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TESTIMONY
BY
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BEFORE THE
SUBCOMMITTEE ON ENERGY AND WATER DEVELOPMENT
COMMITTEE ON APPROPRIATIONS
U.S. SENATE

Senator Sasser:

I appreciate this opportunity to discuss with you our work related to oversight of the Tennessee Valley Authority's (TVA's) power program. In response to your recent request we reviewed

--the extent the TVA Act gives the Congress oversight responsibility for the power program and

--options which are available to improve oversight.

A complete discussion of our analysis is contained in a March 19, 1982, report entitled "Tennessee Valley Authority--Options for Oversight." My statement today summarizes the options we identified in that report.

In general, we found the TVA Board of Directors is in a unique position of autonomy when compared to other utilities or Federal entities. This seems to have been the congressional intent in 1933 when the TVA Act was passed and in 1959 when the last major changes to the legislation were made. The Congress established and has maintained the TVA Board as the single and final authority on many TVA power activities and decisions including those related to power planning, ratemaking, and public involvement.

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Rapid rate increases, reduced load growth, and deferral of almost half of TVA's nuclear construction program have all lead to growing regional and congressional concern over TVA's power activities and how additional external control can be exercised.

Many options exist for increasing oversight of TVA's power program. While we have developed a list of options, it is certainly not exhaustive. Options we identified are limited to those which have either applied to TVA in the past or which currently apply to other utilities or Federal entities. In identifying options we sought to minimize impact on the responsibilities and authorities for managing and operating TVA given the Board in the TVA Act.

The options we identified are

- regularly scheduled oversight hearings;
- comprehensive Office of Management and Budget (OMB) review of the TVA power program budget;
- placing the TVA ratemaking process under the Federal Energy Regulatory Commission (FERC);
- requiring the Board to publish records of decision on major rate and resource development actions;
- requiring the Board or alternatively a regional council to develop a long-term strategic plan for the power program;
- adding policies related to conservation, and public involvement and participation to the TVA Act; and
- reducing TVA's bond ceiling.

The first two options would not require statutory changes while the remainder would.

In evaluating and considering various options it is important to remember many of the problems facing TVA are also facing other

utilities. It would be misleading to imply that issues, such as rising electric rates and controversial construction programs, are unique to TVA and are the result of its independence. This is not the case. These same problems face many of the Nation's utilities. It is important to look beyond these problems to their causes and identify where improved oversight may mitigate their impacts and reduce the possibility of their future recurrence.

OVERSIGHT HEARINGS

Regularly scheduled oversight hearings could provide a non-adversarial forum for TVA to present to the Congress information on the power program including identifying key and controversial issues facing the Board and problems which require congressional action for resolution. Scheduled hearings could be anticipated and major Board actions could be put on a timetable to optimize congressional policy input into the TVA decisionmaking process. The outcome of the hearings could well be the Congress providing TVA with policy guidance on key issues and, where appropriate, adopting legislation necessary for TVA to fulfill its mission. Regular hearings could also be beneficial to the Tennessee Valley Authority region, State governments, consumer groups, and TVA customers who at this time could be given a formal opportunity to provide input to the Congress on TVA policies and programs. This option was suggested by several TVA officials.

BUDGET REVIEW

In the budget area, OMB currently provides only a cursory review of the annual power program budget. More comprehensive reviews on the part of OMB could provide the Congress, the President

and the public with an understanding of how TVA's power program and associated expenditures relate to national fiscal and energy policies. TVA and its assets are owned by the United States Government, and its financing is provided through the U.S. Treasury. The Federal Government is also a major consumer of TVA power. Therefore, it would be appropriate for TVA's power program to reflect national policies and priorities.

FERC REVIEW OF RATES

With FERC review, TVA electric rates would be subject to mandatory scrutiny by parties outside of TVA. TVA customers and consumers unhappy with the proposed rates could take their concerns outside the Board and have their position addressed. However, as the TVA Act currently makes the Board solely responsible for setting rates at a level adequate to recover costs identified in the Act, to require FERC approval would potentially conflict with the Board's statutory responsibility and accountability. FERC is currently required to approve the power rates of the Federal power marketing administrations (PMAs). The 5 PMAs are responsible for marketing the electric energy generated by Federal facilities in other parts of the country.

RECORDS OF DECISION

To gain some of the benefits provided by FERC review of TVA rates without impacting on the Board's responsibilities, we looked at the option of the Congress amending the TVA Act to include procedural requirements for the ratemaking process. This would involve holding public hearings and publishing in the Federal

Register the Board's justification for the rates adopted. These procedural requirements and public records of decision would address two concerns frequently raised. First, it would guarantee all interested parties an opportunity to review and comment on TVA rate proposals ahead of their being adopted. Second, the Board would be required to justify and explain the methodologies used in developing the rates as well as why alternative proposals were rejected, in effect responding to the public comments received. This option would not provide for "outside" review of the rates. Final authority would still rest with the Board. However, with this information, the Congress would be in a good position to review Board actions. Although we discuss this option relative to the ratemaking process it could also be applicable to other TVA actions such as resource development decisions.

STRATEGIC PLANNING

In a 1978 report on TVA's power program, we recommended TVA prepare a long-range strategic plan to be presented to the President and the Congress with a review from a wide spectrum of the regional population. A statutory requirement for a strategic plan with periodic updates would assure that TVA does long-term planning, that the Congress is informed where TVA's power program is headed, and would provide the Congress an additional opportunity for policy input. Regional review of the strategic plan would allow for TVA power planning to reflect the desires and perspectives of the people in the region it was established to serve.

A January 1982 consultant's study on internal TVA controls reported the TVA planning staff is in the process of developing a

planning strategy. It is not clear what the result of this process will be or when a plan may be released.

An additional step towards increased oversight of TVA's strategic planning process would be to require TVA to submit its construction program to the Congress before making major revisions such as starting new projects or deferring existing ones. This requirement was originally adopted as part of the 1959 self-financing amendments. It is consistent with TVA actions in January 1982 in seeking congressional and public input on the course of action the Board should take on the powerplant construction schedule in light of updated load forecasts.

An alternative to having the Board responsible for long-term regional power planning would be to follow the planning procedure recently mandated by the Congress for the Bonneville Power Administration (BPA) in the Pacific Northwest. Legislation enacted in December 1980 vests regional power planning for the Pacific Northwest in a regional planning council appointed by the Governors of the States in BPA's service area. The major advantage of this proposal is that it would increase regional participation in and control over a regional power program. In addition, load forecast and resource evaluations done by a regional body may also be viewed as more objective than those done by TVA executives whom the public sometimes perceives as having a vested interest in an expanding power program.

The disadvantages of this proposal relate to the Board's statutorily assigned responsibility not only for the power program, but also for regional development. An important part of TVA's

original mission was to improve the economy of the Tennessee Valley. Accordingly, TVA's construction program historically has been geared to meet its high load forecast. A regional council would perhaps disagree with this philosophy and adopt a regional power plan limiting future energy growth, thus potentially frustrating TVA's regional development program if it is dependent upon the construction of additional generating units the Council does not endorse.

ADDITIONAL STATUTORY POLICIES

The TVA statutes contain limited policy guidance for TVA's power program. The Congress, by amending the existing legislation to address additional policy areas, could have a more effective and ongoing role in influencing Board action and decisions. For example, in 1978, we recommended the Congress amend the TVA Act to ensure national energy policies are endorsed by the Board. Specifically, we recommended that TVA be required to

- use resources which are cost effective, giving first priority to conservation and renewable resources;
- develop and implement comprehensive public information and involvement programs; and
- provide for the participation of the States, other regional groups and the general public in power planning.

Inclusion of such policies would provide a statutory basis for evaluating the adequacy of Board actions and programs in these areas.

BOND CEILING

A final option we looked at was the Congress acting to reduce TVA's bond ceiling. During the debate prior to passage of the 1959 amendments to the TVA Act, supporters pointed to the limit on the

amount of bonds TVA could issue as a continuing point of oversight. It was anticipated TVA would have to return to the Congress for additional bond approval every few years as the power program expanded. This was the case through 1979 when the ceiling was raised to its present \$30 billion. Of the current ceiling, \$9.3 billion was obligated in 1979 and \$6.4 billion was the anticipated cost of finishing TVA's ongoing construction program, leaving \$14.3 billion to finance through 1985 future capacity requirements into the 1990s.

Since the Congress last acted to raise the ceiling, however, TVA has adjusted the regional load forecast downward several times and consequently has deferred 8 out of 14 nuclear units under construction in 1979. The result of these deferrals is a marked decrease in the rate at which TVA must borrow construction funds. The reduced rate will extend the time before the next congressional review of the bond ceiling well beyond the 1985 date anticipated in 1979. The Congress could, therefore, consider reducing TVA's bonding authority to a level adequate to cover the construction program through 1985 based on current spending.

There are several advantages to this option. First, it would restore congressional actions on the bond ceiling to the schedule originally anticipated. Second, a reduction in TVA's bonding limit would assure the Congress of a voice in TVA's future construction program should construction of the deferred units be restarted.

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As I stated earlier these are but a few of the many options available. A comprehensive review of options to increase over-

sight would require consideration also be given to changes in the philosophy behind TVA and its internal structure. This would include options which could change or realign the authorities and responsibilities the Congress has delegated to the TVA Board. Time did not allow us to develop this category of options or even all of the pros and cons of implementing those identified.

Some of the options we discussed have been and could be voluntarily incorporated into TVA's current programs. For example, the current TVA Board has expanded the opportunities for public involvement in power program activities. Statutory changes to require these activities would serve to assure the Congress and the region's ratepayers that these actions are continued and expanded as the Congress deems appropriate regardless of who sits on the TVA Board.

I will be happy to respond to any questions you may have.