

Municipality  
of  
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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

January 12, 1996

**Internal Audit Report 96-01  
Bradley Lake Dispatch Agreement  
Municipal Light and Power**

**Introduction.** Municipal Light and Power (ML&P), in connection with their interest in the Bradley Lake Project (Project), entered into a Power Sales Agreement with the former Alaska Energy Authority for the sale and purchase of electric power. ML&P, along with the other participating utilities, agreed to pay the costs associated with the Project including costs for the dispatch of Project energy. Chugach Electric Association, Inc. (Chugach) was contracted to provide dispatch services for the Project. For fiscal year 1995 Chugach charged \$131,722.24 for dispatch services. ML&P's percentage share of the costs was \$34,116.06 or 25.9%.

**Scope.** At the request of ML&P and the Bradley Lake Project Management Committee, we performed a review of the charges by Chugach for fiscal year 1995 dispatch services. The objective of this audit was to determine whether the costs billed to the participating utilities were in compliance with the Bradley Lake Dispatch Agreement. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and other such auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of August through December 1995.

**Overall Evaluation.** Costs billed to the participating utilities for dispatch services by Chugach were not always in compliance with the Bradley Lake Dispatch Agreement. Based on our audit procedures and analysis, we question \$72,777 of the \$131,722.24 billed costs for fiscal year 1995.

## FINDINGS AND RECOMMENDATIONS

### 1. Excessive Labor Charges.

a. **Finding.** Costs charged to the Project for labor appeared to be excessive. Our analysis of labor costs for the dispatch and scheduling functions revealed that \$56,797 of the \$111,722.20 charged by Chugach were not supported by documentation directly related to Bradley Lake dispatch services. Specifically we found the following:

- 1) 1,352 hours were charged for the dispatch function. However, our review of supporting documentation provided to us revealed that only 730 man-hours were applicable to the Bradley Lake dispatch function. As a result, we question \$35,574 of the billed costs for the dispatch function.
  
- 2) 924 hours were charged for the scheduling function. Our review of the documentation provided to us revealed that several of the duties performed by the scheduler were not distinct from the duties that Chugach would perform for scheduling power for their own system. Approximately 44% of the scheduler's position was charged to the Project although this function pertains to scheduling power for their entire system. The project represents approximately 17% of the total megawatt capacity or 10% of the total number of generation units of Chugach's generation resources. Accordingly, we believe that 17% of the costs to the Project is a more reasonable allocation of the costs. In our opinion, based on the 17% ratio, the participating utilities were overcharged by \$21,223 for the scheduling function.

- b. **Recommendation.** Only charges directly related to Bradley Lake dispatch services should be allowed.
- c. **Management Comments.** Management concurred and stated, "ML&P will work with the other Bradley Lake Participants to obtain reimbursement for the amount overcharged."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Excessive Computer Costs Charged to the Project.**

- a. **Finding.** The computer costs charged to the Project appeared to be excessive. Chugach purchased a Network Analysis & Resource Scheduling System in April 1991 and allocated \$200,000 (85%) of the \$236,500 purchase price to the Project. These costs were charged over a ten-year period at \$20,000 per year.

Our review of contract documentation revealed that the Network Analysis & Resource Scheduling System benefited the entire Chugach power system and was not specific to the Project. Specifically, the documentation included a description of the power system and stated that "Chugach generation resources include 15 gas turbines at four plants, plus one waste heat steam unit. Chugach also dispatches six hydro units at three other plants." The documentation stated that the Network Analysis & Resource Scheduling System network analysis application programs would "provide the system operators with power flow solutions of the electrical network which they will use to evaluate equipment outages for repair and maintenance" and the resource scheduling programs would "... enable the power system operators to economically commit generating units to accommodate

Chugach's daily load and interchange requirements." The documentation further stated that "the resource scheduling packages will incorporate Chugach's gas contracts and hydro resources." As a result, it is our opinion that the Network Analysis & Resource Scheduling System was purchased to improve the dispatch and scheduling process for all gas and hydro resources of which the Project is only one resource.

According to the Bradley Lake Dispatch Agreement, the budget should include only the costs of computer equipment used for dispatching the Project's output or the portion of such costs fairly allocable to that portion of the hardware and/or software capability that is needed for the purpose of dispatching the Project's output.

The Project represents approximately 17% of the total megawatt capacity and 10% of the total number of generating units. Accordingly, we believe that 17% of the costs to the Project is a more reasonable allocation of the costs. In our opinion, based on the 17% ratio, the participating utilities were overcharged by \$15,980 for fiscal year 1995.

- b. **Recommendation.** Only charges directly related to Bradley Lake dispatch services should be allowed.
  
- c. **Management Comments.** Management concurred and stated, "ML&P will work with the other Bradley Lake Participants to obtain reimbursement for the amount overcharged."
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate officials on December 7, 1995.

Audit Staff:  
Amy McCollum