

Memorandum

To: Solicitor
Director, Bureau of Land Management
Director, Bureau of Reclamation
Director, U.S. Fish and Wildlife Service
Director, National Park Service
Deputy Commissioner, Bureau of Indian Affairs

From: P. Lynn Scarlett
Assistant Secretary - Policy, Management and Budget

Subject: Accounting for and Reporting the Costs of Hydroelectric Licensing
Activities to the Federal Energy Regulatory Commission

Section 10(e)(1) of the Federal Power Act requires non-Federal licensees of hydroelectric power projects to reimburse the United States for the costs of administration of Part 1 of the Act. To accomplish this, Federal agencies are required to report their related costs to the Federal Energy Regulatory Commission (FERC) annually. FERC, in turn, is required to issue billings to the licensees to recover the Government's costs.

Recently, the General Accounting Office (GAO) determined that FERC provided insufficient guidance to agencies to properly track and document these costs. In addition, GAO found that agencies, including the Department of the Interior, did not properly and consistently accumulate their related costs. FERC has since directed agencies to: 1) account for "municipal" and "non-municipal" hydroelectric licensing costs in accordance with Statement of Federal Financial Accounting Standards - Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*; 2) report the total "municipal" and "non-municipal" costs to FERC on an annual basis; and 3) certify that the reported costs conform to the accounting standards.

To address this need, Hydropower Coordinators from your bureaus have met with the Offices of Policy Analysis and Financial Management to develop a cost accounting and reporting system that meets FERC's general requirements and is compatible with current accounting systems and processes. The final guidance is detailed in the attachment to this memorandum.

It is requested that the attached procedures and guidelines be implemented as of October 1, 2001. The bureau Hydropower Coordinators have been working with their respective budget and financial officers to ensure rapid implementation. Please respond back with a brief implementation plan including which costing method your bureau will use by November 1, 2001.

Attachment

cc: Inspector General
Assistant Secretaries

U.S. Department of the Interior
Federal Power Act
Cost Accounting Procedures and Guidance

Purpose:

To establish consistent cost accounting practices for accumulating hydroelectric project licensing (includes re-licensing) costs for annual reporting to the Federal Energy Regulatory Commission (FERC).

Background:

Under the Federal Power Act (FPA), FERC is required to recover, through fees, the costs that the Federal government incurs for the costs of administering the FPA. Historically, FERC has requested a single cost figure for municipal and non-municipal projects, which the agencies have provided. FERC then allocated this amount to individual licensees based on a regulatory formula. Most agencies have not properly documented and certified their cost data to FERC.

Some licensees that have received billings from FERC have filed appeals, alleging that FERC has inadequate evidence to support the billings. The General Accounting Office issued a report in 2000 stating that Federal costs are not being recovered due to inadequate reporting guidance by FERC and inadequate supporting documentation by the agencies involved. Interior desires to correct this situation within its bureaus and accurately report documented and certified cost information to FERC in a timely manner.

The procedures and guidance provided in this document are based on the requirements of Statement of Federal Financial Accounting Standard Number 4 - *Managerial Cost Accounting Concepts and Standards for the Federal Government* (SFFAS #4) and Office of Management and Budget Circular A-25 *User Charges*.

Definitions:

Direct cost – The cost of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities. A cost that is specifically identified with a single cost object. (Source: SFFAS #4) Examples of direct costs include labor and benefits, travel, utilities/communications and supplies directly consumed to provide a product or service.

Indirect cost – A cost that cannot be identified specifically with or traced to a given cost object in an economically feasible way. (Source: SFFAS #4) Examples of indirect costs include management direction and infrastructure costs in support all activities of the bureau and not directly attributable to an individual activity.

Cost object – An activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, a function, task, product, service, or a customer. (Source: SFFAS #4)