

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

March 23, 1954

Dear Mayor Curtis:

This is in answer to your letter of March 15 in which you raise several questions regarding proposals to construct dams at the Bruce Eddy and Penny Cliffs sites on the Clearwater River, Idaho.

If Congress were to authorize the project as submitted by the Corps of Engineers, specific legislation would probably be required to permit a private company or non-Federal agency to join in a partnership arrangement.

In answer to your question as to whether the power companies would be permitted to develop power without considering other water uses, the Federal Power Act prescribes that licenses may be issued only if, in the judgement of the Commission, the project will be best adapted to a comprehensive plan for improving or developing a waterway or waterways for the use or benefit of interstate or foreign commerce, for the improvement and utilization of water power development, and for other beneficial public uses including recreational purposes.

I am enclosing for your information copy of a recent address by Under Secretary of the Interior Ralph A. Tudor to the Municipal Forum in New York City in which the Department's views regarding partnership development are discussed in considerable detail.

Sincerely yours,

Fred G. Asndahl
Assistant Secretary

Hon. A. B. Curtis
Mayor of Orofino
Orofino, Idaho

ADDRESS BY RALPH A. TUDOR, UNDER SECRETARY OF THE INTERIOR, TO THE MUNICIPAL FORUM, NEW YORK CITY, MARCH 4, 1954

One of the most debated domestic issues in this country today is the matter of ownership of electric power generating and transmission facilities --shall the ownership be by private investors, local public bodies of the Federal Government. At the end of 1953, the ownership of power facilities between these three parties was divided with approximately 78% owned by private investors, 10% by non-Federal public bodies and 12% by the Federal Government.

Participation by the Federal Government in this field can be traced back to 1906 when the National Reclamation Act was amended to permit the Federal Government to include the generation of power in its reclamation projects. That law and all of the Reclamation laws since that time have followed the principle that the primary interest of the Government was reclamation of land and the generation of electric energy was a byproduct. Later, legislation for flood control and navigation improvement permitted the Federal Government to include power generation as a byproduct of these additional primary purposes.

The Tennessee Valley Authority is an exception to these remarks as it has outgrown the basic concept of generating power as a byproduct of flood control and navigation. It has undertaken to supply the entire power needs of an area. It is not part of the Department of the Interior, and therefore, my remarks do not apply to it.

Because of the importance of this subject and because there were so many uncertainties regarding past and future policies, the Department of the Interior, with the concurrence of the President and his Cabinet, issued a power policy statement on August 18 of last year. It was brief and clear and in general it was favorably received throughout the country. I believe, though, that it would be well if I called your attention again to the most important part of this statement. It reads as follows:

"The primary responsibilities of the Department are the reclamation of arid and semiarid lands under the Federal Reclamation Laws and the development of natural resources as authorized by Congress. These responsibilities include the disposal of surplus electric energy which can be economically produced in the course of the development of these resources. The Department of the Interior will, therefore, actively plan and recommend construction of generating facilities in hydro projects under its jurisdiction when such facilities are economically justified and feasible. The Department will particularly emphasize those multi-purpose projects with hydroelectric developments, which, because of size or complexity, are beyond the means of local, public or private enterprise.

"It is recognized that the primary responsibility for supplying power needs of an area rests with the people locally. The responsibility of the Department of the Interior is to give leadership and assistance in the conservation and wise utilization of natural resources. The Department does not assume that it has exclusive right or responsibility for the construction of dams or the generation, transmission and sale of electric energy in any area, basin, or region. In general, it will not oppose the construction of facilities which local interests, either public or private, are willing and able to provide in accordance with licenses and other controls of the Federal Power Commission or other appropriate regulatory bodies and which are consonant with the best development of the natural resources of the area."

This statement answers a great many questions, but like everything else, it deserves some amplification in connection with specific matters. I know that one question which has frequently been raised, and particularly by financial people,

has to do with the possible sale of electric generating properties now owned by the Federal Government. In answer to this question I will say that the Department of the Interior does not consider it practicable or appropriate for the Federal Government to undertake to sell any of the large multipurpose dams which have been or are being built. We are not putting a "For Sale" sign on any of these large properties. The one exception to this rule, if it be an exception, is that if some responsible public body, such as a State, comes in with a concrete proposal to purchase some of our facilities, such a proposal will be approached by us with an open mind. I will discuss this in more detail a little later.

I know this is somewhat of a contradiction of what the Administration has been charged and credited with having said. However, I am quite familiar with the policies of the Administration in this matter, and I know of no statement by any responsible member of the Administration which is contrary to what I have just said.

There are several good reasons for our position and there are two in particular which I am sure you, as financial men, will fully appreciate. In the first place, we are much more anxious to have any available credit used for the financing of new facilities rather than simply transferring debt from one party to another. The latter does not create any new kilowatts or bring service to any additional people.

Another reason for our position is that it would be generally impractical to consider the sale of Federal facilities. As an example, let me consider a truly academic case. Let us assume that the matter of selling the Hoover Dam with its generating facilities to be under consideration. To begin with, there is no "For Sale" sign on Hoover Dam. However, if there were, it would certainly be necessary to reach an agreement among the States of California, Nevada, and Arizona, between which the benefits from this project are divided. In fact, I think the only possible purchaser for this project would be some authority or body created by these three states acting in unison. In view of the great divergence of opinions regarding the division of waters of the Colorado River, there would seem to be no possibility, even remote, of having these three states join in such an effort. Then, even if they did and if they made a proposal to the Federal Government which would make full reimbursement, that proposal would have to be approved by the Congress and the President. There is no authority in the law for selling those projects without such special legislation.

These are only two of the most apparent difficulties involved but I think they are sufficient to illustrate to you that, aside from the basic principles to be faced, it would be rather impractical to consummate such a sale.

There may be some isolated exceptions to the above rule and it is possible that the Central Valley Project in California is one of these. This project is wholly within California. The State originally planned to build the dams, powerhouses, canals, etc., from its own resources. However, the depression brought about a condition that made this difficult and the Federal Government was encouraged to initiate the work. California has always had some idea of acquiring the facilities that have been built. The State recently approached the Federal Government on this matter and we have, in effect, told them that we will consider it if the Federal Government recovers as many dollars from the purchase as it would if it retained ownership of the project. If we reach agreement as to price and conditions, it will then, of course, be necessary for California to obtain Federal legislation to authorize the purchase and sale.

In a similar vein, the State of Arizona has approached us with the thought in mind that the State Power Authority might purchase the feeder transmission lines wholly within that State. These transmission lines are exclusive of those that interconnect Hoover Dam, Davis Dam and Parker Dam. Again, we will not consider any proposal which fails to provide the Federal Government with as many

dollars by purchase and sale as it would if ownership is retained. In the final analysis, it will be necessary for the State of Arizona to seek the necessary Federal legislation.

Again, may I emphasize that the Department of Interior is not trying to sell these properties and if a sale is consummated in either or both instances, it will be an exception to a general rule.

As for new projects, we do not propose to recommend the construction of new generating or transmission facilities which can be provided by either public or private local interests. There are, however, some projects which can only be undertaken by the Federal Government and, in those instances, we will so recommend. An example of this is the Upper Colorado River Basin development which our Department recently recommended to the Congress. In this case there are some very large multipurpose dams with reservoirs located in two or more States and with other complications which would make it well nigh impossible for any local interest to successfully undertake the work.

We do have a very strong desire to create a healthy atmosphere so that local interests and risk capital may have a better opportunity to participate in these power developments. The increased demand for electric power in this country is so great that it will require the cooperative efforts of all of the interested parties to meet the needs. For the past several years approximately three billion dollars of risk capital a year have gone into the electric generating, transmission and distribution facilities of the country. It is fortunate that this has not been a part of our increasing Federal debt. It is expected that during the next two years, the investments will be even greater and thereafter we can only estimate but there is little doubt that demands for new facilities will be heavy indeed. The job is so big that investor capital must be encouraged and we propose to do just that.

We have often asserted that we are in favor of a partnership between the Federal Government and local interests in this matter of power development. Some people have felt such an arrangement may involve a contractual document of some form. Such will not generally be the case and, to the extent that the term "partnership" has this implication, it is unfortunate. We do mean that the Federal Government should undertake only those projects which cannot be provided by local, public or free enterprise and that we will encourage in every way possible local interests in undertakings which they can handle.

There will also be a number of projects in which we can actually join in a proper common effort. A number of bills have already been introduced into the Congress and more can be expected, all having to do with individual hydroelectric plants. The best of these anticipates that the local interests will provide all of the money needed to finance the costs allocated to power while the Federal Government provides the money for irrigation, flood control and navigation. The capital costs of any Federal investment in irrigation will be returned by the local interests from collections from irrigators or power sales.

An excellent illustration of such a project is that one proposed by two irrigation districts in the San Joaquin Valley of California. This is known as the Tri-Dam Project and is sponsored by the Oakdale and South San Joaquin Irrigation Districts. It is estimated to cost approximately 55 million dollars and the districts propose to provide the funds for the power facilities which will cost approximately 44 million dollars from the sale of revenue bonds. Their Congressman has introduced legislation which will authorize the Federal Government to participate in this project by contributing approximately \$1,000,000 to pay for flood control benefits and advancing, interest-free,

approximately \$10,000,000 to provide for irrigation facilities. The districts will repay to the Federal Government this \$10,000,000 out of collections from water users and revenues from the sale of power:

This kind of project has many advantages. The Federal Government, if it were undertaking the work itself, would have to finance the entire \$55 million by congressional appropriation. It would also have to appropriate funds every year to maintain and operate the plant. Under the proposed plan the only appropriation involved will be an initial one of approximately \$11,000,000. Ownership of the project will be local and local people will have freedom to handle their own affairs.

This kind of project offers, I believe, an excellent opportunity for risk capital and it is typical of a great many other projects that are under consideration. Some of them run well above \$100,000,000 and will have an installed capacity of from one-half to a million kilowatts. It will be our policy to encourage this kind of project.

I must warn you that not all of the proposals which are being made for joint participation are, in our opinion, sound. There are faults in many of them, such as too high cost per installed kilowatt of generation, too remote from load centers, doubtful market and other hazards which I know you would be concerned with if you were financing the work.

It seems apparent to me that our new power policy and particularly the Administration's attitude of encouraging local interests to provide generation of their own is beginning to pay off. In the Pacific Northwest alone there have been new applications for licenses to develop hydroelectric power totaling someplace between three and four million kilowatts of installed capacity. The estimated cost of these installations will exceed a billion dollars. Probably all of them will not be built but certainly some of them will. I mention the Northwest not because it is the only place local interests are planning to supply their own needs, but principally because here is one area that had come to think of itself as basically dependent upon Federal Development. That dependence upon Federal appropriations and Federal control and lack of local responsibility and authority is changing and I consider this for the good.

As you perhaps know, the Department of the Interior recently appeared before Congress and recommended the authorization of the Upper Colorado River Project. This is a multimillion dollar development to conserve and use the scarce water of the Colorado River generally north of Arizona. It includes reclamation, municipal and industrial use of water, silt control and power development. The hydroelectric powerplants are spread over a wide area and it is proposed that the Federal Government interconnect with a backbone transmission system. When the House Committee was recently reviewing this project, a proposal was made by all of the investor-owned electric utility companies operating in the several States to build all of the feeder transmission lines at their expense, to contract for the purchase of all of the power from these plants, providing the cost does not exceed their own generating costs in steam powerplants, and to take care of all preference customers in the economic area under circumstances to be prescribed by the Federal Government. This proposal is in keeping with the new policy of the Administration and will have the effect of relieving the Government of large expenditures for feeder transmission lines. It will also assure a market for the power which is a necessary prerequisite of the economic success of the entire project. The proposal of the power companies has, of course, not been adopted nor can it be until and if the Congress authorizes the entire project. However, the proposal does illustrate that there is a sound basis for our theory and a place for local enterprise in Federal development.

Again, I would urge you to seek investment opportunities in the field of electric power with local business, both public and private. I would also urge you to seek opportunities to invest in new projects that will add to the Nation's supply of power or better distribute it to more customers.

It is a growing industry and kilowatts have an excellent long-term market. They are not a luxury item but are necessary to the every day functioning and growth of this country. The end of this vast growth in this particular field is nowhere in sight. Today we only have a narrow national surplus of about six percent and that is not enough. It will not take care of a single year's growth. Furthermore, it is spotty as to geography. Many areas have no surplus.

I have often wondered if you can loan money for the further development of this basic development with maturities as much as 50 years. This somewhat longer period than is normally customary would be in keeping with the payout period adopted for Federal projects and would make local financing more attractive.

Perhaps you may think of other features of financing in this field which would be helpful. I urge you to consider them and particularly in the light of the very stability of this kind of an investment.

This Administration has a fundamental faith in free enterprise. We believe it has to a very large extent been responsible for the great growth of this Nation. At the same time we are well aware, as I am sure you are, that there have been some excesses from time to time. While these excesses are in no way to be condoned, they have certainly not been such as to justify any changes in our basic philosophy. You have a large responsibility in this philosophy, but I believe you can subscribe with us to the incentives that inspired creative imagination in our economy. We have faith in local initiative and urge the acceptance of increased local responsibility, except in cases where the resources of the Federal Government alone can insure economical and effective action. You in your particular field can do a great deal to assist in increasing this local responsibility.

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