Memorandum from the Office of the Inspector General

October 19, 2023

Melanie E. Farrell
Cassidy L. Larson

REQUEST FOR MANAGEMENT DECISION – AUDIT 2023-17414 – PANDEMIC RECOVERY CREDIT

Attached is the subject final report for your review and management decision. You are responsible for determining the necessary actions to take in response to our findings. Please advise us of your management decision within 60 days from the date of this report. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding audits that remain unresolved after 6 months from the date of report issuance.

If you have any questions or wish to discuss our findings, please contact Rick L. Taylor, Audit Manager, at (865) 632-7370 or Rick C. Underwood, Director, Financial and Operational Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during the audit.

David P. Wheeler
Assistant Inspector General
(Audits and Evaluations)

RLT:FAJ
Attachment
cc (Attachment):
TVA Board of Directors
Buddy Eller
David B. Fountain
Michael R. Hynes
Jeffrey J. Lyash
Jill M. Matthews
Jeanette Mills
A. Douglas Perry
John M. Thomas III
Ben R. Wagner
Diane T. Wear
OIG File No. 2023-17414

TVA

Office of the Inspector General

Audit Report

To the Vice President, External Strategy and Regulatory Oversight, and to the Vice President, Contracts and Rates Strategy, Pricing and Contracts

PANDEMIC RECOVERY CREDIT

Audit Team
Rick L. Taylor
Chasity W. Scantling

Audit 2023-17414
October 19, 2023

ABBREVIATIONS

TVA Board	TVA Board of Directors
FY	Fiscal Year
LPC	Local Power Company
LRA	Local Rate Adjustment
PRC	Pandemic Relief/Recovery Credit
TOU	Time of Use
TVA	Tennessee Valley Authority

TABLE OF CONTENTS

Audit 2023-17414 – Pandemic Recovery Credit

EXECUTIVE SUMMARY

Why the OIG Did This Audit

On August 20, 2020, in response to the coronavirus (COVID-19) pandemic, the Tennessee Valley Authority (TVA) created the Pandemic Relief Credit[i] (PRC) to provide a measure of relief to local power companies (LPCs), industries, businesses, and people of TVA's seven-state service region. Relief was provided in the form of a 2.5 percent credit to LPC and directly served customers' demand and nonfuel energy charges. In August 2021, TVA extended the 2.5 percent credit through fiscal year (FY) 2022. TVA subsequently extended the 2.5 percent credit through FY 2023. Through July 2023, TVA had issued about $630 million in PRCs.

The TVA Board of Directors (TVA Board) guidance for the PRC indicated:

- LPCs could retain or pass through some or all of the credit based on standard service (i.e., residential, commercial, and small industrial customers) usage, as they deem appropriate to address system needs. Any credits provided to end-use customers were to be applied in a manner that is nondiscriminatory.
- LPCs were instructed to pass through the portion of the PRC attributed to individual time of use (TOU) service customers (i.e., large customers as defined in the wholesale rate schedule, including commercial and industrial customers having contract demands greater than 5 megawatts) on to those customers.
- TVA was to provide a 2.5 percent monthly credit to each directly served customer's power invoice based on the customer's demand and nonfuel energy charges under its applicable firm power rate schedule.

We included this audit in our annual audit plan due to the amount of credits issued to LPCs and issues identified in a previous audit of pandemic-era credits.[ii] Our audit objective was to determine if adequate controls were in place to ensure the PRCs were calculated and utilized in accordance with TVA Board approval. Our audit scope was the $449,227,369 of credits issued under the PRC for the period October 2020 through September 2022.

---

[i] Relief and Recovery are interchangeable in the name of the PRC. The name of the PRC was originally Pandemic Relief Credit. In August 2021, the TVA Board extended the PRC through FY 2022 and the name was changed to Pandemic Recovery Credit.

[ii] Audit 2022-17346, *Back to Business Credit Program*, September 14, 2022.

EXECUTIVE SUMMARY

What the OIG Found

We determined some controls were adequate to ensure PRCs were calculated and utilized in accordance with TVA Board approval. Specifically, controls were adequate to ensure (1) PRCs were calculated accurately and (2) LPCs that elected to pass the standard service portion of the credit to their customers did so in a nondiscriminatory manner. However, we determined the control in place to ensure the TOU portion of the credit that was passed to LPC customers was inadequate. Specifically, the control for testing whether the LPC was passing the credit to the TOU customers was to ask LPC personnel if the credit was passed on to the customers. Due to the inadequacy of the control, TVA was not aware that one of the 25 LPCs we tested had not passed the majority of the credits to their end-use TOU customers totaling about $420,000.

In addition, since the standard service portion of the credit did not have to be passed on to LPC customers, the cash positions of LPCs could be increased by the PRC. We determined 44 LPCs had surplus cash in excess of the TVA Board's previously established 33 percent cash ratio threshold and noted 36 of these had not passed the standard service portion of the credit on to their end-use customers.

What the OIG Recommends

We made recommendations to TVA management related to (1) ensuring TOU customers receive the proper credits and (2) identifying and working with LPCs with excess surplus cash.

TVA Management Comments

Prior to issuing a formal response, TVA personnel reviewed the draft report and provided informal comments that have been incorporated into the final report as appropriate. In TVA management's formal response to the draft report, TVA management agreed with our recommendation to ensure TOU customers receive the proper credits and stated remediation for two of the three TOU customers who did not receive the PRC credit has been completed and full remediation for the third TOU customer who did not receive the PRC credit will be completed by November 30, 2023.

In addition, TVA management agreed with our finding that some LPCs had surplus cash in excess of the TVA Board established 33 percent cash ratio threshold, as of March 2023. However, rather than reinstate the "high-cash letter" control used previously by Regulatory Assurance, TVA management stated that by the end of FY 2024, Regulatory Assurance will review how they evaluate cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives. See the Appendix for TVA management's complete response.

Auditor's Response

We agree with TVA management's planned actions to ensure TOU customers identified during the audit receive the PRC as required. However, TVA management did not provide specific steps they plan to take to ensure the remainder of TOU customers received the proper credits.

We also agree it is appropriate for TVA management to review how TVA evaluates cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives if they are not confident in the currently established metrics and process.

BACKGROUND

On August 20, 2020, the Tennessee Valley Authority (TVA) Board of Directors (TVA Board) approved the Pandemic Relief Credit[1] (PRC) in response to the coronavirus (COVID-19) pandemic. The objective of the PRC was to provide a measure of relief to local power companies (LPCs), industries, businesses, and people of TVA's seven-state service region. Relief was provided in the form of a 2.5 percent credit to LPC and directly served customers' demand and nonfuel energy charges. The credit was first applied in October 2020. In August 2021, the TVA Board extended the 2.5 percent credit through fiscal year (FY) 2022. In November 2021, the TVA Board extended the credit at 1.5 percent through FY 2023. In July 2022, the TVA Board approved increasing the credit to 2.5 percent for FY 2023. Through July 2023, TVA had issued about $630 million in PRCs.

According to the TVA Board approval package, the PRC would be applied to the LPC and direct-serve power invoices. Guidance approved by the TVA Board included the following:

- TVA will apply a monthly credit to each LPC's wholesale power invoice in an amount equal to 2.5 percent of the LPC's wholesale base rates that are subject to adjustment and are supplied by TVA in accordance with the "Standard Service"[2] and "Time of Use (TOU) Service"[3] sections of the Wholesale Power Rate Schedule.
- LPCs may utilize the portion of the PRC based on standard service usage, as they deem appropriate.[4] Any credits provided to end-use customers must be applied in a manner that is nondiscriminatory.
- LPCs must pass through the portion of PRC attributed to individual TOU service customers to those customers. TVA will provide billing data to facilitate this pass through.
- TVA will apply a monthly credit to each directly served customer's power invoice in an amount equal to 2.5 percent of the customer's demand and nonfuel energy charges under its applicable firm power rate schedule.

---

1 Relief and Recovery are interchangeable in the name of the PRC. The name of the PRC was originally Pandemic Relief Credit. In August 2021, the TVA Board extended the PRC through FY 2022 and the name was changed to Pandemic Recovery Credit.

2 Wholesale electric service to LPCs for resale to their residential, commercial, and small industrial customers.

3 Wholesale electric service to LPCs for resale to their large customers as defined in the wholesale rate schedule, including commercial and industrial customers with contract demand greater than 5 megawatts.

4 The LPC would decide how best to utilize the credit for the benefit of the local area they serve. For example, an LPC could choose whether to pass the credit to customers, retain the credit to address electric distribution system issues, or a combination of both.

We noted the following controls were in place to ensure credits had been calculated and utilized in accordance with the PRC guidelines.

- Revenue personnel review the demand, energy, and other charges and credits on a customer's trial bill to ensure the accuracy and completeness of billing data for LPC and directly served customers. Billing data is populated into the customer's checksheet and compared to customers' trial bills generated within TVA's billing system. If no issues are found, the trial bills are approved within the billing system, which generates final customer invoices. A userid and time stamp are automatically created in the billing system and provided as evidence of approval.
- Rates and Administration personnel use the TVA Board approved rate review process to review and approve the method used to calculate the standard service portion of the credit for LPCs that elected to pass the credit (or a portion of the credit) on to their customers.
- Regulatory Assurance personnel contact LPCs to ask if they passed the TOU usage portion of the credit to their customers.

Since the standard service portion of the credit did not have to be passed on to LPC customers, the cash positions of LPCs could be increased by the PRC. Accordingly, we identified a control designed to identify and monitor LPCs with surplus cash positions. If an LPC has excess cash outside of the cash ratio metric threshold established by the TVA Board, the control has Regulatory Assurance send letters to the LPC requesting plans outlining steps the LPC is taking to achieve an appropriate cash ratio metric.

We included this audit in the annual audit plan due to the amount of credits issued to LPCs and issues identified in a previous audit of pandemic-era credits.[5]

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if adequate controls were in place to ensure the PRCs were calculated and utilized in accordance with TVA Board approval. Our audit scope included all 44,406 credits, totaling $449,227,369, issued under the PRC for the period October 2020 through September 2022. We performed our fieldwork between January and July 2023. To achieve our objective, we:

- Reviewed the PRC guidance approved by the TVA Board to identify PRC requirements and key controls.
- Inquired of TVA Rates and Administration personnel to obtain an understanding of the credit calculation and key PRC controls.
- Obtained an understanding of internal controls associated with the PRC. We identified three controls significant to the audit objective. Our primary method for testing the operating effectiveness of these controls was recalculating the

[5] Audit 2022-17346, *Back to Business Credit Program*, September 14, 2022.

sampled credits and determining if the credits were passed through to customers as intended.

- Obtained a listing of the PRC credits and performed data analysis to assess reliability of the data (44,406 credits totaling $449,227,369).
- Judgmentally selected a sample of 35 (of 44,406) credits totaling $6,926,658 (1.5 percent of the population) to determine if the credits were calculated in accordance with PRC guidance. The sample of 35 credits consisted of 25 LPC customers and 10 direct-serve customers. The samples were selected to include customers of various sizes. To determine if the credits were calculated in accordance with the guidance, we:
  - Recalculated the credits for the sampled invoices.
  - Reviewed (1) supporting documentation for credit calculations, (2) LPC and direct-serve customer invoices, (3) wholesale rate schedules, (4) retail rate schedules, and (5) adjustment addendums.
- From each of the 25 LPCs listed above, we selected one invoice issued to a TOU customer to determine if the LPCs passed the credits to its customers. To determine if the credits were passed through as required, we:
  - Reviewed (1) TVA's invoices for the 25 sampled TOU customers and (2) the LPCs' invoices for their customers.
  - Compared the credits calculated by TVA to the credits calculated on the LPCs' invoices.
- Obtained a listing of the 26 LPCs that elected to pass, all or a portion of, the standard service credit to their customers. We then judgmentally selected a sample of 6 of the 26 LPCs to determine if the pass through was done in a nondiscriminatory manner. To determine if the credits were made in a nondiscriminatory manner, we (1) reviewed the LPC rate adjustment request, (2) reviewed TVA's calculation of the adjustment for each of the standard service rates, and (3) traced the new adjusted rates to the LPC's rate schedule.
- Reviewed TVA's cash ratio metrics for each LPC to determine if LPCs had surplus cash on hand.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

We determined some controls were adequate to ensure PRCs were calculated and utilized in accordance with TVA Board approval. Specifically, controls were adequate to ensure (1) PRCs were calculated accurately and (2) LPCs that elected to pass the standard service portion of the credit to their customers did so in a nondiscriminatory manner. However, we determined the control in place to ensure the TOU portion of the credit that was passed to LPC customers was inadequate. In addition, during the course of our audit, we determined some LPCs had surplus cash in excess of the TVA Board established 33 percent cash ratio threshold, as of March 2023.

Prior to issuing a formal response, TVA personnel reviewed the draft report and provided informal comments that have been incorporated into the final report as appropriate.

SOME CONTROLS WERE ADEQUATE TO ENSURE COMPLIANCE WITH PRC GUIDANCE

We determined controls were adequate to ensure (1) PRCs were calculated in accordance with the PRC guidance approved by the TVA Board and (2) LPCs that elected to pass the standard service portion of the credit to their customers did so in a nondiscriminatory manner. We reviewed the controls TVA used to verify the accuracy of the credit calculations for LPCs and direct-serve customers. To assess the operating effectiveness of the information systems control, we reviewed the outputs from the system rather than the general and application controls of TVA's billing system. For 35 sampled credits applied to customer invoices (25 LPCs and 10 direct-serve customers), we (1) reviewed credit calculations and relevant supporting documentation and (2) recalculated the credits for the sampled invoices according to the PRC guidance approved by the TVA Board without exception.

Additionally, we verified TVA reviewed and approved the method used to calculate the standard service portion of the credit for LPCs that elected to pass the credit (or a portion of the credit) on to their customers. To assess the operating effectiveness of the controls related to the credit for standard service customers, we reviewed documentation related to the credits for 6 LPCs and verified the standard service rates were reduced by the percentage of credits the LPC elected to provide to their end-use customers.

CONTROLS WERE NOT ADEQUATE TO ENSURE TOU PORTION OF THE PRC WAS PASSED THROUGH AS REQUIRED

The TVA Board approved guidance stated, "LPCs must pass through the portion of Pandemic Relief Credits attributed to individual TOU Service customers to those customers." However, the control used to ensure the TOU portion of the credit was passed to LPC customers was inadequate. Due to the inadequate control, TVA was unaware that one LPC had not passed the majority of the credits to its end-use TOU customers totaling about $420,000.

Regulatory Assurance's control for testing whether the LPC was passing the credit to the TOU customers was to ask LPC personnel if they were passing the credit on to the customers. To assess the operating effectiveness of the control, we selected a sample of 25 LPC end-use TOU customers, totaling $190,751 in monthly credits, to verify the LPC passed through the credit attributable to TOU usage to the end-use customer. We found one of the LPCs failed to pass the TOU portion of credits to a customer, totaling $11,350. We asked Regulatory Assurance to determine if the LPC had failed to pass any additional PRCs to its customers. Regulatory Assurance subsequently provided us with documentation indicating the LPC had not passed the majority of the credits to its customers totaling about $420,000 (including the $11,350).

Relying solely on the response of LPC personnel is not an adequate control for providing assurance that credits are provided as required.

LPC SURPLUS CASH

In response to a previous Office of the Inspector General audit,[6] TVA developed the cash ratio metric to monitor LPC excess revenue based on surplus cash. According to Regulatory Assurance personnel, in 2013, the TVA Board established financial screening metrics for the rate review process identifying surplus cash as a cash ratio metric above 33 percent. A cash ratio of 33 percent would provide cash levels equaling approximately 120 days of power costs and operations and maintenance expenses. Since the standard service portion of the credit did not have to be passed on to LPC customers, we reviewed the LPCs cash ratio positions to determine if LPCs had surplus above TVA Board guidance.

As of March 2023, Regulatory Assurance's cash ratio metric calculations indicated 44 of the 153 (approximately 28 percent) LPCs had a cash ratio metric greater than the TVA Board established 33 percent threshold.[7] Thirty-six of the 44 LPCs had chosen not to pass the standard service portion of the credit on to their end-use customers. We also noted 13 of the 44 LPCs had a cash ratio metric greater than 50 percent, including one that had a cash ratio of 98 percent.

Regulatory Assurance is responsible for reviewing the cash ratio metric to identify and monitor LPCs with a surplus cash position. If an LPC has excess cash outside the cash ratio metric threshold, Regulatory Assurance sends letters to the LPC requesting plans outlining steps the LPC was taking to achieve the cash metric, and Regulatory Assurance analysts monitored these plans. However, according to Regulatory Assurance personnel, TVA suspended the

6 Audit 2009-12699, *Follow-up Review of TVA's Role as a Rate Regulator – Use of Electric System Revenues for Nonelectric Purposes*, December 9, 2010.

7 Eleven of the 153 LPCs did not have a cash ratio calculated.

portion of the control requiring LPCs to request a rate action or justify their need to have a cash ratio above 33 percent.

Wholesale power contracts for LPCs typically state, “If the rates and charges provided for in the resale schedules provide revenues that are more than sufficient to provide for the operation and maintenance of the electric system on a self-supporting and financially sound basis, the LPC and TVA shall agree upon a reduction in rates and charges, and the LPC shall promptly put the reduced rates and charges into effect.” Wholesale power contracts require TVA, in its role as a regulator, to work with LPCs to promptly reduce rates and charges when an LPC has revenues that are more than sufficient to provide for the operation and maintenance of the electric system on a self-supporting and financially sound basis.

RECOMMENDATIONS

We recommend the Vice President, Contracts and Rates Strategy, Pricing and Contracts, work with TVA’s Regulatory Assurance to:

1. Ensure all TOU customers receive the PRC.

   TVA Management’s Comments – In response to our draft report, TVA management agreed with this recommendation and stated remediation for two of the three TOU customers who did not receive the PRC credit has been completed and full remediation for the third TOU customer who did not receive the PRC credit will be completed by November 30, 2023. Regulatory Assurance plans to perform FY 2023 rate and credit checks as part of its risk-based portfolio of work in FY 2024. Rate and credit checks will be performed for LPCs who TVA deems to be a higher risk. See the Appendix for TVA management’s complete response.

   Auditor’s Response – We agree with TVA’s planned course of action to ensure TOU customers identified during the audit receive the appropriate PRC. However, TVA management did not provide specific steps they plan to take to ensure the remainder of TOU customers received the proper credits.

2. Reinstate the control requiring LPCs to request a rate action or justify their need to have a cash ratio above 33 percent.

   TVA Management’s Comments – In response to our draft report, TVA management stated it has periodically issued “high cash letters” to LPCs requesting an in-depth review of their cash ratios when an LPC with a cash ratio above 33 percent has submitted a local rate adjustment (LRA). However, TVA staff recognized the PRC could place upward pressure on the cash ratios and TVA discontinued sending the high cash letters to eliminate confusion associated with providing LPCs with the PRC and subsequently sending them a letter requesting they justify their high cash levels.

Rather than reinstate the high cash letter control as recommended by the Office of the Inspector General, TVA management stated by the end of FY 2024, Regulatory Assurance will review how it evaluates cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives. See the Appendix for TVA management's complete response.

Auditor's Response – We agree with TVA's planned action to review how it evaluates cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives if there is not confidence in the current metrics and monitoring controls.

However, we would note Section 5(c) of the power contract with distributors of TVA power states, "If the rates and charges in effect at any time provide revenues that are more than sufficient for such purposes, as more particularly described in Section 6 hereof, the parties shall agree upon a reduction in said rates and charges, and Municipality shall promptly put such reduced rates and charges into effect." This applies not only when LPCs are requesting an LRA, but at all times. The 33 percent cash ratio metric was developed by TVA and approved by the TVA Board in response to Audit 2009-12699 – *Follow-up Review of TVA'S Role as a Rate Regulator – Use of Electric System Revenues for Nonelectric Purposes,* December 9, 2010.

3. Work with any LPCs identified as having excess reserves to reduce their cash surplus as soon as feasible.

   TVA Management's Comments - In response to our draft report, TVA management stated, when evaluating an LRA, TVA will continue to carry out all actions required within the TVA Board-approved Revised Rate Review process, which established the financial metrics, including a cash surplus. TVA agrees to require LPCs with high cash ratios to provide justification, as well as a plan to reduce cash levels below the threshold, for the high cash ratio when requesting an LRA. In addition, by the end of FY 2024, Regulatory Assurance will review how we evaluated cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives. See the Appendix for TVA management's complete response.

   Auditor's Response – We agree with TVA's planned actions to (1) require LPCs with high cash ratios to provide justification, as well as a plan to reduce cash levels below the threshold, for the high cash ratio when requesting an LRA and (2) review how it evaluates cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives if there is not confidence in the current metrics and monitoring controls. We would again note that the power contract with LPCs requires TVA and the LPC to agree upon a reduction in rates and charges at any time they provide revenues that are more than sufficient, not just when an LRA is requested by the LPC.

Tennessee Valley Authority, 1101 Market Street, Chattanooga, Tennessee 37402

September 27, 2023

Mr. David P. Wheeler
WT 2C-K

DRAFT AUDIT 2023-17414 – PANDEMIC RECOVERY CREDIT

On August 30, 2023, you provided Melanie Farrell and I with a draft of the audit findings and recommendations regarding the calculation and administration of the Pandemic Recovery Credit spanning the period October 1, 2020 through September 30, 2022.

In that letter, you requested our comments within 30 days. We are pleased to provide you with those comments in the attached document.

If you have questions concerning our comments, please feel free to reach out to either one of us.

Sincerely,

Cass Larson
Vice President
Contracts & Rates Strategy
Pricing & Contracts

Melanie Farrell
Vice President
External Strategy & Oversight

MRH:NPT:
Attachment

David B. Fountain	Doug Perry
Jeremy P. Fisher	John M. Thomas
Michael R. Hynes	Diane T. Wear
Jeanette Mills	Sharon M. Williams

TVA Positions on Recommendations:

Recommendation #1	**Ensure all TOU customers receive the PRC.**
Pricing & Contracts / Regulatory Assurance Position:	TVA agrees with the recommendation.
Comments:	
Facts / Conclusions / Recommendations	As the OIG stated, Regulatory Assurance reviewed the initial year (fiscal year 2021) of the PRC for TOU customers by requesting each LPC to confirm verbally if the credits were passed to the end-use customer. Regulatory Assurance deemed the self-attestation methodology appropriate, assessing a low risk LPCs would state the credit was passed to end-use customer when, in fact, it was not. Using this methodology provided 100% coverage of all applicable LPCs.
Remediation: Planned / Taken	Remediation for two of the three TOU customers who did not receive the PRC credit has been completed. Full remediation for the third TOU customer who did not receive the PRC credit will be completed by November 30, 2023. Rate & Credit Checks are included as part of Regulatory Assurance's annual portfolio prioritization process, which plans work projects based on LPC risks.
Anticipated Date of Completion	Regulatory Assurance plans to perform FY23 Rate & Credit checks as part of its risk-based portfolio of work in FY24. Rate & Credit checks will be performed for LPCs who TVA deems to be a higher risk.

Recommendation #2	**Reinstate the control requiring LPCs to request a rate action or justify their need to have a cash ratio above 33 percent.**
Pricing & Contracts / Regulatory Assurance Position:	TVA agrees that it has monitored and will continue to monitor LPC financial information, which includes cash ratio. Periodically, TVA has issued "high cash letters" to LPCs requesting an in-depth review of their cash ratios. TVA agrees an LPC is required to justify a cash ratio above 33 percent when submitting a local rate adjustment (LRA).
Comments:	
Facts / Conclusions / Recommendations	The control mentioned in recommendation #2 refers to a "high cash letter" which TVA had periodically sent to LPCs prior to the approval of the Pandemic Recovery Credit when TVA's review of an LPC's financials found a high cash ratio. However, TVA staff recognized that the Pandemic Recovery Credits could place upward pressure on the cash ratios. TVA discontinued sending the high cash letters to eliminate confusion associated with providing LPCs with the Pandemic Recovery Credit and subsequently sending LPCs a letter requesting LPCs to justify their high cash levels. As mentioned above, as part of the LRA process, TVA requires and continues to require LPCs with high cash ratios to provide justification, as well as a plan to reduce cash levels below the threshold, for the high cash ratio. We would also like to note that the LPC identified in the report as having a 98 percent cash ratio experienced severe damage to its system after an extreme weather event, and the cash ratio at the time of the audit was a result of insurance proceeds. Prior to that event, the LPC's cash ratio was within TVA's guidelines.
Remediation: Planned / Taken:	Although the Pandemic Recovery Credit will conclude with the September 2023 invoicing period, TVA will continue to monitor LPC financial metrics and provide regulatory oversight of their cash position. In addition, by the end of FY24, Regulatory Assurance will review how we evaluated cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives.
Anticipated Date of Completion:	Ongoing

Recommendation #3:	**Work with any LPCs identified as having excess reserves to reduce their cash surplus as soon as feasible.**
Pricing & Contracts / Regulatory Assurance Position:	TVA agrees that it has monitored and will continue to monitor LPC financial information, which includes cash ratio. When evaluating a local rate adjustment, TVA will continue to carry out all actions required within the TVA Board-approved Revised Rate Review process, which established the financial metrics including a cash surplus. TVA agrees to require LPCs with high cash ratios to provide justification, as well as a plan to reduce cash levels below the threshold, for the high cash ratio when requesting an LRA.
Comments:	
Facts / Conclusions / Recommendations	TVA has performed and will continue to perform its regulatory oversight role over LPCs
Remediation: Planned / Taken:	Regulatory Assurance monitors LPC financial metrics on a monthly cadence and, when evaluating a local rate adjustment, TVA carries out all actions required within the TVA Board-approved Revised Rate Review process, which established the financial metrics including a cash surplus. TVA will continue to require LPCs with high cash ratios to provide justification, as well as a plan to reduce cash levels below the threshold, for the high cash ratio when requesting an LRA. In addition, by the end of FY24, Regulatory Assurance will review how we evaluated cash metrics and what appropriate oversight is required to align with TVA's regulatory objectives.
Anticipated Date of Completion:	Ongoing