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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS
DIVISION

June 12, 1981

B-200659

The Honorable Gerald P. Carmen
Administrator of General Services

Dear Mr. Carmen:

Subject: [Review of the General Services Administration's
Electric Utility Intervention Activities]
(EMD-81-95)

Under the Federal Property and Administrative Services Act of 1949, the General Services Administration (GSA) has management responsibility for ensuring that the Government makes economical purchases of public utility services. To ensure that utility rates are reasonable, GSA intervenes or authorizes other Federal agencies to intervene in State regulatory hearings on retail rate increases proposed by utility companies. This report discusses problems in GSA's intervention procedures and controls and recommends actions that are needed to help GSA meet its intervention responsibilities.

We made our review at GSA's Regulatory Intervention Division, Office of Public Utilities, Transportation and Public Utilities Service. We reviewed laws, regulations, policies, and other documentation related to intervention, interviewed officials responsible for program planning and implementation, and reviewed audit reports that GSA's internal auditors prepared on intervention management. In reviewing GSA's procedures and controls, we evaluated the adequacy of the methods being used to identify significant rate cases, provide guidance to GSA's technical staff assigned to the cases, coordinate GSA and other Federal agency intervention activities, and report on intervention results.

In summary, we identified four areas in which GSA's management procedures or controls for its intervention efforts could be improved. These improvements are needed to ensure that:

- All significant rate increase proposals are identified and reviewed.
- GSA provides its staff adequate guidance to make intervention effective.

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--GSA maintains adequate control over rate cases delegated to other agencies.

--GSA has sufficient information to measure and evaluate the effectiveness of its intervention.

We have discussed the contents of this report with members of your staff. Their comments were considered in preparing the report.

BACKGROUND

During the past several years, the cost of public utility services has increased substantially. Although information is not available on total annual Federal expenditures for electric services, GSA estimates that they exceed \$1 billion. GSA also estimates that, during fiscal year 1980, utility companies requested rate increases totaling over \$9 billion and that the corresponding estimated potential impact on additional Government costs was at least \$61 million.

State regulatory agencies conduct hearings to establish retail electric and gas utility rates. In these hearings, utility companies present economic, engineering, accounting, and financial data to justify their rate increases. Consumers affected by the increases may intervene by providing testimony and other documentation in support of consumer interests, cross-examining utility company witnesses, and filing briefs.

Under the Federal Property and Administrative Services Act of 1949, GSA is responsible for representing Federal consumer interests in regulatory hearings. GSA's Regulatory Intervention Division, Office of Public Utilities, is responsible for identifying utility companies' rate increase proposals and, with the assistance of GSA's Office of General Counsel, analyzing the proposals and providing the technical expertise needed for developing and presenting the Government's position in regulatory hearings. During fiscal year 1980, GSA presented and defended testimony in eight rate cases in which utility companies requested increases totaling about \$614 million. These cases had an estimated annual impact of nearly \$16 million on Federal consumers. GSA estimated cost savings of approximately \$7.7 million for rate cases finalized in fiscal year 1980.

GSA frequently delegates intervention authority to other Federal agencies having a monetary interest in rate cases. For example, in fiscal year 1980, delegated authority was provided to other Federal agencies to intervene in 29 rate cases. GSA does not maintain information on the cost savings achieved through the delegated intervention actions.

IMPROVED PROCEDURES AND CONTROLS
ARE NEEDED FOR INTERVENTION
ACTIVITIES

To administer its intervention responsibilities effectively, GSA must identify all significant rate cases, perform comprehensive analyses of the rate proposals, and accurately measure and report the results of intervention efforts. GSA has recognized the importance of these tasks. However, we identified several areas in which improvements are needed in either administrative procedures or management controls to ensure that all appropriate intervention activities are effectively performed.

Identifying significant rate cases

According to GSA records, about 130 public utility companies provide electric services to the Government. GSA estimates that these companies make over 100 rate increase proposals each year. According to GSA records, 45 electric rate increases were requested during the first half of fiscal year 1981.

When GSA identifies a proposed rate increase, it estimates the potential additional costs to Federal agencies. GSA generally does not intervene in a rate case unless the potential increase could result in at least \$1 million in additional Federal expenditures. We found, however, that GSA does not have adequate information for estimating the financial impact of proposed rate increases. For example, GSA's cost information is nearly 3 years old. Also, GSA does not have information on the cost of services provided by at least 20 public utility companies. Because of this, GSA was unable to determine whether intervention was warranted in 8 of the 45 electric rate cases made during the first half of fiscal year 1981.

In discussions with us, GSA officials responsible for intervention activities acknowledged that they need more current and complete information on public utility service costs. They also said that, in March 1981, they found that another GSA component--the Automated Data and Telecommunications Service--had collected electric utility costs which could be useful after its accuracy and completeness is determined. These officials also said that they plan to contact the Department of Energy's Energy Information Administration to determine whether it would be cost-effective and appropriate to collect data on the cost of Federal purchases. This information could be collected from either public utility companies or Federal electric consumers.

Providing program guidance

Although the primary areas of inquiry in rate cases are well defined, the issues involved are very complex and technical. In attempting to establish its financial rate of return, public utilities use the expert testimony of economists and securities analysts. Likewise, the State regulatory agencies use technical specialists to provide independent information. Therefore, to effectively protect the Government's interests in regulatory proceedings, GSA must have, or be able to call upon, technical specialists.

Because GSA did not have a sufficient number of experienced technical staff for intervention during fiscal year 1980, GSA hired utility rate experts to present the Government's position in 14 of the 16 rate cases in which it participated. During the past year, GSA increased the size of its intervention staff from one to five professional staff members to develop a greater technical capability for representing the Government in regulatory hearings. The Director of GSA's Regulatory Intervention Division said, however, that the new employees will require some time to develop adequate skills for presenting rate case testimony. As of March 1981, four of the five members of the intervention staff had less than 1 year of intervention experience and most staff members had minimal experience in presenting rate case testimony.

Because GSA's intervention staff is inexperienced, it is particularly important that GSA have clear and consistent guidance for performing intervention activities. For example, guidance is needed for analyzing a public utility's cost of capital, revenue requirements, and rate structure. These analyses are then used in regulatory proceedings for cross-examining the public utility's witnesses and for offering testimony in support of the Government's consumer position. Since January 1981, GSA has issued guidelines for analyzing the appropriateness of a public utility's method for determining its rate structure and rate of return on its plant investment. However, GSA has not provided its staff the guidance needed to analyze other major rate case issues which must be addressed by the Government to present convincing testimony in State regulatory hearings. These issues include the following:

- The rate base used in establishing electric service rates. The rate base is that portion of the utility company's plant investment which is used in providing utility services.

--The level of the utility company's present net earnings. This is the company's gross revenue, less its expenses, as calculated on a test year basis.

--The rate schedule which allocates costs and reflects a direct economic impact of a revenue adjustment on consumers.

The Director of GSA's Regulatory Intervention Division told us that GSA is currently conducting studies to determine the most significant rate case issues and that, based on these studies, additional guidance for the intervention staff will be developed. This official estimates that studies will be completed during the period July 1981 through February 1982.

Delegating intervention activities

GSA frequently delegates intervention authority to other Federal agencies, primarily the Department of Defense, when its limited staff is unable to represent the Government's consumer interests in all significant rate cases. Of 45 Federal intervention actions targeted for fiscal year 1980, 29 were assigned to Department of Defense agencies after they requested and received delegation authority from GSA. Since most proposed rate increases will affect more than one Federal agency, an agency with delegated intervention authority has the responsibility for representing all Federal consumer interests in the utility supplier's service area.

Under a statement of understanding with the Department of Defense, GSA is responsible for coordinating delegated intervention efforts to ensure that they are being performed effectively. However, in September 1980 GSA's internal auditors reported that GSA did not have an adequate means for assuring that the Government's interests are properly represented in delegated cases. As a result, GSA recently began requiring Federal agencies to provide copies of testimony and briefs to GSA's Office of General Counsel. However, GSA has not established a procedure for ensuring that its intervention staff analyzes this information and provides feedback to the agencies. The Director of GSA's Intervention Division acknowledges that these functions should be performed but that GSA's limited staff is not able to perform them because of other priorities.

Reporting results

Cost savings reports are the principal means used to report the results of GSA's intervention actions. Our review shows, however, that these reports are not adequate

for providing GSA management with a proper perspective on the contribution made by the intervention staff.

According to GSA's fiscal year 1980 report on its intervention activities, cost savings of approximately \$7.7 million were achieved through the agency's intervention efforts during that year. This amount is based on total reductions that State regulatory agencies made in the utility companies' requests for rate increases. We found, however, that GSA's testimony in these rate cases was accompanied by that of other consumer groups, such as industrial users of electricity. The cost savings report makes no mention of the role played by the other intervenors.

We also found that GSA included in its cost savings report all reductions that State regulatory agencies made in utility companies' rate increase applications, even though GSA's intervention did not always address the types of costs that were reduced. For example, the largest cost savings reported by GSA in fiscal year 1980--a \$2.5-million reduction in a proposed rate increase--was claimed because GSA intervened in the case, along with other intervenors--to challenge the appropriateness of the rate of return proposed by the utility company. However, other significant issues were involved in the State regulatory agency's decision to order reductions in the utility company's proposed rate increase. For example, the State regulatory agency ruled that the proposal filed by the public utility did not adequately establish the amount of its plant investment and related operating expenses.

We recognize that it would not be feasible for GSA to attempt to determine the precise financial impact of its intervention actions--the issues involved in rate cases are complex and the assignment of cost savings to individual intervenors would be very judgmental. By providing the following additional information on the rate cases, however, the Regulatory Intervention Division could provide GSA management with a better perspective on the intervention efforts.

--GSA's position on each of the major issues involved in rate cases and the regulatory agency's ruling on GSA's position.

--The role of other intervenors.

--Major cost-saving contributions that can be directly attributed to GSA's intervention.

The Director of the Regulatory Intervention Division acknowledged that it is important to provide GSA management with this information. However, he said the information is included in State regulatory agencies' final orders on rate proposals and that these orders are attached to cost savings reports. Our review, however, shows that the type of information included in these orders varies from case to case and, without further analysis, does not provide specific information on the role and contributions of GSA and other intervenors in each major issue included in the rate case.

CONCLUSIONS AND RECOMMENDATIONS

To help meet its intervention responsibilities, GSA needs to improve its procedures and controls for identifying significant rate increase proposals, providing guidance to its intervention staff, delegating intervention authority to other agencies, and reporting on the results of its intervention actions. To improve the administration of intervention activities, we recommend that you have the Commissioner, Transportation and Public Utilities Service, ensure that planned corrective actions are implemented to

- determine the completeness and accuracy of GSA's information on Federal purchases of public utility services,
- determine whether it would be cost effective and appropriate to collect additional cost data on these purchases, and
- provide guidance to the intervention staff on the most significant rate case issues.

We also recommend that you have the Commissioner ensure that (1) GSA reviews and provides feedback on the rate case testimony of other Federal agencies which have received delegated intervention authority and (2) reports on the results of intervention activities include specific information on the role and major contribution of GSA and other intervenors in each major issue involved in rate cases.

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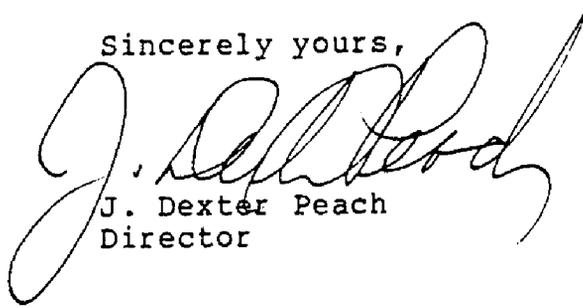
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days after the date of the report; a like statement to the House and Senate Committees on Appropriations should accompany the agency's first request for appropriations made more than 60 days after the date of the report.

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We are sending copies of this report to the Director, Office of Management and Budget, and the congressional committees identified above.

We appreciate the courtesies and cooperation extended to our representatives during our review.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach". The signature is written in black ink and is positioned above the printed name and title.

J. Dexter Peach
Director