Memorandum from the Office of the Inspector General

January 20, 2010

Kimberly S. Greene, WT 7B-K

FINAL REPORT – AUDIT 2008-12041 – DISTRIBUTOR REVIEW OF THE PRINCETON ELECTRIC PLANT BOARD

Attached is the subject final report. Your written comments, which addressed your management decision and actions planned or taken, have been included in the report.

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 or wish to discuss our findings, please contact Melissa M. Neusel, Project Manager, at (865) 633-7357 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

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OIG File No. 2008-12041

Office of the Inspector General

Audit Report

To the Group President, Strategy and External Relations

DISTRIBUTOR REVIEW OF THE PRINCETON ELECTRIC PLANT BOARD

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Audit 2008-12041
January 20, 2010

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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 Princeton Electric Plant Board (Princeton), which is a distributor for Tennessee Valley Authority (TVA) power based in Princeton, Kentucky. Annual revenues from electric sales were approximately $9.6 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, manufacturing, and lighting. 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 Princeton including: (1) proper reporting of electric sales by customer class to facilitate proper revenue recognition and billing by TVA, (2) nondiscrimination in providing power 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

Princeton has elected to terminate its power contract with TVA effective January 24, 2010. Consequently, we have no recommendations which require response from either Princeton or TVA. However, we provided specific suggestions to help Princeton strengthen its internal controls and accurately bill its customers in the future. Our suggestions included: (1) remediate classification and metering issues, (2) develop and document a consistent methodology for allocating all joint costs, (3) obtain contracts for customers as appropriate, (4) update the automated system (and manual customer cards, if maintained) with changes, including contract demand, on a timely basis, and (5) identify and utilize exception reports to ensure customers are classified correctly and identify problems that need to be addressed in a timely manner.

TVA concurred with the facts and conclusions in the report and the OIG oversight recommendations. Princeton did not respond formally to the report; however, informal responses indicated Princeton agreed with our findings and suggestions.

For more information, contact Melissa M. Neusel, Project Manager, at (865) 633-7357 or Jill M. Matthews, Deputy Assistant Inspector General, Audits and Support, at (865) 633-7430.

January 2010

Audit 2008-12041
Princeton Electric Plant Board

What the OIG Found

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

- **Customer Classification and Metering** – We identified 24 customers not classified correctly and metering issues that could impact (1) the proper reporting of electric sales and (2) nondiscrimination in providing power 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 Princeton and TVA would not be material.
- **Contract Compliance** – We identified two areas where Princeton was not meeting the power contract requirements with TVA. Specifically, we found (1) the methodology for allocating joint costs was not approved by TVA, and (2) some customers with demand above 50 kilowatts did not have a contract.
- **Distributor Internal Controls** – We noted Princeton's internal controls could be strengthened to improve completeness, accuracy, and validity of meter and billing data. Specifically, we found (1) meter information per the manual customer cards and the automated system did not agree, (2) contract demand was not accurately entered into the system, and (3) exception reports have not been fully utilized.

In addition, we found Princeton did not have enough cash on hand as of June 30, 2008, to cover expenditures for planned capital projects through 2010 and provide a cash reserve. However, Princeton obtained a loan in August 2009 to provide additional funds for capital expenditures.

Finally, we identified certain opportunities to enhance TVA oversight of the distributors that were also identified in previous distributor audits. TVA is in the process of addressing these findings which include: (1) the absence of a joint cost study being performed, (2) the lack of an adequately defined process to document approval of Small Manufacturing Credits, (3) the lack of guidance related to when a demand meter is required, and (4) the lack of guidance on what constitutes prudent expenditures.

BACKGROUND

The Princeton Electric Plant Board (Princeton) is a distributor for Tennessee Valley Authority (TVA) power based in Princeton, Kentucky, with revenues from electric sales of approximately $9.6 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 Princeton as of June 2008.

Princeton's Customer Mix as of June 2008

Customer Classification	Number of Customers	Revenue	Kilowatt Hours Sold
Residential	3,207	$3,345,091	37,847,927
General Power – 50 kilowatt (kW) & Under (Commercial)	671	1,053,146	10,451,996
General Power – Over 50 kW (Commercial or Manufacturing)	79	5,037,313	62,237,227
Street and Athletic	13	96,890	1,365,928
Outdoor Lighting[1]	1	110,612	1,039,737
Total	**3,971**	**$9,643,052**	**112,942,815**

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. Princeton, like many other distributors, outsources its billing and invoice processing to a third-party processor, Central Service Association (CSA). Princeton 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 Princeton with management reporting (e.g., exception reports). All other accounting and finance responsibilities are handled by Princeton, which has a Board of Directors providing oversight and a manager and two accountants managing the daily activities. Princeton also operates a broadband (internet) business and collects sanitation services payments for the City of Princeton. Princeton has elected to terminate its power contract with TVA effective January 24, 2010.

[1] This customer count represents those customers who only have Outdoor Lighting accounts with Princeton. Another 582 customers as of June 30, 2008, had Outdoor Lighting accounts with Princeton as well as accounts for other services. The amounts for revenue and kilowatt hours sold include all revenue and 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 Princeton including:

- Proper reporting of electric sales by customer class to facilitate proper revenue recognition and billing by TVA.
- Nondiscrimination in providing power 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 Princeton electronic billing information from CSA for the audit period. The information was not complete because CSA does not maintain historical rate information for 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 Princeton 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 methodology for allocations between electric and nonelectric lines of business for reasonableness and consistency of application.
- 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 August through November 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 Princeton found issues involving customer classification and metering that could impact (1) the proper reporting of electric sales and (2) nondiscrimination in providing power to members of the same rate class. In addition, we found Princeton did not have enough cash on hand as of June 30, 2008, to cover expenditures for planned capital projects and provide a cash reserve. However, Princeton obtained a loan in August 2009 to provide additional funds for capital expenditures.

We also found Princeton (1) did not comply with contract provisions for allocation of joint costs and establishing contracts for customers with demand above 50 kW and (2) could improve internal controls related to the completeness, accuracy, and validity of the billing and metering data. Finally, we have identified certain opportunities to enhance TVA oversight of the distributors.

PROPER REPORTING OF ELECTRIC SALES AND NONDISCRIMINATION IN PROVIDING POWER 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 power to members of the same rate class.[2] We were unable to estimate the monetary effect of all the issues because, in some instances, information was not available; however, for those where information was available, the monetary effect on Princeton and TVA was not material. Correcting classification and metering issues is nonetheless important to ensure all customers are placed in the correct rate classification and charged the same rate as other customers with similar circumstances.

[2] Section 5 Resale Rates subsection (a) of the power contract between TVA and Princeton 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."

Customer Classification Issues

We found 24 accounts which were not classified properly. Specifically, two of these accounts were commercial customers misclassified within the General Power Rate-Schedule GSA. The GSA Schedule is divided into three parts—Part 1, Part 2, and Part 3—based on electric usage and demand.[3] The issue identified for these two customers related to which part of the GSA Schedule the customer was assigned. The remaining 22 customers were classified as residential, although they should have been classified under the GSA Schedule. The monetary impact of the classification issues below was not material to Princeton or TVA. Specifically, we found:

- One customer was classified as GSA Part 1[4] instead of GSA Part 2. According to the General Power Rate-Schedule GSA, a customer should be classified as a GSA Part 2 if metered demand exceeds 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. This customer had metered demand of 50.48 kW in August 2006; therefore, the customer should have been reclassified as a GSA Part 2 in August 2006 and continued as a GSA Part 2 for the next 11 months. Based on information provided by billing agency personnel, the legacy CSA system used by Princeton does not change a customer from GSA Part 1 to GSA Part 2 based on metered demand until after demand exceeds 50.499 kW rather than the 50 kW as stated by the GSA Part 2 rate schedule. Princeton personnel were not aware the threshold for metered demand in the CSA system was 50.499 rather than 50.01 kW.

- One customer was classified as a GSA Part 2 instead of a GSA Part 3. According to the General Power Rate-Schedule GSA, a customer should be classified as a GSA Part 3 if billing demand or contract demand exceeds

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3 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 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 Diezigler, 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."

4 Under the General Power Rate-Schedule GSA between Princeton and TVA, customers are classified 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.

1,000 kW. For this customer, the highest billing demand for the audit period was 702 kW; however, the contract demand was 2,000 kW, which required the customer to be classified as a GSA Part 3. The customer's contract demand was entered in the billing system as 1,000 kW instead of 2,000 kW, which caused the customer to be incorrectly classified and billed as a GSA Part 2 customer.

- Twenty-two customers were misclassified as residential rather than as GSA Schedule customers. According to the Residential Rate Schedule, this rate shall apply only to a single-family dwelling where the major use of electricity is for domestic purposes. Specifically, we noted:
  - Thirteen customers were for rental property. According to Princeton personnel, these accounts should have been switched to the GSA Schedule when the account changed from an individual account to an account in the name of the rental company or landlord.
  - Nine customers were for other commercial service, such as a business or barn.

  We were informed by Princeton personnel that each of these 22 customers had been reviewed and are now correct in the billing system.

Metering Issue
In addition to the customer classification issues, our review of billing agency data noted the following issue related to metering of customers at Princeton. We were unable to estimate the monetary effect because demand meters were not in place which would provide information to make the estimates. We found two customers classified as a GSA Part 2 had energy usage in excess of 15,000 kilowatt hours (kWh) but were not measured for demand for the entire audit period. Under Part 2 of the GSA Schedule and the Wholesale rate schedule with TVA, there would be no effect on the revenues for TVA or the distributor unless customer demand exceeded 50 kW. Without demand meters in place, we could not determine whether these two customers would have exceeded 50 kW.[5]

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. As discussed further below, we noted Princeton did not have enough cash on hand as of June 30, 2008 to cover

[5] In response to a finding in a previous report, TVA indicated guidance will be issued to distributors to evaluate whether a demand meter is needed when usage reaches 25,000 kWh for a customer. Neither of these two customers' usage reached 25,000 kWh during the audit period.

expenditures for planned capital projects and provide a cash reserve.[6] However, Princeton obtained a loan in August 2009 to provide additional funds for capital expenditures.

Princeton reported about $9.2 million in its cash and cash equivalent accounts as of June 30, 2008; however, the planned capital expenditures exceeded the cash on hand by about $900,000. Table 2 shows information obtained from Princeton personnel about capital expenditure plans for 16 electric capital projects to be completed by the end of 2010.

Princeton's Planned Capital Expenditures

Project	Estimated Amount
Tap to Kentucky Utilities & West Substation	$2,681,000
Transformer at West Substation	1,819,300
Construct 161 kV Line to Kentucky Utilities	3,479,800
13 Smaller Projects	2,156,300
Total of Planned Electric Capital Expenditures	**$10,136,400**[7]

Table 2

We determined Princeton did not have enough cash as of June 2008 to cover the planned capital expenditures as shown in Table 3. Table 3 also shows Princeton's cash ratio percentage was about 108 percent before accounting for planned capital expenditures, but becomes negative (about 11 percent) after accounting for them. However, in August 2009, Princeton obtained a loan to provide additional funds for the planned capital expenditures.

Princeton's Cash Accounts Compared to Planned Capital Expenditures

	Cash and Cash Equivalents	Planned Capital Expenditures	Reserve After Planned Capital Expenditures
FY 2008	$9,226,076	$10,136,400	($910,324)
Cash Ratio Percentage	107.68%		(10.62%)

Table 3

[6] TVA reviews the cash ratios of distributors as part of its regulatory rate review function. Under TVA guidelines, a distributor has adequate cash reserves if its cash ratio is between 5 percent and 8 percent. Cash ratio is calculated as follows: $\frac{\text{Cash + Cash Equivalents}}{\text{Total Variable Expenses (Operations and Maintenance + Purchased Power)}}$

[7] Amount excludes planned capital expenditures for construction of an 8 megawatt Power Plant estimated to cost $4,462,000, which has been postponed, and for wireless broadband projects totaling $366,600.

According to TVA records, over the past five years, Princeton was approved for rate increases in 2006 and 2008. Table 4 shows the rate increases received by Princeton and the cash position and cash ratio at June 30 prior to the effective date of the rate increase.

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

Cash on Hand Equivalent to an 8% Cash Ratio	Cash and Cash Equivalents[8] and Cash Ratio	Rate Increase[9]		
		Additional Revenue	Percent	Effective Date
$588,987	$857,870 (CR = 11.65%)	$141,987	1.89%	10/1/2006
$626,154	$780,546 (CR = 9.97%)	$323,724	3.91%	4/1/2008

Table 4

CONTRACT COMPLIANCE ISSUES

Our review noted two areas where Princeton was not meeting the requirements of the power contract with TVA. Specifically, we found (1) the methodology for allocating joint costs was not approved by TVA and (2) some customers with demand above 50 kW did not have a contract. Below is further discussion on these items.

Allocation of Joint Costs

Under the power contract, the distributor is allowed to "use property and personnel jointly for the electric system and other operations, subject to agreement between Municipality and TVA as to appropriate allocations." We determined no formal TVA joint cost allocation study had occurred prior to or after Princeton entered the broadband (internet) business in 2005. Although no formal allocation policies or procedures were developed to apply an appropriate allocation of costs between the electric and nonelectric businesses, a consistent method for allocating costs has been applied except for certain overhead expenses. Overhead expenses (e.g., office supplies, utilities, copier, etc.) were not allocated between the two businesses; instead, the electric business pays for all these costs. The allocation methodology used was not approved by TVA.

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

[9] 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.

Customer Contract Issue

Our review of customer contracts found required contracts for Princeton customers with demand greater than 50 kW were not in place for all customers. Under Princeton's contract with TVA, all customers that exceed 50 kW are required to sign a formal contract. The formal 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.

We randomly selected 36 customer accounts classified as GSA Part 2 or higher in the billing agency data and found 28 had billed demand in excess of 50 kW during the audit period indicating a contract with the distributor was required. Of these 28, 26 did not have contracts with Princeton.[10] We also performed testing to identify customer accounts with billed demand in excess of 50 kW but lacking a contract demand amount in the billing system. During this review, we identified another 36 customer accounts with demand in excess of 50 kW but without a contract.

TVA management, in previous reports, indicated the threshold of 50 kW for requiring customer contracts was too low. 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.[11] In further discussions with TVA personnel, the proposed threshold for requiring a contract is 1 megawatt (MW), which would include customers classified as GSA Part 3 or higher. Only one of the customers in our sample had demand in excess of 1 MW.

[10] Princeton obtained contracts for two of the 26 customers in October 2008 and April 2009, which was after our audit period.

[11] 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.

DISTRIBUTOR INTERNAL CONTROL ISSUES

We identified three areas where Princeton's internal controls could be strengthened to improve completeness, accuracy, and validity of the billing and meter data. Specifically, we found improvements could be made in the (1) accuracy of the manual and automated meter inventory systems, (2) accuracy of contract demand data entered in the system, and (3) review of exception reports, including monitoring repetitive instances of zero usage amounts for individual accounts.

Accuracy of the Manual and Automated Meter Inventory Systems

In addition to the information in the automated billing system, Princeton maintains a manual system of customer cards which lists all of the customer's information, including the meter number. We randomly selected 20 customer cards, containing information on 26 accounts, from the "active" manual card section and compared the meter number and customer information on the card to the meter number/customer information in the automated system. We found 4 of the 26 accounts contained one or more errors including the (1) meter number was wrong, (2) customer name was wrong, and/or (3) card indicated the meter had been removed (service terminated). In addition, we selected a random sample of 15 available or "inactive" meters and reviewed the status of each in the automated system. One of the fifteen available meters was not listed in the system.

Contract Demand in Billing System

We noted two issues related to entering contract demand in the billing system. Specifically, we found (1) contract demand in the system did not agree with the contract demand in the customer's contract for two customers and (2) contract demand had not been entered into the system for two customers whose contracts were obtained in October 2008 and April 2009.

Reviewing Exception Reports

We noted Princeton did not fully utilize exception reports. Princeton personnel indicated the "high/low" and the "turn on/turn off" exception reports were reviewed; however, other exception reports, including changes to a customer's revenue class and customers with zero usage for multiple, consecutive months, were either not reviewed or not in place. Review of these type exception reports is a prudent business practice that provides management with information to ensure customers are classified correctly and identify problems that need to be addressed in a timely manner. For example, we noted there were 35 residential customers with no metered usage for 20 or more months of our 24-month audit period. Service was turned off for nine of these customers, and each had no usage for 22 or more months. According to Princeton personnel, based on our findings and discussions, additional exception reports are currently being printed and reviewed.

TVA OVERSIGHT OPPORTUNITIES

We found opportunities to enhance TVA's oversight of the distributors; however, the issues noted for this distributor were the same as those reported in previous Office of the Inspector General (OIG) distributor reports. Specifically, we noted TVA has not:

- Performed a joint cost study even though 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;
- Adequately defined the process for granting the Small Manufacturing Credit to ensure proper documentation, including evidence of approval, is submitted and maintained;
- Provided adequate guidance on when a demand meter is required; and
- Provided definitive guidance for distributors on what constitutes prudent expenditures.

In response to the previous reports, TVA agreed to take corrective actions on these issues. Full discussion of these issues and TVA's planned actions can be found in prior OIG distributor reports on our Web site, www.oig.tva.gov.

RECOMMENDATIONS

Princeton has elected to terminate its power contract with TVA effective January 24, 2010. Consequently, we have no recommendations which require response from either Princeton or TVA. However, we provided specific suggestions to help Princeton strengthen its internal controls and improve its business practices in order to accurately bill its customers. Our suggestions included: (1) remediating classification and metering issues, (2) developing and documenting a consistent methodology for allocating all joint costs, (3) obtaining contracts for customers as appropriate, (4) updating the automated system (and manual customer cards, if maintained) with changes, including contract demand, on a timely basis, and (5) identifying and utilizing exception reports to ensure customers are classified correctly and identify problems that need to be addressed in a timely manner. As noted in the report, Princeton personnel corrected the classification issues and started reviewing additional exception reports.

Princeton's Response – Princeton did not respond formally to the report; however, informal responses indicated Princeton agreed with our findings and suggestions.

TVA Management's Comments – TVA concurred with the facts and conclusions in the report and the OIG oversight recommendations. TVA noted the oversight recommendations were consistent with those made for other distributors and responded to those recommendations in prior reports. See the Appendix for TVA's complete response.

Auditor's Response – The OIG concurs with Princeton's informal responses and TVA's comments.

January 8, 2010

Robert E. Martin, ET 3C-K

RESPONSE TO DRAFT AUDIT REPORT 2008-12041– DISTRIBUTOR REVIEW OF PRINCETON ELECTRIC PLANT BOARD

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

Since Princeton has elected to terminate its power contract with TVA effective January 24, 2010, TVA has no actions planned or completion dates for Princeton as noted in the report. We concur with the facts and conclusions in the report and the OIG oversight recommendations to TVA. We also note that these oversight recommendations are consistent with those made for other distributors and TVA has submitted responses to these recommendations in prior reports.

Kim S. Greene

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