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Congress of the United States
House of Representatives
Washington, DC 20515

May 19, 1986

Mr. Robert E. Dorr, Chairman
American River Authority
175 Fulweiler Avenue
Auburn, CA. 95603

Dear Mr. Dorr:

Thank you for your letter outlining the problems which years of indecision on Auburn Dam have caused local entities. This letter is to formally respond to yours, and to follow up on several discussions we have had since on this subject. I share many of your frustrations. The rains this spring have only underscored the long unmet need to decide what to do about this project and in the American River watershed generally.

Realism demands that we face some increasingly evident facts about the \$2.3 billion structure which until recently has been the Bureau of Reclamation's conception of a dam at Auburn. Over five years have elapsed since former Interior Secretary Andrus said that a concrete gravity structure at the current location would be seismically safe. In all that time a set of beneficiaries has yet to emerge committed to a cost sharing arrangement in which the dam's water and power features would be repaid. This lack of commitment from the dam's supposed beneficiaries must be interpreted as a vote of no confidence in its economics.

When Interior Secretary Donald Hodel told the House Energy and Water Subcommittee March 4 that the Bureau of Reclamation saw little future for the large dam, he was focusing primarily on this lack of economic support. Given disinterest on the part of potential beneficiaries, he said, there was little need for the Bureau to drag itself through another bitter environmental and economic controversy.

Several rationales are possible for this lack of support. The federal government might be partly to "blame," in several ways. By federal government I mean more than the executive branch, though the executive branch has thus far had the primary responsibility of defining what Auburn is and of negotiating with potential beneficiaries. But the Congress is also a factor. I hope that my comments below reflect both that this is not a question of partisanship and that unarticulated Congressional attitudes and half-developed policies are looming behind the Bureau of Reclamation and are complicating its efforts to present a salable Auburn to the public.

If the Bureau itself can be faulted, it is not so much for causing the problems as for a reluctance to be clear about what the problems are. It has tended to take refuge in a positive but somewhat vague attitude toward the traditional dam, encouraging its supporters rather more than has been

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appropriate. Meanwhile, the real problems facing the large irrigation project concept have remained undefined. People do not understand why a consensus has not and, in my judgement, most likely will not come together.

What are the real problems? No one knows for certain; what follows is my guess. One might simply be that we still do not know what the dam is to be. Despite all the talk about it over the years, the dam has remained more of an idea than a firm proposal. What will its design be? Where will it be located? What combination of benefits will it sell, and to whom? Where are contracts? Why has Congress never had a specific plan to consider? What exactly have we been asked to support?

Why has the State of California now taken the initiative to propose some reconfigurations of the Auburn concept as recently presented in the Bechtel report? When might one of those reconfigurations be chosen? Would the Bureau or the State build it? What benefits would its financeers be paying for? Why have engineers come up with new designs that are several hundreds of millions of dollars cheaper?

Another option is a non-governmental dam. How seriously should we take private sector proposals to build a dam? What benefits will the entrepreneurs try to sell? Who will subscribe to them? Is a private dam a real prospect?

Auburn's identity crisis may have discouraged potential beneficiaries somewhat. However, I don't think it has contributed materially to Auburn's lack of support. In fact, the opposite seems to me to be the case: the shifts in cost-benefit configurations and in sponsors over the years have reflected how difficult it has been to fix upon a package users will buy.

Vague or prohibitive cost sharing terms are more likely to have put off potential participants than uncertain design and benefit configurations. What cost sharing does the Federal government actually want from the potential supporters? To my knowledge no financial terms have ever been spelled out, at least publicly, as a set of conditions for Federal participation. This is a rather crucial omission from the Auburn proposal.

Perhaps it exists because the Bureau itself has been unable to get these financial requirements straight within the Administration. As I said above, I do not mean to be partisan here, or to cast blame on the executive branch as a means of avoiding legislative branch factors. The entire national cost sharing debate, coupled with the western water debate, has preoccupied Republicans and Democrats, administrations and Congresses for a period which has transcended individual office holders and specific proposals. It is a very difficult, contentious, long range debate. Auburn is deeply emeshed in it. In fact, because of its size Auburn is probably one of the predominate (albeit latent) concerns of the debate. What follows, therefore, is not intended as criticism of anyone who happens to be responsible for the policy-making machinery now.

Traditionally, the Bureau regional office in Sacramento has been of a positive mind on Auburn. Since the mid-seventies the Department of the Interior in Washington has grown more skeptical, as reflected in the Secretary's comments recently. However, I believe the Office of Management and Budget has put up the most significant resistance to the classic Auburn Dam within the Administration. Congress has not really spoken clearly on the matter; I suspect that notwithstanding individual voices in support, its final view would be consistent with the OMB's should the OMB ever allow an Auburn proposal through to us.

Though the OMB's posture on issues are rarely made public, within the executive branch it is virtually omnipotent. For various reasons, I believe, the OMB has danced around the Auburn issue, effectively rebuffing any project which entails a significant outlay of federal dollars, or which is blended into the overall Central Valley Project, or which entails significant interest subsidy costs for irrigation water.

There is considerable evidence that the OMB would take such postures against an Auburn proposal. Local sponsors of Bureau projects elsewhere in the nation have had to pay a very substantial portion of the project capital costs in advance. The figure of \$1 billion floating around with respect to Auburn would represent a downpayment consistent with what is being imposed elsewhere.

Moreover, some time ago the Bureau of Reclamation proposed a revised pricing policy for Central Valley Project contractors, the central feature of which was to carry forward the traditional practice of blending all CVP capital costs into a single rate, known as the postage stamp rate. This revised policy has not been approved in Washington, though it has lain there many months. The delay may very well be attributable to an OMB demand that the CVP scrap the blended rate approach in favor of making all new CVP capital investments be independently self-supporting, or "marginally costed." This means that new projects like Auburn would be forced to pay construction and financing costs much higher than are reflected in the CVP's average blended rate. So, not only might OMB be demanding a very large downpayment, it might be requiring full repayment of Auburn's costs by Auburn's beneficiaries alone.

Even assuming the OMB continues to support the postage stamp approach, however, many existing CVP water contractors may oppose adding Auburn to the CVP's rate base. Though reluctant to say so, they may want Auburn to pay for itself on the margin. Most of the CVP was built years ago. Modern capital and financing costs for an Auburn would be whole magnitudes larger than the average reflected in the CVP's current blended rate. Their Other CVP complaints, even voiced quietly, would probably have a powerful negative effect in Congress, as I suspect they now are on the Bureau.

This is because Auburn's \$2.3 billion debt load would burden all CVP contractors at a time when they already face substantial O&M increases due to the 1982 Reclamation Reform Act. Some districts have taken this law to court, on grounds that the Federal government cannot unilaterally force up

the fixed repayment terms in existing contracts. But, even if these districts win, O&M costs will rise sharply across the CVP as existing contracts expire. The CVP is not in a spend-thrift mood.

Lastly on the subject of internal OMB policy, for the first time the Bureau this year has proposed doing away with irrigation interest subsidies for future participants in its small loan program. The small loan program is relatively inconspicuous. Nonetheless, abolition of the irrigation subsidy within any Bureau program is a radical departure from historical Reclamation policy. It has been the most sacred of all the components of the Reclamation program since Reclamation's inception. There is almost no other reason for the Bureau as we know it to exist, except perhaps as a sort of Fannie Mae for agricultural water systems. Only a few years ago the Bureau actively helped reformulate the irrigation subsidy policy via the new Reclamation Reform Act. Now comes this change.

The fingerprints of the OMB are distinct on this small, drastic policy reversal in the small loan program. Does it signify that the OMB wants Bureau projects in general, Auburn included, to pay full interest? Might this posture be reflected in an Interior Department reluctance to talk in plain terms to irrigation contractors, and instead try to sell Auburn's \$1.2 billion irrigation benefits to municipal water users instead?

For all or any of these reasons there appears little prospect that Auburn will end up with an irrigation function. 300,000 acre feet of irrigation water could never amortize \$1.2 billion in capital costs without both an interest subsidy and shelter within a blended CVP rate.

Even municipal and industrial users might not want Auburn, moreover. While accustomed to paying full cost with no interest subsidy, they might still balk at a very substantial down payment plus full marginal costs. Perhaps they now have less expensive alternatives, such as conservation or purchases of farmers' rights to existing supplies.

Further, most large municipal users besides Sacramento itself happen to lie beyond the Delta. The Delta is very fragile. As a water conveyance facility it is very unreliable. The State has been unable to develop a plan to secure passage of water through it or around it. I doubt any water user south of the Delta wants to make a multi-billion dollar investment at the far end of such an uncertain delivery system.

If the large dam is not to be, perhaps the Bechtel alternatives will yield a smaller, more affordable and economic alternative. State and Bureau officials have referred to a site one mile below the current one. We also hear frequently that private interests are waiting in the wings for the Federal project to be officially declared dead. Perhaps one of those proposals might work.

It is worth noting, incidently, that though private proposals have the advantage of avoiding federal financing requirements and delays, they may present problems of their own. For instance, would a private dam operated

in order to maximize power and water yields be compatible with flood control for Sacramento? How would the Lower American River fare? Would extracting maximum economic benefit--the incentive for private development--make flood control and Lower American protection for Sacramento more difficult than would no dam at all?

These are the reasons why I believe Auburn has not developed; there are no longer buyers on the terms that government would demand, a reality obscured by government's inability to articulate its terms clearly.

If any Auburn scheme does overcome all these obstacles, it appears to me that Congress will require a precise design, location, and a firm cost before it would authorize the project. It would also need a definite configuration of benefits, contracts from beneficiaries to amortize those benefits, and a clear definition of the cost share elements of the package, including the Administration's endorsement of that package.

I cannot flatly predict that an Administration-approved package would pass the Congress. However, it is a virtual certainty that a package receiving less than firm support from the Administration would fail. I should also repeat that while the OMB appears to have been the principle behind-the-scenes impediment to a traditional construction agreement, it is also probable that Congress would be almost as demanding, if not more.

Certain additional conditions would be necessary before Sacramento officials could support a dam:

--Guarantees that the Lower American River flows will be maintained at the level most recently set forth as necessary for the preservation of fishery and recreation values by the U.S. Fish and Wildlife Service.

--Guarantees that should a Hood-Clay Canal become necessary to maintain these Lower American flows, Sacramento will not be put in a position where it must pay for Hood-Clay in order to preserve the flows.

I do not know what powers the Congress or Sacramento might enjoy to require these protections from a non-federal developer. The State Water Resources Control Board would probably become the major seat of decisions governing a private Auburn, though the Federal government owns the land and could perhaps extract conditions through a lease. To the maximum extent we are in a position to require them I would seek to and presumably my colleagues would also.

Auburn Dam supporters often argue that meeting the combined needs of the City of Folsom, of the San Juan Water District consortium in Northern Sacramento County, of Southern Sacramento development, of the Lower American River and of the Folsom South Canal service area, including East Bay MUD, all together will require the construction of Auburn.

Opponents of Auburn tend to confirm that hypothesis, opposing any diversions down the Folsom South Canal as ultimately damaging to the Lower

American River. There are, of course, others who are extremely important in the political debate who oppose the diversions and who do not oppose Auburn, in part because water supply from the dam might be necessary to maintain flows on the Lower American. In any event, no matter how individual positions are oriented, most of them reflect the premise that there might not be enough water to go around without a new supply from Auburn.

I am not sure the Bureau of Reclamation has provided us with definitive arithmetic on this crucial question, another reason the Auburn debate has not gotten concrete, but I assume there may well be insufficient supplies for all purposes without Auburn. For what it's worth, there is no legal requirement for any real Lower American flow standards without Auburn.

Therefore, the outcome of the struggle between EBMUD and Sacramento, whether it occurs in court or in the Legislature or in the Congress in some way, would seem to be key to whether either party ends up wanting to help pay for Auburn. Sacramento will have an incentive to pay for it if EBMUD wins its diversions; EBMUD would perhaps have a corresponding incentive if Sacramento wins on behalf of the river.

It might be argued that we should wait for this issue to be settled before we can decide what to do with Auburn. I do not agree, because I do not believe either outcome is likely to yield financing for Auburn.

I doubt Sacramento will finance Auburn in order to protect the Lower American because on the merits it should not have to and as a point of physical fact really does not need to. There is probably enough water in the existing Lake Folsom to supply our immediate needs without incurring Auburn's high, unblended costs. If the East Bay Municipal Utility District would agree to take its future supplies from the Delta--where the bulk of the state is most happy to get them--there appears to be no reason why additional water supplies from Auburn should be needed for either EBMUD or Sacramento. We all could have the water we need.

If Sacramento should lose the fight with EBMUD, it might well have to confront the stark choice of financing Auburn or giving up Lower American standards. I have no way of knowing whether Sacramento would ultimately decide that the Lower American or some other priority might have to give way in face of a water shortfall. Regardless, I assume the community will not want to purchase Auburn water in order to make up for the shortfall, particularly given the deep-rooted belief that EBMUD should not be allowed to divert from Folsom-South at Sacramento's expense in the first place.

Alternatively, if EBMUD loses I doubt it would want to finance Auburn on its own either. It may be willing to finance a costly pipeline from its existing Mokelumne works to the current terminus of the Folsom South, where it may legally take water under its contract with the Bureau. But the additional costs of an Auburn Dam would probably be prohibitive; it would be far cheaper for EBMUD to take water from the Delta and pay to treat it. This would cause EBMUD political problems, because it has committed itself

to a political posture of "clean mountain water" (its literature to customers describes the delta as "the central California drainage pool").

Nonetheless, when push comes to shove the dollars and cents will dictate that it is cheaper to take water from the Delta and treat it than it would be to finance Auburn and a Folsom-South pipeline both. That is only my judgement, but I believe it would be the case.

These are my views on Auburn as completely as I can relate them. The major point remaining is that we must provide flood control for Sacramento in some way. That means we must set a deadline for resolving all the issues intermixed in this one major issue. I believe that we should require a firm proposal for an Auburn Dam by this time next year at the latest. That plan must be solid enough to be specifically supported by the Administration and to be under active consideration by the Congress. If we do not have a viable Auburn proposal within this deadline, I believe we have no choice but to abandon the traditional Auburn as a project which this generation will simply not support.

Meanwhile, we should direct the Corps and Bureau to work with other state and local agencies in the region to develop approaches to the American River watershed which make flood control the top priority. These studies may yield proposals significantly different from the traditional Auburn, both in terms of operations and facilities.

There will be a tendency to compare the costs, benefits and likelihood of the flood control alternatives against the water-supply oriented Auburn. The comparison would be healthy. We should not attempt to prevent the new studies from going forward until the fate of the traditional Auburn becomes official. Further, unless we get Auburn out of limbo and force it to survive or die once and for all, we would continue to delay fulfillment of the flood control imperative.

Sincerely,



VIC FAZIO
Member of Congress

VF/pf