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STATEMENT OF F. KEVIN BOLAND
 SENIOR ASSOCIATE DIRECTOR
 RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION
 BEFORE THE
 SUBCOMMITTEE ON MINING, FOREST MANAGEMENT, AND
 THE BONNEVILLE POWER ADMINISTRATION
 COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
 UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to discuss the Bonneville Power Administration's (Bonneville) oversight activities related to Washington Public Power Supply System (Supply System) nuclear power projects 1, 2, and 3. You requested that we follow up on our 1979 report on this topic. Specifically, you asked that we examine the impact of project costs on Bonneville rates; Bonneville's contractual authorities for oversight; its oversight policies, procedures, organization, and staffing arrangements; and the adequacy of its audit efforts at the Supply System.

Supply System-related costs have had a major impact on Bonneville rates. Ratepayers are now responsible for almost \$1 billion annually in costs related to the three projects. Furthermore, Supply System costs are projected to represent about 30 percent of Bonneville's total projected revenue requirements for operating year 1985.

As was the case in 1979, Bonneville's contractual authorities for oversight remain limited. However, some actions have occurred since 1979 to improve these limited authorities. These include a 1980 Memorandum of Understanding between Bonneville and the Supply System to improve Bonneville's access to information related to the projects, a restructuring of the Supply System's Executive Board, installation of a board and project management responsive to Bonneville's taking an active oversight role, and efforts by Bonneville's current Administrator to improve the working relationship between the two agencies.

With these actions, Bonneville's current approach to oversight calls for its involvement early in Supply System management and decisionmaking—having input to the Supply System Executive Board and management before decisions are made. To most effectively implement this approach, Bonneville's management need accurate and comprehensive information on Supply System activities and status early in the decisionmaking process. However, we found that because of a continued need for defined organizational roles and oversight policies and procedures for achieving Bonneville's oversight objectives, Bonneville management cannot be assured they will receive the information needed to be effective participants in Supply System decisions.

Our review found that the oversight staff and management were uncertain as to how Bonneville would accomplish its oversight objectives and what staff responsibilities are. Consequently, staff effectiveness in providing Bonneville management with the support they need to participate in Supply System management is diminished. Our review also identified areas where Bonneville could better utilize its existing contractual authorities for oversight. These include a need for more comprehensive audit efforts, budget review, and participation in project-related meetings.

Recently, Bonneville has made some organizational and staffing changes to establish a focal point for Bonneville oversight of the Supply System projects. Bonneville's goal is to see the completion of the three nuclear projects in the most cost-effective manner. While the recent organizational and staffing changes are good first steps to oversight, we believe their efforts would be more successful if Bonneville would define its overall oversight roles, policies, and procedures, and then review its oversight organization and staffing to assure full support of its objectives.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
EXPECTED AT 1:30 P.M.
MARCH 12, 1984

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Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to discuss the Bonneville Power Administration's (Bonneville) oversight activities related to Washington Public Power Supply System (Supply System)¹ nuclear projects 1, 2, and 3. Our testimony is based largely on our report, which is still in draft form, that you requested, Mr. Chairman, to follow up on issues covered in a prior GAO report.²

Specifically, you asked that we examine

- the impact of project-related costs on rates charged by Bonneville;
- Bonneville contractual rights and opportunities for oversight;
- Bonneville's oversight policies, procedures, organization, and staffing arrangements; and
- Bonneville's programs for carrying out its available oversight authorities.

Our draft report is presently with the Department of Energy for comment; therefore, our views are tentative and subject to modification. Before discussing these issues, it might be useful to provide some perspective by way of background.

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

²Impacts and Implications of the Northwest Power Bill (EMD-79-105, Sept. 4, 1979).

BONNEVILLE ACQUISITION OF NUCLEAR POWER

In the early 1970's, Bonneville acquired the electric power-generating capability of three nuclear power projects to be constructed and operated by the Supply System. Under a series of complex contractual agreements, Bonneville committed to paying all of the costs associated with two of the projects (WNP-1 and -2) and 70 percent of the third (WNP-3). In return, Bonneville obtained the rights to corresponding amounts of the projects' generating capability.

The construction history of the projects reflects substantial cost overruns and schedule delays accompanied by declining load growth. The three projects, originally projected to cost about \$1.4 billion, are now expected to cost about \$9 billion. All of the projects are at least 5 years behind schedule; none have been completed. Construction on two of the projects (WNP-1 and -3) has been halted because of financing problems and a current lack of regional demand.

IMPACT ON POWER RATES

Although the projects are not yet producing power, Bonneville, under the conditions of the contracts, must make payments to the Supply System for principal and interest on the bonds used to finance construction of the projects. Bonneville does this by collecting the necessary revenues through its power rates. To date, Bonneville is obligated to pay principal and interest on \$6.1 billion in bonds issued to finance these three plants. Another \$3.8 billion in bonds may be issued to finance their completion. This would bring Bonneville's total bond obligation to \$9.9 billion for the three Supply System powerplants. Supply System-related costs for the three plants make up about 30

percent of Bonneville's total projected revenue requirements for operating year 1985 (\$2.83 billion).

Bonneville's financial commitment to the Supply System projects is an important component of Bonneville power rates. As the costs of the nuclear projects have been melded into Bonneville's rates, the rates have been increased. To accommodate the revenue requirements needed to cover the projects' costs, and other increased power system expenses, Bonneville increased its rates by 90 percent in 1979; 50 percent in 1981; and 57 percent in 1982. For fiscal year 1984, Supply System costs make up approximately 44 percent of Bonneville's standard rate to the majority of its customers.

CONTRACTUAL RIGHTS AND OPPORTUNITIES FOR OVERSIGHT

The Supply System cost overruns and associated Bonneville rate increases have prompted concern in the Pacific Northwest over Supply System management of the projects and Bonneville's oversight role.

Under its contracts with the Supply System, Bonneville has certain oversight rights and authorities; including the authority to disapprove Supply System annual budgets, have access to Supply System and project contractor books, have access to information on project planning and construction, and to maintain a representative at the project site. Our 1979 report showed that these agreements, while allowing Bonneville the right to monitor and evaluate Supply System actions, did not assure Bonneville full participation in the Supply System decisionmaking process. For example, the contractual agreements authorized the Supply System, not Bonneville, to control the kinds of information which were

disclosed during the planning, engineering, and construction phases, as well as the timing of such disclosures. Also, the agreements did not establish limits or ceilings on the total costs which could be charged to Bonneville and its customers.

In our current work, we found that, while Bonneville's authorities under the contracts remain limited, Bonneville's overall oversight opportunities have improved since 1979. For example, a 1980 Memorandum of Understanding between Bonneville and the Supply System improved Bonneville's access to key project information. Bonneville's oversight position has also been improved by management changes within the Supply System. Bonneville's Administrator told us that he is encouraged by the new management, and that he believed it will contribute to the effectiveness of Bonneville's oversight.

In addition, a restructuring of the Supply System's Executive Board has also improved Supply System management and potentially the effectiveness of Bonneville's oversight. The Washington State Legislature restructured the Supply System Executive Board and transferred virtually all decisionmaking powers from the Board of Directors to the Executive Board. The Executive Board now consists of 11 members--5 appointed from the Board of Directors and 6 from "outside" the publicly owned utilities comprising the Supply System. The six outside members represent the construction, financial, and electric power utility communities. Our discussions with current Executive Board members, including the new Chairman, confirmed that the Board recognized Bonneville's responsibilities to its customers and the legitimacy of Bonneville's oversight role.

The primary objectives of Bonneville's oversight efforts are to work with the Supply System for

- successfully completing WNP-2 and to assist all projects so they can be completed within a schedule and budget which is cost-effective and
- helping assure the quality, safety, and operating capability of the projects.

To achieve these objectives, Bonneville's current approach to oversight calls for the Administrator to maintain broad front-end involvement in Supply System management and decisionmaking. The Administrator and his key managers rely principally on close working relationships with Supply System top management and the Executive Board for providing input and recommendations to Supply System decisionmaking "before the fact."

OVERSIGHT ROLES, POLICIES, AND PROCEDURES NEED TO BE DEFINED

The success of the Administrator and his key managers in assessing and, where appropriate, influencing the management and decisionmaking of the Supply System depends on their having accurate and timely information.

For Bonneville's oversight staff to be effective in supporting agency management in their oversight efforts, the staff must have a clear understanding of how Bonneville's oversight objectives are to be achieved, including what role each of the organizational units involved with oversight is expected to play. Procedures are needed to assure that Bonneville is monitoring all facets of plant management and taking full advantage of all available oversight authorities. The oversight organization

should be in a position to not only anticipate problems at the Supply System to assist in their early resolution, but also to assure that Supply System activities and programs support the efforts of the Executive Board and Bonneville in achieving the efficient completion and operation of the plants.

Our review found, however, that Bonneville's ability to effectively oversee the development of the plants is hampered by not having defined organization roles and procedures supporting the achievement of Bonneville's oversight objectives. As a result, uncertainty exists within Bonneville as to what is to be accomplished, by whom, and how. Consequently, Bonneville is not taking full advantage of the oversight opportunities available, and on several occasions, Bonneville managers have not had the accurate complete information needed.

Several past studies of Bonneville's oversight efforts by Bonneville consultants, agency auditors, and GAO have identified the need for defined organizational roles, as well as policy, and procedural guidance for accomplishing Bonneville's oversight objectives. Bonneville has made several attempts to define these elements of its oversight program. However, none of these attempts have been completed.

We continue to believe that written policies and procedures are needed. Members of Bonneville's oversight staff told us that they are uncertain what role they are to play in implementing the Administrator's philosophy of oversight or where their activities can support the participation of Bonneville's top management in Supply System management and decisionmaking. In addition, there is uncertainty within the Supply System about Bonneville's oversight efforts.

The absence of established responsibilities and procedures is particularly serious because in the past, Bonneville has decentralized the oversight staff throughout its large organization. A decentralized organizational structure places a premium on role definition and procedural guidance. Recent changes in Bonneville's oversight organization have created a "central focus" for Bonneville's oversight efforts. I will discuss these changes later in my testimony.

AVAILABLE AUTHORITIES
SHOULD BE BETTER USED

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

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

Audit

Since our 1979 review, Bonneville has reduced its audit coverage at the Supply System and currently is not in a position to undertake all of the high-priority audits identified by Bonneville and others as necessary to protect ratepayers from inappropriate costs. Consequently, Bonneville cannot be assured that its payments to the Supply System are correct and justifiable. According to Bonneville's Chief of Internal Audit and Assistant Administrator for Financial Management, staff resources are not adequate to do the required Supply System work. These officials

believe that a minimum of two additional staff members committed to Supply System auditing are needed to meet minimum audit requirements.

In addition, Supply System audit coverage has been further reduced by cuts in the staffs of the Washington State Auditor, the Supply System Internal Auditor, and the Supply System Executive Board Administrative Auditor, which also have audit authority for the Supply System.

Supply System staffing
and organization

Bonneville has the authority to monitor Supply System staffing and organization. It does not currently exercise this authority, believing this is a management issue which should not involve Bonneville. As a result, Bonneville cannot be certain that the Supply System's staffing and organization support efficient operations and management.

Although several recent reorganizations and major staff reductions have occurred at the Supply System, we found Bonneville has not reviewed and monitored these activities to assure they support efficient operations and management. For example, Bonneville has repeatedly called for better financial information and controls by the Supply System. However, when Bonneville approved the fiscal year 1983 budgets, Bonneville staff were unaware that a staff reduction of 14 percent was proposed for in the Supply System Financial Office, which is responsible for providing these controls and information. The potential impact of the proposed cut was made more critical by the fact that at that time, the office was only staffed to 56 percent of its authorized level. We believe Bonneville should have been aware of the anticipated

cutback and been prepared to reject that portion of the budget in the event the cutbacks would result in a level of financial information and controls unacceptable to Bonneville.

Budget review

Under its contracts with the Supply System, any Bonneville action to disapprove Supply System annual budgets for the projects must be done on a line-item basis.³ Such line-item reviews are intended to identify potentially inappropriate expenditures. In 1979 testimony before the House Subcommittee on Energy and Power, Bonneville indicated it would do this in the future.

We found, however, that Bonneville believes that if a comprehensive process is established for proper budget preparation, then a line-item review is not necessary. While the budget process is an important and relevant area for Bonneville's attention, it does not substitute for line-item reviews. Furthermore, a process review does not allow Bonneville to monitor actual expenditures against approved budget items, and question the appropriateness of cost increases or other discrepancies. This may place Bonneville in a position of not always being aware of opportunities to reduce project costs, where cost increases are occurring, or even how actual costs compare with budgeted costs. Line-item reviews are necessary to do this.

Meeting notification

In response to past problems in obtaining access to Supply System meetings and consequently key information on project costs

³A line-item review entails evaluating the specific expenses related to individual categories of cost, e.g., salary costs as a part of administrative or maintenance costs.

and status, a 1980 Memorandum of Understanding between Bonneville and the Supply System established a policy opening System meetings to Bonneville representatives. However, the Supply System does not always inform Bonneville about key project-related meetings. Participation in such meetings should help to assure that Bonneville is informed on project costs, scheduling, and licensing matters.

RECENT REORGANIZATION

In late 1983, Bonneville began making changes to further improve its oversight management. A top-level Generating Projects Steering Committee was established to guide Bonneville's oversight efforts for the Supply System plants and the future acquisition of additional generating units. Chaired by the Deputy Administrator, Steering Committee Members include Bonneville's General Counsel, the Assistant Administrators for Power and Resources Management, Engineering and Construction, and Financial Management, the Assistant to the Administrator for Generating projects. In February 1984 the newly created position of Assistant to the Administrator for Supply System Programs was also made a part of the Committee. The Steering Committee meets one day every other week to discuss problems, monitor the plants' status, and other related activities.

As a result of Steering Committee discussions, Bonneville has consolidated the majority of Bonneville's oversight efforts in a new Supply System Program Office. The Program Office is to serve as the "...primary focal point for Bonneville oversight of the Supply System projects." The office is organizationally located in the Office of the Administrator. The head of the

office--the Assistant to the Administrator for Supply System Programs, reports directly to the Deputy Administrator.

In addition to the Program Office, other groups in Bonneville will continue to participate in its oversight efforts, specifically as related to budget review, audit, plant financing, and in the development of special studies. Based on information from the head of the Program Office, the overall level of Bonneville staff committed to oversight has increased from the 14.5 full-time staff equivalents (FTEs) in 1983 to approximately 21.

In reviewing Bonneville's recent actions, we found them to be good first steps in Bonneville's providing management guidance to its oversight activities. Bonneville has now created a central office to coordinate its oversight functions and has given that office direct access to Bonneville's top management. This should alleviate some of the problems we found with the prior decentralized organization. We also found, however, that the actions were taken without Bonneville's defining how it was going to achieve its oversight objectives or how it would assure full implementation of its oversight authorities. The functional description of its new oversight office calls for the development of budget review policies and procedures in the future, but does not provide for this guidance and direction to be developed for Bonneville's other oversight authorities. The roles of the various Bonneville groups involved in oversight also have not been defined. This is important because almost a third of Bonneville's oversight staff is outside the Program Office. In defining Program Office responsibilities, the new Program Office's relationship to other Bonneville groups involved with oversight remains unclear.

SUMMARY

In summary, we found that:

- Supply System-related costs for the three plants make up about 30 percent of Bonneville's total projected revenue requirements for operating year 1985.
- Bonneville's contractual authorities for oversight remain limited, but their opportunities for effective participation in Supply System management and decisionmaking have improved since our 1979 review.
- Bonneville has not defined the roles of its various organizations involved in oversight nor developed the policies and procedures for accomplishing its oversight objectives. This is needed to assure effective staff support of its oversight efforts and full use of its oversight authorities.
- Recent organizational changes are a good first step in improving Bonneville's oversight program. However, the manner in which the new Program Office will support Bonneville's oversight mission or the manner in which it will relate to the rest of Bonneville's oversight staff remains unclear.

Because of this, we believe that the Secretary of Energy should have the Bonneville Administrator take the following actions:

- Develop and adopt defined organizational roles, policies, and procedural guidelines for implementing its oversight objectives. Particular emphasis should be made in defining responsibilities and in outlining how Bonneville intends to fully implement its contractual oversight authorities.

--Determine the level of staffing and expertise needed to assure full support for the oversight program on the basis of adopted organizational roles, policies, and procedural guidelines.

Mr. Chairman, this ends my testimony I would be happy to respond to any questions.

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