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WESTERN AREA POWER ADMINISTRATION

Combined Power System Financial Statements

September 30, 1994 and 1993

and

Management Overview and Performance Measurements

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WESTERN AREA POWER ADMINISTRATION

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OVERVIEW

The Western Area Power Administration (Western) was established December 21, 1977, under Section 302 of the Department of Energy Organization Act. Power marketing responsibilities previously managed by the U.S. Bureau of Reclamation (Reclamation) were transferred to Western.

Western's mission is to market Federal hydroelectric resources "...in such a manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles..."(Flood Control Act of 1944).

Western has the capability to market and transmit approximately 10,630 megawatts (MW) of hydropower from 55 powerplants operated by Reclamation, the U.S. Army Corps of Engineers and the International Boundary and Water Commission. Western also markets the United States' 547 MW entitlement from the coal-fired Navajo Generating Station near Page, Arizona.

These generation facilities and Western's transmission facilities are part of 11 ratesetting systems made up of 14 multipurpose water resource projects and a transmission project. Each project maintains separate financial systems and accounting records.

Western and the generation entities, identified above, though separately managed and financed, operate and maintain portions of the multipurpose projects, allocating their operating expenses among the projects. Costs are allocated among project individual purposes, which include power, navigation, irrigation, flood control, and recreation. Western's financial statements include only those amounts allocated to power for repayment for each of the four entities.

Western's goals (in response to the Energy Policy Act of 1992) include maintaining a safe, efficient and reliable transmission system; providing reliable, low-cost electricity to power customers; maintaining a safe, accident-free workplace; protecting and enhancing the environment; providing for national energy security, economic development and energy diversity; and implementing quality improvements through management initiatives.

In FY 1994, Western sold more than 36 billion kilowatt-hours of energy to 637 wholesale power customers including municipalities, cooperatives, public utility and irrigation districts, Federal and state agencies and investor-owned utilities. They, in turn, provided retail electric service to millions of consumers in these central and western states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming.

Western operates and maintains an extensive, integrated and complex high-voltage power transmission system to supply power to its customers. This system consists of 16,727 miles (26,914 kilometers) of transmission lines, 257 substations and other complex electrical facilities in a 1.3 million square mile service area.

Western's 1467 Federal employees, located in 50 duty stations throughout the service area, operate and maintain this system. Staff at the Headquarters office in Golden, Colorado; and five area offices in Billings, Montana; Loveland, Colorado; Phoenix, Arizona; Sacramento, California; and Salt Lake City, Utah; manage power sales from the 11 ratesetting systems. Customer service and system operations also are supported by district office staff in Bismarck, North Dakota; Fort Peck, Montana; Huron, South Dakota; and Montrose, Colorado; and an Operations Office staff in Watertown, South Dakota.

Appropriations are obtained to finance the expenses of most of the power systems. Existing legislation allows for the Colorado River Storage Project, Central Arizona Project, and Fort Peck Project to operate with power receipts through the Colorado River Basins Power Marketing (revolving) Fund. Western finances operation of the Boulder Canyon Project by annual transfer of receipts from Reclamation. Western also does work for other Federal and non-Federal organizations under authority of the Economy Act and the Contributed Funds Act.

Western generated $787.6 million in gross operating revenue in FY 1994. Annual expenses for Western and the generating agencies included $204.9 million for operations and maintenance, $47.7 million for administrative and general expenses, $84.6 million for depreciation; and $242.2 million in power purchases. Interest expense totaled $184.6 million. Western's power generation and transmission activities provided $41 million for repayment of unpaid Federal investment.

PERFORMANCE MEASURES

FINANCIAL PERFORMANCE MEASURES

Debt Service Coverage Ratio:

The debt service coverage ratio measures revenues in excess of operating expenses available to make principal and interest payments. A ratio of 1.0 indicates sufficient cash flow to meet these payments, in addition to all other cash expenses. Comparability between Western's FY 1994 and FY 1993 ratios was influenced by an increase in the FY 1993 planned amortization as a result of the PG&E settlement.

FY	Rate
1994	1.04
1993	.94

Cumulative Principal Payments as a Percent of Total Federal Investment (Investment Repaid):

This indicator measures the progress toward reduction of cumulative principal over time. It compares the cumulative principal payments made relative to the total Federal investment to date. During periods of capital expansion, this ratio tends to decrease. Western's ratio is currently decreasing as a result of power system additions.

FY	Rate
1994	37.70%
1993	39.03%

Percent Variance of Actual From Planned Annual Principal Payments:

Western's power generation and transmission activities provided $41 million for repayment of unpaid Federal investment during FY 1994. This indicator measures the variance of actual from planned principal payments to the U.S. Department of the Treasury. The indicator will be zero if the actual payment is equal to the planned payment. In FY 1994, Western's actual principal payment was more than planned as a result of an adjustment made to reflect the PG&E settlement of capacity purchases.

FY	Rate
1994	60.09%
1993	10.17%

Operation and Maintenance (O&M) Cost/Kilowatt-hour (kWh) Sold:

O&M costs per kWh sold is a measure of the cost to operate and maintain Western's transmission system, based on firm energy sales, and is measured as a cost-per-kWh sold. The ratio and subsequently, the cost, decreased in FY 1994 due to a decrease in O&M expenses (reclassification of O&M expense as nonreimbursable for the Glen Canyon Environmental Impact Statement, an over allocation of O&M expense for the Pick-Sloan Missouri Basin Program and the expensing in FY 1993 of the abandoned plant in the Pacific Northwest-Southwest Intertie) and an increase in firm energy sales due to improved water conditions resulting in increased generation. The FY 1992 industry average was $0.046/kWh.[1]

FY	Rate
1994	$0.0079
1993	$0.0097

Operating Ratio - Total Operation and Maintenance (O&M) Expenses/Total Operating Revenues:

This indicator measures the proportion of revenues received from electricity sales, rate adjustments and other activities required to cover O&M costs associated with producing and selling electricity. Western's FY 1994 rate decreased from the FY 1993 rate due to increased revenue resulting from additional firm energy sales and a decrease in O&M and purchased power expenses (improved water conditions resulting in increased generation). The FY 1992 industry rate was 0.785.[1]

FY	Rate
1994	.693
1993	.884

Revenue/Kilowatt-hour (kWh) Sold:

This indicator measures the amount of revenue (cents) received for each kWh of electricity sold to ultimate customers. Western's rate has remained constant between FY 1993 and FY 1994 as a reflection of power rates stability (on the average for the consolidated power system). The FY 1992 industry rate was $0.060/kWh.[1]

FY	Rate
1994	$0.018
1993	$0.018

[1] The latest industry statistics currently available are provided in the report titled, "Selected Financial and Operating Ratios of Public Power Systems, 1992," dated March 1994 as prepared by the American Public Power Association. Statistics are calculated based on data from 395 of the largest publicly owned electric utilities in the United States.

Total Power Supply Expense/Kilowatt-hour (kWh) Sold:

This indicator measures all power supply costs, including generation and purchased power, associated with the sale of each kWh of electricity. Western's FY 1994 cost decreased due to an increase in the total amount of kWh sold and a decrease in O&M and purchased power expenses, all of which have previously been identified. The FY 1992 industry average was $0.037/kWh.[1]

FY	Rate
1994	$0.014
1993	$0.018

Purchased Power Cost/Kilowatt-hour (kWh) Purchased:

This indicator measures the purchased power component of power supply costs, using power marketing, as opposed to financial statement numbers. The marketing numbers identify the cost of purchased power, excluding interchange and transmission costs. The increase in the rate in FY 1994 was influenced by a shift in the purchases among various geographic locations as relates to the cost of power available in those areas. The FY 1992 industry average was $0.040/kWh.[1]

FY	Rate
1994	$0.024
1993	$0.022

[1] The latest industry statistics currently available are provided in the report titled, "Selected Financial and Operating Ratios of Public Power Systems, 1992," dated March 1994 as prepared by the American Public Power Association. Statistics are calculated based on data from 395 of the largest publicly owned electric utilities in the United States.

OPERATIONAL PERFORMANCE MEASURES

Occupational Safety and Health Performance Measures

NOTE: The following measures, as adopted by the U.S. Department of Energy (DOE) for occupational injuries and illnesses, are recognized throughout the industry (public and private utilities) and by statistical gathering entities to include the National Safety Council, Bureau of Labor Statistics and National Institute for Occupational Safety and Health.

Industry statistics are provided on a calendar-year (CY) basis, and as such, Western's measures have been calculated for the same timeframe.

Lost Workday Case Rate (Lost-Time Injury Frequency Rate):

This indicator measures the number of accidents (cases) per 200,000 hours worked. A comparison of Western's rate to the industry average is provided below.

Western		Industry	
CY	Rate	CY	Rate
1994	1.0	1994	2.5 (estimated)
1993	.5	1993	2.5

Total Recordable Case Rate (Recordable Accident Frequency Rate):

This indicator measures the recordable accident frequency rate by multiplying the number of recordable injuries by 200,000 then dividing by the total hours worked. A comparison of Western's rate to the industry average is provided below.

Western		Industry	
CY	Rate	CY	Rate
1994	2.0	1994	5.8 (estimated)
1993	1.0	1993	5.1

Motor Vehicle Accident (Frequency) Rate:

This indicator measures the accident frequency rate by multiplying the number of recordable accidents by 1,000,000 then dividing by the recorded miles driven. This rate does not distinguish between "preventable" or "non-preventable" accidents. A comparison of Western's rate to the DOE average is provided below.

Western		DOE	
CY	Rate (per million miles driven)	CY	Rate (per million miles driven)
1994	1.7	1994	2.4
1993	1.6	1993	4.2

Transmission System Performance Measure

Operations Performance Measure: Area Control Error (ACE):

ACE measures the instantaneous difference between actual and scheduled electrical power interchange including the effects of deviation from 60 hertz frequency. Each control area should be in compliance with A1 and A2 Criteria at least 90 percent of the time.

Control criteria compliance is a measure used to determine if utility employees, control equipment, and generation are responsive to the minute-by-minute load changes throughout the year. Good control performance is required to maintain system reliability and to reduce losses, as well as a matter of equity among interconnected systems.

Western		Industry	
FY	Rate	FY	Rate
1994	98.1	1994	88.6
1993	95.8	1993	92.3

KPMG Peat Marwick LLP

60 East South Temple
Suite 900
Salt Lake City, UT 84111

Independent Auditors' Report

The Administrator of
Western Area Power Administration
United States Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Western Area Power Administration (Western) as of September 30, 1994 and 1993, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These financial statements are the responsibility of Western's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 Revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, including the notes thereto. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Western as of September 30, 1994 and 1993, and the results of their operations and changes in accumulated net revenues, and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in notes 1 and 7 to the combined financial statements, Western changed its method of accounting for depreciation for utility plant assets effective October 1, 1992.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position, results of operations, and cash flows of the individual projects. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the 1994 combined financial statements taken as a whole.

As discussed in notes 1 and 5 to the combined financial statements, certain utility plant costs and operation and maintenance expenses relating to multipurpose projects have been allocated on a tentative basis between power and nonpower purposes. The amount of adjustments, if any, that may be necessary when the final allocations are made are not presently determinable.

The information presented in management's *Overview and Performance Measurements* is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of financial Statements*. We have considered whether this information is materially inconsistent with the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview and Performance Measurements* is addressed in our auditors' report on internal control structure in accordance with OMB Bulletin No. 93-06.

This report is intended for the information of the management of Western and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

Salt Lake City, Utah
December 16, 1994

Combined Power System Statements of Assets, Federal Investment, and Liabilities September 30, 1994 and 1993

(in thousands of dollars)

	FY 1994	FY 1993 (as restated)
ASSETS:		
Utility plant:		
Completed plant	$ 4,550,021	$ 4,509,195
Accumulated depreciation	(1,511,430)	(1,442,850)
	3,038,591	3,066,345
Construction work in progress	520,647	412,039
Net utility plant	3,559,238	3,478,384
Cash	451,319	509,835
Accounts Receivable	114,861	58,786
Other assets	114,312	111,102
Total Assets	**$ 4,239,730**	**$ 4,158,107**
FEDERAL INVESTMENT & LIABILITIES		
Federal investment:		
Congressional appropriations	$ 7,759,921	$ 7,541,394
Interest on Federal investment	2,653,585	2,388,075
Transfer of property & services, net	643,211	553,986
Gross Federal Investment	11,056,717	10,483,455
Funds returned to U.S. Treasury	(7,401,853)	(6,980,827)
Net outstanding Federal investment	3,654,864	3,502,628
Accumulated net revenues	267,081	317,232
Total Federal Investment	**3,921,945**	**3,819,860**
Commitments and contingencies (Notes 5, 8 and 9)		
Liabilities:		
Accounts payable	68,608	116,782
Other liabilities	249,177	221,465
Total liabilities	317,785	338,247
Total Federal Investment & Liabilities	**$ 4,239,730**	**$ 4,158,107**

The accompanying notes are an integral part of these combined power system financial statements.

Combined Power System Statements of Revenues, Expenses, and Accumulated Net Revenues Years Ended September 30, 1994 and 1993

(in thousands of dollars)

	FY 1994	FY 1993 (as restated)
OPERATING REVENUES:		
Sales of electric power	$ 652,506	$ 606,318
Other operating income	135,108	130,935
Gross operating revenues	787,614	737,253
Income transfers, net	(73,847)	(63,391)
Total Operating Revenues	**713,767**	**673,862**
OPERATING EXPENSES:		
Operation and maintenance	204,902	245,446
Administration and general	47,722	45,813
Purchased power	242,153	304,129
Depreciation	84,580	78,674
Total Operating Expenses	**579,357**	**674,062**
Net Operating Revenues (Deficit)	**134,410**	**(200)**
PG&E Settlement	0	70,143
Cumulative nonreimbursable costs	0	60,378
INTEREST ON FEDERAL INVESTMENT:		
Interest on Federal Investment	312,347	221,677
Allowance for Funds Used During Construction (AFUDC)	(127,786)	(73,313)
Net Interest Expense	**184,561**	**148,364**
Net Revenues (Deficit)	**(50,151)**	**(18,043)**
ACCUMULATED NET REVENUES:		
Balance, beginning of year as previously reported	**317,232**	**1,388,891**
Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for depreciation (Note 7)	0	(1,053,616)
Balance, end of year	**$ 267,081**	**$ 317,232**

The accompanying notes are an integral part of these combined power system financial statements.

Combined Power System Statements of Cash Flows
Years Ended September 30, 1994 and 1993

(in thousands of dollars)

	1994	1993 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net deficit	$ (50,151)	$ (18.043)
Adjustments to reconcile net deficit to net cash provided by (used in) operating activties:		
Depreciation	84,580	78.674
Interest on Federal Investment	173,802	148.364
Write off of unrecoverable assets	0	14.854
Replacements previously capitalized	0	21,770
Cumulative nonreimbursable cost	0	(60,378)
(Increase) decrease in assets:		
Accounts receivable	(55,995)	15.736
Other assets	(5,328)	4.958
Increase (decrease) in liabilities:		
Accounts payable	(45,934)	(220,255)
Other liabilities	23,504	(7,759)
Net cash provided by (used in) operating activities	**124,478**	**(22,079)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in utility plant	(210,256)	(148.830)
Net cash used in investing activities	**(210,256)**	**(148,830)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Congressional appropriations	396.998	319,526
Funds returned to U.S. Treasury	(370,959)	(233,023)
Customer advances	6,000	7,000
Repayment of customer advances	(4,777)	(2,042)
Net cash provided by financing activities	**27,262**	**91,461**
Net decrease in cash	**(58,516)**	**(79,448)**
Cash at beginning of year	**509,835**	**589,283**
Cash at end of year	**$ 451,319**	**$ 509,835**

Supplemental Schedule of Noncash Investing and Financing Activities

Capitalized interest during construction	$ 127,786	$ 73.313
Transfer of construction work-in-progress to completed plant	$ 124,943	$ 336,897

The accompanying notes are an integral part of these combined power system financial statements.

Notes to Combined Power System Financial Statements

Years ended September 30, 1994 and 1993

Note 1: Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies

a. General

Western Area Power Administration's combined power system (Western, the Power System) financial statements include the individual power projects listed in Note 2. Western is the Federal power marketing administration for these power projects. Except for the Central Arizona Project and the Pacific Northwest-Pacific Southwest Intertie, these power projects are part of multipurpose water resource projects and include certain transmission facilities of Western, an agency of the U.S. Department of Energy (DOE), and certain generating facilities of the U.S. Department of Interior, Bureau of Reclamation (Reclamation); the U.S. Department of Defense, Army Corps of Engineers (Corps); and the U.S. Department of State, International Boundary and Water Commission (IBWC). The United States government has no ownership in power facilities of the Central Arizona Project but does have an entitlement to power from the project generating facility and a transmission capacity entitlement to transmission facilities.

Western, Reclamation, the Corps, and IBWC are separately managed and financed. Each maintains separate accounting records. Reclamation, the Corps, and IBWC operate and maintain generating facilities that are part of multipurpose water resource projects and, accordingly allocate certain operating expenses and net assets among the projects' activities. Costs of the multipurpose projects are allocated to individual purposes (principally power, irrigation, municipal and industrial water, navigation, and flood control) through cost allocation processes. (See note 5b.) The accompanying combined financial statements include only those expenses and net assets which are expected to be recovered through the sale of power and other related income.

Accounts are maintained in accordance with generally accepted accounting principles (GAAP) and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). Accounting policies also reflect specific legislation and executive directives issued by U.S. Government departments. Western's combined power system financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effect of Certain Types of Regulation. The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

b. Confirmation and Approval of Rates

The Secretary of Energy has delegated authority to the Administrator of Western to develop power and transmission rates for the power projects. The Deputy Secretary has the authority to confirm, approve, and place such rates in effect on an interim basis.

The Secretary delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis; to remand; or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if rates finally approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No significant refunds are anticipated in connection with rates approved on an interim basis through September 30, 1994.

c. Operating Revenues

Operating revenues are recorded on the basis of power provided and service rendered. Except for power projects using revolving funds, cash received is directly deposited with the U.S. Department of the Treasury (U.S. Treasury) and is reflected as "Funds returned to U.S. Treasury" in the accompanying combined statements of assets, Federal investment, and liabilities. Projects using revolving funds do not receive congressional appropriations to fund the cost of operations. For such projects cash is deposited in the U.S. Treasury but remains available to the project based on current and future cash needs and repayment status at year-end.

Power and transmission rates are established under requirements of the power projects' authorizing legislation and related Federal statues and are intended to provide sufficient revenue to recover all costs allocated to power, and, in some projects, a portion of irrigation related costs (when such costs are beyond the ability of the irrigation user's ability to repay). Costs allocated to power include repayment to the U.S. Treasury of its investment in power facilities and interest thereon. Rates are structured to provide for repayment of investment in power facilities, generally over 50 years, while operation and maintenance costs and interest on Federal investment are recovered annually. The projects' enacting legislation does not recognize annual depreciation based on actual service lives as a measure of the required repayment for investment in utility plant.

As discussed in Notes 7 and 9, plant assets are being depreciated using the straight-line method over estimated service lives ranging from 16 to 89 years. This results in some assets being fully depreciated before costs relating thereto are recovered whereas annual depreciation costs on other assets continue beyond the period during which such costs have been recovered through revenues. Western matches these costs and revenues by deferring the unmatched portion of the revenues as accumulated net revenues. Because Western is a nonprofit Federal power marketing agency, accumulated net revenues are committed to repayment of the Federal investment.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues or deficits represent differences between the timing of recognition of expenses and the related revenues, with the primary cause related to the difference between the recognition of depreciation and the related recovery of the U.S. Treasury's investment in utility plant. At any given time, the accumulated net revenue (deficit) balance is deemed to represent net deferred revenue or expense, respectively.

Income transfers, net, represent the amount of funds collected but subsequently transferred relating to the power marketing activities of the Central Arizona Project.

d. Cash

For purposes of reporting cash flows, cash consists principally of the unexpended balance of funds authorized by Congress, which is available with the U.S. Treasury for designated power project purposes.

e. Utility Plant

Utility plant is stated at original cost, net of contributions in aid of construction by entities outside of the combined power system. Costs include direct labor and materials, payments to contractors, indirect charges for engineering, supervision, and interest during construction (IDC). The costs of additions, major replacements, and betterments are capitalized, with the exception of the Boulder Canyon and Parker-Davis Projects for which costs are charged to operations and maintenance expense. Repairs are charged to operations and maintenance expense. The cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation at the time the plant retired is removed from service.

Effective October 1, 1992, the Power System changed its method of accounting for depreciation of utility plant assets from the compound interest method to the straight-line method and has reported the cumulative effect of the change as an adjustment to accumulated net revenues as of that date. Depreciation and net revenues for fiscal year 1993 have been restated to conform with the change. Composite service lives range from 16 to 89 years for the combined Power System.

f. Interest on Federal Investment

Interest is accrued annually on the Federal investment as mandated by Federal statute and project legislation. Such interest is reflected as an annual expense in the accompanying statements of revenues, expenses, and accumulated net revenues with a corresponding increase in the gross Federal investment. Western calculates interest on Federal investment based on the annual unpaid balance using rates set by law, administrative orders pursuant to law, or administrative policies. Western follows the provisions of DOE Order RA 6120.2 which sets forth the priority of repayment. DOE Order RA 6120.2 requires annual net revenues available for repayment to be applied first to annual operating expenses and then to investment in facilities bearing the highest interest rate. Interest rates range from 2.5 percent to 12.4 percent depending on the year in which construction on the transmission and generation facilities was initiated.

As allowed under Federal law, interest is not accrued on Federal investment in irrigation facilities anticipated to be repaid through power sales. See Note 8.b.

g. Interest During Construction

The practice of capitalizing IDC is followed for generating and transmission facilities. Western generally calculates IDC based on the average annual outstanding balance of construction work in progress. Western's policy is to capitalize IDC through the end of the fiscal year in which assets are placed in service. IDC is realized over the repayment period of the related plant asset through increased revenues resulting from higher recoverable investment. Applicable interest rates ranged from 7.1 percent to 9.5 percent for the years ended September 30, 1994 and 1993.

h. Retirement Benefits

Western, Reclamation, the Corps, and IBWC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both are contributory pension plans. Western, Reclamation, the Corps, IBWC, and their employees contribute to these plans. Retirement benefit expenses under CSRS are equivalent to 7 percent of eligible employee compensation and, under FERS are variable based upon options chosen by the participant but do not exceed 24.2 percent of eligible employee compensation.

Contributions are submitted to and benefits are payable by the U.S. Treasury, through the Office of Personnel Management (OPM), and not by Western, Reclamation, the Corps, or IBWC. Actuarial data regarding the cost of the total retirement benefit liability is not available. In addition, certain health care benefits are provided for substantially all retired employees for which costs are not determinable. The cost of providing these benefits is similarly paid through OPM.

In fiscal year 1993, Western began accruing the estimated cost of the CSRS retirement benefit paid through OPM. Such costs are reflected in the rate base in fiscal year 1993 for the following projects: Pick-Sloan, Fryingpan-Arkansas, the Salt Lake Integrated Projects, and Boulder Canyon. However, this practice was discontinued in fiscal year 1994 as it is management's belief that under Federal law Western is not required to recover the OPM funded retirement costs or health and life insurance premiums for active and retired Western, Reclamation, Corps, and IBWC employees involved in power generation. Costs accrued through September 30, 1993, totaling $5.8 million have been reversed and recorded as a reduction of operations and maintenance expense in fiscal 1994.

i. Income Taxes

The facilities and income included in these combined financial statements are exempt from taxation.

j. Reclassification

Certain amounts in the prior year's combined financial statements have been reclassified to conform with the fiscal year 1994 presentation.

Note 2: Power Projects and Authorizing Legislation

Western's combined power system financial statements include the financial position, results of operations, and cash flows of 14 separate power projects. The following is a list of the Federal power projects and related authorizing legislation. The transmission and generating facilities are operated as individual integrated power projects with the financial results combined in these financial statements.

Boulder Canyon Power System
Boulder Canyon Project Act of 1928, as amended.

Central Arizona Project
Colorado River Basin Project Act of 1968, as amended.

Central Valley Power System
Act of August 26, 1937, as amended.

Collbran Power System
Act of July 3, 1952.

Colorado River Storage Power System
Colorado River Storage Project Act of 1956, as amended.

Falcon-Amistad Power System (International Boundary and Water Commission)
Act of June 18, 1954, and July 7, 1960.

Fryingpan-Arkansas Power System
Act of August 16, 1962, as amended.

Pacific Northwest-Pacific Southwest Intertie Project
Act of August 31, 1964.

Parker-Davis Power System
Act of May 28, 1954.

Pick-Sloan Missouri Basin Power System
Flood Control Act of 1944, as amended.

Provo River Power System
Finding of Feasibility by the Secretary of the Interior, November 13, 1935.

Rio Grande Power System
Act of February 25, 1905.

Seedskadee Power System
Act of April 11, 1956 (70 Stat. 105).

Washoe Power System
Act of August 1, 1956.

Note 3: Other Assets

Other assets as of September 30, 1994 and 1993, consist of the following (in thousands):

	1994	1993
Movable equipment	$ 52,033	$ 52,190
Stores inventory	22,711	22,329
Miscellaneous deferred debits	35,151	32,604
Deposit funds available	4,417	3,979
Totals	**$ 114,312**	**$ 111,102**

Note 5: Federal Investment and Cost Allocation

a. General

Federal investment consists of congressional appropriations, transfers of property or costs from other Federal agencies, and accumulated interest on the net unpaid Federal investment. Construction and operation of the power projects are principally financed through congressional appropriations.

The Federal investment in the combined power systems' utility plant is to be repaid to the U.S. Treasury within 50 years from the time the facilities are placed in service or are commercially operational. Replacements to Federal investments are generally to be repaid over their expected service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis. However, operating expenses (excluding depreciation expense) and interest on the unpaid Federal investment should be paid annually. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenue prior to any repayment of Federal investment. Interest is accrued on cumulative annual net deficits until paid. As of September 30, 1994, the cumulative unpaid annual operating expenses (excluding depreciation expense) and interest on Federal investment was approximately $248 million.

b. Federal Investment in Multi-purpose Facilities

The Federal investment in certain multi-purpose facilities (primarily dams and appurtenant structures integral to the generation of power), required to be repaid from the sale of power, has been determined from preliminary cost allocation studies based on standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, an allocation standard cannot be changed unless the change is also approved by Congress.

Final studies will be performed by Reclamation and the Corps, as appropriate, upon completion of each of the individual power projects and are still pending for all but the Fryingpan-Arkansas, Boulder Canyon, and Parker-Davis projects. Fryingpan-Arkansas' final study was completed by Reclamation in fiscal year 1993 (see c. below). Boulder Canyon and Parker-Davis are not subject to cost

Note 4: Utility Plant

Major classes of utility plant and related accumulated depreciation as of September 30, 1994 and 1993, consist of the following (in thousands):

	1994			1993 (restated)		
	Western	Generating Agencies	Total	Western	Generating Agencies	Total
Completed plant:						
Generating plant	$ 0	$ 2,629,520	$ 2,634,955	$ 0	$ 2,656,034	$ 2,656,034
Transmission plant	1,915,066 *	0	1,915,066	1,853,161 *	0	1,853,161
	1,915,066	2,634,955	4,550,021	1,853,161	2,656,034	4,509,195
Accumulated depreciation	(614,124)	(897,306)	(1,511,430)	(572,982)	(869,868)	(1,442,850)
	1,300,942	1,737,649	3,038,591	1,280,179	1,786,166	3,066,345
Construction work in progress:						
Generating plant	0	223,844	223,844	0	186,762	186,762
Transmission plant	296,803	0	296,803	225,277	0	225,277
	296,803	223,844	520,647	225,277	186,762	412,039
Net utility plant	$ 1,597,745	$ 1,961,493	$ 3,559,238	$ 1,505,456	$ 1,972,928	$ 3,478,384

* Includes approximately $19 million of intangible assets which represent power rights.

allocation studies since enacting legislation for these projects required virtually all of the cost of the dams and appurtenant structures to be repaid through power sales.

As final cost allocation studies are still pending for many of the individual projects comprising the combined power system, potential exists for significant future adjustment in the Federal investment for the cost of multi-purpose facilities allocated to power, and the related accrued interest on unpaid investment. Changes in the allocation of operating and maintenance expenses are accounted for prospectively, unless specific legislation requires retroactive application.

c. Fryingpan-Arkansas Power System

A final cost allocation study was completed for the Fryingpan-Arkansas system (FryArk) near the end of fiscal year 1993 which significantly reduced the allocation of general-purpose plant facilities and future operating and maintenance expense related to power. The effect of the change in allocation for FryArk was a net decrease in allocated plant facilities totaling approximately $38.5 million, with a corresponding decrease in congressional appropriations; and a net decrease in accumulated interest on Federal investment of $19 million, with a corresponding decrease in interest expense. The effects of the change in allocation of plant facilities have been reflected in the accompanying combined financial statements as of and for the year ended September 30, 1994.

d. Pick-Sloan Missouri Basin Power System

Western has recently concluded that the Corps utilized an unauthorized standard for allocating operations and maintenance (O&M) expense for the Pick-Sloan system dating back to 1988 resulting in a cumulative over allocation of O&M expense totaling $11.6 million. Accordingly, for the fiscal year ended September 30, 1994, Western recorded a decrease in O&M expense in the accompanying statement of revenues, expenses, and accumulated net revenues for the cumulative effect of a change in the method used by the Corps.

e. Glen Canyon Environmental Studies

Since the beginning of 1983, approximately $60.4 million in costs have been incurred by Western and Reclamation to study and minimize the environmental impact of fluctuating river flows from Glen Canyon Dam. Such costs have historically been allocated to power. However, in October 1993, Congress passed the Grand Canyon Protection Act of 1992. The purpose of the Act was to "protect... and improve the values for which the Grand Canyon National Park and Glen Canyon National Recreation Area were established." In connection with this legislation, Congress no longer required costs related to these objectives to be reimbursed by the power customers of the Colorado River Storage Project. Accordingly, the cumulative effect of this change in the allocation of costs ($60.4 million) has been reflected in the accompanying combined statements of revenues, expenses, and accumulated net revenues for the year ended September 30, 1993.

f. Shasta Cold Water Releases

For the years ended September 30, 1994 and 1993, bypass releases at the Shasta Dam resulted in Western increasing its purchase power and wheeling costs by $5.4 million and $6.9 million, respectively. As part of the Energy and Water Development Appropriations Act, Congress included a provision stating that any increase in purchase power cost incurred by Western after January 1, 1986, resulting from bypass releases for temperature control purposes related to preservation of anadromous fisheries in the Sacramento River shall not be allocated to power. Accordingly, such costs have been charged against Congressional appropriations in the accompanying combined statements of assets, Federal investment, and liabilities; therefore increasing the net revenue applied to the Federal investment subject to repayment.

g. Auburn-Folsom Project

Reclamation began investigative studies of Auburn Dam in 1956. In 1965, Reclamation received from Congress authorization to build a multipurpose water project (dam and reservoir) near the City of Auburn, California. Approximately $280 million has been incurred on the project for land acquisition, access roads, site preparation, extensive foundation work, and seismic studies. Of this amount, approximately $42 million has been historically allocated to power. However, Reclamation has determined that the Auburn Dam will be used as a flood control dam and will not be developed as a multipurpose facility with power-related capabilities. For the years ended September 30, 1994 and 1993, the costs previously allocated to power have been charged against appropriations in the accompanying combined statements of assets, Federal investment, and liabilities which reduces the amount of Federal investment to be repaid through future power sales.

Note 6: Other Liabilities

Other liabilities as of September 30, 1994 and 1993 consist of the following (in thousands):

	1994	1993
Customer advances	$153,745	$150,114
Deferred credits	81,518	35,245
Cooperative and reimbursable work/trust fund liability	9,858	32,127
Deposit funds	4,056	3,979
Totals	$249,177	$221,465

Customer advances consist of principal and interest payable to contractors/customers of the Boulder Canyon Power System who provided financing for the cost of upgrading each of the generating units at Hoover Dam. The liability to such customers is being relieved through the issuance of credits on the subsequent sale of power. The obligation is scheduled to be relieved over a period through and including the year 2017, with interest at rates ranging between 5.5% and 8.2%. Deferred credits consist primarily of interchange energy and accrued annual leave.

Note 7: Change in Method of Accounting For Depreciation

As discussed in Note 1, the Power System changed its method of accounting for depreciation of utility plant assets, effective October 1, 1992, from the compound interest method to the straight-line method. The straight-line method is considered by management to be a preferred method and generally more consistent with the current depreciation practices of other U.S. DOE power marketing agencies.

The cumulative effect on prior years of this change in accounting for depreciation of $1.054 billion has been reported in the accompanying combined power system financial statements as an adjustment to beginning accumulated net revenues for fiscal year 1993. The effect of adopting the change in the depreciation method resulted in an increase in depreciation expense and a corresponding decrease in net revenue of $44.9 million, for the year ended September 30, 1993.

Note 8: Commitments and Contingencies

a. General

Western, Reclamation, the Corps, and IBWC are involved in various claims, suits, and complaints which are routine to the nature of their business. In the opinion of management and their legal counsel, the actions are either without merit or involve amounts which are not material to these combined power system financial statements.

b. Irrigation Assistance

Federal statute requires the use of the combined power system's net revenues to repay the U.S. Treasury that portion of certain Reclamation project costs allocated to irrigation purposes determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to repay. Although these costs may be paid through sales of power, such costs do not represent an operating cost of the combined power system. Accordingly, neither the costs, or the related revenues will be reflected in the financial statements of the combined power system, at the time such revenues are collected and returned to the U.S. Treasury. No such payments were made during the 2-year period ended September 30, 1994.

c. Pacific Gas & Electric Company Settlement

On April 7, 1993, Western filed with FERC a settlement agreement (Agreement) between itself and Pacific Gas & Electric Company (PG&E) in connection with the resolution of a continuing lawsuit relating to the pricing of energy exchanged between the entities from 1982 through 1992. Under the terms of the Agreement, Western paid PG&E $124.1 million and PG&E refunded Western $46.8 million, including $17.1 million in interest payments.

Through the end of fiscal year 1992, Western accrued liabilities, net of amounts due from PG&E totalling $219.5 million. Based on the final terms of the Agreement, Western overestimated its liability by approximately $142 million. Of this amount, $70.1 million has been applied toward repayment of the Federal investment. This was accomplished as a non-operating credit in fiscal year 1993 in the accompanying combined statement of revenues, expenses, and accumulated net revenues. Western's plan to apply $65 million against the Federal investment was disclosed in the rate order filed with FERC in April 1993, and approved on September 22, 1993.

The remaining $71.9 million has been returned to Western's customers in the form of credits applied against monthly power bills. Revenue credits began in the service month of July 1993. Credits in fiscal year 1993 totaled $41.7 million. The balance was applied in fiscal year 1994.

d. Financing of Boulder Canyon Project Improvements

In 1987, Reclamation initiated a project designed to increase (uprate) the generating capacity of the Boulder Canyon Project (the Project). Certain customers of the Project agreed to provide funding for the cost of the improvements, primarily through the issuance of long-term bonds. In some cases, proceeds from the issuance of the bonds exceeded the amounts required to fund the cost of the improvements.

For purposes of measuring the liability related to the Uprating Program (the Program), Reclamation reports only the total amount of the advances received from customers in the accompanying combined statements of assets, Federal investment, and liabilities. Bond issuance costs are being included in the determination of annual interest expense to be recognized over the term of the debt repayment. The net proceeds from the issuance of the debt, in excess of the amount advanced to Reclamation, have similarly been excluded from the assets of the Project.

Presently, interest expense on the liability is measured based on the total outstanding bonded indebtedness. Interest income from excess proceeds will reduce future interest costs subject to arbitrage regulations. Until all improvements are complete, and any remaining excess funds are applied against outstanding debt, the total interest cost of financing the Uprating Program will be subject to uncertainty.

e. Colorado River Storage Project

As described in Note 5.e., during fiscal year 1993 Congress passed the Glen Canyon Protection Act of 1992 (the Act). The Act no longer requires certain costs of environmental impact studies related to Glen Canyon Dam to be paid by power customers of the Colorado River Storage Project. However, in connection with this legislation, Congress included a provision that such costs could become the responsibility of the power customers if the overall provisions of the Act cause the Federal deficit to increase. Sufficient data does not exist to determine whether the overall provisions of the Act will result in a future obligation by the power customers. Any future obligations related to the allocation of these costs will be reflected in the period in which such obligations become evident.

f. Hoover Dam Visitor Facilities

The accompanying September 30, 1994, combined power system statement of assets, Federal investment, and liabilities includes investment in construction work-in-progress of approximately $78.9 million for the Hoover Dam visitor facilities. The total cost to complete the facilities, estimated at $123 million, inclusive of IDC, will significantly exceed the original engineers' estimates. In an effort to defray the additional costs that will be incurred, Reclamation is in the process of developing a revenue enhancement plan. Reclamation management anticipates that user fees for various activities such as parking, visitors entrance fee, special tour groups, etc., will be established to repay a portion of the investment in the facility. The portion of the costs not recovered through user fees will be included in the computation of power rates for the Boulder Canyon Power System. Accordingly, the recoverability of the Federal investment in the Hoover Dam visitor facilities is contingent upon Reclamation's ability to implement a revenue enhancement plan in a manner consistent with the expectations of the power customers of the Boulder Canyon Power System.

g. Power Contract Commitments

Western has entered into numerous long-term agreements for power purchases to meet its power sales contract obligations. Purchase power expenses totaled $242 million and $304 million during years ended September 30, 1994 and 1993, respectively.

Note 9: Other

a. Washoe Project

The Washoe Project Power Repayment Study dated December 19, 1994, indicates the project requires a rate of 72.3 mills per kWh to cover annual operating expenses (excluding depreciation expense) plus interest to repay the Federal investment in project facilities allocated to power. At this time, Western is selling the output of the Stampede unit at 18.2 mills/kWh. Cumulative unpaid annual operating expense plus interest total approximately $3.1 million as of September 30, 1994.

The Federal investment in Washoe Project facilities is approximately $8.9 million. Based on current conditions, it is unlikely the project will be able to generate sufficient revenues to repay the Federal investment.

b. Depreciation Change does not Affect Power Rates

For purposes of establishing power and transmission rates, the U.S. Treasury's investment in the utility plant of the Project is recovered over a period of 50 years. The enacting legislation does not recognize annual depreciation over actual composite service lives as a measure of the required annual repayment. Therefore, the change in method of accounting for depreciation of utility plant assets from the compound interest method to the straight-line method, effective October 1, 1992 (as more fully discussed in Note 7) has no impact on the establishment of power and transmission rates.

c. PG&E Energy Settlement for Energy Account No. 2 Rates

On February 2, 1992, Western and the Pacific Gas and Electric (PG&E) entered into a settlement agreement on the methodology to be used to calculate PG&E's thermal rates for PG&E capacity and energy purchases under Contract No. 14-06-200-2948A (Thermal Rate Settlement). The Thermal Rate Settlement provides for the reconciliation of costs for energy withdrawals and deposits from Energy Account No. 2 (EA2).

The settlement period for the reconciliation of costs of energy deposits and withdrawals covers 1985 through 1992. Complete data required for the reconciliation was available through 1992 only. Future reconciliations will be prepared annually.

On April 18, 1994, PG&E filed a Rate Schedule with FERC acknowledging the reconciliation of the energy account costs. The reconciliation of the rates for the 1985 through 1992 period, including interest, resulted in PG&E owing Western $39.8 million. This account has been reflected in the financial statements as a receivable from PG&E. It was agreed that PG&E would apply the refund as a credit against Western's energy bills starting with the month of October 1993. The total amount refunded for fiscal year 1994 is $14.4 million. The remaining credit will be returned to the rate payers as the credit is applied against PG&E billings.

Combining Power System Statements of Assets, Federal Investment, and Liabilities, September 30, 1994 and 1993

(in thousands of dollars)

	FY 1994			FY 1993 (as restated)		
	Western	Generating Agencies [1]	Total	Western	Generating Agencies [1]	Total
ASSETS						
Utility plant:						
Completed plant	$ 1,915,066	$ 2,634,955	$ 4,550,021	$ 1,853,161	$ 2,656,034	$ 4,509,195
Accumulated depreciation	(614,124)	(897,306)	(1,511,430)	(572,982)	(869,868)	(1,442,850)
	1,300,942	1,737,649	3,038,591	1,280,179	1,786,166	3,066,345
Construction work in progress	296,803	223,844	520,647	225,277	186,762	412,039
Net utility plant	1,597,745	1,961,493	3,559,238	1,505,456	1,972,928	3,478,384
Cash	390,971	60,348	451,319	446,649	63,186	509,835
Accounts receivable	114,624	237	114,861	58,225	561	58,786
Other assets	90,147	24,165	114,312	83,887	27,215	111,102
Total Assets	**$ 2,193,487**	**$ 2,046,243**	**$ 4,239,730**	**$ 2,094,217**	**$ 2,063,890**	**$ 4,158,107**
FEDERAL INVESTMENT & LIABILITIES						
Federal investment:						
Congressional appropriations	$ 3,608,155	$ 4,151,766	$ 7,759,921	$ 3,330.737	$ 4,210,657	$ 7,541,394
Interest on Federal investment	947,152	1,706,433	2,653,585	769,400	1,618,675	2,388,075
Transfer of property & services, net	2,311,170	(1,667.959)	643,211	2,256,645	(1,702,659)	553,986
Gross Federal investment	6,866,477	4,190,240	11,056,717	6,356,782	4,126,673	10,483,455
Funds returned to U.S. Treasury	(4,507,954)	(2,893,899)	(7.401.853)	(4,170,915)	(2,809,912)	(6,980,827)
Net outstanding Federal investment	2,358,523	1,296,341	3,654,864	2,185,867	1,316,761	3,502,628
Accumulated net revenues (deficit)	(313,740)	573,796	267,081	(253,529)	570,761	317,232
Total Federal Investment	2,051,808	1,870,137	3,921,945	1,932,338	1,887,522	3,819,860
Liabilities:						
Accounts payable	55.032	13.576	68,608	103,441	13,341	116,782
Other liabilities	86,647	162,530	249,177	58,438	163,027	221,465
Total liabilities	141,679	176,106	317,785	161,879	176,368	338,247
Total Federal Investment & Liabilities	**$ 2,193,487**	**$ 2,046,243**	**$ 4,239,730**	**$ 2,094,217**	**$ 2,063,890**	**$ 4,158,107**

[1] Generating agencies are the Bureau of Reclamation, Corps of Engineers and International Boundary and Water Commission.

See independent auditors' report.

Combining Power System Statements of Revenues, Expenses, and Accumulated Net Revenues Years Ended September 30, 1994 and 1993

(in thousands of dollars)

	FY 1994			FY 1993 (as restated)		
	Western	Generating Agencies [1]	Total	Western	Generating Agencies [1]	Total
OPERATING REVENUES						
Sales of electric power	$ 652,506	$ 0	$ 652,506	$ 606,318	$ 0	$ 606,318
Other operating income	130,697	4,411	135,108	117,692	13,243	130,935
Gross operating revenues	783,203	4,411	787,614	724,010	13,243	737,253
Income transfers, net	(272,154)	198,307	(73,847)	(347,074)	283,683	(63,391)
Total Operating Revenues	**511,049**	**202,718**	**713,767**	**376,936**	**296,926**	**673,862**
OPERATING EXPENSES:						
Operation and maintenance	109,030	95,872	204,902	137,813	107,633	245,446
Administration and general	41,936	5,786	47,722	44,382	1,431	45,813
Purchased power	242,153	0	242,153	304,129	0	304,129
Depreciation	47,523	37,057	84,580	40,040	38,634	78,674
Total Operating Expenses	**440,642**	**138,715**	**579,357**	**526,364**	**147,698**	**674,062**
Net Operating Revenues (Deficit)	**70,407**	**64,003**	**134,410**	**(149,428)**	**149,228**	**(200)**
PG&E Settlement	0	0	0	70,143	0	70,143
Cumulative nonreimbursable costs	0	0	0	13,464	46,914	60,378
INTEREST ON FEDERAL INVESTMENT:						
Interest on Federal investment	124,341	188,006	312,347	72,140	149,537	221,677
Allowance for Funds Used During Construction (AFUDC)	(748)	(127,038)	(127,786)	(25,090)	(48,223)	(73,313)
Net Interest Expense	**123,593**	**60,968**	**184,561**	**47,050**	**101,314**	**148,364**
Net revenues (deficit)	**(53,186)**	**3,035**	**(50,151)**	**(112,871)**	**94,828**	**(18,043)**
ACCUMULATED NET REVENUES (DEFICIT)						
Balance, beginning of year as previously reported	**(253,529)**	**570,761**	**317,232**	**325,552**	**1,063,339**	**1,388,891**
Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for depreciation	0	0	0	(466,210)	(587,406)	(1,053,616)
Balance, end of year	**$ (306,715)**	**$ 573,796**	**$ 267,081**	**$ (253,529)**	**$ 570,761**	**$ 317,232**

[1] Generating agencies are the Bureau of Reclamation, Corps of Engineers and International Boundary and Water Commission.

See independent auditors' report.

Combining Power System Statements of Assets, Federal Investment, and Liabilities September 30, 1994

(in thousands of dollars)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Falcon-Amistad Power System (IBWC)	Fryingpan-Arkansas Power System
ASSETS							
Utility plant:							
Completed plant	$ 348,621	$ 0	$ 495.267	$ 13,660	$ 976,896	$ 44,437	$ 148,845
Accumulated depreciation	(124,874)	0	(213,876)	(3,949)	(257,289)	(10,703)	(20,322)
	223,747	0	281,391	9,711	719,607	33,734	128,523
Construction work in progress	104,694	0	51,449	332	92,081	0	9
Net utility plant	328,441	0	332,840	10,043	811,688	33,734	128,532
Cash	30,044	3,055	139,761	344	75,313	19	2,634
Accounts receivable	6,408	8,011	54,019	86	10,310	0	1,985
Other assets	9,249	218	8,734	735	17,433	0	22
Total Assets	**$ 374,142**	**$ 11,284**	**$ 535,354**	**$ 11,208**	**$ 914,744**	**$ 33,753**	**$ 133,173**
FEDERAL INVESTMENT & LIABILITIES							
Federal investment:							
Congressional appropriations	$ 608,609	$ 76	$ 1,911,786	$ 20,880	$ 717,757	$ 57,043	$ 145,252
Interest on Federal investment	191,591	0	345.398	10,222	564,773	32,510	94,883
Transfer of property & services, net	(29,188)	36	300.997	5,337	25,196	365	11,010
Gross Federal investment	771,012	112	2,558,181	36,439	1,307,726	89,918	251,145
Funds returned to U.S. Treasury	(589,101)	0	(2,198,457)	(26,252)	(621,285)	(56,275)	(93,478)
Net outstanding Federal investment	181,911	112	359,724	10,187	686,441	33,643	157,667
Accumulated net revenues (deficit)	25,066	9,354	107,020	884	215,545	109	(25,369)
Total Federal Investment	**206,977**	**9,466**	**466,744**	**11,071**	**901,986**	**33,752**	**132,298**
Liabilities							
Accounts payable	3,441	65	27,005	88	8,772	1	361
Other liabilities	163,724	1,753	41.605	49	3,986	0	514
Total liabilities	**167,165**	**1,818**	**68,610**	**137**	**12,758**	**1**	**875**
Total Federal Investment & Liabilities	**$ 374,142**	**$ 11,284**	**$ 535,354**	**$ 11,208**	**$ 914,744**	**$ 33,753**	**$ 133,173**

See independent auditors' report.

Pacific Northwest-Pacific Southwest Intertie Project	Parker-Davis Power System	Pick-Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seedskadee Power System	Washoe Power System	Other	Combined Total
$ 61,878	$ 284,065	$ 2,144,486	$ 1,137	$ 12,628	$ 7,269	$ 8,823	$ 2,009	$ 4,550,021
(32,330)	(114,949)	(726,822)	(646)	(2,526)	(1,927)	(884)	(333)	(1,511,430)
29,548	169,116	1,417,664	491	10,102	5,342	7,939	1,676	3,038,591
64,752	22,219	183,607	419	398	115	0	572	520,647
94,300	191,335	1,601,271	910	10,500	5,457	7,939	2,248	3,559,238
51,228	18,993	63,025	76	455	2,052	232	64,088	451,319
252	3,063	29,075	0	0	0	42	1,610	114,861
8,958	12,411	41,744	82	12	4	22	14,688	114,312
$ 154,738	**$ 225,802**	**$ 1,735,115**	**$ 1,068**	**$ 10,967**	**$ 7,513**	**$ 8,235**	**$ 82,634**	**$ 4,239,730**

$ 211,080	$ 652,369	$ 3,284,736	$ 3,376	$ 45,036	$ 4,227	$ 9,704	$ 87,990	$ 7,759,921
69,137	124,597	1,197,981	16	15,782	3,251	3,145	299	2,653,585
(4,870)	(611)	336,643	192	5,187	2,497	37	(9,617)	643,211
275,347	776,355	4,819,360	3,584	66,005	9,975	12,886	78,672	11,056,717
(72,507)	(625,760)	(3,043,676)	(3,376)	(66,429)	(1,638)	(697)	(2,922)	(7,401,853)
202,840	150,595	1,775,684	208	(424)	8,337	12,189	75,750	3,654,864
(51,319)	64,567	(79,737)	490	11,165	(876)	(4,083)	(5,735)	267,081
151,521	**215,162**	**1,695,947**	**698**	**10,741**	**7,461**	**8,106**	**70,015**	**3,921,945**
2,217	2,611	14,674	60	142	6	2	9,163	68,608
1,000	8,029	24,494	310	84	46	127	3,456	249,177
3,217	10,640	39,168	370	226	52	129	12,619	317,785
$ 154,738	**$ 225,802**	**$ 1,735,115**	**$ 1,068**	**$ 10,967**	**$ 7,513**	**$ 8,235**	**$ 82,634**	**$ 4,239,730**

Combining Power System Statements of Assets, Federal Investment, and Liabilities September 30, 1993

(as restated)
(in thousands of dollars)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Falcon-Amistad Power System (IBWC)	Fryingpan-Arkansas Power System
ASSETS							
Utility plant:							
Completed plant	$ 342,819	$ 0	$ 495,104	$ 13,041	$ 968,765	$ 44,445	$ 187,785
Accumulated depreciation	(117,637)	0	(205,139)	(3,789)	(238,216)	(9,953)	(19,605)
	225,182	0	289,965	9,252	730,549	34,492	168,180
Construction work in progress	76,016	0	40,464	858	81,458	0	76
Net utility plant	301,198	0	330,429	10,110	812,007	34,492	168,256
Cash	30,276	1,818	225,387	553	78,411	22	406
Accounts Receivable	9,163	5,662	8,122	0	10,012	0	1,876
Other assets	11,378	113	8,177	835	22,308	592	21
Total Assets	**$ 352,015**	**$ 7,593**	**$ 572,115**	**$ 11,498**	**$ 922,738**	**$ 35,106**	**$ 170,559**
FEDERAL INVESTMENT & LIABILITIES							
Federal investment:							
Congressional appropriations	$ 578,898	$ 76	$ 1,868,436	$ 23,665	$ 714,509	$ 56,607	$ 205,721
Interest on Federal investment	180,667	0	332,772	9,702	495,314	30,188	89,571
Transfer of property & services, net	(16,789)	36	230,724	1,841	25,818	348	(2,236)
Gross Federal Investment	742,776	112	2,431,932	35,208	1,235,641	87,143	293,056
Funds returned to U.S. Treasury	(583,790)	0	(2,032,125)	(24,228)	(601,285)	(52,934)	(78,739)
Net outstanding Federal investment	158,986	112	399,807	10,980	634,356	34,209	214,317
Accumulated net revenues (deficit)	19,035	7,405	86,403	358	275,948	594	(44,925)
Total Federal Investment	**178,021**	**7,517**	**486,210**	**11,338**	**910,304**	**34,803**	**169,392**
Commitments and contingencies							
Liabilities:							
Accounts payable	6,388	76	73,665	129	6,398	7	464
Other liabilities	167,606	0	12,240	31	6,036	296	703
Total liabilities	173,994	76	85,905	160	12,434	303	1,167
Total Federal Investment & Liabilities	**$ 352,015**	**$ 7,593**	**$ 572,115**	**$ 11,498**	**$ 922,738**	**$ 35,106**	**$ 170,559**

See independent auditors' report.

Pacific Northwest-Pacific Southwest Intertie Project	Parker-Davis Power System	Pick-Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seedskadee Power System	Washoe Power System	Other	Combined Total
$ 60,863	$ 255,057	$ 2,109,842	$ 1,132	$ 12,243	$ 7,266	$ 8,823	$ 2,009	$ 4,509,195
(30,785)	(110,609)	(701,591)	(635)	(2,332)	(1,520)	(746)	(292)	(1,442,850)
30,078	144,448	1,408,251	497	9,911	5,746	8,077	1,717	3,066,345
31,501	34,600	145,536	406	467	137	0	520	412,039
61,579	179,048	1,553,787	903	10,378	5,883	8,077	2,237	3,478,384
45,420	20,367	80,970	131	411	324	200	25,139	509,835
722	3,370	18,665	0	3	1	9	1,181	58,786
2,648	11,450	36,840	82	23	0	0	16,635	111,102
$ 110,369	$ 214,235	$ 1,690,262	$ 1,116	$ 10,815	$ 6,208	$ 8,286	$ 45,192	$ 4,158,107
$ 167,316	$ 624,411	$ 3,190,783	$ 3,327	$ 46,502	$ 4,369	$ 9,463	$ 47,311	$ 7,541,394
61,037	110,356	1,057,233	321	15,387	2,610	2,671	246	2,388,075
(5,111)	(971)	321,518	8	1,960	1,068	75	(4,304)	553,986
223,242	733,796	4,569,534	3,656	63,849	8,047	12,209	43,253	10,483,455
(66,564)	(594,265)	(2,875,392)	(3,105)	(63,510)	(1,638)	(628)	(2,624)	(6,980,827)
156,678	139,531	1,694,142	551	339	6,409	11,581	40,629	3,502,628
(48,395)	65,921	(47,796)	469	10,351	(310)	(3,324)	(4,501)	317,232
108,283	205,452	1,646,346	1,020	10,690	6,099	8,257	36,128	3,819,860
1,071	1,918	18,602	89	75	23	4	7,873	116,782
1,015	6,865	25,314	7	50	86	25	1,191	221,465
2,086	8,783	43,916	96	125	109	29	9,064	338,247
$ 110,369	$ 214,235	$ 1,690,262	$ 1,116	$ 10,815	$ 6,208	$ 8,286	$ 45,192	$ 4,158,107

Combining Power System Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit) Year Ended September 30, 1994

(in thousands of dollars)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Falcon-Amistad Power System (IBWC)	Fryingpan-Arkansas Power System
OPERATING REVENUES:							
Sales of electric power	$ 58,659	$ 56,103	$ 216,667	$ 2,023	$ 101,709	$ 3,312	$ 12,745
Other operating income	16,377	6,597	24,876	23	10,005	0	1,772
Gross operating revenues	75,036	62,700	241,543	2,046	111,714	3,312	14,517
Income transfers, net	(12,420)	(59,159)	0	0	38	0	0
Total Operating Revenues	**62,616**	**3,541**	**241,543**	**2,046**	**111,752**	**3,312**	**14,517**
OPERATING EXPENSES:							
Operation and maintenance	25,194	982	25,219	795	42,542	722	2,594
Administration and general	4,555	609	9,031	34	7,717	4	336
Purchased power	3,379	0	169,414	0	24,733	0	2,725
Depreciation	8,583	0	8,988	171	20,042	750	1,944
Total Operating Expenses	**41,711**	**1,591**	**212,652**	**1,000**	**95,034**	**1,476**	**7,599**
Net Operating Revenues (Deficit)	**20,905**	**1,950**	**28,891**	**1,046**	**16,718**	**1,836**	**6,918**
INTEREST ON FEDERAL INVESTMENT:							
Interest on Federal Investment	22,609	0	12,539	520	69,057	2,321	(12,632)
Allowance for Funds Used During Construction (AFUDC)	(7,735)	0	(4,265)	0	8,064	0	(6)
Net Interest Expense	**14,874**	**0**	**8,274**	**520**	**77,121**	**2,321**	**(12,638)**
Net Revenues (Deficit)	**6,031**	**1,950**	**20,617**	**526**	**(60,403)**	**(485)**	**19,556**
ACCUMULATED NET REVENUES (DEFICIT):							
Balance, beginning of year	**19,035**	**7,405**	**86,403**	**358**	**275,948**	**594**	**(44,925)**
Balance, end of year	**$ 25,066**	**$ 9,354**	**$ 107,020**	**$ 884**	**$ 215,545**	**$ 109**	**$ (25,369)**

See independent auditors' report.

Pacific Northwest-Pacific Southwest Intertie Project	Parker-Davis Power System	Pick-Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seedskadee Power System	Washoe Power System	Other	Combined Total
$ 53	$ 15,891	$ 180,662	$ 271	$ 2,918	$ 1,354	$ 140	$ 0	$ 652,506
5,423	15,987	53,756	7	(61)	53	0	293	135,108
5,476	31,878	234,418	278	2,857	1,407	140	293	787,614
0	29	(2,042)	0	0	0	0	(293)	(73,847)
5,476	**31,907**	**232,376**	**278**	**2,857**	**1,407**	**140**	**0**	**713,767**
1,236	12,559	89,119	199	1,586	783	284	1,088	204,902
725	6,019	18,505	40	26	12	4	105	47,722
0	1,306	40,596	0	0	0	0	0	242,153
1,617	4,808	36,750	19	194	536	137	41	84,580
3,578	**24,692**	**184,970**	**258**	**1,806**	**1,331**	**425**	**1,234**	**579,357**
1,898	**7,215**	**47,406**	**20**	**1,051**	**76**	**(285)**	**(1,234)**	**134,410**
8,100	13,718	194,555	(1)	394	642	474	52	312,347
(3,278)	(5,149)	(115,208)	0	(157)	0	0	(52)	(127,786)
4,822	**8,569**	**79,347**	**(1)**	**237**	**642**	**474**	**0**	**184,561**
(2,924)	**(1,354)**	**(31,941)**	**21**	**814**	**(566)**	**(759)**	**(1,234)**	**(50,151)**
(48,395)	**65,921**	**(47,796)**	**469**	**10,351**	**(310)**	**(3,324)**	**(4,501)**	**317,232**
$ (51,319)	**$ 64,567**	**$ (79,737)**	**$ 490**	**$ 11,165**	**$ (876)**	**$ (4,083)**	**$ (5,735)**	**$ 267,081**

Combining Power System Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit) Year Ended September 30, 1993

(as restated)
(in thousands of dollars)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Falcon-Amistad Power System (IBWC)	Fryingpan-Arkansas Power System
OPERATING REVENUES:							
Sales of electric power	$ 52,819	$ 40,500	$ 219,845	$ 3,385	$ 101,445	$ 3,553	$ 13,710
Other operating income	10,296	13,432	22,852	22	8,072	0	758
Gross operating revenues	63,115	53,932	242,697	3,407	109,517	3,553	14,468
Income transfers, net	(11,339)	(52,102)	0	0	(225)	0	0
Total Operating Revenues	**51,776**	**1,830**	**242,697**	**3,407**	**109,292**	**3,553**	**14,468**
OPERATING EXPENSES:							
Operation and maintenance	24,635	1,252	30,692	916	52,609	718	3,301
Administration and general	1,159	622	8,130	47	8,649	4	366
Purchased power	0	0	196,992	0	26,226	0	2,512
Depreciation	8,338	0	7,584	170	16,746	2,119	1,553
Total Operating Expenses	**34,132**	**1,874**	**243,398**	**1,133**	**104,229**	**2,841**	**7,732**
Net Operating Revenues (Deficit)	**17,644**	**(44)**	**(701)**	**2,274**	**5,063**	**712**	**6,736**
PG&E Settlement	0	0	70,143	0	0	0	0
Cummulative nonreimbursable costs	0	0	0	0	59,341	0	0
INTEREST ON FEDERAL INVESTMENT:							
Interest on Federal Investment	41,923	0	10,412	498	83,134	2,338	8,282
Allowance for Funds Used During Construction (AFUDC)	(17,958)	0	(2,358)	0	(39,187)	0	(21)
Net Interest Expense	**23,965**	**0**	**8,054**	**498**	**43,947**	**2,338**	**8,261**
Net Revenues (Deficit)	**(6,321)**	**(44)**	**61,388**	**1,776**	**20,457**	**(1,626)**	**(1,525)**
ACCUMULATED NET REVENUES (DEFICIT):							
Balance, beginning of year as previously reported	**133,278**	**7,449**	**182,784**	**1,142**	**422,582**	**2,220**	**(28,745)**
Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for depreciation	(107,922)	0	(157,769)	(2,560)	(167,091)	0	(14,655)
Balance, end of year	**$ 19,035**	**$ 7,405**	**$ 86,403**	**$ 358**	**$ 275,948**	**$ 594**	**$ (44,925)**

See independent auditors' report.

Pacific Northwest-Pacific Southwest Intertie Project	Parker-Davis Power System	Pick-Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seedskadee Power System	Washoe Power System	Other	Combined Total
$ 0	$ 12,653	$ 154,772	$ 0	$ 3,494	$ 0	$ 142	$ 0	$ 606,318
5,331	15,283	53,448	247	0	15	0	1,179	130,935
5,331	27,936	208,220	247	3,494	15	142	1,179	737,253
50	0	0	0	0	225	0	0	(63,391)
5,381	27,936	208,220	247	3,494	240	142	1,179	673,862
16,609	18,758	94,192	138	933	407	286	0	245,446
822	5,994	19,771	43	35	30	2	139	45,813
0	5,035	73,364	0	0	0	0	0	304,129
1,547	3,935	36,204	18	193	99	129	39	78,674
18,978	33,722	223,531	199	1,161	536	417	178	674,062
(13,597)	(5,786)	(15,311)	48	2,333	(296)	(275)	1,001	(200)
0	0	0	0	0	0	0	0	70,143
0	0	0	0	0	1,037	0	0	60,378
6,956	11,889	54,476	18	285	552	421	493	221,677
(3,759)	(5,981)	(3,398)	0	(158)	0	0	(493)	(73,313)
3,197	5,908	51,078	18	127	552	421	0	148,364
(16,794)	(11,694)	(66,389)	30	2,206	189	(696)	1,001	(18,043)
(11,890)	178,885	499,277	810	8,274	251	(2,118)	(5,308)	1,388,891
(19,711)	(101,270)	(480,684)	(371)	(129)	(750)	(510)	(194)	(1,053,616)
$ (48,395)	$ 65,921	$ (47,796)	$ 469	$ 10,351	$ (310)	$ (3,324)	$ (4,501)	$ 317,232

Combining Power System Statement of Cash Flows
Year Ended September 30, 1994
(In Thousands of Dollars)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Falcon-Amistad Power System (IBWC)	Fryingpan-Arkansas Power System
Increase (decrease) in cash and cash equivalents:							
Cash flows from operating activities:							
Net revenue (deficit)	$ 6,031	$ 1,949	$ 20,617	$ 526	$ (60,404)	$ (486)	$ 19,556
Adjustments to reconcile net revenue (deficit) to net cash provided by (used in) operating activities:							
Depreciation	8,583	0	8,988	171	20,042	750	1,944
Interest on Federal Investment	3,934	0	8,274	521	77,121	2,322	(12,638)
(Increase) decrease in assets:							
Accounts receivable	2,755	(2,349)	(45.897)	(86)	(298)	0	(109)
Other assets	2,129	(105)	(557)	101	4,875	592	(1)
Increase (decrease) in liabilities:							
Accounts payable	(2,947)	(10)	(46.660)	(41)	2,375	(6)	(103)
Other liabilities	(5,849)	1,753	29,365	18	(2,050)	(296)	(189)
Net cash provided by (used in) operating activities	**14,636**	**1,238**	**(25,870)**	**1,210**	**41,661**	**2,876**	**8,460**
CASH FLOWS FROM INVESTING ACTIVITIES:							
Investment in Utility Plant	(28,090)	0	(26,418)	(101)	(28,135)	0	(3)
Net cash used in investing activities	**(28,090)**	**0**	**(26,418)**	**(101)**	**(28,135)**	**0**	**(3)**
CASH FLOWS FROM FINANCING ACTIVITIES:							
Congressional appropriations	17,310	0	56,294	705	3,376	463	8,510
Funds returned to U.S. Treasury	(5,311)	0	(89,633)	(2,023)	(20)	(3,341)	(14,739)
Customer advances	6,000	0	0	0	0	0	0
Principal Payments to Upraters	(4,777)	0	0	0	0	0	0
Net cash provided by (used in) financing activities	**13,222**	**0**	**(33,339)**	**(1,318)**	**(16,624)**	**(2,878)**	**(6,229)**
Increase (decrease) in cash	**(232)**	**1,238**	**(85,627)**	**(209)**	**(3,098)**	**(2)**	**2,228**
Cash at beginning of year	**30,275**	**1,818**	**225,387**	**553**	**78,411**	**22**	**406**
Cash at end of year	**$ 30,043**	**$ 3,056**	**$ 139,760**	**$ 344**	**$ 75,313**	**$ 20**	**$ 2,634**

See independent auditors' report.

Pacific Northwest-Pacific Southwest Intertie Project	Parker-Davis Power System	Pick-Sloan Missouri Basin Power System	Provo River Power System	Rio Grande Power System	Seedskadee Power System	Washoe Power System	Other	Combined Total
$ (2,924)	$ (1,353)	$ (31,941)	$ 21	$ 814	$ 566	$ (758)	$ (1,233)	$ (50,151)
1,617	4,808	36,750	19	194	536	137	41	84,580
4,822	9,091	79,003	(1)	238	641	474	0	173,802
469	308	(10,330)	0	3	1	(33)	(429)	(55,995)
(6.311)	(962)	(4,984)	0	11	(4)	(22)	(90)	(5,328)
1,146	694	(1,689)	(30)	66	(17)	(2)	1,290	(45,934)
(13)	1,164	(3,061)	302	34	(40)	101	2,265	23,504
(1,194)	**13,750**	**63,748**	**311**	**1,360**	**551**	**(103)**	**1,844**	**124,478**
(30,819)	(11,588)	(84,914)	(27)	(161)	0	0	0	(210,256)
(30,819)	**(11,588)**	**(84,914)**	**(27)**	**(161)**	**0**	**0**	**0**	**(210,256)**
43,764	27,959	198,137	(67)	1,763	1,177	204	37,403	396,998
(5,943)	(31,495)	(194,917)	(271)	(2,919)	0	(69)	(298)	(370,959)
0	0	0	0	0	0	0	0	6,000
0	0	0	0	0	0	0	0	(4,777)
37,821	**(3,536)**	**3,220**	**(338)**	**(1,156)**	**1,177**	**135**	**37,105**	**27,262**
5,808	**(1,374)**	**(17,946)**	**(54)**	**43**	**1,728**	**32**	**38,949**	**(58,516)**
45,420	**20,367**	**80,971**	**131**	**411**	**324**	**200**	**25,139**	**509,835**
$ 51,228	**$ 18,993**	**$ 63,025**	**$ 77**	**$ 454**	**$ 2,052**	**$ 232**	**$ 64,088**	**$ 451,319**

KPMG Peat Marwick LLP

60 East South Temple
Suite 900
Salt Lake City, UT 84111

Independent Auditors' Report on the Internal Control Structure

To the Administrator of
Western Area Power Administration,
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1994, and have issued our report thereon dated December 16, 1994. Our report includes an explanatory paragraph that describes the practice of allocating certain utility plant and operational and maintenance expenses relating to multipurpose projects on a tentative basis between power and nonpower purposes, as described in note 5(b) to the financial statements.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 Revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatements.

In planning and performing our audit of the combined power system financial statements of Western for the year ended September 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements and to determine whether the internal control structure meets the objectives identified in the following paragraph.

Management of Western, a unit of the U.S. Department of Energy (DOE); management of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of Interior; management of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and management of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State, collectively referred to as "Western" management, are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management uses estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including obligations and costs, are in compliance with applicable laws and regulations that could have a direct and material effect on the combined power system financial statements and other laws and regulations that the OMB, Western management, or the DOE has identified as being significant for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are properly recorded and accounted for to permit the preparation of reliable combined power system financial reports in accordance with the accounting principles described in note 1 to the combined power system financial statements and to maintain accountability over the assets; and that data supporting reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenue cycle - power billings/receivables/receipts
- Expenditures cycle - purchases/payables/disbursements
- Payroll cycle
- General ledger and external financial reporting cycle
- Administrative controls over compliance with laws and regulations

For all of the internal control structure categories listed above, we obtained an understanding of the design of the significant internal control structure policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the control procedures.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Western has responsibility for certain administrative and financial reporting activities of the combined power system. The generating agencies have certain administrative responsibilities. Accordingly, comments and recommendations contained in this report will be communicated to the other participants in the combined power system.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports in accordance with applicable accounting standards and to maintain accountability over the assets; and that data supporting reported performance measures are properly recorded and accounted for to permit preparation of reliable performance information.

Those matters that we consider to be reportable conditions are summarized below:

1. Modification of Power Billing Master File Data

Segregation of functional responsibilities is an integral part of an overall system of sound internal control. No one person should have the ability to (i) initiate transactions, modify master files, or application programs, (ii) process the data, or (iii) reconcile or distribute the processing output. Some electronic data processing input controls allow for a verification of data entry by someone independent of the input process. However, system designs should contain controls which restrict the ability to modify data in master file fields to selected persons and require supervisory approval before documented changes take effect.

In the Watertown Operations Office (WOO), persons who process power bills also have access to data on customer contract master files. This negates the segregation of duties standard. The Division of Contracts in Billings performs a review of the first bill processed by the WOO after a known contract change. This review, however, is not an adequate independent verification of data entry because it does not include the entire master file record subjected to change, or potential changes subsequent to processing the first bill after a contract change.

Due to the recent implementation of the new power billing system, procedures and controls are still in the developmental stages. A lack of system restrictions and review procedures may result in unauthorized or erroneous changes to master file data that could lead to inaccurate power bills and a misstatement of power revenues.

Recommendation

Western should establish controls which segregate duties of individuals involved in processing power bills at the WOO. At a minimum, controls should include limiting access to master data files, independent verification of changes by comparing the changes to data in the original customer contract, and supervisory approval of documented changes.

Management's Response

Concur with audit finding. Western will explore developing an edit log and a status report for the master files. The edit log would record all modifications to the master file, along with the login name performing the modifications, and would be periodically reviewed by the billing department work leader. The status report would list all current components in the master files and would be checked quarterly for conformity to the individual contracts by the billing contract department.

2. Timely Calibration of Meters

Western's policy requires the testing and calibration of all meters at least annually. The Loveland Area Office (LAO) had not calibrated meter GDE2701H21 since May 21, 1992. We were told that the overall meter calibration schedule has been delayed because of increased workloads and demands placed on the calibrators which are considered to have greater priority. The lack of annual meter calibrations expose Western to potential incorrect metering of electrical power charged to customers.

Recommendation

Western should enforce the requirement to calibrate all meters at least once a year.

Management's Response

Concur with the audit recommendation. Testing and recalibration of the Glendale Meter (GDE2701H21) took place November 15, 1994. The LAO will review the schedule for meter testing and recalibration to ensure requirements are enforced timely.

3. Approval of Purchase Requisition

Western regulations require that all purchase requisitions for service and supply contracts must contain evidence of approval by the signature or initials of a reviewing supervisor and a funds certification officer. Our tests disclosed that a purchase requisition to Analytical Technologies dated March 17, 1994, did not contain the signature or initials of either a reviewing supervisor or a funds certification officer. As a result, there was no assurance that the purchase or payment was appropriate.

Recommendation

Western should emphasize the importance of assuring that purchase requisitions are properly approved before making payment.

Management's Response

Concur with the audit finding. Western will ensure that existing procedures for the administrative control of funds are reviewed for compliance. Additionally, to enhance controls, Western has prepared and implemented the use of a checklist for fund certification officials.

Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention.

1. Power Billing Contracts

In the fiscal year 1993 report, we reported that the Phoenix Area Office (PAO) frequently had to adjust power billings because (i) power was delivered to customers with expired contracts and subsequent contract renewals provided for different rates or (ii) a renewal contract was not received timely in the billing department. Western agreed to establish procedures that provide adequate lead-time for negotiating contract renewals before existing contracts for selling electrical power expire. Management also agreed to establish procedures to ensure that contractual information is furnished to the billing department timely.

The PAO is working to develop a system for tracking contract expiration dates to provide adequate lead-time for negotiating contracts. The system is not expected to be fully operational until sometime in fiscal year 1995. Meanwhile, the reported problem continues to occur.

Recommendation

Western should monitor the development and implementation of the tracking system to ensure that the corrective plan is carried out timely.

Management's Response

Western has met the requirements of this audit finding. The Power Marketing Contracts Division (Division) in the PAO has developed and implemented two tracking systems covering all power marketing contracts. One system is for tracking the contracts and the second for tracking the status of the contracts. Several reports will be made available from these tracking systems, two of which (Monthly Report by Organization and Monthly Contract Diary Report) are now being distributed by the Division on a regular basis. The tracking of the expiration dates for contracts and exhibits will improve the scheduling of renegotiations or updates of contracts and avoid operating without a current executed contract.

2. Timely Transfer of CWIP to Completed Plant

For the last three years, we reported that Western should, for accounting purposes, promptly transfer assets, including the interest capitalized during construction, from CWIP to completed plant when Western places the assets in service or otherwise substantially completes construction. Western agreed to provide responsible personnel with instructions outlining policy requirements for the timeliness of the transfer of CWIP costs to completed plant. Although Western has made significant progress in this area, our tests showed that CWIP contained costs of $4,305,948 from projects that were placed in service in 1992.

Western's finance department did not receive completion notices for these projects and therefore, did not transfer the costs to completed plant. This condition results in overstating CWIP balances and understating utility plant balances, depreciation expense, and IOI. The delays in transferring costs to completed plant can also affect the power repayment studies and rate-setting processes. This condition also impacts the timely completion of financial statement preparation, as well as audit and related costs.

Recommendation

Western should consider whether additional steps are needed to ensure that the area offices are complying with the mechanisms established for timely transfers of CWIP to completed plant. One such step might include performing periodic analyses to identify potential CWIP projects where assets are in service but the costs were not transferred to completed plant.

Management's Response

Western concurs with the audit finding. In fiscal year 1993, Western implemented the Partial Close Program which promotes the closing, as completed, of individual work orders comprising a construction project, as opposed to the closure of all work orders at the completion of the project. Instructions were provided to all Area Offices on the importance of timely transfers. As follow-up, during fiscal year 1994, a review of procedures was conducted to ensure that the each Area Office had a complete understanding of the issue and process. In fiscal year 1995, Western will conduct periodic analyses to determine compliance and will provide training as required to ensure the timely transfer of CWIP to completed plant.

* * * * * *

Except for the matters noted above, we believe there is reasonable assurance that the control structure meets the internal control objectives.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Western and Reclamation in a separate letter dated December 16, 1994.

This report is intended for the information of the management of Western, Reclamation, the Corps, and the IBWC. The restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 16, 1994

KPMG Peat Marwick LLP

60 East South Temple
Suite 900
Salt Lake City, UT 84111

Independent Auditors' Report on Compliance With Laws and Regulations

To the Administrator of
Western Area Power Administration,
U. S. Department of Energy:

We have audited the combined power system financial statements of the Western Area Power Administration (Western) as of and for the year ended September 30, 1994, and have issued our report thereon dated December 16, 1994. Our report includes an explanatory paragraph that describes the practice of allocating certain utility plant and operational maintenance expenses relating to multipurpose projects on a tentative basis between power and nonpower purposes, as discussed in note 5(b) to financial statements.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 Revision), issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance that the combined power system financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the individual combined power system financial statements is the responsibility of Western, a unit of the U.S. Department of Energy (DOE); of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of Interior; of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State, collectively referred to as "Western" management. As part of obtaining reasonable assurance about whether the combined power system financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the combined power system financial statements and certain other laws and regulations designated by OMB and DOE, including:

- Boulder Canyon Project Act of 1928, as amended
- Act of August 26, 1937, as amended (Central Valley Power System)
- Act of July 3, 1952 (Collbran Power System)
- Colorado River Storage Project Act of 1956, as amended
- Act of August 16, 1962, as amended (Fryingpan-Arkansas Power System)
- Act of August 31, 1964 (Pacific Northwest-Pacific Southwest Intertie Project)
- Act of May 28, 1954 (Parker-Davis Power System)
- Flood Control Act of 1944, as amended - Authorized the construction of certain public works on rivers and harbors for flood control, and for other purposes (Pick-Sloan Missouri Basin Power System)
- Reclamation Project Act of 1939
- Finding of Feasibility by the Secretary of the Interior, November 13, 1935 (Provo River Power System)
- Act of February 25, 1905 (Rio Grande Power System)
- DOE Order RA 6120.2, Power Marketing Administration Financial Reporting

- 10 CFR 903 - Power and Transmission Rates
- 10 CFR 904 - General Regulations for the Charges for the Sale of Power From the Boulder Canyon Project
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Chief Financial Officers (CFO) Act of 1990

As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared Western's most recent FMFIA report with the evaluation we conducted of the combined power system's internal control system. We also reviewed Western's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the overview and performance measurement section of this report. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws or regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the combined power system financial statements or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance disclosed the following instances of noncompliance:

1. Recovery of Interest on Federal Investment

Federal statute requires that Western recover power project costs from rate-paying customers, including interest on unpaid Federal investment during and after construction of power projects. During fiscal year 1994, Western removed from construction work in process (CWIP), and Western's financial records, $1.8 million of interest during construction (IDC). The interest was accumulated on costs incurred as a participant in the California-Oregon Transmission Project with the Transmission Agency of Northern California (TANC). The action was taken at the time the CWIP project was closed. Western traded its project costs, consisting of approximately $21.8 million of land acquisition, engineering, and IDC, to TANC for power rights based on a negotiated agreement with TANC. In determining the value of Western's share in the project, negotiators only allowed accrual of interest for about one year rather than the entire time the costs were accumulating in CWIP. Western officials directed the finance department to write off the difference in interest from the financial records because they considered the negotiated agreement as valid support for the actual costs paid for the power rights. Although Western incurred costs of approximately $21.8 million, as indicated above, only $20 million of these costs were capitalized in the financial records as power rights. Because Western did not capitalize the interest costs of $1.8 million as power rights, it will not include the costs in its power rate study and therefore will not recover the costs from rate payers.

Recommendation

Western should record the $1.8 million of IDC as an asset (i.e. power rights) in its financial records and include the costs in the power repayment studies for recovery from rate paying customers. If Western determines that the asset cannot be recovered from the rate payers, Western should determine whether Congressional approval is needed to consider the costs as nonrecoverable.

Management's Response

We concur with the recommendation. Western will verify and book the appropriate amount of IDC and adjust the investment costs in the next power repayment study and the financial statements. This action will be completed by May 31, 1995.

2. Recovery of Power Costs

Federal statute and DOE Order RA 6120.2 require Western to establish rates and generate annual power revenues at levels adequate to recover annual operating costs and interest on Federal investment (IOI). Revenues should also provide for an incremental repayment of the Federal investment, with full recovery of the investment over a period of not less than 50 years.

To accomplish this objective Western prepares studies, commonly referred to as "power repayment studies" (repayment studies, or study). The purpose of the studies are to calculate power rates based on available financial data, including annual operating costs and the unpaid Federal investment in plant facilities. These studies fall under the responsibility of Western's Power Marketing Division and accordingly are prepared by individuals within that division. However, the financial data included in the studies is also reported separately in annual reports prepared by Western's Finance Division. In order for Western to meet its responsibility to recover the costs of operating the power projects, accurate financial data must be used in the repayment studies, and the data in the repayment studies should reconcile to data reported in Western's annual audited financial statements.

Western's 1993 Colorado River Storage Project (CRSP) repayment study contained an amount for IOI which was about $10.7 million less than the amount reported in the crosswalk schedule (an extension of the financial statements). In addition, the plant balance in the CRSP repayment study was $61 million higher than the amount reported in the crosswalk. The crosswalk is a process used by Western to cross-walk amounts appearing in the audited financial statements to amounts that should be recorded in the repayment study. Salt Lake Area Office (SLAO) officials could not explain why the IOI and the plant balances used in the repayment study were different from the amounts in the crosswalk schedule except to conclude that the preparer probably did not use the crosswalk.

Western Compliance Branch and Accounting Operations Branch personnel expend significant time and effort in the preparation of the crosswalks. However, differences between the financial statements and the repayment study for CRSP went undetected because there was no follow-up to ensure that crosswalk amounts were used in the repayment study. As a result, Western set rates for CRSP at a level that may not provide sufficient revenue to recover all power related costs.

Recommendation

Western should extend the purpose and mechanics of the crosswalk schedules to include the numbers ultimately used in the repayment studies. Any differences between the financial statements and the repayment studies should be followed up and resolved in a timely manner.

Management's Response

We concur with the audit finding. Western agrees that the results of the crosswalk should be included in the repayment studies and that crosswalks should be completed in a timely manner.

The fiscal year 1992 crosswalk for the CRSP was signed but the fiscal year 1993 crosswalk has yet to be resolved. In fiscal year 1993, there was a disagreement in the revenue and expense data in the crosswalk. The $10.7 million difference in interest expense in fiscal year 1993, resulted from an adjustment of interest during construction (IDC) to IOI that was made in the financial statements, but not in the repayment study. This adjustment was made in the fiscal year 1994 repayment study. There was no difference in the crosswalk for investments in fiscal year 1993; however, a reconstruction of the investments is required to assure that they are included in the proper interest category.

Management's Response (continued)

During fiscal year 1995, all disagreements between the financial statements and the repayment study for fiscal year 1993, will be resolved in terms of revenue and expense data. A crosswalk will be completed for fiscal year 1994, the results of which will be included in the December 1995 repayment study. Also, a reconstruction of CRSP investment for fiscal year 1993 and fiscal year 1994 will be completed in fiscal year 1995.

Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention:

1. Recovery of Power Project Costs

In the fiscal year 1993 audit report, we reported that Western was not fully recovering in rates charged to utility customers all costs related to (1) certain post-employment benefit costs funded by the Office of Personnel Management (OPM), and (2) retirement, health, and insurance costs paid by Western, Reclamation, Corps, and IBWC for active and retired employees of these agencies associated with power related activities. Western began including an estimate for the portion of OPM funded retirement benefit for its active Civil Service Retirement System employees in 1991; however, Western did not include an estimate for the OPM funded benefits for the employees of Reclamation, Corps, and IBWC associated with power related activities. Also, Western has never included the portion of the OPM funded health care and insurance premiums for active and retired employees of Western, Reclamation, Corps, and IBWC associated with power related activities. Western agreed to have its General Counsel review the Federal statute describing Western's responsibility for recovery of operating costs to determine if Western should recover unfunded benefit costs or whether an overlap exists in conflict with the mission of OPM.

Western's General Counsel concluded that the law does not provide that Western must fund the OPM funded retirement costs or health and life insurance premiums for active and retired Reclamation, Corps, or IBWC employees involved in power generation. This conclusion was based on the General Counsel's opinion that the statutes which require Western to recover all power costs is limited to the recovery of costs provided by law. The opinion was supported, in part, on the statutes requiring the employing agency to contribute monies from the appropriation or fund used to pay the employee. Since Reclamation, Corps, and IBWC employees are not Western employees, it was the General Counsel's opinion that Western has no legal authority to fund their retirement, health, or insurance costs. The opinion was further supported by Congressional actions that authorize appropriations to OPM for the unfunded liability (amounts not covered by contributions) in the Civil Service Retirement and Disability Fund, and the statute which prohibits an agency from augmenting its appropriations from outside sources. Thus, Western would violate this statute if it used power revenues to augment the unfunded liability.

Western's General Counsel pointed out that Congress can direct an agency to pay for a share of unfunded liabilities in the retirement system, or the retirement, health, and insurance costs from revenues because Congress has directed the Postal Service to do so.

1. Recovery of Power Project Costs (continued)

The General Counsel's opinion indicates that the statutes require Western to recover all power costs limited to the recovery of costs provided by law. However, this position may be in conflict with other statutes used to support the General Counsel's opinion. A private entity's costs of employee and post-employment benefits is a part of the usual cost of doing business. Further, Congress has recognized this fact by directing the Postal Service to pay such costs from revenues. Instead of requiring the private taxpayer to pay for cost that is generally paid from operating revenues, Congress could take action to resolve the conflict between statutes by requiring Western to pay for pre and post-employment benefits of present and former government employees associated with power related activities from utility customer revenues.

Recommendation

Western should work with the other power marketing agencies, OPM, Reclamation, Corps, and IBWC to obtain the costs of pre and post-employment benefits of present and former government employees associated with power related activities that is not presently recovered in customer utility rates. Western should raise this issue to the Deputy Secretary setting forth the estimated amount of these annual costs and the potential for subsequent legislation to require the power marketing agencies to recover such costs from rate payers.

Management's Response

Western's management does not concur with the Audit Recommendation. The statutes that requires Western to recover all power costs is limited to the recovery of costs provided by law. Western, as a Federal agency, is bound by Federal law. Federal law directs how employee and post-employment benefits are to be funded. Western complies with Federal law on the subject, with no authority to include Reclamation, Corps, and IBWC employee and post-employment benefits in our rates.

A private entity's costs of employee and post-employment benefits are a part of the usual cost of doing business. The auditors use this statement as authority for the proposition that Congress, therefore, should require Western "to pay for pre- and post-employment benefits of present and former government employees associated with power-related activities from utility customer revenues." However, a private entity would own the generation and would employ those people associated with the generation assets.

Western does not own the generating assets, nor are Reclamation, the Corps, or IBWC employees Western employees.

2. Recovery of Abandoned Project Costs

In the fiscal year 1993 report, we reported that Western should review $14.9 million of costs incurred on an abandoned transmission line to determine whether the costs can be recovered through the sale of power to customers and, if not, to take action to write off the costs as nonrecoverable. Western agreed to review the costs and take appropriate action, including obtaining a General Counsel opinion on whether Western has authority to write off the costs as nonrecoverable or whether Western would need to seek Congressional action.

Western has accumulated substantial data but has not made a determination on how the costs should be treated. Also, Western's General Counsel has not issued its opinion at this time.

Recommendation

Western should continue to monitor the issue and seek a satisfactory solution as soon as possible.

2. Recovery of Abandoned Project Costs (continued)

Management's Response

The Phoenix Area Office is currently researching the handling of similar situations that have occurred in the past that may be precedent setting for this issue. Based on the outcome of this research and the legal opinion provided, Western will determine the final disposition of these costs in fiscal year 1995.

3. Loss on Washoe Project's Stampede Dam Power Operations

In the fiscal year 1993 report, we reported that Western should evaluate the economic feasibility of continuing to operate the power generating facilities at the Stampede Dam (Washoe Power Project) or possibly integrating the Washoe Power Project with the Central Valley Power System as an integrated project for rate-making purposes. Western has taken several actions to improve revenues and reduce expenses for the Washoe Power Project, including obtaining authority to wheel power to customers over transmission lines owned by a private utility. If the project's revenues are still not sufficient to cover costs plus principal and interest, Western plans to explore the feasibility of integrating the Washoe Power Project with the Central Valley Power Project for rate-making purposes.

Recommendation

Western should continue to monitor the economic feasibility of operating the Washoe Power Project.

Management's Comment

Western, in concert with Reclamation, will continue to pursue options to improve the financial status of the power operation of the Washoe Project. These options include seeking transmission access to deliver the power from the project and exploring the feasibility of integrating the Washoe Power Project with CVP for rate-making purposes.

4. Interest on Investment in Moveable Equipment

In the fiscal year 1993 report, we reported Western was not recovering about $3 million annually in interest on the undepreciated moveable equipment because of inconsistent treatment by area offices. Western developed a common approach for all projects to recover the cost of principal and interest and certain area offices implemented the procedures for fiscal year 1994. Western did not, however, apply the procedures retroactively to the time such equipment was acquired. While some projects started many years ago, Western's power marketing department did not consider it unreasonable to retroactively apply the procedures for five fiscal years.

Recommendation

Western should apply the standardized procedures for accruing interest on unpaid investment in moveable equipment to prior years.

Management's Response

Western agrees that interest should be included and has developed a policy to that effect, which is in the final approval stages. This policy will be implemented within the next 90 days and reflected in future power repayment studies.

Western Area Power Administration,
U.S. Department of Energy

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We considered these instances of noncompliance in forming our opinion on whether Western's combined power system financial statements for the year ended September 30, 1994, are presented fairly, in all material respects, in conformity with applicable accounting policies in effect for Western during the preparation of Western's combined power system financial statements, and this report does not affect our report on those financial statements dated December 16, 1994.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Western complied in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention to cause us to believe Western had not complied, in all material respects, with those provisions.

Western has received a waiver from OMB with respect to the provisions of OMB Bulletin 94-01 that addresses form and content of financial statements for Federal agencies. As established in note 1, Western follows regulatory accounting for the utility industry.

This report is intended for the information of the management of Western, Reclamation, Corps, and IBWC. This restriction in not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 16, 1994

KPMG Peat Marwick LLP

60 East South Temple
Suite 900
Salt Lake City, UT 84111

To the Administrator of
Western Area Power Administration,
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1994, and have issued our report thereon dated December 16, 1994. In planning and performing our audit of the combined power system financial statements of Western, we considered the internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies.

Western Area Power Administration (Western)
U. S. Department of Energy

1. Dual Processing of Financial Data

The Joint Financial Management Improvement Program Core Financial System Requirements cite that a desired characteristic of Federal agency financial systems is that the systems allow for dual processing--the ability to enter financial data into the current period or into a prior period at any time. Western enters all post-closing transactions and prior year audit adjustments into current-year activity because the financial management system does not allow dual processing. This lack of dual processing capability requires Western and audit personnel to spend significant time and effort, potentially 1,000 hours, to identify and account for such transactions when preparing and auditing the financial statements.

Recommendation

Western should consider the feasibility of modifying its financial management system to allow for dual processing. Such modifications will expedite Western's preparation of its annual financial statements.

Management's Response

Concur with the audit recommendation. Western's current system is in accordance with all Joint Financial Management Improvement Program (JFMIP) requirements except for "single-system" automated dual year processing. Western's substitute for dual year processing consists of: (1) an Annual Report Generator that allows all post-closing adjustments to be incorporated into the audited financial statements and (2) an efficient year-end close/open process (within 10 days).

The Annual Report Generator incorporates post-closing adjustments and was developed to facilitate reporting of post-closing audit adjustments associated with Western's, as well as the adjustments associated with the three generating agencies' records. Since Western is not responsible for entering adjustments to the generating agencies' records, Western must have the capability of reporting the adjusted amounts regardless of the period actually posted to the applicable agencies' automated accounting system.

Western's current method incorporates all post-closing adjustments regardless of the year entered into Western's, or a generating agency's, accounting system. Our experience indicates that our current system effectively reports post-closing adjustments. However, because the adjustments are not posted to the automated accounting system until the following year, additional audit time is required. It appears dual-year processing could simplify both the preparation process and the auditing process. In fiscal year 1995, Western will conduct a study to identify the costs and benefits associated with automated system dual-year processing.

2. Timely Processing of Completion Notice

GAAP requires that costs that cannot be capitalized as an asset be expensed in the period incurred. Western's Sacramento office included about $800,000 of costs in construction work in progress (CWIP) relating to a study to determine whether certain power transmission lines could handle additional voltage. The project manager processed a partial completion notice when the study results proved negative. Western's finance division did not complete the processing action by transferring the costs from CWIP to current operating expense before year-end. As a result, Western overstated CWIP and understated expenses by $800,000 in the fiscal year 1994 financial statements.

Recommendations

Western should ensure that the finance department processes project completion notices timely to prevent reporting incorrect financial data.

Management's Response

Western concurs with this audit finding. The Sacramento Area Office was not aware of this project cancellation until November 1994, after the fiscal year 1994 general ledger closing process. Western has procedures in place when a project is considered canceled. The Sacramento Area Office is aware of these procedures and are in the process of transferring these costs out of CWIP.

3. Interest on Federal Investment

Department of Energy (DOE) Order RA 6120.2 requires recovery of interest expense on the net outstanding Federal investment in power projects through power revenues. The criteria for determining the interest rate applicable to each project as it pertains to additions to utility plant is prescribed in each projects, enacting legislation, DOE Order RA 6120.2, Department of Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and a September 1, 1983 tri-agency agreement between the DOE Power Marketing agency's, U.S. Army Corps of Engineers (Corps), and U.S. Bureau of Reclamation (BOR). The calculation of interest expense between the various power projects and agencies should be consistently applied. Consistency of application requires that a position be taken, and a consensus be reached, among management responsible for transmission and generation, as to the proper interest rate to be applied to the outstanding Federal investment. Management should document the position taken, in consideration of and in reference to, the appropriate laws, regulations, guidelines, and agreements indicated above which have been established for purposes of operating the various power projects.

Each of the agencies noted above calculate interest on investment in plant facilities related to their participation in the projects. We noted inconsistent application of interest rates to the outstanding Federal investment, in particular as it pertains to calculating interest for replacements and additions to plant on the Pick-Sloan and Colorado River Storage Project (CRSP) power projects. The guidelines for determining interest expense, which are prescribed in the enacting legislation, appear to be very similar in nature. However, management of the two projects clearly interpret the guidelines differently. The generating agency for the CRSP project calculates interest expense on replacements and additions using the rate determined by the Secretary of the Treasury at the time the construction funds were appropriated for the project. The transmission agency calculates interest using a current rate. Both the transmission and generating agencies for the Pick-Sloan project calculate interest expense on replacements and additions using a current rate as determined by the Treasury. The inconsistency in application is a result of unclear guidelines which have contributed to management interpreting these guidelines on a project-by-project basis without a centralized person or department taking responsibility to assure that the interpretation was consistent for the power system as a whole. The inconsistency in interpretation may have resulted in an under or over recovery of interest expense through power revenues. We are uncertain of the amount of interest on Federal investment which may have or may have not been collected in excess of the proper amount.

Recommendations

We recommend headquarters management thoroughly research the following documents for each power project: the original enacting legislation, DOE Order RA 6120.2, Department of Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and the September 1, 1983 tri-agency agreement between the DOE Power Marketing agency's, U.S. Army Corps of Engineers (Corps), and U.S. Bureau of Reclamation (BOR).

Upon review of these documents management should establish and document their position as it relates to their interpretation of the above mentioned documents on a project-by-project basis. Once this position is determined it should be conveyed to the generating agencies (i.e. the Corps and the BOR). Both the transmission and generating agencies should come to an agreement with the interpretation. Once this process is complete interest expense as historically recorded should be evaluated and adjusted in order to comply with applicable laws and regulations.

Management's Response

Western concurs that a review should be conducted of the interpretation of the original enacting legislation, Orders and Circular by the generating agencies, to identify inconsistencies in the calculation of interest on federal investment. Western will review the application of interest rate policies and collaborate with the generating agencies to resolve differences in calculating interest expense by all agencies and develop a common way to calculate interest and an approach to application. Western believes that its calculations of interest on federal investment are in compliance with applicable laws and regulations.

Bureau of Reclamation (Reclamation)
U. S. Department of Interior

1. Allocation of Costs to Stampede Power Project

Federal regulations require that costs be allocated to cost centers on the basis of benefits derived. During fiscal year 1994, Reclamation included approximately $43,000 of Folsom office overhead costs in operations and maintenance (O&M) expenses for the Stampede Power Plant (Stampede) that Reclamation should have allocated to other cost centers. Reclamation used an overhead allocation base that did not accurately reflect the relationship of Folsom office overhead costs to Stampede operation. This resulted in an overstated allocation of expenses to the power portion of the Stampede project. As a result, Western's fiscal year 1994 financial statements overstated O&M expenses by approximately $43,000.

Recommendation

Reclamation should verify the accuracy of data used in overhead allocation rates to ensure that costs are charged on the basis of benefits derived or administrative support received by each activity.

Management's Response

Concur. Reclamation is following federal regulations and currently has a bureau-wide policy to charge overhead based on "Direct Labor Charges." The overhead costs being charged to the Stampede Power Project are distributed based on direct labor costs and we see no reason for changing our method of allocating overhead costs. However, to accommodate the special need to more equitably allocate the Washoe Project operation and maintenance overhead cost, separate direct labor surcharge rates will be used for the Stampede Power Plant and the Environmental Impact Statement (EIS) studies to ensure that the overhead costs are allocated appropriately. For example, a surcharge rate of 25 percent may be added to the direct labor charges for the Stampede Power Plant, while a 35 percent surcharge rate would be assessed to the direct labor charges for the EIS studies. These rates would be based on a determination of the level of administrative support received by each activity.

2. Accounting for Depreciation

Reclamation's Chief Financial Officer's reporting guidelines suggest that depreciation should be accounted for using the straight-line method.

In fiscal year 1994, Reclamation instructed its regional offices to convert to the straight-line method of depreciation. Several regions did not make the change before the end of the fiscal year. In addition, those regional offices that made the change before year-end, used inconsistent methods. Reclamation's instructions to change to the straight-line depreciation method lacked sufficient details for consistent implementation. As a result, Reclamation personnel and audit personnel spent significant time and effort analyzing and correcting data resulting from Reclamation's conversion to the straight-line method of depreciation for fiscal year 1994.

Recommendations

Reclamation's Denver Office should strive to provide sufficient detail in its instructions to effect proper implementation when making an agency wide change in accounting procedures and ensure that such changes are made within established time schedules.

Management's Response

Concur. Reclamation will revise and reissue Finance and Accounting Service Directive No. CST-21-24, "Change from Compound Interest Depreciation Method to Straight-Line Depreciation Method" to include additional detail in its instructions to effect proper implementation. Reclamation (Denver Office) will also monitor the accounting changes to be certain that changes are made within established time schedules.

3. Consistency in Recording and Reporting of Transactions

GAAP suggests that entities whose financial data are combined for financial reporting purposes account for and report similar transactions consistently.

Reclamation does not account for interest on Federal investment (IOI), revenue transfers from Western, or fund balance reserved for accrued annual leave (account 3501) in the same way that Western does. On an incremental basis since fiscal year 1992, the Department of the Interior's Office of Inspector General has recommended that Reclamation modify its accounting for these items. These differences in accounting practices between Reclamation and Western have resulted in misstated combined power system financial statements for fiscal years 1992, 1993, and 1994, and in audit adjustments to reclassify certain items.

Recommendation

Western and Reclamation should attempt to establish a working relationship to provide for consistent recording and reporting of transactions where there are procedural differences in accounting for IOI, revenue transfers, and fund balance for accrued annual leave. Consistent application would ensure that the combined power system financial statements are properly stated without the need for audit adjustments.

Management's Response

Concur. Reclamation will consult on an informal basis with Western's management regarding future accounting changes that affect its power projects.

4. Recording of Audit Adjustments

Organizations usually record in their general ledger audit adjustments required for the proper presentation of data in its financial statements. Reclamation did not record, in its general ledger, the Federal Financial System (FFS), adjustments identified as a result of the audit of Western's fiscal year 1992 combined financial statements. The audit adjustments related to correcting Reclamation's IOI for power projects. When adjustments are not recorded in Reclamation's FFS, Western must consider the adjustment during each succeeding fiscal year's audit of its combined power financial statements. This results in audit hours that could be eliminated.

Recommendations

Reclamation should consider recording in the FFS adjustments resulting from the audit of Western's combined power system financial statements. Time and effort required to verify whether reclamation has recorded the adjustments would be eliminated.

Management's Response

Concur. Reclamation already has procedures for recording adjustments of this nature. All adjustments with which we agree will be recorded in Reclamation's books in a timely fashion.

5. Consistency in Updating Allocation Rates

Reclamation's allocation of CWIP balances to power should be based upon the most current information available and should be consistent with data used to allocate completed plant balances. Reclamation (Sacramento office) uses CWIP allocation rates developed in 1989 although CWIP balances change every year. At present, Reclamation' (Sacramento office) has not assigned anyone the responsibility for preparing a tracking report for CWIP costs for use in developing updated allocation rates. Thus, Reclamation's (Sacramento office) use of outdated rates could result in misstated allocations of CWIP to power activities that are not consistent with rates used for allocating plant in service costs.

Recommendations

Reclamation should establish procedures requiring the annual updating of CWIP allocation rates to ensure the proper allocation of CWIP amounts to power activities.

Management's Response

Complied. Reclamation's Sacramento office has established a new procedure which requires delivery of the annual allocation of CWIP amounts for the prior year to Western by March 31 of the current year (March 31, 19XX). The new procedure includes allocation of CWIP balances to power based upon the most current information available and consistent with data allocated to completed plant balances.

6. **Timeliness of Reporting Power Allocations**

Reclamation prepares an annual report showing the status of construction costs and repayments for each project. Information in this report titled, "Statements of Project Construction Costs and Repayment," (SPCCR) is used to allocate Reclamation plant balances to power activities. Reclamation uses the prior year's report to make current fiscal year allocations because the current year's report is usually not completed before Western prepares the combined power system financial statements. Reclamation's Sacramento office had not completed the fiscal year 1993 SPCCR for the Central Valley Project at the time Western prepared its fiscal year 1994 combined power system financial statements. Western incurred delays in completing the combined power system financial statements because Reclamation had to prepare special reports on plant balances for Western to use in developing allocation rates. This delay resulted in additional time and effort and potentially incorrect allocations.

Recommendations

Reclamation's Sacramento office should make every effort to complete and provide future SPCCRs for power projects to Western before Western prepares the following year's combined power system financial statements.

Management's Response

Complied. Reclamation's Sacramento office has established a new procedure which requires delivery of the SPCCRs for the prior year to Western by June 30 of the current year (June 30, 19XX).

Status of Prior Years Findings

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention:

1. **Power Billing Data Input Twice**

In prior years' management letters, we reported that Western's power billing systems at each area office do not interface with the financial management system, resulting in an inefficient use of personnel. This lack of interface requires that each power bill be entered twice by data entry personnel -- once to produce the power bill and again to record the receivable in the financial system. Western has completed the functional requirement's documentation for interfacing the two systems and programming is in process. Western has classified the power billing system interface as a high-priority work effort that is scheduled for implementation in March 1995.

Recommendation

Western's management should continue monitoring the progress of the power billing system interface effort to ensure that the task is completed as scheduled.

Management's Response

Western concurs with the audit recommendation. Western will continue monitoring the progress of the power billing system interface effort so that its scheduled implementation of March 1995 is met.

2. Salvage Value of Moveable Equipment

In the fiscal year 1993 management letter, we reported that Western should revise its procedures for valuing assets to reflect more realistically the value received at the time of disposal. Western had received less than 1 percent of the salvage value shown on Western's books for tangible assets sold in fiscal year 1993. We estimated that incorrect salvage values resulted in Western overstating assets about $8 million and understating depreciation expense about $750,000 to $1.5 million annually. Western agreed to revise the procedures for estimating the salvage value of assets to reflect the fair value at the time of disposal. During fiscal year 1994 headquarters finance department distributed a memorandum to the area office finance managers soliciting their input on this issue. The responses from the areas are being reviewed by headquarters finance personnel to determine the implementation procedures. The project is scheduled for completion during fiscal year 1995.

Recommendation

Western should monitor the progress toward completing the reassessment of salvage values on moveable equipment as scheduled.

Management's Response

Western concurs that revision of procedures for determining salvage value of moveable equipment is necessary to more accurately reflect the value received at the time of disposal. We are determining the implementation process with project completion scheduled in fiscal year 1995.

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Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

This report is intended for the information and use of the management of Western, Reclamation, and other interested parties.

KPMG Peat Marwick LLP

December 16, 1994