REPORT ON CONFERENCE COLORADO RIVER BASIN STATES
Phoenix, Arizona December 14-18-1938

Power contractors at Boulder Dam, represented by the Bureau of Water and Power, City of Los Angeles, have been seeking reductions in the rates charged by the United States for the use of falling water in the generation of electrical energy.

The rates now prevailing, as established by the Boulder Canyon Project Act, will continue until the year 1945 unless revised by congressional legislation. Because the States of the Colorado River Basin claim interests in the revenues derived from power at Boulder Dam, the probable success of any proposed legislation, which might reduce the power rates, will depend to a large extent upon the attitude of the Representatives and Senators from the States of the Colorado River Basin.

Previous conferences between representatives of the power contractors and the States of the Colorado River Basin have been held at Santa Fe, Yellowstone Park and elsewhere. Though accomplishing much toward a mutual understanding of the complicated problem, these previous meetings failed to satisfy the representatives of the several states, who were opposed to the changes in the Boulder Canyon Project Act first suggested by the power contractors.

After a five-day conference at Phoenix, Arizona, an agreement was reached on December 18, 1938 which won the unanimous approval of representatives of all of the seven states of the Colorado River Basin, as well as the power contractors. Briefly, this agreement contemplates the prompt preparation of legislation to amend and clarify the Boulder Canyon Project Act in accordance with the general terms of the Phoenix agreement, and the early submission to Congress of such proposed legislation with the hope of united support in behalf of its adoption.

It will be recalled that the principal source of revenue for the repayment of construction costs at Boulder Dam are the charges made by the United States for the use of falling water in the generation of electrical energy. The proposed new legislation makes no change in the sources of revenue, nor does it in any manner diminish the certainty of repayment to the United States of the costs of construction.
Present charges, under the Boulder Canyon Project Act, are subject to revision in 1945, and every ten years thereafter, in accordance with competitive conditions at distributing points and competitive centers. The uncertainties growing out of such provisions for periodic changes in the charges were objectionable to the power contractors, who desired to eliminate the possibilities of fluctuating rate structures, and at the same time were objectionable to the states of the Colorado River Basin because their claims and interests in surplus revenues and in separate or development funds were thereby rendered difficult of estimation and might be entirely eliminated in 1945 or thereafter.

The legislation contemplated under the Phoenix Agreement proposes to convert the method of determining the charges made for the use of falling water from an uncertain competitive basis to a definite amortization basis. In determining the charges to be made on the proposed amortization basis, the respective amounts of so-called surplus revenues and so-called separate funds to be made available to the States of the Colorado River Basin were fixed by mutual agreement.

As will appear when the proposed legislation is prepared by a committee to be appointed for that purpose, the Phoenix Agreement provides that the $25,000,000 flood control item, together with interest thereon, shall be deferred until after the fifty-year period, during which the remainder of the investment costs are to be repaid. To defer payment of the flood control item until other costs have been paid is not inconsistent with the national policy regarding flood control expenditures, because in many cases, under the 1938 Flood Control Act, the entire cost of flood control works, including rights of way, are being paid out of the Federal Treasury without obligation on the part of local beneficiaries to repay any of such costs at any time. Furthermore, under Section 2-b of the Boulder Canyon Project Act, the sum of $25,000,000 was allocated to flood control to be repaid to the United States out of 62-1/2 per centum of the revenues, if any, in excess of the amount necessary to meet periodical payments during the period of amortization.

The Phoenix Agreement provides for a reduction in the rate of interest charged by the Federal Government from 1%, as fixed by the Boulder Canyon Project Act, to a rate of 3-1/2% or less. Such a reduction in the interest rate appears to be justified for the reasons (a) that actual interest rates paid by the Federal Government appear to average over long periods of time about 2.75%; and (b) Federal loans to similar large scale power projects have been made at interest rates of 3-1/2%.
The Phoenix Agreement also defines the amounts of the payments to be made to the States of Arizona and Nevada. Under Section 4-\(\text{a}\) of the Boulder Canyon Project Act there is the following provision:

"If during the period of amortization the Secretary of the Interior shall receive revenues in excess of the amount necessary to meet the periodical payments to the United States as provided in the contract, or contracts, executed under this act, then, immediately after the settlement of such periodical payments, he shall pay to the State of Arizona \(18-\frac{3}{4}\) per centum of such excess revenues and to the State of Nevada \(18-\frac{3}{4}\) per centum of such excess revenues."

Present charges for the use of falling water are such as will create excess revenues, so that payments to the States of Arizona and Nevada, at \(18-\frac{3}{4}\) per centum thereof to each state, will increase year by year during the so-called "buildup period", and might substantially exceed \$500,000 per year to each of said states during the period until 1945. Thereafter the existence and the amount of any excess revenues and of any surplus funds will depend upon the revised rates to be established in 1945 and every ten years thereafter. The basis of these claims of the States of Arizona and Nevada upon revenues at Boulder Dam is said to be in lieu of potential taxes that would have been received by the States had the project been constructed by private capital instead of by the United States. The Phoenix Agreement contemplates payment to the States of Arizona and Nevada of \$500,000 annually to each state for the entire fifty-year period. Under agreements previously entered into these payments may be retroactive and date back to the year 1937, although this feature was not discussed at the Phoenix conference.

The interests of the State of Colorado in the revenues derived at Boulder Dam from the sale of electrical energy attach to what may be termed a separate fund or a development fund. Under Section 5 of the Boulder Canyon Project Act this so-called separate fund was to be expended in the Colorado River Basin. The need for formulating a comprehensive scheme of control and utilization of the waters of the Colorado River and its tributaries was recognized in the Boulder Canyon Project Act. And an initial appropriation of \$250,000 was made from the Colorado River Dam Fund, referred to in the Act as "The Fund."
Much of the discussion at the Phoenix conference and at previous meetings, related to the questions (a) whether or not a separate fund had been created and would receive any funds at any time within the fifty-year amortization period; and (b) the amount of such a separate fund, if and when such a fund became available. It seemed certain, to the representatives of the State of Colorado, that no benefits were to be expected from the so-called separate fund except possibly after repayment of construction costs had been made, near the end or after the fifty-year amortization period. Even then the amount of such a separate fund would depend entirely upon rates to be established in the future, which rates might, but probably would not, be established on such a basis as to result in a profit from the operations at Boulder Dam.

Under the Phoenix Agreement, and in lieu of this so-called separate fund to be paid out of what might be termed additional surplus revenues, the rates to be charged throughout the remaining portion of the fifty-year amortization period are to be such that $500,000 annually shall be included, to be earmarked by the United States Treasury for appropriation by Congress.

Provisions as to the use of this $500,000 annual fund are substantially as follows:

A. The first three of these payments, aggregating $1,500,000, and beginning June 1, 1940 providing arrangements to that end can be devised, shall be used to pay the cost of investigations and reports on the feasibility of possible and proposed projects in the States of Arizona, Nevada, Colorado, New Mexico, Utah and Wyoming, and in formulating a comprehensive scheme for the control, improvement and utilization of the resources of the Colorado River Basin:

B. Thereafter, annually for the period until June 1, 1955, the said $500,000 to be allocated exclusively to the Four Upper Basin States of Colorado, Wyoming, Utah, New Mexico, in furtherance of the construction of feasible projects in those states; and
C. After the year 1955 the said $500,000 annual fund to be prorated among the Seven States of the Colorado River Basin, until the end of the fifty-year amortization period, and to be used in the furtherance of feasible projects for the control, improvement and utilization of the waters of the Colorado River and its tributaries.

With respect to the charges to be made by the United States for the use of falling water in the generation of electrical energy under the amortization basis of repayment, it may be noted that 1.63 mills per kilowatt-hour of primary energy and 0.50 mills per kilowatt-hour of secondary energy are the present rates to prevail until the year 1945. It appears that these rates were established by the United States in order to secure sufficient income to repay the construction costs based upon contracts representing approximately 61% of the total power output of the project. When in 1945 the total output of power is taken into consideration, it is probable that a rate of approximately 1 mill per primary energy would be established. Under the Phoenix Agreement to provide for repayment to the United States and for funds from which to make payments to the basin states as outlined above, it is probable that a figure of 1.15 to 1.17 mills for primary energy will be established, to continue through the period of amortization and the life of the power contracts.

The State of Colorado will benefit from the Phoenix Agreement both directly and indirectly. Its representatives took an active role in all of the negotiations leading up to and in conclusion of the Phoenix Agreement.

Direct benefits must be estimated because the exact amounts of money that might become available for expenditures in the State of Colorado cannot be accurately estimated in advance. However, in the first three years, during the preparation of the comprehensive plan of development and the investigation of projects by the Bureau of Reclamation, it appears that approximately $650,000 of the estimated total expenditures of $1,500,000 will accrue directly to the benefit of the State of Colorado. Specific projects found in the list of projects proposed for investigation by the Bureau of Reclamation, located wholly in the State of Colorado represent an expenditure of $540,000; projects at interstate lines, largely in Colorado, involve $90,000 of which at least $50,000 will be expended in Colorado; and projects of a general and basin-wide nature, in part in Colorado, represent a total expenditure of $200,000, of which at least $60,000 will be expended in Colorado.
The financing of these investigations and the development of a comprehensive plan for the Colorado River Basin in Western Colorado out of funds derived from the sale of power at the Boulder Dam, will prove of direct and substantial benefit to the State of Colorado.

Thereafter, for a period of twelve or thirteen years, Colorado should receive not less than an equal share of the fund allocated to the Upper Basin States, i.e., not less than $125,000 per year, or a total of not less than $1,500,000, available to assist in the financing and construction of needful projects.

Finally, for another period of perhaps 33 years the State of Colorado should receive not less than an equal share of the fund allocated to the Seven States of the Colorado River Basin, or a sum not less than $2,350,000 during that period. A conservative estimate of the direct financial benefits resulting from the Phoenix Agreement is $4,500,000 to be expended in the State of Colorado out of funds derived from the sale of power at Boulder Dam.

However, the indirect benefits will probably be even greater, since the program of basin wide development will have been established upon a basis of unanimous support by all of the states, as well as the power interests. The State of Colorado may expect, in the future, when appropriations for construction of projects in this State are before Congress, there should be no objections raised by the representatives of other states or of the power interests in the Lower Colorado River Basin. In contrast to the previous spirit of suspicion and objection, this agreement to cooperate in a program of development will probably result in greater benefits to the State of Colorado than the direct financial benefits outlined in foregoing paragraphs.

Two items are deserving of continuing and careful attention. First, in drafting the proposed legislation, care must be exercised to the ends (a) that amendments to the complicated and uncertain provisions of the Boulder Canyon Project Act carry out the provisions of the Phoenix Agreement, and (b) clarify the Act with respect to surplus revenues and separate or development funds. Second, after approval of the proposed new legislation by the several States, plans might be formulated to maintain a competent observer in Washington during the next Session of Congress, to promote the proposed legislation and to prevent the introduction of further amendments that might nullify the benefits of the Phoenix Agreement.

Respectfully submitted

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Colorado Water Conservation Board