Memorandum from the Office of the Inspector General

August 31, 2009

Kimberly S. Greene, WT 7B-K

REQUEST FOR FINAL ACTION – AUDIT 2008-12036 – DISTRIBUTOR REVIEW OF CITY OF OXFORD ELECTRIC DEPARTMENT

Attached is the subject final report for your review and action. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report. Please notify us when final action is complete.

Information contained in this report may be subject to public disclosure. Please advise us of any sensitive information in this report that you recommend be withheld.

If you have any questions, please contact Richard C. Underwood, Project Manager, at 423-785-4824 or Jill M. Matthews, Deputy Assistant Inspector General, Audits and Support, at (865) 633-7430. We appreciate the courtesy and cooperation received from your staff during the audit.

Robert E. Martin

Robert E. Martin
Assistant Inspector General
(Audits and Inspections)
ET 3C-K

RCU:JP
Attachment
cc (Attachment):
- Peyton T. Hairston Jr., WT 7B-K
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- OIG File No. 2008-12036

Office of the Inspector General

Audit Report

To the Chief Financial Officer
and Executive Vice President,
Financial Services

DISTRIBUTOR REVIEW OF CITY OF OXFORD ELECTRIC DEPARTMENT

Project Manager
Rick C. Underwood

Audit 2008-12036
August 31, 2009

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TVA Office of the Inspector General

Why the OIG Did This Review

As part of the annual audit plan, the OIG performed a review of the City of Oxford Electric Department (Oxford) which is a distributor for TVA power based in Oxford, Mississippi. Annual revenues were approximately $19.3 million in fiscal year 2008. TVA relies on distributors to self report customer usage and subsequently the amount owed to TVA (Schedule 1). Customers are generally classified as residential, commercial, and manufacturing. Within these classifications are various rate classes based on the customer type and usage.

The objective of the review was to determine compliance with key provisions of the power contract between TVA and Oxford including (1) proper reporting of electricity sales by customer class to facilitate proper revenue recognition and billing by TVA; (2) nondiscrimination in providing electricity to members of the same rate class; and (3) use of revenues, including any surplus, for approved purposes such as operating expenses, debt service, tax equivalent payments, and reasonable reserves for renewals, replacements, and contingencies.

What the OIG Recommends

We recommend the Chief Financial Officer (CFO) take action to ensure Oxford (1) remediates classification and metering issues and institutes controls to prevent the issues from reoccurring; and (2) complies with contract provisions related to co-mingling of funds, customer bill adjustments, accounting practices, and customer contracts. In addition, the CFO should (1) perform joint costs studies every three to four years for all distributors with joint operations, and (2) provide guidance on when a demand meter is required.

In separate reports issued on other distributors in May 2009, TVA responded to and provided an action plan for findings related to (1) contracts for customers whose demand exceeds 50 kW, (2) guidance for distributors on what constitutes prudent expenditures, and (3) defining how often meters should be tested by the distributors. Those responses were incorporated into this report where applicable.

TVA and Oxford management generally agreed with and are taking actions to address the recommendations with the exception of the issue related to co-mingling of funds. See Appendices for complete responses.

For more information, contact Richard Underwood, Project Manager, at (423) 785-4824 or Jill Matthews, Deputy Assistant Inspector General, Audits and Support, at (865) 633-7430.

August 2009

Audit 2008-12036
City of Oxford Electric Department

What the OIG Found

Our review of Oxford found improvements were needed in the areas of:

- Customer Classification and Metering—We identified four customers not classified correctly and metering issues that could impact (1) the proper reporting of electric sales and (2) nondiscrimination in providing electricity to members of the same rate class. We were unable to estimate the monetary effect of all the classification and metering issues because in some instances information was not available; however, for those where information was available, the monetary effect on Oxford and TVA would not be material.
- Contract Compliance —We identified four areas where Oxford was not meeting power contract requirements with TVA. Specifically, we found (1) co-mingling of electric department funds with those of other City departments, (2) adjustments to customer bills were not made as required, (3) Oxford's accounting practices were not in accordance with Federal Energy Regulatory Commission guidelines, and (4) customer contracts were not in place or proper documentation was not kept for one customer to verify compliance with the small manufacturing credit.

In addition, we found Oxford had more than enough cash on hand to cover planned capital projects and provide a cash reserve. The cash reserve after planned capital projects was about 6.6 percent which was within the guidelines (cash ratio of 5 to 8 percent) TVA established to determine if a distributor has adequate cash reserves.

- As of June 30, 2008, Oxford reported about $2.16 million in cash and prepayments and planned capital expenditures of about $1.11 million which left a cash reserve of about $1 million.

Also, we identified certain opportunities to enhance TVA oversight of the distributors. Specifically, we noted TVA (1) has not performed a joint cost study in over 20 years when the TVA Accountant's Manual calls for one to be performed every three to four years or when major changes occur that affect joint operations and (2) has not defined at what point a demand meter is required for a general power service (GSA) Part 2[i] customer. TVA is in the process of addressing findings from previous reviews that we also found at Oxford related to (1) a lack of guidance for distributors on what constitutes prudent expenditures and (2) how often meters should be tested by the distributors.

[i] The GSA rate schedule applies to the firm power requirements (where a customer's contract demand is 5,000 kW or less) for electric service to commercial, industrial, and governmental customers and to institutional customers including, without limitation, churches, clubs, fraternities, orphanages, nursing homes, rooming or boarding houses, and like customers. There are three parts to this rate schedule, and Part 2 customers meet the following requirements: (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh. .

BACKGROUND

The City of Oxford Electric Department (Oxford) is a distributor for Tennessee Valley Authority (TVA) power based in Oxford, Mississippi, with revenues from electric sales of approximately $19.3 million in fiscal year (FY) 2008. TVA relies on distributors to report customer usage and subsequently the amount owed to TVA (Schedule 1). Customers are generally classified as residential, commercial, manufacturing, and lighting. Within these classifications are various rate classes based on the customer type and usage. Table 1 shows the customer mix for Oxford as of June 2008.

Oxford's Customer Mix as of June 2008

Customer Classification	Number of Customers	Revenue	Kilowatt Hours Sold
Residential	6,203	$6,789,864	80,930,550
General Power – 50 kW & under (Commercial)	1,948	3,539,639	36,432,577
General Power – Over 50 kW (Commercial or Manufacturing)	199	8,378,343	111,946,888
Street and Athletic	19	408,155	3,162,282
Outdoor Lighting[1]	5	176,795	1,588,747
Total	**8,374**	**$19,292,796**	**234,061,044**

Table 1

The distributors are required to establish control processes over customer setup, rate application, and measurement of usage to ensure accurate and complete reporting to TVA. Oxford, like many other distributors, outsources its billing and invoice processing to a third-party processor, Central Service Association (CSA). Oxford uses CSA systems to establish and set up new customers, input customer meter information, perform the monthly billing process, and execute customer account maintenance. Additionally, CSA provides Oxford with management reporting (e.g., exception reports). All other accounting and finance responsibilities are done by Oxford which has a Board of Alderpersons and Mayor providing oversight and a manager and accountant managing the daily activities. Oxford does not have any nonelectric business interests. However, Oxford does provide billing and collection services for other City of Oxford utilities.

[1] This customer count represents those customers who only have Outdoor Lighting accounts with the City of Oxford Electric Department. Another 374 customers at June 30, 2008, had outdoor lighting accounts with the City of Oxford Electric Department as well as accounts for other services. The kilowatt hours sold include all kilowatt hours for all accounts.

OBJECTIVE, SCOPE, AND METHODOLOGY

This audit was initiated as a part of our annual workplan. The objective was to determine compliance with key provisions of the power contract between TVA and Oxford including:

- Proper reporting of electricity sales by customer class to facilitate proper revenue recognition and billing by TVA.
- Nondiscrimination in providing electricity to members of the same rate class.
- Use of revenues, including any surplus, for approved purposes such as:
  - Operating expenses;
  - Debt service;
  - Tax equivalent payments; and
  - Reasonable reserves for renewals, replacements, and contingencies.

To achieve our objective, we:

- Obtained Oxford electronic billing information from CSA for the audit period. The information was not complete because CSA does not maintain historical information for inactive customers. We used the information available to generate reports of exceptions related to classification and metering and conducted further review of documentation or discussed with management.
- Documented and tested the procedures and controls in place to ensure complete and accurate invoicing of payments to TVA.
- Determined through inquiry and review of documentation whether Oxford had any nonelectric, system-related business interests supported by electric system funds.
- Reviewed disbursements to determine if electric system funds were used for any items not allowed under the TVA power contract.
- Reviewed cash and cash equivalents in relation to planned capital expenditures and other business uses of cash.
- Used nonstatistical sampling methods as needed to perform the tests above.

The scope of the review was for the period July 2006 through June 2008. Fieldwork was conducted in March and April 2009. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In performing this audit, nothing came to our attention that indicated noncompliance with applicable laws and regulations.

FINDINGS

Our review of Oxford found issues involving customer classification and metering that could impact (1) the proper reporting of electric sales and (2) nondiscrimination in providing electricity to members of the same rate class. In addition, we found Oxford had more than enough cash on hand to cover planned capital projects and provide a cash reserve. The cash reserve after planned capital projects was about 6.6 percent which was within the guidelines (cash ratio of 5 percent to 8 percent) TVA established to determine if a distributor has adequate cash reserves.

We also found improvements were needed to comply with contract provisions in the areas of (1) co-mingling of funds, (2) customer bill adjustments, (3) Oxford's accounting practices, and (4) customer contracts. Finally, as we explain herein, there are certain opportunities to enhance TVA oversight of the distributors.

PROPER REPORTING OF ELECTRIC SALES AND NONDISCRIMINATION IN PROVIDING ELECTRICITY TO MEMBERS OF THE SAME RATE CLASS

As discussed below, we identified issues involving the classification of customers and metering which could impact the proper reporting of electric sales. In addition, these issues impact the ability to ensure nondiscrimination in providing electricity to members of the same rate class as provided for in Section 5 Resale Rates subsection (a) of the power contract between TVA and Oxford which states that, "power purchased hereunder shall be sold and distributed to the ultimate consumer without discrimination among consumers of the same class and that no discriminatory rate, rebate, or other special concession will be made or given to any consumer, directly or indirectly." We were unable to estimate the monetary effect of all of the issues because in some instances information was not available; however, for those where information was available, the monetary effect on Oxford and TVA would not be material. Additionally, correction of classification and metering issues is necessary to ensure all customers are placed in the correct rate classification and treated like other customers with similar circumstances.

Customer Classification Issues

We found four customers which were not classified properly. Three customers were commercial customers classified within the general power service (GSA) Schedule of the General Power Rate. The GSA Schedule is divided into three parts--Part 1, Part 2, and Part 3--based on electric usage and demand.[2] The issues identified for the three customers relate to which part of the GSA Schedule the customer was assigned. The fourth customer's unoccupied units of their multi-unit dwelling were not classified in the same manner as unoccupied units in other multi-unit dwellings. The monetary impact of the classifications issues below was not material to Oxford or TVA. Specifically, we noted:

- One customer was reclassified from a GSA Part 2[3] rate schedule to receive the GSA Part 1[2] rate early. According to the General Power Rate--Schedule GSA, a customer with demand greater than 50 kW must stay on the GSA Part 2 rate schedule for 12 months after the last month in which the customer exceeded 50 kW demand or 15,000 kWh of usage. However, this customer was reclassified after six months. Oxford personnel were unable to explain why this change occurred early.

- Two customers were classified as GSA Part 1 instead of GSA Part 2. According to the General Power Rate--Schedule GSA, a customer should be classified as a GSA Part 2 if (1) usage is over 15,000 kWh, or (2) metered demand exceeds 50 kW, or (3) contract demand is greater than 50 kW. When a customer is moved to GSA Part 2, they must remain at that classification for 12 months after the usage meets the Part 2 criteria. We found:

  - One customer had usage greater than 15,000 kWh in one month; therefore, the customer should have been classified as a GSA Part 2 for the next 12 months.

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[2] Demand is a measure of the rate at which energy is consumed. The demand an electric company must supply varies with the time of day, day of the week, and the time of year. Peak demand seldom occurs for more than a few hours or fractions of hours each month or year, but electric companies must maintain sufficient generating and transmission capacity to supply the peak demand. Demand charges represent the high costs electric companies pay for generating and transmission capacity that sits idle most of the time. Demand charges are based on the amount of energy consumed in a specified period of time known as a demand interval. Demand intervals are usually 15 or 30 minutes. (Engineering Tech Tips, December 2000, Dave Dieziger, Project Leader, United States Department of Agriculture Forest Service, Technology & Development Program, http://www.fs.fed.us/eng/pubs/htmlpubs/htm00712373/index.htm).

For TVA distributors, the commercial and manufacturer Schedules of Rates and Charges direct that metered demand be calculated as “the highest average during any 30-consecutive-minute period of the month of the load metered in kW.”

[3] Under the GENERAL POWER RATE SCHEDULE GSA between Oxford and TVA, customers are classified as GSA Part 1, GSA Part 2, or GSA Part 3 based on the following requirements:

- GSA Part 1 - If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kW and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh.
- GSA Part 2 - If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh.
- GSA Part 3 - If the higher of (a) the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW.

- One customer had metered demand of 50.4 kW in April 2007 and had a contract demand of 60 kW. Either one of these conditions should have resulted in the customer being moved to the GSA Part 2 classification. Based on information provided by billing agency personnel, the legacy CSA system used by Oxford does not change a customer from GSA Part 1 to GSA Part 2 based on metered demand until after that demand exceeds 50.499 kW rather than the 50 kW as stated by General Power Rate Schedule – GSA Part 2. Notes found in the customer's file indicated the customer was not automatically changed to a GSA Part 2 by the system; therefore, contract demand could not be entered into the CSA system due to system restrictions on the lower rate class.

- In contrast to other multi-unit dwelling complexes, one customer was allowed to stay at a Residential revenue class and charged the residential rate even when the unit was unoccupied. However, according to Oxford personnel all other apartments, condos, etc., are reclassified as Commercial class clients and charged at GSA Part 1 when units are unoccupied.

Metering Issues
In addition to the customer classification issues, our review of billing agency data noted the following issues related to metering of customers at Oxford. We were unable to estimate the monetary effect because meters were not in place which would provide information to make the estimates. We found:

- Thirteen customers classified as a GSA Part 2 had energy usage in excess of 15,000 kWh but were not measured for demand. Under Part 2 of the GSA Schedule and the Wholesale rate schedule with TVA, there would be no affect on the revenues for TVA or the distributor unless customer demand exceeded 50 kW. Without meters in place, we could not determine if any of these customers would have exceeded 50 kW.

- One customer with multiple accounts that are similar in nature has one account which was not metered. Oxford personnel indicated all of the accounts should be metered. This specific account had an entry in the billing system for its meter number that read "NOMETER." The reported usage amount was constant at 615 kWh each month, and the customer was billed for this estimated amount rather than the actual usage.

USE OF ELECTRIC SYSTEM REVENUES

Under the TVA power contract, approved uses of revenues from electric system operations, including any surplus, are (1) operating expenses; (2) debt service; (3) tax equivalent payments; and (4) reasonable reserves for renewals, replacements, and contingencies. We found Oxford had more than enough cash on hand to cover planned capital projects and provide a cash reserve. The cash reserve after planned capital projects was about 6.6 percent which was within the guidelines (cash ratio[4] of 5 to 8 percent) TVA established to determine if a distributor has adequate cash reserves.[5]

As of June 30, 2008, Oxford had about $ 2.145 million in its actual cash accounts and approximately $14,000 in its TVA Power Invoice Prepayment account which totaled about $2.159 million. Table 2 shows information about plans for major capital expenditures obtained from Oxford's general manager and our review of Oxford's Board of Alderperson's meeting minutes.

Oxford's Planned Capital Expenditures

Capital Expenditure Plans	Project Cost
General Growth - Plant	$825,000
Distributions System Improvements	$35,000
Signal System Upgrades	$65,000
Special OH to UD Relocations	$45,000
Fiber Infrastructure	$36,000
AMR Infrastructure	$50,000
Vehicles	$52,850
Total Planned Expenditures Funded From Cash Reserves	**$1,108,850**
Other Projects to be funded with Loan from TVA [6]	
Univ Ave UD Project	$1,350,000
Substation Improvements	$1,250,000
Total Planned Expenditures To Be Funded by Loan	**$2,600,000**
Total Planned Capital Expenditures	**$3,708,850**

Table 2

When compared to Oxford's capital expenditure plans for the foreseeable future, the balance in the TVA Power Invoice Prepayment account and Oxford's Cash accounts was enough to pay for these items and leave about $1 million as a reserve, as shown in Table 3. Table 3 also shows Oxford's cash ratio percentage was about 13.6 percent before accounting for planned capital expenditures and about 6.6 percent after accounting for them.

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[4] TVA reviews the cash ratios of distributors as part of its regulatory rate review function. Cash ratio is calculated as follows:

$$\frac{\text{Cash + Cash equivalents}}{\text{Total Variable Expenses (Operations and Maintenance + Purchased Power)}}$$

[5] We noted in separate reports issued on other distributors in May 2009 that while TVA has established guidelines to determine if a distributor has adequate cash reserves (cash ratio of 5 to 8 percent), TVA has not established guidelines to determine if a distributor's cash reserves are excessive. We recommended TVA develop criteria to be used in determining whether a distributor's cash reserves are excessive and incorporate the criteria into the rate setting process. TVA Management agreed and says it will make recommendations to the TVA Board that additional financial metrics be employed for purposes of administering the resale rate provisions in Section 5 of the wholesale power contracts. The need to consider cash reserves is to be included in TVA management's recommendations to the Board. A change in the current guidelines to include these additional financial metrics requires Board action. Target completion date is December 2010.

[6] Documentation provided by Oxford indicated these two projects would be funded with the proceeds of a loan from TVA which had not been received at June 30, 2008.

Oxford's Cash Accounts Compared to Planned Capital Expenditures

	Cash and Cash Equivalents Plus Prepayment Account	Planned Capital Expenditures	Reserve After Planned Capital Expenditures
	2,159,414	$1,108,850	$1,050,564
FY 2008 Cash Ratio Percentage	13.59%		6.61%

Table 3

Discussions with Oxford's management indicated the operating philosophy of the Mayor, Board of Alderpersons, and management was to use a conservative, generally debt-averse approach. However, in June 2008, Oxford's Board of Alderpersons approved the Electric Department to request a $3 million dollar loan to pay for two capital projects. As of June 30, 2008, the loan had not been completed and funds had not been received. According to TVA records, over the past five years, Oxford was approved for rate increases in 2003, 2005, and 2008. Table 4 shows the rate increases received by Oxford and the cash position and cash ratio at June 30 prior to the effective date of the rate increase.

Oxford's Rate Increases, Cash Position, and Cash Ratio

Cash on Hand Equivalent to an 8% Cash Ratio	Cash and Cash Equivalents[7] and Cash Ratio		Rate Increase[8]		
	With Prepay Account	Without Prepay Account	Additional Revenue	Percent	Effective Date
$882,470	$837,004 (CR – 8%)	$837,004 (CR – 8%)	$68,575	0.59%	10/1/2003
$1,016,902	$3,006,515 (CR – 24%)	$2,186,154 (CR – 17%)	$274,843	2.12%	10/1/2005
$1,271,507	$2,916,665 (CR – 18%)	$1,786,143 (CR – 11%)	$297,391	1.63%	04/1/2008

Table 4

CONTRACT COMPLIANCE ISSUES

Our review noted four areas where Oxford was not meeting the requirements of the power contract with TVA. Specifically, we found (1) co-mingling of electric department funds with those of other City departments; (2) adjustments to customer bills were not made as required; (3) current accounting practices resulted in a prepaid expense being recorded as cash, capital projects not being recorded as fixed assets when completed, and inaccurate allocations of costs between City

[7] The cash and cash equivalents and cash ratio were computed based on information from Oxford annual report as of June 30 prior to the effective date of the rate increase.

[8] These are the rate increases requested by and approved for the distributor. These increases do not include any rate increases or decreases made by TVA, including fuel cost adjustments, which were passed through by the distributor to the customer.

departments; and (4) customer contract issues. Below is further discussion on these items.

Co-Mingling of Funds
The power contract between Oxford and TVA states, "electric system funds and accounts shall not be mingled with other funds or accounts of Municipality." Our review noted that cash collections for other City services are co-mingled with cash collections for Electric services in the same bank account. According to TVA personnel, TVA has allowed the practice of the distributor using the same bank account(s) for all of their business activities. Also, TVA has allowed a distributor, like Oxford, that does billing for other City departments to perform these activities in the same electric general ledger as long as the items are separately accounted for each month.

The Oxford financial statements at June 30, 2007, and June 30, 2008, included cash for collections of other City services in the Cash balances reported as Electric Department Assets. After we had identified this issue, TVA Distributor Accounting sent the Field Accountant responsible for Oxford to review the issue, and he found that the payments to the City consistently lag two months behind the actual collections for other City services.

In addition, it appears that the June 30, 2008, and 2007, balances shown on the financial statements in the receivables account "Customers' Accounts" of $2,760,356 and $2,904,225, respectively, include customer receivables for services provided by other City departments.

Customer Bill Adjustments
Our review of meter tests performed by Oxford during FY 2007 and FY 2008 noted 13 instances where meter tests indicated the meter was in excess of two percent slow or fast. Part 20 Meter Tests of the Schedule of Rules and Regulations of the TVA Power Contract with the City of Oxford states that, "In case the test shows meter to be in excess of two percent (2%) fast or slow, an adjustment shall be made in customer's bill over a period of not over thirty (30) days prior to date of such test, and cost of making test shall be borne by Distributor." According to Oxford personnel, no adjustments had been made to customers' bills as a result of the tests.

Accounting Practices
We noted three instances in which Oxford's accounting records did not conform to Federal Energy Regulatory Commission (FERC) guidance. Under the contract, the distributor is required to keep the books of the electric system according to the Federal Power Commission Uniform System of Accounts (USofA). The Federal Power Commission was replaced by FERC in 1977 under the Department of Energy Organization Act. The FERC USofA requires the utility keep its accounts on the accrual basis. Specifically, we found (1) a prepayment for power is recorded as a cash-temporary investment instead of a prepaid expense, (2) construction work in progress (CWIP) for completed projects had not been moved to fixed assets, and (3) inaccurate allocations of costs between City

departments. Inaccurate financial reporting to TVA could result in TVA relying on invalid information when reviewing and making decisions on distributor requests for rate increases or other regulatory approvals.

Prepayment

Oxford's accounting records show the TVA Power Invoice Prepayment account as a cash-temporary investment account when it should be recorded as a prepaid expense. Under TVA's Power Invoice Prepayment Program, a distributor could prepay its current or future amounts due for power invoice(s). In return, TVA provides the distributor with an early payment credit which will accrue on the distributor's account daily. The interest rate used in calculating the early payment credit to be applied to the account changes monthly. According to the FERC USofA, when payments are made in advance, the amount applicable to future periods should be charged to an account titled Prepayments and spread over the periods to which the amounts are applicable by credits to the Prepayments account and charges to the accounts appropriate for the expenditure.

In a separate report on another distributor issued in May 2009, we recommended the distributor change accounting practices to be in accordance with FERC to accurately record the prepayment of power as a prepaid expense. The Chief Financial Officer (CFO) agreed with our recommendation and stated TVA will work with each distributor to ensure energy prepayments are classified as a prepaid expense in the distributor's FY 2009 annual financial statements. Target completion date is December 2009.

Construction Work in Progress

Our review of the June 2008 audited financial statements noted a $4,563,588 balance in the Construction Work in Progress at June 30, 2008. This amount appears to be overstated by approximately $1,086,281. Information provided by Oxford management indicated there were over $1 million in work orders completed during FY 2008. However, Oxford had not closed these work orders in the accounting system; therefore, the amounts had not been moved from CWIP to fixed assets as of June 30, 2008. According to Oxford management, at the time of our audit, Oxford was still working to get these projects closed and transferred from CWIP to Fixed Assets in the accounting system. As a result, the information shown on Oxford's FY 2008 financial statements and annual reports to TVA would not accurately reflect the fixed assets and depreciation expense. Also, according to the information provided by Oxford, an additional $3,815,696 of projects completed earlier in FY 2009 has not been closed in the accounting system.

Cost Allocations

Our review of allocations made during the audit period found the allocation percentages were not applied in accordance with the last study or applied consistently. We noted, from 2005 until March 2008, when an error in an internal spreadsheet was identified and corrected, the allocation payment to the City for the salaries of the Alderpersons and Mayor were based on previous salary amounts. This resulted in an apparent under payment to the City of about $11,741 through March 2008.

Customer Contract Issues

We noted three areas related to customer contracts where improvements could be made by Oxford. Specifically, we found (1) required contracts for Oxford customers with demand greater than 50 kW were not in place for all customers, (2) one customer did not have a contract or have contract demand for all meters, and (3) appropriate information to verify one customer's qualifications for the small manufacturing credit was not in place. Below is further discussion on these items.

Customer Contracts When Demand Exceeds 50 kW

Under Oxford's contract with TVA, all customers that exceed 50 kW monthly are required to sign a formal contract. We randomly selected 35 customers classified as GSA Part 2 or higher in the billing agency data and found 30 had billed demand in excess of 50 kW during the audit period indicating that a contract with the distributor was required. Of these 30, six did not have contracts with Oxford. The contract includes a contract demand which is used in placing the customer in the correct classification. For example, a customer becomes a GSA Part 2 when either (1) the customer's currently effective contract demand or its highest billing demand during the latest 12-month period is more than 50 kW but less than 1,000 kW, or (2) the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh. Contract demand is also used in calculating the customer's billed demand and minimum bill.

In a separate report on another distributor issued in May 2009, we recommended the distributor review management reports listing customers that are above 50 kW hours without a contract and work with these customers to obtain signed contracts. TVA agreed the Schedule of Rates and Charges requires distributors to obtain contracts with all customers whose actual or contract demand exceeds 50 kW. However, TVA did not agree with our recommendation to review management reports listing customers that are above 50 kW hours without a contract and work with these customers to obtain signed contracts. Rather, TVA management finds that the contract size threshold of 50 kW was established in 1963, and the relative customer size in 2009 versus 1963 is very different. Likewise, requiring contracts with small commercial customers is a time-consuming and difficult task which may provide little benefit for distributors or the TVA system. TVA management will recommend to the Board that a new and higher threshold be established as part of the rate change process with the distributors. When the rate change is put into effect, all retail customers above the new threshold will be expected to have executed contracts. Target completion date will coincide with the rate change efforts that are currently under way with the distributors and is expected to be in place by October 2010.

Customer Contract Does Not Contain Contract Demand For All Meters

Our review of billing agency data identified one customer that has two demand meters; however, only one meter had a contract demand entered in the billing system. Both meters are recorded as GSA Part 2 and should have contract demand entered in the system. Under the GSA Part 2 rate schedule in the contract, the contract demand amount in the billing system is used to calculate both the monthly demand charge and the minimum bill amount.

Small Manufacturing Credit Certification

We noted one Oxford customer was receiving the Small Manufacturing Credit (SMC); however, Oxford did not have the required certification/application on file to show the customer qualified for the credit. This customer originally received credit under a previous TVA program, the Large Manufacturer Bill Credit Agreement (LMBC), which was grandfathered into the SMC program. The LMBC required each customer receiving the credit to have completed an application form prior to receiving the credit and the application be approved by TVA. This was required to verify the (1) customer's contract demand would fall between 1,000 kW and 5,000 kW and (2) company had a Standard Industrial Classification code which fell between 20 and 39, inclusive, to qualify for the program. The LMBC was supplemented and amended in October 2003 to provide for revised and extended manufacturing credits for small manufacturing loads. This amendment became known as the SMC. According to Oxford management, this customer left the Oxford service area in June 2009.

TVA OVERSIGHT OPPORTUNITIES

We found opportunities to enhance TVA's oversight of the distributors. Specifically, we noted TVA has not (1) performed a joint cost study in over 20 years when the TVA Accountant's Manual calls for one to be performed every three to four years or when major changes occur that affect joint operations, (2) provided adequate guidance on when a demand meter is required, (3) provided definitive guidance for distributors on what constitutes prudent expenditures, and (4) adequately defined how often meters should be tested by the distributors.

Joint Cost Allocation Studies

The current allocation of expenses between Oxford and other City departments is based on a joint cost allocation study prepared in 1988 when Oxford shared office space in the Court House with other City departments and has not been formally reviewed in the last 21 years. The TVA Accountant's Reference Manual states that, "the electric system is regarded as a separate department even though, for efficiency and economy, some activities may be combined with other municipal or cooperative non-electric operations." Any shared costs would be allocated among departments on an equitable basis. Interdepartmental services are settled by monthly cash transfers. Allocations may be made based on space occupied; direction of effort, customers served or any other means that reasonably distribute costs among user departments. These cost allocations should be formally reviewed every three to four years by the distributor and TVA, or when major changes occur that affect joint operations. The joint cost allocation study needs to be updated for Oxford to ensure the proper allocations of expenses occur between City departments.

No Guidance as to When a Demand Meter is Necessary

TVA could provide additional guidance on when installation of a demand meter is required. The GSA rate schedule indicates that customers should be moved from GSA Part 1 to GSA Part 2 when their usage exceeds 15,000 kWh during any month. While GSA Part 1 customers are only billed for energy usage, GSA Part 2 customers are to be billed for any demand that exceeds 50 kW. However, TVA has not provided guidance to the distributors to (1) indicate at what point a GSA Part 2 customer should be required to have a meter that measures demand, (2) how often line monitors should be used to test whether a customer is nearing or exceeding the 50 kW demand threshold, or (3) what documentation should exist for GSA Part 2 customers to provide justification for why a demand meter does not need to be installed.

TVA currently performs an annual "true-up" to account for distribution losses (i.e., the difference between kWhs used (as reported by the distributor on Schedule 1) and the kWhs delivered to the distributor by TVA). The DLF is calculated on the difference of kWhs but is applied to both kWh and kW demand because a similar calculation cannot be performed for kW demand. By issuing guidance as to when demand meters should be installed at distributor customers, TVA could increase the accuracy of the reporting of end-user demand and receive payment for demand not currently being reported.

No Policies Defining Appropriate Expenditures

We noted TVA could improve the controls over the use of electric system funds by providing more definitive guidance to the distributors. While reviewing the proper use of electric system revenue, we noted there were no definitive policies on permitted expenditures (charity, scholarships, etc.) or investments/account establishment. TVA has allowed distributor management and distributor Board's discretion in the decision-making process for determining what qualifies as operational expenditures. Additional guidance in this area by TVA would decrease the likelihood of misinterpretation of what constitutes a reasonable use of electric funds. In discussions with the TVA Vice President, Strategy, Pricing, and Contracts, actions to address recommendations in a previous review of TVA's role as a regulator (Inspection 2005-522I) include the development of distributor guidance pertaining to the use of electric system funds.

In a separate report on another distributor issued in May 2009, we recommended TVA develop a comprehensive guide on permitted expenditures under the use of electric system revenues provision and expense accrual for distributor management to use going forward. The CFO agreed it is appropriate to look at permitted expenditures in the context of the use of revenues provision in Section 6 of the wholesale power contract with the distributors. TVA management is exploring with the TVA Board the extent to which a comprehensive guideline is feasible and whether the TVA Board desires to adopt a policy that would employ such a guideline. Target completion date is December 2010.

Meter Accuracy

TVA could provide more definitive guidance regarding the frequency of meter testing for distributors. In discussions with Oxford personnel, we found that they did not have any regularly scheduled tests of meters or specific strategy for testing a certain percentage of meters each year. When we asked to see the results of their most recent meter tests during our site visit in March 2009, the most current provided was June 2007.

Under the power contract with Oxford, Part 20 (Meter Tests) of the Schedule of Rules and Regulations states: "Distributor will, at its own expense make periodical tests and inspections of its meters in order to maintain a high standard of accuracy." Additional guidance in this area could lead to (1) timely identification of inaccurate meters, (2) timely correction of errors, and (3) a uniform testing frequency of meters across distributors. This could result in (1) additional revenue collected by the distributor and (2) reduced distribution loss payments[9] to TVA. The reduction of these payments and the collection of additional revenues by the distributor, if significant, could reduce the need for future rate increases by distributors. In addition, the distributor would be reporting more accurate usage and demand information to TVA (both from a volume and billing rate classification standpoint) for revenue collection and future rate setting purposes.

In a separate report on another distributor issued in May 2009, we recommended the TVA review the requirements in the power contract and develop more definitive guidance on how often meters should be tested. TVA management stated they expect to soon begin formal implementation of a rate change that will replace end-use wholesale rates with a structure that will be primarily based on wholesale meter data. Target completion date will coincide with the rate change efforts that are currently under way with the distributors and is expected to be in place in October 2010. The power contracts do not address the frequency of meter testing. TVA views this as a utility standards issue for the distributor. However, TVA will work with the distributor group, Tennessee Valley Public Power Association, to develop recommendations on common meter testing criteria. Target completion date for common meter testing criteria is October 2010.

RECOMMENDATIONS

We recommend the CFO work with Oxford to improve compliance with the contract. Specifically, Oxford should:

1. Develop controls to reduce the likelihood of a customers' rate classification being changed in a manner that does not comply with the rate schedules.

[9] Distribution loss payments are calculated using a distribution loss factor (DLF) which is the difference between the kWhs used (as reported by the distributor on Schedule 1) and the kWhs delivered to the distributor by TVA. Each month, the 12-month rolling average of the DLF is multiplied by the "Total Demand and Energy Charges" for the month and added to the amount owed to TVA by the distributor on Schedule 1. The "Total Demand and Energy Charges" includes charges for both kWh and kW demand. There is not a mechanism to perform the same calculation for kW demand as for kWh. As a result, TVA's practice is to also apply the DLF which is based on kWh to the kW demand charges. In this review, we did not try to determine if there is a more accurate method.

On an annual basis, TVA and the distributor perform a "Distribution Loss Trueup." This trueup uses the preceding 12-month average of the DLF multiplied by the total of the "Total Demand and Energy Charges" for the 12-month period and then subtracts the monthly estimated Distribution Loss Charges paid to TVA to determine if the distributor owes additional money to TVA or if a credit is due to the distributor.

Oxford's Response – Oxford stated they had worked with CSA and resolved these classification and billing issues. See Appendix A for Oxford's complete response.

TVA Management's Comments – The CFO agreed with our recommendation and noted Oxford had worked with CSA and resolved these classification and billing issues. See Appendix B for TVA's complete response.

Auditor's Response – The OIG concurs with the actions taken, and no further action is necessary.

2. Work with the billing agency to ensure that the software system has appropriate internal edits to properly classify customers based on both actual usage/ demand and/or contract demand and that the customer remains in the proper rate class for the appropriate period of time.

   Oxford's Response – Oxford stated they had worked with CSA and resolved these classification and billing issues. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO agreed CSA's software design and controls should not have allowed this to happen without an override of the system controls and our recommendation. The CFO also noted Oxford had worked with CSA and resolved these classification and billing issues. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the actions taken, and no further action is necessary.

3. Monitor customer accounts for multi-unit dwelling addresses to more consistently treat all customers of the same class in the same manner.

   Oxford's Response – Oxford stated they had worked with CSA and resolved these classification and billing issues. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO agreed the power contract requires consistent treatment of customers and agreed to our recommendation. The CFO also noted Oxford had worked with CSA and resolved these classification and billing issues. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the actions taken, and no further action is necessary.

4. Develop a procedure to either routinely monitor demand or place demand meters at customer service addresses where usage has exceeded 15,000 kWh.

   Oxford's Response – Oxford stated they are in the process of installing demand meters on customer accounts that might fall into this classification. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO agreed distributors should monitor demand so they can be sure they comply with the GSA rate schedule requirements. The CFO stated TVA will encourage the distributor to develop such procedures as a matter of good business practice. The CFO also noted Oxford is in the process of installing demand meters on customer accounts that might fall into this classification. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the planned actions.

5. Monitor customer accounts to increase the likelihood that all service addresses are metered.

   Oxford's Response – Oxford stated they have installed the meter which was not in place at the time of the audit. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO agreed with our recommendation and stated TVA's Field Accountant will assist Oxford in establishing proper procedures for monitoring customer accounts to increase the likelihood that all service addresses are metered. The CFO also noted Oxford has installed the meter which was not in place at the time of the audit. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the actions taken, and no further action is necessary.

6. Modify the collections process to separate electric department funds from those of other City services.

   Oxford's Response – Oxford stated they will continue to follow the long accepted and approved TVA guidelines for accounting of funds for other City of Oxford departments. Oxford further stated they have been and will continue to make sure all nonelectric funds are properly accounted for and transmitted as soon as possible to the correct City of Oxford department. See Appendix A for Oxford's complete response.

TVA Management's Comments – The CFO stated TVA management is satisfied the distributor's processes for tracking and segregating funds of the electric department from other funds of the Municipality are consistent with the power contract. Although cash collections for other city services are deposited into the same bank account, they are separately accounted for in the general ledger. TVA stated they are aware payments to the City consistently lag two months behind the actual collections of other City services and this is a direct function of the billing process. TVA management plans no action on this issue. See Appendix B for TVA's complete response.

Auditor's Response – If TVA management accepts the mingling of electric system funds and accounts with other funds and accounts of the Municipality, we suggest TVA consider modifying Section 1 of the power contract in their planned formal implementation of a rate change to no longer prohibit such actions.

7. Put procedures in place to monitor results of independent meter tests and to modify customer billings within the allotted amount of time for any meters that test over two percent fast or slow.

   Oxford's Response – Oxford stated they have now implemented procedures for adjustments to be made when necessary. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO stated they agree with this recommendation and that it is important for the distributor to modify or make adjustments to customers' accounts when meter tests reveal an excess of 2 percent, fast or slow. TVA also noted the distributor has implemented procedures for modifying or making these adjustments to a customer's account within a timely manner as provided for in the Distributors Rules and Regulations. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the actions taken, and no further action is necessary.

8. Close out completed capital projects in a timely manner from Construction Work in Progress to Fixed Assets.

   Oxford's Response – Oxford stated they are working on their process of closing work orders so the work orders can be closed on a more timely basis. See Appendix A for Oxford's complete response.

TVA Management's Comments – The CFO stated they rely on the distributor's independent auditor to ensure that financial statements properly reflect all balances and are in compliance with GAAP and the FERC Uniform System of Accounts. TVA also noted the distributor is working on its processes for closing out work orders so it can be booked to Fixed Assets in a more timely manner. See Appendix B for TVA's complete response.

Auditor's Response – The OIG concurs with the planned actions.

9. Obtain proper documentation for any customers receiving credits under a TVA credit program such as Small Manufacturing Credit.

   Oxford's Response – Oxford stated the missing application was apparently lost during their move to a new office building in 2002. The identified company is closing in 2009; however, Oxford will ensure future credit certifications are kept on file. See Appendix A for Oxford's complete response.

   TVA Management's Comments – The CFO agreed with our recommendation and stated that going forward TVA would work with the distributor to obtain proper documentation from any customer wishing to qualify for any of TVA's credit programs, such as Small Manufacturing Credit. They also noted the distributor says it will ensure that future credit certifications are kept on file. See Appendix B for TVA's complete response.

   Auditor's Response – The OIG concurs with the planned actions, and no further action is necessary.

The CFO should:

10. Put procedures in place to perform joint cost studies with each distributor that shares costs with other entities at least every three to four years as required by the TVA Accountant's Reference Manual.

    TVA Management's Comments – The CFO stated TVA management realizes that these are important studies and help allocate costs correctly. However, they stated that it is very labor intensive, and currently TVA is addressing the resources and training required for the Field Accountants to perform these studies. The CFO noted that these studies will need to be performed on most of TVA's Municipal Distributors. The CFO indicated TVA will work toward implementing these studies as additional resources are hired. Target date to begin these studies is January 2010. See Appendix B for TVA's complete response.

    Auditor's Response – The OIG concurs with the planned actions.

11. Develop guidance to indicate when a distributor should require that a demand meter be installed for GSA Part 2 customers.

    TVA Management's Comments – The CFO stated that such guidance is provided in the Determination of Demand Section of the GSA Rate Schedule. The CFO noted this rate schedule states, "Distributor shall meter the demands in kW of all customers having loads in excess of 50 kW." The CFO also noted the distributor is in the process of installing demand meters on customers that might fall into this classification.

    In addition, the CFO stated TVA will provide guidance to all distributors that they evaluate the installation of a demand meter once a customer's monthly usage exceeds 25,000 kWh since it is probable that such a customer would meet the 50 kW thresholds for demand charges for GSA Part 2 customers. TVA management also indicated a distributor should also consider factors such as the nature of the customer's business, operating patterns, and electrical equipment and building specifications when considering the installation of a demand meter. See Appendix B for TVA's complete response.

    Auditor's Response – The OIG concurs with the planned actions.

RICHARD HOWORTH, Mayor

CITY OF OXFORD
ELECTRIC DEPARTMENT

P. O. BOX 827, OXFORD, MISSISSIPPI 38655 PHONE 662/232-2373; FAX 662/232-2375

August 13, 2009

Mr. Robert E. Martin
Office of the Inspector General
400 West Summit Hill Drive
Knoxville, TN 37902-1401

Dear Mr. Martin:

The City of Oxford Electric Department has reviewed the draft report concerning your recent audit and in response to those finding we would like to comment as follows:

Proper Reporting of Electric Sales and Nondiscrimination in Providing Electricity to Members of the Same Rate Class

Customer Classification Issues

Oxford Electric Department worked with Central Service Association and resolved these classification and billing issues.

Metering Issues

Oxford Electric Department is in the process of installing demand meters on customer accounts that might fall into this classification and installed the meter which was not in place at the time of the audit.

Contract Compliance Issues

Co-Mingling of Funds

Oxford Electric Department will continue to follow the long accepted and approved TVA guidelines for accounting of funds collected for other City of Oxford departments.

Customer Bill Adjustments

Oxford Electric Department has now implemented procedures for adjustments to be made when necessary.

Accounting Practices

Prepayment

Oxford Electric Department worked with the TVA Field Accountant and resolved this issue as of June 30, 2009.

Construction Work in Progress

Oxford Electric Department is working on our process of closing work orders so that they can be closed on a timelier basis.

Cost Allocations

Oxford Electric Department has corrected this issue and paid the City with the May 2009 joint collections payment.

Customer Contract Issues

Oxford Electric Department is now making every effort to obtain contracts for all customers who might be greater than 50 kW.

Small Manufacturing Credit Certification

This application was evidently lost during the Oxford Electric Department move to its new office building in 2002. The company is closing in 2009; however Oxford Electric Department will ensure future credit certifications are kept on file.

<u>Recommendations</u>

Oxford Electric Department agrees to all (with one exception) of the recommendations and will make every effort to follow these recommendations.
The one exception (#6) being to modify our process for collecting revenue for other City of Oxford departments. We have been and will continue to make sure that all non-electric funds are properly accounted for and transmitted as soon as possible to the correct City of Oxford department. However we will continue to follow the long accepted process of collecting these funds which has been approved by TVA.

Please be assured that Oxford Electric Department is making every effort to follow all applicable state, federal and TVA guidelines in the billing, collections and proper accounting of electric revenue funds. We appreciate your comments and will make changes accordingly as we have noted.

On behalf of our staff we want to thank you and your staff for the professional manner this audit was conducted and the courtesy extended to us during that time.

If I can provide any additional information, please feel free to contact me.

Sincerely,

Lynn J. Robbins
Manager

August 17, 2009

Robert E. Martin, ET 3C-K

RESPONSE TO DRAFT INSPECTION REPORT 2008-12036 – DISTRIBUTOR REVIEW - CITY OF OXFORD ELECTRIC DEPARTMENT

This is in response to your memorandum dated July 17, 2009.

1. Develop controls to reduce the likelihood of a customer's rate classification being changed in a manner that does not comply with rate schedules.
   - TVA management agrees that customer rate classification should comply with rate schedules.
   - **Actions taken or planned, and completion dates**: Distributor worked with Central Service Association (CSA) and resolved these classification and billing issues.

2. Work with the billing agency, CSA, to ensure that the software system has appropriate internal edits to properly classify customers based on both actual usage/demand and/or contract demand and that the customer remains in the proper rate class for the appropriate period of time.
   - CSA's software design and controls should not have allowed this to happen without an over-ride of the system controls.
   - **Actions taken or planned, and completion dates**: Distributor worked with CSA and resolved these classification and billing issues.

3. Monitor customer accounts for multi-unit dwelling addresses to more consistently treat all customers of the same class in the same manner.
   - TVA management agrees that the Power Contract requires consistent treatment of customers.
   - **Actions taken or planned, and completion dates**: Distributor worked with CSA and resolved these classification issues.

4. Develop a procedure to either routinely monitor demand or place demand meters at customer service addresses where usage has exceeded 15,000 kWh.

- TVA agrees that distributors should monitor demand so that they can be sure they comply with the GSA rate schedule requirements. The rate schedule states, "Distributor shall meter the demands in kW of all customers having loads in excess of 50 kW."
- TVA will encourage the Distributor to develop such procedures as a matter of good business practice.
- **Actions taken or planned, and completion dates**: The Distributor is in the process of installing demand meters on customer accounts that might fall into this classification.

5. Monitor customer accounts to increase the likelihood that all service addresses are metered.
   - TVA management agrees with this recommendation.
   - TVA's Field Accountant will assist the Distributor in establishing proper procedures for monitoring customer accounts to increase likelihood that all service addresses are metered.
   - **Actions taken or planned, and completion dates**: Distributor has installed a meter at these addresses.

6. Modify the collections processes to separate electric department funds from those of other City departments.
   - TVA management is satisfied that the Distributor's processes for tracking and segregating funds of the electric department from other funds or accounts of the Municipality are consistent with the Power Contract. Although cash collections for other city services are deposited into the same bank account, they are separately accounted for in the General Ledger.
   - TVA is also aware that payments to the City consistently lag two months behind the actual collections of other City services. This is a direct function of the billing process.
   - **No action is planned on this issue.**

7. Put procedures in place to monitor results of independent meter tests and to modify customer billings within the allotted amount of time for any meters that test over two percent fast or slow.
   - TVA management agrees with this recommendation. It is important for the Distributor to modify or make adjustments to customers' accounts when meter tests reveal an excess of two percent, fast or slow.

- **Actions taken or planned, and completion dates**: Distributor has implemented procedures for modifying or making these adjustments to a customers account within a timely manner as provided for in the Distributors Rules and Regulations.

8. Close out completed capital projects in a timely manner from Construction Work-In-Progress to Fixed Assets.
   - TVA management relies on the Distributor's independent auditor to ensure that financial statements properly reflect all balances and are in compliance with GAAP and the FERC Uniform System of Accounts.
   - **Actions planned or taken, and completion dates:** Distributor is working on their processes of closing out work orders so they can be booked to Fixed Assets in a more timely manner.

9. Obtain proper documentation for any customers receiving credits under a TVA credit program such as Small Manufacturing Credit.
   - TVA management agrees with this recommendation. Going forward TVA will work with the Distributor to obtain proper documentation from any customer wishing to qualify for any of TVA's credit programs, such as Small Manufacturing Credit.
   - **Actions planned or taken, and completion dates:** The Distributor says it will ensure that future credit certifications are kept on file.

10. Put procedures in place to perform joint cost studies with each distributor that shares costs with other entities at least every three to four years as required by the TVA Accountant's Reference Manual.
    - TVA management recognizes that these are important studies and help allocate costs correctly. However, it is very labor intensive and currently, TVA is addressing the resources and training required for the Field Accountants to perform these studies. These studies will need to be performed on most of TVA's Municipal Distributors.
    - **Actions planned or taken, and completion dates:** TVA will work toward implementing these studies as additional resources are hired. Target date to begin conducting these studies will start in January 2010.

11. Develop guidance to indicate when a distributor should require that a demand meter be installed for GSA Part 2 customers.

- Such guidance is provided in the Determination of Demand section of the GSA Rate Schedule. Said schedule states, "Distributor shall meter the demands in kW of all customers having loads in excess of 50kW."
- **Actions planned or taken, and completion dates:** The Distributor is in the process of installing demand meters on customer accounts that might fall into this classification.

TVA notes that the Office of the Inspector General (OIG) report states that the monetary effects for metering and customer classification issues where data was available would not be material.

Kim S. Greene

Kimberly S. Greene
Chief Financial Officer and
Executive Vice President, Financial Services
WT 7B-K

SH:JD
cc: Peyton T. Hairston Jr., WT 7B-K
John P. Kernodle, WT 6A-K
John E. Long, Jr., WT 7B-K
Jill M. Matthews, ET 3C-K
Richard W. Moore, ET 4C-K
John M. Thomas III, WT 4B-K
John G. Trawick, WT 3D-K
Benny R. Wagner, ET 4C-K

August 28, 2009

Robert E. Martin, ET 3C-K

AMENDMENT TO RESPONSE TO ITEM NUMBER 11– DRAFT INSPECTION REPORT 2008-12036 – DISTRIBUTOR REVIEW CITY OF OXFORD ELECTRIC DEPARTMENT

The revised response below replaces our response dated August 17, 2009 to item number 11 in your memorandum dated July 17, 2009.

11. Develop guidance to indicate when a distributor should require that a demand meter be installed for GSA Part 2 customers.
    - Such guidance is provided in the Determination of Demand section of the GSA Rate Schedule. Said schedule states, "Distributor shall meter the demands in kW of all customers having loads in excess of 50kW."
    - **Actions planned or taken, and completion dates:** The Distributor is in the process of installing demand meters on customers that might fall into this classification. In addition, TVA will provide guidance to all distributors that they evaluate the installation of a demand meter once a customer's monthly usage exceeds 25,000 kWh since it is probable that such a customer would meet the 50 kW thresholds for demand charges for GSA Part 2 customers. A distributor should also consider factors such as the nature of the customer's business, operating patterns, electrical equipment and building specifications when considering the installation of a demand meter.

John G. Trawick

for
Kimberly S. Greene
Chief Financial Officer and
Executive Vice President, Financial Services
WT 7B-K

VB:JSE
cc: Peyton T. Hairston Jr., WT 7B-K
John P. Kernodle, WT 6A-K
John E. Long, Jr., WT 7B-K
Jill M. Matthews, ET 3C-K
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John M. Thomas III, WT 4B-K
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Rick C. Underwood, EB 2G-C