expense accounts for the projects in the Savannah and Nashville District Offices. The current status of the latter two deficiencies is discussed below.

Need for the Corps to amortize costs of land
and land rights, relocations, and land clearing
for each project

At June 30, 1963, costs of about \$80.1 million for land and land rights (except land acquired in fee simple), relocation of facilities, and land clearing were not being amortized by the Corps over the applicable project economic life and were not being

included as an operating cost of the southeastern multiple-purpose projects. On the basis of the Corps' cost allocations, about \$64.6 million of this amount had been allocated to the investment in power facilities and about \$15.5 million had been allocated to the nonreimbursable project purposes.

Our review disclosed that the Corps district offices have not been consistent in amortizing the costs of land and land rights, relocations, and land clearing incurred in the construction of multiple-purpose project in the southeast. For example, at June 30, 1963, the Nashville District was amortizing all of these costs for the Wolf Creek, Center Hill, Dale Hollow, Old Hickory, and Cheatham projects, but the Savannah District was not amortizing any of these costs for the Clark Hill, Hartwell, John H. Kerr, and Philpott projects. At the same date, the Mobile District was not amortizing the cost of relocations at the Allatoona, Buford, Jim Woodruff, and Walter F. George projects. We estimate that, as a result, about \$80.1 million of costs for land and land rights (exclusive of land acquired in fee simple), relocations, and land clearing for southeastern projects were not being amortized at June 30, 1963.

Unlike the cost of land owned in fee simple, other costs associated with land, such as easements, rights-of-way, relocation of facilities, and clearing of reservoir land, are ordinarily for requirements that retain no value upon expiration of the economic life of a project. For example, the costs of relocating a road, bridge, or building from land to be inundated would not enhance the value of the land and therefore would have no retained value at the expiration of the economic life of the project. We believe that, because the Flood Control Act requires that power be disposed of at

rates which will recover the operating costs and the capital investment allocated to power over a reasonable period of years, the Corps should amortize these costs.

Since these costs represent in many instances a significant portion of total project costs, we believe that operating expenses have been significantly understated and net fixed assets are equally overstated. For example, unamortized relocation costs at the Buford project are \$10.8 million, or about 22 percent of total project construction costs. We estimate that the provision of about \$6.8 million for depreciation, allocated to power at all projects for fiscal year 1963, is understated by about \$645,000 and that at June 30, 1963, the cumulative net loss from power operations shown on schedule 2, page 29, and the accumulated depreciation allocated to power shown on schedule 1, page 27, are understated by about \$3.3 million.

In a letter to us dated November 18, 1964, the Director of Civil Works, Corps of Engineers, stated that instructions, dated July 1, 1964, pertaining to the amortization of land and land rights, relocations, and land clearing had been issued requiring that the Corps district offices maintain their records so as to consider such costs as costs of operations.

Need for Corps to establish uniform service lives to compute depreciation expense

In prior years' reports we pointed out inconsistencies that existed in computing depreciation expense at the Corps district offices in the southeast. We were informed by the Director of Civil Works, Corps of Engineers, in June 1961, that certain of these inconsistencies would be eliminated in fiscal year 1961 and that a review of depreciation practices in general in the southeastern area had been requested.

During our current audit, we again found that service lives used in computing depreciation expense for similar project features continued to vary between district offices. For example, Clark Hill project turbine and generator costs are depreciated by the Savannah District over a 40-year period, whereas similar costs for the Buford project are depreciated over a 67-year period by the Mobile District and for the Wolf Creek project are depreciated over a 35-year period by the Nashville District. The establishment of such disparate service lives for these features is questionable especially in view of the installation of 40,000-kilowatt generators at both the Clark Hill and Buford projects.

The use of different service lives for similar project features results in a significant variation in the depreciation expense that would be computed by the district offices on a specific amount of investment. For example, the annual depreciation expense computed by the Mobile District on an investment of \$12,528,000 in specific Buford project power facilities was \$201,000; however, if this same investment were depreciated by the Savannah District or Nashville District offices, the depreciation expense would be about \$267,000 or \$317,000, respectively.

The use of different service lives in computing depreciation expense on similar project features, in our opinion, distorts the financial position and the results of power operations for the Southeastern Power System and Related Activities, presented on schedules 1 and 2 of this report, thereby depriving the Congress and other interested parties of complete financial data which would permit an adequate evaluation of the Federal power program in the southeast.

In his letter to us dated November 18, 1964, the Director of Civil Works, Corps of Engineers, stated that, in his opinion, the depreciation practices permitted adequate evaluation of the Federal power program; however, he agreed on the need and desirability of establishing consistent practices for recording depreciation. The Director of Civil Works stated that any unilateral action at that time was at best an interim solution pending establishment of interagency understanding. Also, he advised us that cooperative efforts by the Corps of Engineers and the Department of the Interior had been initiated and were directed to creating a joint-work group to explore the problem with the view to attaining such interagency agreement.

The depreciable assets are owned and operated by the Corps except for miscellaneous equipment, recorded at a cost of about \$98,000, that is owned by SEPA. Therefore, we believe that the Corps can establish uniform service lives pending the results of interagency discussions. If the discussions result in the adoption of service lives, for application to all Federal water resource projects, that differ from those established by the Chief of Engineers for projects in the Southeastern Power System, appropriate adjustments could be made.

Recommendation

In view of the continuing inconsistencies in establishing plant service lives, we recommend that the Chief of Engineers establish depreciation policies that provide for the use of uniform service lives in computing depreciation on similar project features.

CURRENT FINDINGS AND RECOMMENDATIONS

RESPONSIBILITY FOR PREPARING COMBINED FINANCIAL STATEMENTS ON SOUTHEASTERN POWER SYSTEM AND RELATED ACTIVITIES SHOULD BE ASSIGNED TO SOUTHEASTERN POWER ADMINISTRATION

Financial statements disclosing the financial position and results of operations of the Southeastern Power System, on an integrated-system basis, are not being prepared by either Southeastern Power Administration or the Corps of Engineers. The financial statements for the Southeastern Power System and Related Activities included in this report, as in past reports, were prepared by the General Accounting Office by combining the separate financial records and reports of the two agencies. However, in our opinion and that of the Director of the Bureau of the Budget, the preparation of combined financial statements is more properly a function of the executive branch of the Federal Government.

The preparation of combined financial statements for the Southeastern Power System and Related Activities by the executive branch could be accomplished by assigning the responsibility for preparing these statements to the Administrator, SEPA. The Department of the Interior, in reply to a similar finding in our report to the Congress on the Southwestern Power System and Related Activities, dated May 22, 1963 (B-125031), agreed that a combined financial statement for the Southwestern Power Administration (SWPA) and the Corps was desirable in order to make full disclosure of the financial condition of the Southwestern Power System. Accordingly, the Department stated that it was assigning to SWPA responsibility for securing the necessary data to prepare combined financial statements for the activities of the Southwestern Power System. The Corps agreed to cooperate with SWPA in carrying out this objective.

SEPA officials are opposed to the preparation of combined financial statements because the inclusion of depreciation for generating projects, computed by the Corps on the basis of the straight-line method, as an operating cost results in reporting an operating loss each year while repayment studies show that the project investment allocated to power will be amortized in the designated repayment period. These officials believe that the use of a compound-interest method of computing depreciation would be more appropriate since depreciation charges under this method would be more compatible with amortization requirements of the projects. SEPA officials stated that they would have to review and evaluate the type of combined financial statements that the Department proposed for the Southwestern Power System before reaching a decision on preparing combined financial statements for the Southeastern Power System.

In commenting on this matter, by letter dated October 30, 1964, the Department of the Interior agreed that it was appropriate for the Southeastern Power Administration to prepare annual financial statements and stated that policies and procedures to be followed by SEPA would be developed. The Department, however, was of the opinion that such policies should be developed, to the maximum extent practicable, on a basis which would meet the reporting needs of all power agencies and stated that the procedures developed for SEPA would include the reporting concepts being developed for the Bonneville Power Administration in cooperation with the General Accounting Office. Further, the Department advised us that the development of the procedures for SEPA also would require coordination with the Corps of Engineers, particularly in the matters of depreciation rates and service-life determinations and that discussions with the Corps regarding this matter had been initiated.

In our opinion, the preparation of combined financial statements for the Southeastern Power System should be accomplished as soon as the necessary reporting policies and procedures are developed and should not be deferred solely because disagreement exists over the method to be used in computing depreciation. As stated on page 15, we believe that the Chief of Engineers can establish uniform service lives for projects in the Southeastern Power System pending the results of interagency discussions on depreciation practices to be followed on all Federal water resource projects. We believe that the continued preparation of combined statements is necessary and desirable in order to disclose fully, on an integrated-system basis, for the information of the Congress, the President of the United States, and the public, the financial position and the results of operations of the various activities that make up the Southeastern Power System.

Recommendation

We recommend that the Secretary of the Interior direct the Southeastern Power Administration to prepare financial statements for the Southeastern Power System as soon as appropriate reporting concepts have been developed for the Bonneville Power Administration. Preparation of these statements should not be deferred until discussions with the Corps of Engineers on depreciation rates and service-life determinations have been completed.

COURT OF CLAIMS SETTLEMENT COSTS SHOULD BE INCLUDED IN PROJECT COSTS

Settlement claim costs, incurred by the Government in the Court of Claims for judgments against the Corps because of project construction, are not recorded as a cost of the Wolf Creek project and therefore are not being recovered to the same extent as are other project costs.

Our review disclosed that two claims arising from the construction of the Wolf Creek project were settled by the Court of Claims for a total of \$42,000 and that these costs were not recorded in the project accounts even though the amount of both settlements had been reported to the Corps district office. One of the awards was for \$30,700, representing settlement for damages claimed by a contractor for work on the dam. The other award was for \$11,300, for the settlement of a claim for the value of mineral interests in lands inundated following the construction of the dam.

We were advised by officials of the Corps' Nashville District Office that Corps policy does not require that Court of Claims settlements be considered as a project cost since the settlements are not paid out of Corps appropriations.

We also commented on court settlement costs in our report to the Congress on the audit of the "Central Valley Basin, California, Revenue-Producing Water Resources Development Projects for Fiscal Year 1960," dated April 1962 (B-125045). Pursuant to our recommendation, the Bureau of Reclamation revised its Bureau-wide procedures in July 1962 to provide for the inclusion of court settlements as project costs or expenses.

In a letter to us dated November 18, 1964, relating to this report, the Director of Civil Works, Corps of Engineers, stated that he did not feel sufficiently informed to express an opinion on this matter at that time and that any decision regarding the inclusion of such costs in project accounts should be considered against the general background of how to handle these costs, and other imputed costs as well, on a national basis. Further, the Director of Civil Works advised us that the Corps would undertake a study of this matter and, after completion of this study, would take appropriate action.

In our opinion, Court of Claims settlements, such as those described herein, and similar Federal expenditures directly identified with the construction or operation of Corps projects are properly chargeable to project activities because, in the absence of dispute, the amount of the claim settlement represents additional project costs, irrespective of the appropriation from which payments are made, and these costs should be recovered to the same extent as are other project costs.

Recommendation

To properly disclose the cost of Corps projects and the amounts to be repaid by revenue-producing activities, we recommend that the Chief of Engineers issue instructions providing for the recording of Court of Claims settlement costs arising from project activities and for the recovery by the Government of those costs allocated to revenue-producing activities.

SCOPE OF AUDIT

Our audits at the district offices of the Corps of Engineers having responsibility for water resources development programs in the southeastern area and at the headquarters office of the Southeastern Power Administration included a review of applicable legislation, a review of the policies and procedures adopted by the Corps and SEPA, and an examination of the financial statements of the Southeastern Power System and Related Activities for fiscal years 1961 through 1963. This examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and financial transactions and such other auditing procedures as we considered necessary in the circumstances.

The examination of the accounts and financial transactions of the Corps was conducted at district offices in Nashville, Tennessee; Mobile, Alabama; and Savannah, Georgia, and at the office of SEPA in Elberton, Georgia.

OPINION OF FINANCIAL STATEMENTS

The accompanying financial statements (schedules 1 through 3) were prepared by us from the accounts and records of the Southeastern Power Administration and from the accounts and records of the Corps of Engineers that pertain to multiple-purpose projects with power facilities located in southeastern United States.

In our opinion, the accompanying financial statements do not present fairly the financial position of the Southeastern Power System and Related Activities at June 30, 1963, and the results of operations for the fiscal year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States. The reasons for our opinion are set forth below.

1. A basic disagreement existed at June 30, 1963, between the Corps and the Department on the proper cost allocation method and interest rate on the Wolf Creek, Center Hill, and Dale Hollow projects. Therefore, provisions for depreciation, accrual of interest on the Federal investment, and various other costs allocated to power and the other purposes of the projects are subject to significant adjustment.
2. At June 30, 1963, the Chief of Engineers had not established uniform depreciation policies and practices for all water resources projects operated by the Corps that provide for amortization of the costs of land and land rights (except land acquired in fee simple), relocations, and land clearing and for the use of uniform service lives on similar project features. The Corps' failure to establish uniform service lives for use by all district offices could result in significant variations in depreciation expense on equal investments in similar project features. Because the Corps did not provide for the amortization of land rights and related costs, the net fixed assets of the Southeastern Power System at June 30, 1963, are overstated by about \$3.3 million and the net loss from power operations for fiscal year 1963 is understated by about \$645,000.

The matters discussed above have been or are in the process of being corrected as described on pages 7 and 11, respectively.

FINANCIAL STATEMENTS

SOUTHEASTERN POWER SYSTEM AND RELATED ACTIVITIES
CORPS OF ENGINEERS AND SOUTHEASTERN POWER ADMINISTRATION

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1963

A S S E T S

	<u>Combined</u>	<u>Corps of Engineers</u>	<u>South- eastern Power Adminis- tration</u>
FIXED ASSETS, including interest during construction (notes 1 and 4):			
Power	\$519,012,385	\$518,914,101	\$ 98,284
Flood control	87,983,388	87,983,388	-
Navigation	69,554,067	69,554,067	-
Recreation	4,164,645	4,164,645	-
War suspension costs	942,250	942,250	-
Multiple-purpose projects under construction	<u>163,994,591</u>	<u>163,994,591</u>	<u>-</u>
Total	<u>845,651,326</u>	<u>845,553,042</u>	<u>98,284</u>
Less accumulated depreciation (note 2):			
Power	56,981,842	56,935,924	45,918
Flood control	9,177,580	9,177,580	-
Navigation	6,758,926	6,758,926	-
Recreation	163,095	163,095	-
War suspension costs	<u>159,977</u>	<u>159,977</u>	<u>-</u>
Total	<u>73,241,420</u>	<u>73,195,502</u>	<u>45,918</u>
Fixed assets, net	<u>772,409,906</u>	<u>772,357,540</u>	<u>52,366</u>
ADVANCED PLANNING ON AUTHORIZED MULTIPLE-PURPOSE PROJECTS WHICH INCLUDE POWER	<u>1,474,403</u>	<u>1,474,403</u>	<u>-</u>
CURRENT ASSETS:			
Unexpended funds in U.S. Treasury	9,169,091	9,084,479	84,612
Accounts receivable	1,180,281	70,869	1,109,412
Accrued utility revenue	1,822,615	-	1,822,615
Prepayments, advances, and other debits	<u>38,351</u>	<u>2,174</u>	<u>36,177</u>
Total current assets	<u>12,210,338</u>	<u>9,157,522</u>	<u>3,052,816</u>
	<u>\$786,094,647</u>	<u>\$782,989,465</u>	<u>\$3,105,182</u>

The notes on pages 33 to 39 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 22.

L I A B I L I T I E S

	<u>Combined</u>	<u>Corps of Engineers</u>	<u>South- eastern Power Adminis- tration</u>
INVESTMENT OF U.S. GOVERNMENT AND ACCUMU- LATED EXCESS OF EXPENSES OVER REVENUES:			
Congressional appropriations, net (note 3):			
From general fund of U.S. Treasury	\$ 850,335,051	\$ 839,712,233	\$10,622,818
From receipts from sale of power	50,000	-	50,000
Transfers of cost or property, net	2,895,946	2,680,603	215,343
Interest on the Federal investment (note 4)	<u>179,860,248</u>	<u>179,806,636</u>	<u>53,612</u>
Total investment of U.S. Government	<u>1,033,141,245</u>	<u>1,022,199,472</u>	<u>10,941,773</u>
Less:			
Funds returned to U.S. Treasury (note 5):			
By Corps of Engineers	3,640,399	3,640,399	-
By Southeastern Power Adminis- tration	163,911,349	155,999,197	7,912,152
By other agencies	1,745,997	1,745,997	-
Cumulative net cost of nonpower programs (schedule 3)	63,673,590	63,673,590	-
Profit on sale of lands	<u>-1,042,348</u>	<u>-1,042,348</u>	<u>-</u>
Total deductions	<u>231,928,987</u>	<u>224,016,835</u>	<u>7,912,152</u>
Net investment of U.S. Government	801,212,258	798,182,637	3,029,621
Less cumulative net loss or profit (-) from power operations (schedule 2)	<u>18,755,344</u>	<u>18,762,172</u>	<u>-6,828</u>
	<u>782,456,914</u>	<u>779,420,465</u>	<u>3,036,449</u>
CURRENT AND ACCRUED LIABILITIES:			
Accounts payable	3,560,066	3,549,263	10,803
Employees' accrued leave	37,789	-	37,789
Other liabilities	<u>39,878</u>	<u>19,737</u>	<u>20,141</u>
Total current and accrued liabilities	<u>3,637,733</u>	<u>3,569,000</u>	<u>68,733</u>
	<u>\$ 786,094,647</u>	<u>\$ 782,989,465</u>	<u>\$ 3,105,182</u>

SOUTHEASTERN POWER SYSTEM AND RELATED ACTIVITIES

CORPS OF ENGINEERS AND
SOUTHEASTERN POWER ADMINISTRATION

STATEMENT OF RESULTS OF POWER OPERATIONS
FOR FISCAL YEAR 1963
AND CUMULATIVE NET LOSS TO JUNE 30, 1963

	Combined	South-eastern Power Adminis-tration	Corps of Engineers			
			Total	Wolf Creek	Center Hill	Dale Hollow
OPERATING REVENUES:						
Allocation of power revenues by SEPA (note 6)	\$22,547,374	\$2,929,374	\$19,618,000	\$1,556,000	\$ 826,000	\$ 553,000
OPERATING EXPENSES:						
Purchased power	586,146	586,146	-	-	-	-
Generation expenses:						
Specific power facilities	1,683,491	-	1,683,491	224,092	173,609	114,803
Joint facilities (note 7)	1,084,942	-	1,084,942	105,973	58,573	68,889
Transmission expenses	1,904,167	1,904,167	-	-	-	-
Supervision and administration (note 8)	952,862	365,945	586,917	39,031	36,164	34,499
Provision for depreciation (note 2)	6,823,226	4,926	6,818,300	1,075,303	624,464	321,342
Total operating expenses	13,034,834	2,861,184	10,173,650	1,444,399	892,810	539,533
Net operating revenues	9,512,540	68,190	9,444,350	111,601	-66,810	13,467
INTEREST ON THE FEDERAL INVESTMENT (note 4)	-10,581,757	-2,565	-10,579,192	-1,440,080	-797,778	-381,255
MISCELLANEOUS REVENUES, NET (note 9)	100,212	-	100,212	9,250	6,438	5,719
NET LOSS OR PROFIT (-) FOR THE FISCAL YEAR	\$ 969,005	\$ -65,625	\$ 1,034,630	\$1,319,229	\$ 858,150	\$ 362,069
NET LOSS OR PROFIT (-) FROM POWER OPERATIONS TO JUNE 30, 1962	\$17,862,409	\$ -36,038	\$17,898,447	\$6,236,964	\$5,064,964	\$2,081,957
NET LOSS OR PROFIT (-) FOR FISCAL YEAR 1963	969,005	-65,625	1,034,630	1,319,229	858,150	362,069
PRIOR YEARS' ADJUSTMENTS	-76,070	94,835	-170,905	-	-	-
CUMULATIVE NET LOSS OR PROFIT (-) FROM POWER OPERATIONS TO JUNE 30, 1963 (note 10)	\$18,755,344	\$ -6,828	\$18,762,172	\$7,556,193	\$5,923,114	\$2,444,026

The notes on pages 33 to 39 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 22.

Corps of Engineers									
Old Hickory	Cheatham	Allatoona	Buford	Clark Hill	Hartwell	Walter F. George	Jim Woodruff	John H. Kerr	Philpott
\$1,426,000	\$796,000	\$1,333,000	\$2,014,000	\$3,726,000	\$2,670,000	\$122,000	\$1,224,000	\$3,039,000	\$ 333,000
-	-	-	-	-	-	-	-	-	-
155,071	139,009	118,865	66,274	181,759	128,067	30,391	125,434	190,050	36,067
93,648	-	62,556	47,190	201,144	127,871	38	49,038	231,338	38,684
-	-	-	-	-	-	-	-	-	-
38,390	-	58,901	28,333	117,931	74,371	5,062	32,363	97,108	24,764
<u>691,063</u>	<u>449,516</u>	<u>275,446</u>	<u>339,284</u>	<u>1,005,139</u>	<u>690,180</u>	<u>41,217</u>	<u>281,652</u>	<u>921,175</u>	<u>102,519</u>
<u>978,172</u>	<u>588,525</u>	<u>515,768</u>	<u>481,081</u>	<u>1,505,973</u>	<u>1,020,489</u>	<u>76,708</u>	<u>488,487</u>	<u>1,439,671</u>	<u>202,034</u>
447,828	207,475	817,232	1,532,919	2,220,027	1,649,511	45,292	735,513	1,599,329	130,966
-725,334	-435,501	-531,708	-971,116	-1,643,692	-1,300,445	-54,155	-510,784	-1,597,479	-189,865
<u>3,766</u>	<u>-</u>	<u>1,136</u>	<u>1,309</u>	<u>47,831</u>	<u>3,672</u>	<u>-</u>	<u>5,015</u>	<u>15,640</u>	<u>436</u>
<u>\$ 273,740</u>	<u>\$228,026</u>	<u>\$ -286,660</u>	<u>\$ -563,112</u>	<u>\$ -624,166</u>	<u>\$ -352,738</u>	<u>\$ 8,863</u>	<u>\$ -229,744</u>	<u>\$ -17,490</u>	<u>\$ 58,463</u>
\$ 154,431	\$242,871	\$ 13,543	\$ -494,867	\$1,284,935	\$ 289,781	\$ -	\$ -534,989	\$2,199,562	\$1,359,295
273,740	228,026	-286,660	-563,112	-624,166	-352,738	8,863	-229,744	-17,490	58,463
<u>-</u>	<u>-</u>	<u>-11,556</u>	<u>-23,024</u>	<u>-81,656</u>	<u>-454</u>	<u>-</u>	<u>-4,572</u>	<u>-11,510</u>	<u>-38,133</u>
<u>\$ 428,171</u>	<u>\$470,897</u>	<u>\$ -284,673</u>	<u>-\$1,081,003</u>	<u>\$ 579,113</u>	<u>\$ -63,411</u>	<u>\$ 8,863</u>	<u>\$ -769,305</u>	<u>\$2,170,562</u>	<u>\$1,379,625</u>

S O U T H E A S T E R N P O W E R S Y S T E M A N D R E L A T E D A C T I V I T I E S

CORPS OF ENGINEERS AND
SOUTHEASTERN POWER ADMINISTRATION

STATEMENT OF NET COST OF NONPOWER PROGRAMS
FOR FISCAL YEAR 1963
AND CUMULATIVE NET COST TO JUNE 30, 1963

	Corps of Engineers					
	<u>Total</u>	<u>Wolf Creek</u>	<u>Center Hill</u>	<u>Dale Hollow</u>	<u>Old Hickory</u>	<u>Cheatham</u>
OPERATING EXPENSES:						
Specific cost	\$ 866,829	\$ 19,731	\$ 32,159	\$ 29,545	\$ 148,437	\$ 133,319
Joint facilities (note 7)	592,975	50,661	27,287	32,862	58,011	109,555
Supervision and administration (note 8)	306,768	19,554	18,045	16,080	25,106	57,893
Provision for depreciation (note 2)	1,743,777	219,249	139,580	103,996	286,755	234,413
Interest on the Federal investment (note 4)	<u>3,641,040</u>	<u>457,674</u>	<u>273,761</u>	<u>206,400</u>	<u>436,488</u>	<u>306,463</u>
Total operating expenses	7,151,389	766,869	490,832	388,883	954,797	841,643
Less miscellaneous revenues, net (note 9)	<u>52,527</u>	<u>4,363</u>	<u>2,880</u>	<u>2,382</u>	<u>2,201</u>	<u>1,860</u>
NET COST OF NONPOWER PROGRAMS FOR FIS- CAL YEAR 1963	<u>\$ 7,098,862</u>	<u>\$ 762,506</u>	<u>\$ 487,952</u>	<u>\$ 386,501</u>	<u>\$ 952,596</u>	<u>\$ 839,783</u>
CUMULATIVE NET COST OF NONPOWER PRO- GRAMS TO JUNE 30, 1962	\$56,560,523	\$8,449,886	\$5,952,283	\$6,164,903	\$5,212,031	\$5,731,048
NET COST OF NONPOWER PROGRAMS FOR FIS- CAL YEAR 1963	7,098,862	762,506	487,952	386,501	952,596	839,783
PRIOR YEARS' ADJUSTMENTS	<u>14,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CUMULATIVE NET COST OF NONPOWER PRO- GRAMS TO JUNE 30, 1963	<u>\$63,673,590</u>	<u>\$9,212,392</u>	<u>\$6,440,235</u>	<u>\$6,551,404</u>	<u>\$6,164,627</u>	<u>\$6,570,831</u>

The notes on pages 33 to 39 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 22.

Corps of Engineers								
<u>Barkley</u>	<u>Allatoona</u>	<u>Buford</u>	<u>Clark Hill</u>	<u>Hartwell</u>	<u>Walter F. George</u>	<u>Jim Woodruff</u>	<u>John H. Kerr</u>	<u>Philpott</u>
\$31,878	\$ 82,427	\$ 109,739	\$ 46,234	\$ 4,369	\$13,166	\$ 132,795	\$ 43,621	\$ 39,409
12,983	18,136	15,425	33,566	14,423	36	109,641	57,336	53,053
5,140	19,614	34,156	12,875	4,005	4,880	71,845	8,409	9,166
-	65,929	26,797	73,340	38,382	-	393,873	99,100	62,363
<u>-</u>	<u>177,982</u>	<u>150,614</u>	<u>199,579</u>	<u>168,351</u>	<u>-</u>	<u>657,476</u>	<u>451,417</u>	<u>154,835</u>
50,001	364,088	336,731	365,594	229,530	18,082	1,365,630	659,883	318,826
<u>-</u>	<u>15,901</u>	<u>4,905</u>	<u>8,465</u>	<u>408</u>	<u>-</u>	<u>5,008</u>	<u>3,615</u>	<u>539</u>
<u>\$50,001</u>	<u>\$ 348,187</u>	<u>\$ 331,826</u>	<u>\$ 357,129</u>	<u>\$229,122</u>	<u>\$18,082</u>	<u>\$1,360,622</u>	<u>\$ 656,268</u>	<u>\$ 318,287</u>
\$35,902	\$3,892,129	\$1,280,449	\$3,166,956	\$223,919	\$ -	\$7,013,307	\$6,405,871	\$3,031,839
50,001	348,187	331,826	357,129	229,122	18,082	1,360,622	656,268	318,287
<u>-</u>	<u>18,053</u>	<u>-34,315</u>	<u>-5,635</u>	<u>-247</u>	<u>-</u>	<u>66,977</u>	<u>-1,216</u>	<u>-29,412</u>
<u>\$85,903</u>	<u>\$4,258,369</u>	<u>\$1,577,960</u>	<u>\$3,518,450</u>	<u>\$452,794</u>	<u>\$18,082</u>	<u>\$8,440,906</u>	<u>\$7,060,923</u>	<u>\$3,320,714</u>

EXPLANATORY NOTES TO AND COMMENTS ON THE FINANCIAL STATEMENTS

1. Fixed assets

Fixed assets are stated at cost to the Corps and SEPA or at appraised value for property transferred. The costs of fixed assets acquired for a single purpose are assigned directly to that purpose; the costs of fixed assets which serve more than one purpose are allocated to the various purposes on the basis of percentages established by cost allocation studies. War suspension costs represent the costs of maintaining projects while work was deferred during World War II.

2. Accumulated depreciation

Depreciation has been computed by the Corps on plant in service by the straight-line method with service lives based on engineering studies. No item of property has been assigned a service life in excess of 100 years. Costs of land and land rights, relocations, and reservoir clearing at certain projects are amortized over the life of the project, not to exceed 100 years. However, about \$80.1 million of the costs of land and land rights (exclusive of land acquired in fee simple), relocation, and land clearing for southeastern projects were not being amortized at June 30, 1963. (See p. 11.)

Except for the Buford project, depreciation charges for power facilities at southeastern multiple-purpose projects were computed by the "proportionate capacity" method (the ratio of capacity placed in service to total project installed capacity) and commenced on the first day of the month following the placing of each generating unit into service. At the Buford project, depreciation charges for the 6,000-kw generator (which was placed in service in July 1957) began in August 1957; however, depreciation of the two

40,000-kw generators (which were placed in service in June 1957 and October 1957) did not begin until July 1, 1958, since the reservoir pool was not available for full-scale power operations until that date.

Depreciation charges applicable to other project purposes (flood control, navigation, and recreation) were computed from the first day of the month following the date available for service.

3. Congressional appropriations (net)

Cumulative allotments (net) by the Corps of congressional appropriations for the construction and operation and maintenance of multiple-purpose projects in the southeast and by SEPA of appropriations (net of rescissions, lapses, and transfers) for the marketing of the excess energy from these projects to June 30, 1963, have been as follows:

	<u>Total</u>	<u>Construction</u>	<u>Operation and maintenance</u>
Corps	\$839,712,233	\$801,043,856 ^a	\$38,668,377 ^a
SEPA	<u>10,622,818</u>	<u>442,503</u>	<u>10,180,315</u>
Combined	<u>\$850,335,051</u>	<u>\$801,486,359</u>	<u>\$48,848,692</u>

^aIncludes Public Works Acceleration Act funds of \$1,472,800 for construction and of \$79,100 for operation and maintenance.

Funds appropriated to the Corps for construction and operation and maintenance are available until expended. Funds appropriated to SEPA for operation and maintenance may be obligated only for the year for which the funds are appropriated. The construction funds appropriated to SEPA were expended principally on partial construction of the Clark Hill-Greenwood transmission line, which has been sold. In addition to the \$10,622,818 appropriated to SEPA,

\$10,306,836 of power revenues have been offset, under the net billing procedure approved by the Congress, against amounts SEPA owed for purchase of firming energy and wheeling services.

A continuing fund of \$50,000 in the United States Treasury for SEPA was authorized by the Interior Department Appropriation Act, 1952 (16 U.S.C. 825 s-2), to be derived from receipts from the sale of electric energy. This fund may be used to defray emergency expenses necessary to insure continuity of electric service and the continuous operation of the Government facilities. SEPA neither owns nor operates any transmission facilities, and it has not been necessary for SEPA to make any expenditures from the fund to June 30, 1963.

4. Interest on the Federal investment

Amounts recorded by the Corps as interest on the Federal investment are classified as follows:

Interest capitalized:

Projects in operation and under construction	\$51,125,263	
Projects in advanced planning stage	<u>95,181</u>	\$ 51,220,444

Interest charged to operations:

Power operations	92,136,215
Other programs	<u>36,449,977</u>

Total	<u>\$179,806,636</u>
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Capitalized interest during construction is computed, using simple interest, on accrued expenditures plus net transfers less returns to the United States Treasury charged to construction accounts. A 2.5-percent interest rate was used for all projects except J. Percy Priest, Cordell Hull, Carters, Millers Ferry, and Jones Bluff for which a 2.625-percent interest rate was used.

Interest charged to operations is computed at the full rate of 2.5 percent on the net investment in fixed assets at the end of the prior fiscal year and at one half the full rate on the net income or expense for the current fiscal year, exclusive of current year interest expense, and on the net additions to fixed assets during the fiscal year.

SEPA has recorded simple interest at 2.5 percent on the net investment in general plant and expenses applicable to Corps projects under construction. The latter interest charges are included in prepayments, advances, and other debits on schedule 1.

5. Funds returned to United States Treasury

Funds returned to the United States Treasury by the Corps totaled \$3,640,399 at June 30, 1963, and were derived principally from the leasing of reservoir areas.

Amounts representing 75 percent of receipts derived from the leasing of reservoir areas are returnable to the States under the provisions of the Flood Control Act of 1941, as amended (33 U.S.C. 701 c-3). At June 30, 1963, the project accounts of the Corps district offices showed that amounts totaling \$1,723,117 had been returned to the States.

Funds returned to the United States Treasury by SEPA, totaling \$163,911,349 at June 30, 1963, were derived principally from sales of electric energy. Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s) requires that receipts from the sale of electric energy shall be deposited as miscellaneous receipts. Funds returned to the United States Treasury by SEPA have been applied as follows:

Funds returned to United States

Treasury:

To cover SEPA marketing expenses	\$ 7,577,767	
For Corps generating project repayment	<u>155,999,197</u>	\$163,576,964
From sale of capital assets		<u>334,385</u>
Total		<u>\$163,911,349</u>

Funds returned to the Department of the Treasury by other agencies consist of \$482,031 collected from beneficiaries by the Federal Power Commission for downstream benefits attributed to the Allatoona project; \$1,259,777 collected by the General Services Administration for the sale of land at the Clark Hill and John H. Kerr projects; and \$4,189 collected by the Department for the account of the Jim Woodruff project.

6. Allocation of power revenues

SEPA's allocation of revenues from sales of electric energy from Corps projects is designed to cover SEPA's marketing expenses and, to the extent that revenues are available, the Corps' operating costs, interest expense, and project repayment requirements.

SEPA markets the power from individual Corps projects in the southeastern area or from groups of up to five projects operated as systems. In systems where revenues cannot be identified with specific projects, SEPA allocates revenues to the projects on the basis of the repayment requirements of the various projects in the system.

7. Allocation of operating expenses of joint facilities

Corps expenses for operating and maintaining joint facilities (exclusive of supervision and administrative expenses) have been allocated to power and nonpower purposes on the basis of either the

separable costs-remaining benefits method or the alternative justifiable-expenditure method of cost allocation, except that in fiscal year 1963 some joint operating expenses of the Jim Woodruff project were first allocated to recreation using as a basis the ratio to total operating expenses of total operating expenses charged direct to recreation. The balance of the remaining joint operating expenses at the Jim Woodruff project was allocated to power and the remaining nonpower purposes using the percentages in the approved cost allocation.

8. Allocation of supervision and administrative expenses

Supervision and administrative expenses have generally been allocated to power and nonpower purposes on the same basis used for allocating operating expenses of joint facilities, as described in note 7 above; however, the Corps' district offices have usually allocated some supervision and administrative expenses direct to the recreation program, using various bases, before making the allocation of the remaining expenses to power and other purposes.

9. Allocation of miscellaneous revenues

Rentals from leasing of reservoir lands have been allocated solely to the recreation program at the Allatoona, Buford, and Jim Woodruff projects. Other miscellaneous revenues received at these projects have been allocated to the power and nonpower programs on the same basis used in allocating operating expenses of joint facilities. (See note 7.) All miscellaneous revenues received at the other projects have been allocated to power and nonpower programs on the same basis as that used in allocating operating expenses of joint facilities. Total miscellaneous revenues have been reduced by the amount paid to the State from the receipts derived from leasing of reservoir areas.

10. Operating losses and repayment deficiency

The difference between the losses from power operations and the estimated repayment deficiency is explained in footnote b to appendix III.

APPENDIXES

AUTHORIZATIONS FOR MULTIPLE-PURPOSE WATER RESOURCE
PROJECTS INCLUDING POWER IN SOUTHEASTERN AREA

Our prior years' audit reports to the Congress on the Southeastern Power System and Related Activities summarized the legislative authorizations for southeastern multiple-purpose projects that include power facilities.¹ Additional authorizations are summarized below.

CUMBERLAND RIVER BASIN

The Flood Control Act of 1960 (74 Stat. 488,496) included authorization for the construction of the Laurel River, Kentucky, project for flood control and allied purposes, in accordance with the recommendations of the Chief of Engineers in House Document 413, Eighty-sixth Congress, at an estimated cost of \$21,900,000. However, the Flood Control Act of 1960 was amended by Public Law 88-253, (77 Stat. 840,842) which provides that construction of the project can be commenced only after the Secretary of the Army has been notified by the Southeastern Power Administration that project power can be sold at rates which will insure repayment within 50 years, with interest, of all costs allocated to power.

CHATTAHOOCHEE RIVER BASIN

The Flood Control Act of 1962 (76 Stat. 1180,1182) included authorization for the construction of the West Point Reservoir,

¹Appendix I, p. 58, of the report for fiscal years 1959 and 1960 (B-125032, dated October 31, 1961).

Appendix A, pp. 62 and 63, of the report for fiscal years 1957 and 1958 (B-125032, dated September 25, 1959).

Appendix A, pp. 89 to 94, of the report for fiscal year 1956 (B-125032, dated February 28, 1957).

ALLOCATION OF ESTIMATED TOTAL CONSTRUCTION COSTS
OF MULTIPLE-PURPOSE PROJECTS INCLUDING POWER
IN OPERATION OR UNDER CONSTRUCTION AT JUNE 30, 1963

The allocation of construction costs of multiple-purpose projects is the division of costs into amounts considered equitable to charge to each of the project purposes. These allocations are significant because the charges to beneficiaries for power and certain other services are generally determined on the basis of costs incurred.

Financial records showing the reimbursable Federal investment are based on ratios established by project cost allocations. These ratios are needed in financial accounting for dividing construction costs, interest on the Federal investment, depreciation, and joint operation and maintenance costs among the several project purposes.

The Corps of Engineers and the Southeastern Power Administration have each prepared cost allocations for the southeastern multiple-purpose projects in operation at June 30, 1963. The Corps and SEPA have agreed to the cost allocations for 8 of the 13 southeastern projects in operation at June 30, 1963. Negotiations between the Corps and SEPA on the cost allocations for the Hartwell and Walter F. George projects have been deferred until the Corps decides whether the new criteria for reviewing and evaluating water resources projects (S. Doc. 97, 87th Cong., 2d sess.) will be applied to these projects. A basic disagreement still existed at June 30, 1963, between the Corps and SEPA with respect to the cost allocations for the Wolf Creek, Center Hill, and Dale Hollow projects. (See p. 7.)

The Corps has used the separable costs-remaining benefits method of cost allocation for all southeastern projects in operation or under construction at June 30, 1963, except Clark Hill and

Summarized on the following page are the Corps' cost allocations for southeastern multiple-purpose projects including power in operation or under construction at June 30, 1963.

<u>Allocation of estimated cost</u>			
<u>Power</u>	<u>Flood control</u>	<u>Navigation</u>	<u>Other</u>
\$ 62,865,000	\$ 20,605,000	\$ -	\$ 245,700
33,839,000	12,319,000	-	721,429
17,379,000	9,751,000	-	54,032
51,057,000	-	33,548,000	287,000
25,277,300	7,254,500	-	361,700
41,383,500	3,519,500	1,608,000	273,000
75,217,400	4,041,500	4,390,300	380,100
87,019,200	4,163,300	2,220,700	1,172,000
49,764,000	-	33,167,500	592,900
23,394,700	-	27,855,800	388,500
72,875,000	18,939,000	-	-
7,257,000	6,691,000	-	-
50,559,000	18,638,000	67,851,000	22,562,000
38,506,000	-	-	8,094,000
8,815,600	14,787,900	-	13,294,300
37,307,000	4,694,900	-	1,598,600
<u>41,974,200</u>	<u>-</u>	<u>14,434,100</u>	<u>175,000</u>
<u>\$724,489,900</u>	<u>\$125,404,600</u>	<u>\$185,075,400</u>	<u>\$50,200,261</u>
Recreation			\$44,978,011
Area redevelopment			2,443,000
Fish and wildlife			1,509,000
World War II suspension cost			942,250
Operation and maintenance cost financed from construction funds			<u>328,000</u>
Total			<u>\$50,200,261</u>

<u>Cheatham</u>	<u>Allatoona</u>	<u>Buford</u>	<u>Clark Hill</u>	<u>Hartwell</u>	<u>Walter F. George</u>	<u>Jim Woodruff</u>	<u>John H. Kerr</u>	<u>Philpott</u>
<u>\$810,000</u>	<u>\$1,531,152</u>	<u>\$2,251,695</u>	<u>\$4,171,498</u>	<u>\$2,980,719</u>	<u>\$266,026</u>	<u>\$1,537,397</u>	<u>\$4,150,159</u>	<u>\$ 461,129</u>
<u>14,000</u>	<u>198,152</u>	<u>237,695</u>	<u>445,498</u>	<u>310,719</u>	<u>144,026</u>	<u>313,397</u>	<u>1,111,159</u>	<u>128,129</u>
139,009	239,186	140,488	453,003	326,637	35,491	201,820	502,856	99,079
32,700	54,800	49,800	71,000	57,652	6,876	58,400	97,000	10,000
<u>435,501</u>	<u>531,708</u>	<u>971,116</u>	<u>1,643,692</u>	<u>1,300,445</u>	<u>54,155</u>	<u>510,784</u>	<u>1,597,479</u>	<u>189,865</u>
<u>607,210</u>	<u>825,694</u>	<u>1,161,404</u>	<u>2,167,695</u>	<u>1,684,734</u>	<u>96,522</u>	<u>771,004</u>	<u>2,197,335</u>	<u>298,944</u>
<u>621,210</u>	<u>1,023,846</u>	<u>1,399,099</u>	<u>2,613,193</u>	<u>1,995,453</u>	<u>240,548</u>	<u>1,084,401</u>	<u>3,308,494</u>	<u>427,073</u>
188,790	507,306	852,596	1,558,305	985,266	25,478	452,996	841,665	34,056
<u>199,104</u>	<u>350,637</u>	<u>469,520</u>	<u>957,912</u>	<u>689,023</u>	<u>31,908</u>	<u>273,648</u>	<u>934,753</u>	<u>92,471</u>
10,314	-156,669	-383,076	-600,393	-296,243	6,430	-179,348	93,088	58,415
<u>-221,477</u>	<u>958,213</u>	<u>116,260</u>	<u>669,543</u>	<u>293,299</u>	<u>-</u>	<u>-369,187</u>	<u>2,008,786</u>	<u>1,227,493</u>
<u>-\$211,163</u>	<u>\$ 801,544</u>	<u>\$ -266,816</u>	<u>\$ 69,150</u>	<u>\$ -2,944</u>	<u>\$ 6,430</u>	<u>\$ -548,535</u>	<u>\$2,101,874</u>	<u>\$1,285,908</u>

^cThe estimated repayment requirements for the Wolf Creek, Center Hill, and Dale Hollow projects are based on the separable cost-remaining benefits method of cost allocation, while the revenues available to repay the Federal investment in power at these projects were determined on the basis of rates established using the incremental cost method of cost allocation. Since the incremental cost method of cost allocation has been accepted, it should be noted that the reduction in schedule repayment requirements will, it appears, more than offset the repayment deficiency for these projects, as well as for the entire system.