



Memorandum from the Office of the Inspector General

August 12, 2014

Gary H. Harris, OCP 6A-NST

REQUEST FOR FINAL ACTION – AUDIT 2014-15075 – TVA'S ENERGY SERVICES
CONTRACTS FOR FEDERAL CUSTOMERS

Attached is the subject final report for your review and final 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 actions are complete. 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.

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 Jessica L. Monroe, Auditor, at (865) 633-7338 or Lisa H. Hammer, Director, Operational Audits, at (865) 633-7342. We appreciate the courtesy and cooperation received from your staff during the audit.

Robert E. Martin

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Assistant Inspector General
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OIG File No. 2014-15075



Office of the Inspector General

Audit Report

To the Vice President, Industrial
Marketing and Services

TVA'S ENERGY SERVICES CONTRACTS FOR FEDERAL CUSTOMERS

Audit Team
Jessica L. Monroe
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Audit 2014-15075
August 12, 2014

ABBREVIATIONS

DOE	Department of Energy
ERS	EnergyRight® Solutions
ESCO	Energy Services Company
FEMP	Federal Energy Management Program
FESP	Federal Energy Services Program
FY	Fiscal Year
GOES	Governance, Oversight, Execution, and Support
IM&S	Industrial Marketing and Services
IRS	Internal Revenue Service
OGC	Office of the General Counsel
O&M	Operations and Maintenance
TVA	Tennessee Valley Authority
UESC	Utility Energy Service Contract

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MEMORANDUM DATED AUGUST 6, 2014, FROM GARY H. HARRIS TO
ROBERT E. MARTIN



AUDIT 2014-15075 – TVA'S ENERGY SERVICES CONTRACTS FOR FEDERAL CUSTOMERS

EXECUTIVE SUMMARY

Why the OIG Did This Audit

The Tennessee Valley Authority (TVA) currently provides energy efficiency services to federal customers under the Federal Energy Services Program (FESP).ⁱ In the fall of 2013, TVA's Industrial Marketing and Services (IM&S) group performed an evaluation of the FESP predecessor, Energy Services Company (ESCO) program, due to previously identified inconsistencies and gaps, including an absence of oversight or project controls and unclear roles and responsibilities. Due to the potential risk exposure to TVA, we conducted a programmatic review of ESCO and FESP. The objective of our review was to evaluate if the program is meeting its intended purpose of providing energy efficiency for the customer. Specifically, we reviewed program documentation and conducted interviews to determine (1) whether the intended purpose of providing energy efficiency for the customer is achieved, (2) if the program aligns with TVA's core mission and vision, (3) if programmatic gaps were identified during TVA's internal review and programmatic improvements were implemented to address the gaps, and (4) if other opportunities for improvements exist.

What the OIG Found

TVA was unable to provide documentation to allow determination of the amount of actual energy efficiency achieved specifically by ESCO for two of three current customers participating in the program; therefore, we were unable to determine the total impact of ESCO on providing energy efficiency for the customer. As a result, we were unable to determine to what degree ESCO supported accomplishment of the 2020 vision of greater energy efficiency. As part of our audit, we also assessed TVA's GOESⁱⁱ and business case documentation and found that while substantial improvements were being made to the program, programmatic gaps still exist and other opportunities for improvement exist.

ⁱ FESP was previously known as the ESCO program. According to the Program Manager, FESP began in December 2013 with the initial job of restarting the ESCO projects under the contractual arrangements from ESCO.

ⁱⁱ According to TVA, "GOES" analysis "provides a useful construct for helping organizations assign functional accountability." GOES stands for: "Governance (Who makes the rules for a particular function?), Oversight (Who oversees the function to ensure compliance with those rules?), Execution (Who actually implements the functional work to be done?), and Support (Who supports that functional work?)."



AUDIT 2014-15075 – TVA'S ENERGY SERVICES CONTRACTS FOR FEDERAL CUSTOMERS

EXECUTIVE SUMMARY

What the OIG Recommends

We recommend TVA's Vice President, IM&S:

- Develop performance metrics that enable IM&S to measure the effectiveness of the program in generating actual energy efficiency.
- Develop a process to capture and consistently record complete and accurate actual energy efficiency information for TVA and its customers and coordinate with the EnergyRight® Solutions group to provide energy efficiency data that could contribute to TVA's overall energy efficiency goals.
- Develop and implement (1) specific criteria for evaluating the selection of projects, (2) a marketing plan inclusive of direct- and distributor-served federal customers, and (3) a document outlining how segregation of duties is enforced.
- Clarify the GOES and business case documentation by (1) further explaining how program management can impact operations and maintenance, (2) removing reference to or linking to the complete FESP Manual,ⁱⁱⁱ and (3) coordinating with the Office of the General Counsel to determine applicability of the Economy Act to FESP.

TVA management agreed with the findings and recommendations. See the Appendix for TVA's complete response.

ⁱⁱⁱ The FESP Manual refers to the *FES Program Manual, Process & Procedures*.

BACKGROUND

In the early 1990s, the Tennessee Valley Authority (TVA) created the Energy Services Company (ESCO) program to provide energy efficiency services to a variety of installations including commercial facilities, industrial facilities, school systems, state and local governments, and military and federal installations. The ESCO program was modeled partly after a federally-authorized Utility Energy Service Contract (UESC); its purpose is to “. . . offer Federal agencies an effective means to implement energy-efficiency, renewable-energy, and water-efficiency projects.” In a UESC, the utility will provide the analysis, design, and installation and when necessary, arrange financing. The authority of TVA to enter into UESC arrangements is granted under federal law; specifically by United States Code, Title 42, § 8256, which authorizes and encourages federal agencies to participate in energy-efficiency, water-conservation, and electricity-demand programs offered by utilities. Additionally, according to the Program Manager, the ESCO program was partly modeled after commercial energy savings companies and provided services to nonfederal customers.

All executive federal agencies, including TVA, are required by Executive Order 13423, signed in 2007, to reduce energy intensity by 3 percent per year through 2015 or 30 percent by 2015 (compared to fiscal year [FY] 2003 as a base year). Agencies, including TVA, are required to report annually to Congress¹ on their progress towards these goals. Additionally, agencies can voluntarily report UESC project information to the Department of Energy (DOE) Federal Energy Management Program (FEMP). This information, according to the DOE FEMP Web site, is compiled into an annual report supplied to Congress.

TVA's Customer Resources group is responsible for energy efficiency-related programs. Industrial Marketing and Services (IM&S), in TVA's Customer Resources organization, was responsible for administering ESCO. EnergyRight® Solutions (ERS), under Customer Resources, is responsible for measuring the effect of TVA's energy efficiency programs on the TVA service region. According to a program manager in ERS, TVA's ERS group may receive data on actual energy efficiency from projects when ERS measurements are taken at a facility. ERS is also responsible for reporting information from energy efficiency, demand response, and renewable energy programs in the annual *TVA EnergyRight® Solutions Highlights Report*.

In 2010, TVA issued its vision to be one of the nation's leading providers of low-cost energy by 2020. TVA's 2020 vision included a goal of greater energy efficiency. In concert, TVA expanded its existing ERS program to include energy efficiency programs for all commercial and industrial customer classes, known as ERS for Business and ERS for Industry. As a result of the ERS expansion, some

¹ United States Code, Title 42, §8258 describes reporting requirements. The annual report to Congress is the *Federal Government Energy Management Conservation Programs Report*.

of the nonfederal customers previously served by the ESCO program began to be served by ERS. The ESCO program, going forward, was only offered to federal customers.

Under the program, TVA enters into contractual agreements, or delivery orders, with federal customers to assist in meeting their energy efficiency requirements. TVA contractors conduct detailed energy studies, providing information on Energy Conservation Measures² including cost, proposed energy savings from implementing the measure, and a calculation of the simple payback period for recapturing the implementation cost. TVA selects contractors to perform the energy efficiency work, often conducted in phases, for the federal customers. When the work is complete, TVA or its contractors may perform monitoring and verification work as outlined in the contract. Monitoring and verification work measures the actual energy efficiency of a project which is reported to TVA and the customer.

In the fall of 2013, program issues and inconsistencies lead to an internal review of ESCO. As part of the program review, a team from TVA's IM&S organization conducted a Governance, Oversight, Execution, and Support (GOES) analysis. Program deficiencies noted as part of the review included an absence of oversight or project controls and unclear roles and responsibilities. Based on the initiation of the GOES analysis, a moratorium on all work was placed on then-current delivery orders and projects until programmatic improvements could be implemented. The GOES analysis resulted in the initiation of a program redesign focused on completing existing projects with greater oversight and implementing additional controls and procedures. As part of the GOES analysis, detailed documents citing planned improvements in process controls and solutions for identified gaps in the program were produced. According to a document dated November 2013, "The outcome of the ESCO program review was the sun-setting of the ESCO program in its current form and the development and implementation of the new Federal Energy Services Program (FESP) to effectively and efficiently help our federal customers meet energy-related goals. . ." According to the Program Manager, FESP began in December 2013 with the initial job of restarting the ESCO projects under the contractual arrangements from ESCO. In February 2014, work resumed on existing delivery orders. In addition, TVA began to reach out to federal customers who might be interested in the FESP services. According to FESP's Program Manager, as of the date of this report, TVA has not initiated a new project under FESP; however, there are FESP projects in the development phase planned to be initiated in FY2015.

TVA currently has active projects at Fort Campbell in Clarksville, Tennessee, and Hopkinsville, Kentucky; Redstone Arsenal in Huntsville, Alabama; and Internal

² Energy Conservation Measures may be suggested by either the customer or TVA and include items such as lighting projects to replace less efficient lighting, rework of heating, ventilation and air conditioning systems, insulation project for buildings, etc.

Revenue Service (IRS) in Memphis, Tennessee.³ We have summarized the information we obtained from signed delivery orders provided by FESP staff in Table 1.

Customer	Contract Amount
Fort Campbell	\$ 10,939,923
IRS Memphis	10,735,100
Redstone Arsenal	25,298,133

Table 1

OBJECTIVE, SCOPE, AND METHODOLOGY

In 2013, program issues and inconsistencies led to a review of ESCO. The outcome of the review was the termination of ESCO and the initiation of FESP in December 2013. Due to the potential risk exposure to TVA, we conducted a programmatic review of FESP and its predecessor, ESCO.

Our objective for this audit was to evaluate if the program is meeting its intended purpose of providing energy efficiency for the customer. Specifically, we reviewed program documentation and conducted interviews to determine (1) whether the intended purpose of providing energy efficiency for the customer is achieved, (2) if the program aligns with TVA's core mission and vision, (3) if programmatic gaps were identified during TVA's internal review and programmatic improvements were implemented to address the gaps, and (4) if other opportunities for improvements exist. The scope of our review was active projects in FYs 2012 and 2013.

To achieve our objective, we performed the following:

- Identified and reviewed applicable policies and procedures relating to TVA's FESP and its predecessor, ESCO, to gain an understanding of how the program operates and who in TVA interacts with the program.
- Researched information on the DOE FEMP UESC to understand how TVA's program is affected by being conducted under the authority of and in accordance with this larger federal program.
- Conducted interviews with affected parties (program manager in IM&S, Customer Resources, Power Contracts, Supply Chain, and others) to gain an understanding of program. Specifically, we asked questions to obtain insight into the purpose of the program, mechanics of how the program operates, energy savings from the program, costs/revenues associated with the program, and other questions as necessary.
- Reviewed current customer contract documentation to understand the size of the current program and the key contractual terms.

³ Fort Campbell and Redstone Arsenal are both United States Army installations directly served by TVA. IRS Memphis is a distributor-served customer of Memphis Light, Gas and Water.

- Obtained summary information on costs and revenues associated with the program and other costs or benefits to understand the size of the program and benefits and costs to TVA.
- Requested and reviewed (1) electronic information and (2) hardcopy documentation from files in storage at TVA's Nashville office to identify documentation supporting achievement of actual energy efficiency by the program.
- Reviewed evaluation studies performed by TVA and information on performance measures used to evaluate the program to understand changes made to the program during the GOES analysis and how the success of the program is measured.
- Evaluated TVA self-identified process improvements for the program to determine if improvements were implemented or were in the process of being implemented. We also evaluated if any remaining programmatic gaps existed or further improvement was necessary.
- Conducted interviews with TVA personnel, including the Office of the General Counsel (OGC), and reviewed GOES and business case documentation for the program to determine if the Economy Act applied to these transactions.
- Reviewed TVA's mission and 2020 vision to determine if energy efficiency (the intended purpose of the program) helps meet these goals and how the program relates to TVA's mission and vision.
- Obtained an understanding of internal controls relevant to the audit objective and performed limited testing, including (1) recording of actual energy efficiency achieved by the program and (2) segregation of duties for project management.

Fieldwork was conducted from January 2014 through June 2014. 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS

TVA was unable to provide documentation to allow determination of the amount of actual energy efficiency achieved specifically by ESCO for two of three current customers participating in the program; therefore, we were unable to determine the total impact of ESCO on providing energy efficiency for the customer. As a result, we were unable to determine to what degree the program supports accomplishment of the 2020 vision of greater energy efficiency. As part of our audit, we also assessed TVA's GOES and business case documentation and

found that while substantial improvements were being made to the program, programmatic gaps still exist, and other opportunities for improvement exist.

UNABLE TO DETERMINE IMPACT OF PROGRAM ON ENERGY EFFICIENCY AND TVA'S VISION

As previously mentioned, the ESCO program was discontinued and the program was replaced with FESP in December 2013. According to the Program Manager there have not been any new projects started under FESP. Projects mentioned below were started under the former ESCO program and FESP staff will administer the remaining contractual agreements under ESCO. Since FESP was modeled after the former ESCO program, we reviewed completed and ongoing ESCO projects to provide feedback to improve FESP. The intended purpose of ESCO and FESP is to achieve energy efficiency for the customer. However, we were unable to determine how much the program impacts energy efficiency, because TVA was unable to provide complete documentation to allow determination of the total amount of actual energy efficiency achieved by the program.

As previously stated, TVA contractors' detailed energy studies submitted to the customer contained estimated energy efficiency savings. According to contract language, validation of these estimated energy efficiency savings is only shown by monitoring and verification reports⁴ provided by the contractor. Individual contracts set the parameters of these monitoring and verification services in terms of length of monitoring. In December 2013, we requested TVA personnel provide any evidence of actual energy savings achieved from the program. TVA provided one monitoring and verification report for IRS Memphis phase I lighting work and was unable to provide monitoring and verification reports for Fort Campbell or Redstone Arsenal. The information in these reports contained the estimated energy efficiency savings based on engineering estimates for each lighting module. We visited the Nashville, Tennessee, IM&S office in January 2014 and reviewed all hardcopy files maintained in storage and electronic files related to the program in order to obtain information related to energy savings but were unable to locate any documentation showing actual energy efficiency achieved.

In May 2014, the current FESP Program Manager provided a spreadsheet prepared by the former Program Manager showing energy savings for program customers from FYs 1998 through 2012. Specifically, the spreadsheet contained revenue, energy savings (in dollars), kilowatt hour impact, and peak load reduced (kilowatts) for each project; however, complete data was not available for all projects listed. We requested supporting information to validate the energy savings, but no supporting information was provided.

As previously noted, federal entities can voluntarily report energy efficiency information to DOE FEMP. Fort Campbell and Redstone Arsenal provided information to DOE FEMP. During our audit, TVA requested and obtained data

⁴ TVA does not guarantee the savings provided by the work performed.

on energy savings from the DOE for some of the Fort Campbell and Redstone Arsenal projects; however, the information was not a complete list of data for all projects for these customers, and TVA was unable to provide support to verify this information.

ERS provided data from its measurements taken at federal facilities. We reviewed the data provided and confirmed actual energy efficiency was recorded for the IRS Memphis lighting project and was identified as data from an ESCO project. However, we were unable to determine if other data provided showed actual energy efficiency from ESCO projects, because the data collected was only identified as ERS data. We also noted Redstone Arsenal was not included in any of the data provided. As a result, we were unable to determine the total amount of actual energy efficiency achieved specifically by ESCO. According to the Program Manager, staff from ERS and FESP met on June 9, 2014, and FESP staff has plans to provide data to ERS delineated as from FESP projects in FY2015; based on the results, the team will then determine if this is how information will be recorded going forward. The FESP group also plans to begin providing data on estimated energy efficiency goals from projects as part of ERS annual goals.

Because TVA was unable to provide complete information to verify how much actual energy efficiency was achieved by ESCO, we were unable to determine the total impact of the program on energy efficiency. As a result, we were unable to determine to what degree the program supports accomplishment of TVA's 2020 vision of achieving greater energy efficiency.⁵

TVA Chief Executive Officer William D. Johnson has repeatedly emphasized the importance of TVA focusing on projects and activities that support TVA's mission and vision. In the current TVA climate of staffing reductions and budget cuts, it is increasingly important that every TVA program contributes to the accomplishment of TVA's mission and vision. Collecting and reporting energy efficiency data could provide support for FESP's relationship to accomplishment of TVA's vision of greater energy efficiency.

PROGRAMMATIC GAPS EXIST

As previously mentioned TVA performed a GOES analysis of the program in the fall of 2013. The analysis identified program deficiencies and gaps as well as proposed solutions for the program going forward. The GOES team is implementing or has implemented these solutions to improve the oversight and execution of the program. However, we identified additional programmatic gaps exist in the program that were not addressed in FESP documentation.

⁵ FESP program personnel stated economic development is how the program ties to TVA's mission; however, all the documentation we reviewed related to energy efficiency as the intended purpose and goal of the program. In addition, the federal program, UESC, which provides the authority for TVA to enter into FESP contracts, is focused on energy efficiency.

Specifically, we found:

- There were no criteria on determining how TVA will select a project with customers. Criteria could include items such as a dollar value of projects, a target of minimum energy efficiency achieved by the project, or other project or financial criteria. Adequate project selection criteria can yield better results for TVA by reducing risks and maximizing benefits.
- There was no marketing plan for informing all federal customers (both direct- and distributor-served) of the availability of the program. While the current Program Manager and his staff have been actively pursuing leads for new direct-served customers within the region and have plans to participate in a DOE forum, there is no defined marketing plan for FESP. Additionally, as TVA is currently providing services to a distributor-served customer, IRS Memphis, there should also be a marketing plan aimed at making the program available to other distributor-served federal customers. A marketing plan can prevent any perceived or actual favoritism by allowing access to program information to all customers who qualify for the program.
- There was no enforced segregation of duties within the FESP program. In the past one of the issues with the program was that the program manager was, at a minimum, responsible for negotiating the contract, approving the invoices, signing the substantial completion form at the end of the project, and closing the project. While there were additional controls around the process in terms of adherence to standard policies and procedures and development of a roles and responsibilities map, there was no documented segregation of duties among FESP staff. Having clearly delineated duties can help reduce the risk of fraud or error by reinforcing, in writing, the importance of a single person not performing incompatible duties.

OTHER OPPORTUNITIES FOR IMPROVEMENT

Our review of the GOES and business case documentation also disclosed areas for improvement in the clarity of the documentation. For example:

- The GOES documentation listed estimated annual net revenue⁶ from the program as \$1.2 million for every \$10 million in projects. However, these contracts are fixed price, and TVA does not recognize the difference between the fixed contract price and dollars spent as net revenue, but instead recognizes this amount as a reduction to TVA's operations and maintenance (O&M) expenses. According to TVA personnel, this reduction in O&M expenses resulted from good project management. Conversely, if TVA

⁶ TVA classifies revenue and expenses as either above-the-line or below-the-line. Above-the-line revenue/expense is derived from activities that are part of TVA's overall mission while "revenue/expenses that are derived from activities outside of our overall mission should be captured 'below-the-line.'" Typically, these activities involve TVA entering into a contract with another corporate or private entity to perform specific services at the direction of the other entity. In these arrangements, the primary beneficiaries are not TVA stakeholders.

does not manage the project well, O&M expenses will be increased by any amount over the contracted amount. To further the transparency of the program, it could be beneficial to more accurately explain the effect of the project management and program performance on O&M expenses.

- One of the documents referenced as a governance document in the GOES analysis did not exist. Specifically, the FESP Manual did not exist. In March 2014, the Program Manager informed us the document was in the process of being created. Having a single document outlining the processes and procedures for the program could provide a governance framework for the program.
- Business case documentation for FESP states the program is performed “. . . in accordance with the Economy Act⁷ under the Federal Acquisition Regulations” which requires TVA to “. . . recover its full costs for services provided to other federal agencies.” However, when we interviewed personnel from TVA’s OGC we were informed the Economy Act did not apply to FESP. It is important for TVA staff to share a common understanding of how statutes affect FESP.

These items noted above represent opportunities to improve the documentation for FESP and more clearly communicate the governing documents, applicable legislation, and potential financial impact of the program.

RECOMMENDATIONS

We recommend TVA’s Vice President, IM&S:

- Develop performance metrics that enable IM&S to measure the effectiveness of the program in generating actual energy efficiency.
- Develop a process to capture and consistently record complete and accurate actual energy efficiency information for TVA and its customers and coordinate with the ERS group to provide energy efficiency data that could contribute to TVA’s overall energy efficiency goals.
- Develop and implement (1) specific criteria for evaluating the selection of projects, (2) a marketing plan inclusive of direct- and distributor-served federal customers, and (3) a document outlining how segregation of duties is enforced.
- Clarify the GOES and business case documentation by (1) further explaining how program management can impact O&M, (2) removing reference to or linking to the completed FESP Manual, and (3) coordinating with the OGC to determine applicability of the Economy Act to FESP.

⁷ The Economy Act is legislation that governs the exchange of goods or services between federal entities. It provides that neither a profit nor a loss can result from these transactions.

MANAGEMENT'S RESPONSE AND OUR EVALUATION

In response to a draft of this report, TVA management agreed with our findings and recommendations and has provided completed and planned actions to improve FESP. Specifically, IM&S will:

- Develop performance metrics by March 31, 2015. Metrics will measure actual energy efficiency impacts of the program including demand and energy reductions in support of ERS goals and measure the economic impact of the program, which may include jobs created and/or retained and capital expenditures in the Valley attributed to FESP projects.
- Work with ERS to finalize a comprehensive FESP energy efficiency data collection and recording process which will be aligned with the existing ERS process by February 28, 2015.
- Develop the appropriate documents, procedures, and plans by December 31, 2014, that will determine which projects will be accepted into FESP; market the FESP program through educating direct-served federal customers, local power company-served federal customers, local power companies, and other stakeholders about FESP and its benefits; and improve the current FESP roles and responsibilities document by adding segregation of duties to ensure effective controls are implemented and checks and balances are in place within the FESP model.
- Revise the GOES and base case documentation to include details of how program management impacts FESP O&M, remove reference to the completed FESP manual, and remove references to the Economy Act to accurately cite the correct federal authorizations by January 31, 2015.

We included TVA's entire response in the Appendix. The Office of the Inspector General concurs with the actions completed and planned to address our recommendations.

August 6, 2014

Robert E. Martin, ET 3C-K

REQUEST FOR COMMENTS - DRAFT AUDIT 2014 -15075 - TVA'S ENERGY SERVICES
CONTRACTS FOR FEDERAL CUSTOMERS

This is in response to your memorandum dated July 10, 2014.

Industrial Marketing & Services (IM&S) agrees with the Office of the Inspector General (OIG) findings and recommendations in Audit 2014 - 15075. In October 2013, IM&S launched a comprehensive review and redesign of the former TVA Energy Services Company program (ESCO) which included significant organizational changes and process improvement initiatives. The review of the ESCO program led to the establishment of the Federal Energy Services Program (FESP). The findings and recommendations provided by the OIG will serve to inform and improve FESP.

Below we have listed actions which will be implemented to address the recommendations. These efforts will ensure that FESP aligns with TVA's mission while applying the necessary oversight and controls to improve overall performance.

Recommendations and Comments

Recommendation 1: Develop performance metrics that enable IM&S to measure the effectiveness of the program in generating actual energy efficiency.

Comment: IM&S understands and agrees with this recommendation. IM&S will develop the following performance metrics by March 31, 2015. These metrics will:

- Measure the actual energy efficiency impacts of the program including:
 - Demand and energy reductions in support of EnergyRight® Solutions (ERS) goals.
- Measure the economic impact of the program which may include:
 - Jobs created and/or retained.
 - Capital expenditures in the Valley attributed to FESP projects.

Recommendation 2: Develop a process to capture and consistently record complete and accurate actual energy efficiency information for TVA and its customers and coordinate with the ERS group to provide energy efficiency data that will contribute to TVA's overall energy efficiency goals.

Comment: IM&S understands and agrees with this recommendation and has already taken steps to develop a process to capture and record FESP energy efficiency information. IM&S will take the following actions by February 28, 2015:

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- Work with ERS to finalize a comprehensive FESP energy efficiency data collection and recording process which will be aligned with the existing ERS process.
- On June 9, 2014, IM&S FESP program staff met with ERS and developed the general framework to capture and consistently record actual energy efficiency information from FESP projects.

Recommendation 3: Develop and implement (1) specific criteria for evaluating the selection of projects, (2) a marketing plan inclusive of direct- and distributor- served federal customers, and (3) a document outlining how segregation of duties is enforced.

Comment: IM&S understands and agrees with this recommendation. IM&S will develop the appropriate documents, procedures, and plans by December 31, 2014 which will:

- Determine what projects will be accepted into the Federal Energy Services Program (FESP). This will be based primarily on criteria critical to TVA's vision and alignment with the Department of Energy's (DOE) Federal Energy Management Program.
- Market the FESP program through educating direct-served federal customers, local power company (LPC) served federal customers, LPCs, and other stakeholders about FESP and its benefits. This will take place in the form of joint TVA-DOE Valley wide FESP workshops. DOE has already reached out to TVA regarding their support of these workshops and are enthusiastic about the opportunity. The workshops will include, but not be limited to:
 - Overview of FESP
 - Overview of the DOE Utility Energy Services Contract (UESC) program
 - Benefits of FESP
 - Customer eligibility requirements
 - Project selection criteria
 - Alignment of FESP with TVA's Vision
- Improve the current FESP roles and responsibilities document by adding segregation of duties to ensure that effective controls are implemented and that checks and balances are in place within the FESP model.

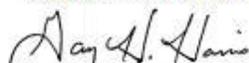
Recommendation 4: Clarify the GOES and base case documentation by (1) further explaining how program management can impact operations and maintenance, (2) removing reference to or linking to the complete FESP manual, and (3) coordinating with the Office of the General Counsel to determine the applicability of the Economy Act to FESP.

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Comment: IM&S understands and agrees with this recommendation. IM&S will take the following actions by January 31, 2015:

- Revise the GOES and base case documentation to include details of how program management impacts FESP operations and maintenance.
- Remove reference to the completed FESP manual.
- Revise the GOES and base case documentation to remove references to the Economy Act and to accurately cite the correct federal authorizations. IM&S has already communicated with the Office of the General Counsel (July 11, 2014) regarding the applicability of the Economy Act to FESP.

We appreciate the insights provided in this assessment and look forward to discussing our progress in improving FESP.



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