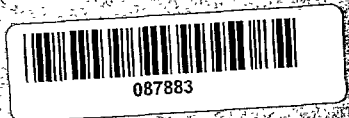


*The previous report on CV
covered the FY 1956*



**REPORT TO
THE CONGRESS OF THE UNITED STATES**
Report on
**AUDIT OF
CENTRAL VALLEY BASIN, CALIFORNIA,
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS
BUREAU OF RECLAMATION
DEPARTMENT OF THE INTERIOR
AND
CORPS OF ENGINEERS (CIVIL FUNCTIONS)
DEPARTMENT OF THE ARMY
FISCAL YEAR 1960**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
APRIL 1962**

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THE CONGRESS OF THE UNITED STATES**

**AUDIT OF
CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS
BUREAU OF RECLAMATION
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AND
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DEPARTMENT OF THE ARMY
FISCAL YEAR 1960**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
APRIL 1962**



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

APR 26 1962

B-125045

Honorable John W. McCormack
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the audit of revenue-producing water resources development projects of the Bureau of Reclamation, Department of the Interior, and the Corps of Engineers (Civil Functions), Department of the Army, in the Central Valley basin, California, for the fiscal year 1960.

The Bureau of Reclamation does not record depreciation on its fixed assets used in the production of electric power. Because of this and other accounting deficiencies, it is our opinion that the financial statements included in this report do not present fairly the financial position of revenue-producing projects at June 30, 1960, and the financial results of operations for the fiscal year then ended. On February 26, 1962, the Department of the Interior advised us that action will be taken promptly to develop procedures for bringing depreciation charges into the accounts of the Bureau. We are repeating a recommendation to the Secretary of the Interior relative to the recording of interest during construction on the Federal investment in electric power and municipal water supply facilities. The report also includes our recommendation to the Secretary of the Interior relative to the recording of Court of Claims settlement costs arising from project activities and the recovery of these costs by the Government. A summary of our principal findings is included in the forepart of this report.

This report is also being sent today to the President of the Senate. Copies are being sent to the President of the United States, the Chief of Engineers, the Secretary of the Interior, and the Commissioner of Reclamation.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General
of the United States

Enclosure

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REPORT ON AUDIT
OF
CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS
BUREAU OF RECLAMATION
DEPARTMENT OF THE INTERIOR
AND
CORPS OF ENGINEERS (CIVIL FUNCTIONS)
DEPARTMENT OF THE ARMY
FISCAL YEAR 1960

The General Accounting Office has made an audit of revenue-producing water resources development projects of the Bureau of Reclamation, Department of the Interior, and the Corps of Engineers (Civil Functions), Department of the Army, in the Central Valley basin, California, for the fiscal year ended June 30, 1960. This audit was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the audit work performed is described on page 45 of this report.

GENERAL COMMENTS

The Central Valley basin consists of the Sacramento and San Joaquin River valleys in California, extending from Mount Shasta in the north to the Tehachapi Mountains in the south, an area about 500 miles long and 120 miles wide. Our report includes comments and combined financial statements on only those water

resources development projects of the Bureau of Reclamation and Corps of Engineers which are revenue producing.

The Central Valley Project of the Bureau of Reclamation is the largest water resources development project in the basin. The project's major purpose is to transfer surplus water from the northern part of the basin to the southern part, where the need for water is critical. Facilities in operation include dams, reservoirs, pumping plants, and irrigation canals as well as four power plants with an installed generating capacity of 629,500 kilowatts and 764 miles of electric transmission lines. Trinity River division power facilities under construction will increase the total installed generating capacity to 1,013,800 kilowatts.

The Bureau of Reclamation estimates that the cost to construct the authorized facilities of the Central Valley Project will eventually total about \$1,160 million. At June 30, 1960, cumulative construction costs totaled about \$655 million.

Also located in the basin are the Bureau's Solano and Orland projects. At June 30, 1960, the Bureau's construction investments at these projects totaled about \$38 million and \$3 million, respectively.

In the Central Valley basin, the Corps of Engineers has constructed three multiple-purpose revenue-producing projects. In accordance with authorizing legislation, Folsom Dam and Reservoir has been transferred to the Bureau of Reclamation for operation and maintenance and is considered a part of the Bureau's Central Valley Project. The other two projects, Kings River and Isabella,

which cost about \$39 million and \$22 million, respectively, are operated by the Corps. At June 30, 1960, the Corps was constructing four additional multiple-purpose projects which are estimated to cost about \$67 million when completed. In addition, the Corps has been authorized to construct two other multiple-purpose projects in the Central Valley basin.

The activities of the Bureau of Reclamation in the Central Valley basin are carried out by its regional office located at Sacramento, California. The Bureau's regional offices are headed by regional directors who are responsible to the Commissioner of Reclamation. Under authority delegated by the Secretary of the Interior, the management of the Bureau is vested in the Commissioner of Reclamation under the supervision of the Assistant Secretary of the Interior for Water and Power Development.

The activities of the Corps of Engineers in the Central Valley basin are carried out by a district office located at Sacramento, California. The district offices of the Corps of Engineers are operating offices headed by Army engineer officers, as district engineers, and generally carry out both military and civil works activities within defined areas under the general supervision of division engineers. The division engineers are responsible to the Chief of Engineers, Washington, D.C.

The principal policy-making officials of the Department of the Interior and the Department of the Army responsible for the activities discussed in this report were and are as follows.

	<u>Date appointed</u>
Department of the Interior:	
Secretary of the Interior:	
Mr. Fred A. Seaton	June 8, 1956
Mr. Stewart L. Udall	January 21, 1961
Assistant Secretary for Water and Power Development:	
Mr. Fred G. Aandahl	February 10, 1953
Mr. Kenneth Holum	January 30, 1961
Commissioner of Reclamation:	
Mr. Floyd E. Dominy	May 1, 1959
Department of the Army:	
Secretary of the Army:	
Mr. Wilber M. Brucker	July 21, 1955
Mr. Elvis J. Stahr, Jr.	January 23, 1961
Chief of Engineers:	
Lieutenant General Emerson C. Itschner	October 1, 1956
Lieutenant General Walter K. Wilson, Jr.	May 19, 1961

SUMMARY OF PRINCIPAL FINDINGS

Our review disclosed that major accounting deficiencies of the Bureau of Reclamation and the Corps of Engineers which have existed for several years have not been corrected. Because of these deficiencies, it is our opinion that the financial statements included in this report do not present fairly the financial position of revenue-producing projects at June 30, 1960, and the financial results of operations for the fiscal year then ended. (See p. 46.)

We also found that payments awarded by the Court of Claims in settlement of claims resulting from construction and operation of Bureau of Reclamation projects are not recorded as project costs. In addition, we found that corrective action has been taken on several of the findings and recommendations included in our prior reports, but that some of our prior findings have not been satisfactorily resolved. These matters are summarized below and are discussed more extensively on succeeding pages. Comments from the Corps of Engineers dated November 8, 1961, and from the Department of the Interior dated December 27, 1961, have been considered in the final preparation of this report.

COURT OF CLAIMS SETTLEMENT COSTS NOT INCLUDED AS PROJECT COSTS

Settlement claim costs, incurred by the Government in the Court of Claims for judgments against the Bureau of Reclamation because of project construction and operation, are not recorded as a cost of the Central Valley Project. At June 30, 1960, about \$688,000 had been paid to satisfy these claims. We believe that

these costs should be recorded in the project accounts and be considered reimbursable to the same extent as any other project costs.

We are recommending that the Secretary of the Interior issue instructions to the Bureau of Reclamation providing for the recording of Court of Claims settlement costs arising from project activities and recovery by the Government of these costs in the same manner as other costs paid by the Bureau of Reclamation. (See pp. 20 to 22.)

STATUS OF PRINCIPAL FINDINGS
AND RECOMMENDATIONS IN PRIOR REPORT

Our previous audit report to the Congress dated December 11, 1957, on a review of projects in the Central Valley basin, California, for fiscal year 1956, included comments on a number of significant matters, together with our recommendations for corrective action. The status of the principal findings and recommendations discussed in that report is summarized below.

1. Accounting policy deficiencies

Our prior report included a recommendation to the Secretary of the Interior relating to accounting policy deficiencies. Insofar as the projects included in this report are concerned, the principal accounting policy deficiencies which require correction relate to depreciation and interest during construction.

Depreciation

The Bureau of Reclamation does not record depreciation on fixed assets used in the production of electric power at the Central Valley Project.

The policy of the Bureau of Reclamation in not accounting for depreciation of its fixed assets devoted to commercial power production is contrary to the principles and standards of accounting prescribed for executive agencies by the Comptroller General pursuant to law. The Budget and Accounting Procedures Act of 1950 fixes responsibility on the head of each executive agency to establish and maintain systems of accounting which shall conform to the principles, standards, and related requirements prescribed by the Comptroller General. These principles and standards, insofar as they pertain to accounting for depreciation of Federal water resource projects having electric power operations, were clarified by Accounting Principles Memorandum No. 5 (issued December 16, 1960, 2 GAO 1286), which states:

"The production and sale of electric power from many Federal water resource projects are revenue-producing operations which are substantial in size. Because of the nature, size, importance, and public interest in such operations, financial reports on them should disclose fully the financial results in terms of revenues earned and all costs incurred. Since depreciation of fixed assets applicable to power operations is so substantial in amount and in relation to total operating costs, it must be accounted for and included in financial reports on electric power operations to make them fully informative to all users including management officials, officials of other Government agencies, the Congress, and the public."

In view of this clear requirement, the need to produce financial reports which will disclose clearly and fully all significant financial aspects of these water resources operations, and the related responsibilities of the Secretary of the Interior under the law, we have strongly recommended that the Commissioner of

Reclamation be instructed to revise the accounting system of the Bureau of Reclamation to incorporate appropriate accounting for depreciation of fixed assets applicable to commercial power operations.

In a letter dated February 26, 1962, the Secretary of the Interior informed us that he is now willing to include depreciation charges in the accounts and financial statements of the power bureaus covering that part of the Federal plant investment allocated to power. The Secretary advised us that action will be taken promptly to develop procedures for bringing depreciation charges into the accounts of the Bureau of Reclamation based on the balances of major plant accounts rather than on individual units of property, and that depreciation rates applied to each major plant account will be based on the best available information as to the expected service life of the composite group. He stated further that if time permits these charges will be reflected in the Bureau's financial statements for the fiscal year ending June 30, 1962.

Interest during construction

The policy of the Bureau of Reclamation is to record interest during construction only in those instances where it is specified as a reimbursable cost in authorizing legislation or in the repayment analysis included in feasibility reports in support of authorizing legislation or, as to older projects, where administrative decisions have been made to consider interest during construction a reimbursable item. Pursuant to this policy, the Bureau of

Reclamation does not record interest during construction on its investment in electric power and municipal water supply facilities of the Central Valley Project. Because, generally, the Government incurs interest from the time appropriated funds are converted to materials, supplies, equipment, or other forms of resources to be used in constructing a project, we believe that for interest-bearing activities, interest during construction as well as interest during operations should be recorded in project accounting records. To obtain comparable financial data on Federal water resources projects, interest during construction on interest-bearing facilities should be recorded even though it has been administratively determined that such interest is not to be repaid to the United States Treasury.

For the above stated reason we repeat our recommendation to the Secretary of the Interior that he instruct the Bureau to adopt a policy of recording interest during construction on the Federal investment in electric power and municipal water supply facilities.

2. Need for the Secretary of the Interior to approve allocations of construction costs

In our prior report we noted that the Bureau's allocation of Central Valley Project construction costs, which serves as the basis for assigning costs to the several project purposes, was preliminary and tentative. Because the existing allocation was not a firm allocation that could be used as a reliable basis for review of the financial administration of the project, including power rates, we recommended that the Secretary of the Interior take

steps to have the allocation of construction costs of existing features of the Central Valley Project submitted to him for review and approval.

On December 8, 1960, the Secretary of the Interior approved and adopted a report dated October 31, 1960, by the Commissioner of Reclamation, proposing construction of the \$187 million Auburn-Folsom South units of the Central Valley Project. The Commissioner's report contained an allocation of Central Valley Project costs, totaling \$985 million, including the cost of the proposed Auburn-Folsom South units. However, costs of the San Luis Unit, which was authorized for construction on June 3, 1960 (74 Stat. 156), were omitted from this allocation which therefore was incomplete.

The Bureau's most recent construction cost allocation for the Central Valley Project is summarized in a March 23, 1961, power rate and repayment study approved by the regional director, Sacramento, California. Total estimated construction costs allocated by the regional director were \$1,160 million which included \$290 million for the San Luis Unit. This allocation has not been approved by the Secretary of the Interior.

While there is still need for the Secretary to approve a firm cost allocation for the Central Valley Project, the Bureau is currently negotiating with the State of California on the sharing of San Luis Unit construction costs and until a cost-sharing agreement is negotiated, the Federal cost of San Luis Unit will not be known. Similarly, the Bureau is now considering enlarging the proposed Folsom-South Canal. For these and other reasons the

Bureau currently is unable to estimate with accuracy the total amount of Central Valley Project costs requiring allocation.

3. Need to establish policies and procedures for allocation of Central Valley Project dependable power capacity to preference customers

At December 31, 1956, there were about 117,500 kilowatts of dependable power capacity available for allocation to either existing or potential preference customers of the Bureau of Reclamation's Central Valley Project. At that time, the Bureau had active requests for power deliveries from preference agencies not then under contract and from existing preference customers. In view of these circumstances, we recommended that the Secretary of the Interior establish specific policies and procedures relating to the allocation of project dependable capacity to existing or potential customers of the Central Valley Project for guidance of Bureau and preference agency officials.

Our current review disclosed that additional allocations have been made by the Department of the Interior to assign to preference customers practically all the available dependable power capacity previously unallocated and efforts were being made to place these additional allocations under contract.

4. Costs incurred by Corps of Engineers in preliminary surveys and investigations not included in project costs

Under former Corps accounting procedures costs incurred in conducting preliminary investigations and surveys of proposed projects to determine the advisability of their construction were not included in total project costs. In our prior report we

recommended that the Corps of Engineers (1) allocate an appropriate share of costs of basin investigation to projects or units authorized for construction and (2) classify the costs of surveys and investigations of authorized projects as construction costs at the time the projects are programmed for construction, limited to costs of such surveys and investigations as may reasonably be determined to contribute directly and without duplication to the construction of the project.

On August 25, 1958, the Corps issued instructions requiring that preliminary investigation and survey costs be budgeted for authorized projects or project modifications for which it will or may be necessary to budget for fiscal year 1960 and beyond. Under these instructions, upon receipt of advance design and construction funds for a project or project modification, the total cost of the related study will be charged to construction work in progress.

5. Revenues paid to states
not charged to projects

Revenues are derived by the Corps of Engineers from reservoir projects, principally from the leasing of lands for farming and grazing purposes. The Flood Control Act of 1941, as amended (33 U.S.C. 701c-3), provides that 75 percent of all such moneys received and deposited in the Treasury of the United States is to be paid to the State in which the lands are located.

Under former Corps accounting procedures the total of revenues collected from lessees was recorded by district offices as

reduction of expenses for operating and maintaining the facilities and as credits to construction costs in project records. However, amounts paid to States were not recorded in the project records, and operation and maintenance and construction costs were understated by the amounts of such payments.

In our prior report we recommended that payments made, or to be made, to States from revenues for leasing reservoir lands under the provisions of the Flood Control Act of 1941, as amended, be recorded in the accounts of the projects at district offices. This recommendation was adopted and in December 1958, the Chief of Engineers issued instructions requiring that payments to States from lease revenues be recorded in district office project accounts. At June 30, 1960, cumulative payments to States amounting to \$127,039 had been recorded in the Corps' accounts for the Kings River and Isabella projects.

6. Delay in obtaining repayment contracts at Kings River and Isabella projects

Previously we reported that negotiations with water users had been in progress since 1947 at the Kings River Project and since 1953 at the Isabella Project; but permanent contracts for repayment of reimbursable construction costs of the projects had not been signed. Water had been sold to the water users of the projects on a temporary basis pending the signing of the permanent contracts.

On December 31, 1961, the Secretary of the Interior announced that permanent repayment contracts previously agreed to by the

water users and tentatively approved by the Department of the Interior, could not be signed in their present form because they are not in harmony with the excess land provisions of reclamation laws. The Secretary stated also that in the interim water service would be continued under annual contracts pending the outcome of renewed negotiations. See pages 31 to 34 for a more complete discussion of the repayment of reimbursable construction cost at the Kings River and Isabella projects.

7. Unfavorable aspects of Bureau of Reclamation contracts with Pacific Gas and Electric Company

Our report included comments on several unfavorable aspects of the Bureau of Reclamation's contracts with the Pacific Gas and Electric Company (PG&E) for transmission and exchange service and sale and interchange of Central Valley Project electric power.

Briefly, our principal comments related to:

- a. Excessive fee paid to PG&E for delivering Bureau power to the Sacramento Municipal Utility District (SMUD).
- b. Understatement of project dependable power capacity.
- c. Power capacity available to PG&E in excess of that billed to PG&E.
- d. Inequitable adjustments for losses in power transmission.

Since 1956, SMUD has received power directly from the Bureau and therefore no fees have been paid to PG&E for delivery service to SMUD. The contracts with PG&E were extended for 10 years in September 1959 without significantly changing the other conditions commented upon in our prior reports.

We have commented on matters relating to these power contracts in four reports issued over a period of several years. Two of these reports, dated January 20, 1955, and August 12, 1955, were directed to the Commissioner of Reclamation and the other two, dated December 21, 1956, and December 11, 1957, were directed to the Congress. Considerable reference was made to our report comments in hearings held in January and February 1958 by the Subcommittee on Irrigation and Reclamation of the Committee on Interior and Insular Affairs, House of Representatives.¹ During these hearings the Bureau of Reclamation submitted to the Subcommittee comments on our audit reports, and on February 14, 1958, we furnished the Subcommittee a statement relating to the Bureau's comments.

Since our audit findings on the Bureau's Central Valley Project contracts with PG&E have been considered by the Congress and the agency, and because the contracts cannot be amended unilaterally, we are not restating our findings in this report.

8. Uncertainties regarding the realization of certain estimated irrigation revenues

Our prior report included comments on the uncertainties regarding the realization of certain irrigation revenue estimates which were included in Bureau of Reclamation's 1956 repayment analysis for the Central Valley Project. We stated that to realize

¹Hearings before the Subcommittee on Irrigation and Reclamation of the Committee on Interior and Insular Affairs, House of Representatives, 85th Congress, 2d session, on H.R. 6997, H.R. 7407, and H.R. 1005, Joint Development Proposal for Trinity Power Facilities, Serial No. 21.

prospective revenues for the Sacramento River service area, estimated to average \$1 million yearly beginning in fiscal year 1957, settlement of the relative rights to water of the Sacramento River must be made. For the Folsom service area we reported that construction of additional conveyance facilities was necessary for realization of the revenue amounts included in the repayment analysis.

Our current audit disclosed that the Bureau's January 1961 repayment analysis includes estimated irrigation revenues from the Sacramento River service area and the Folsom service area even though the uncertainties commented upon in our prior report still existed.

The Administrative Assistant Secretary of the Interior advised us that a water rights decision rendered in February 1961 on the Sacramento River places the United States in a position to enforce payment by water users obtaining water from this area. In January 1962 the Secretary of the Interior submitted to the Congress for its consideration a feasibility report which includes the additional conveyance facilities needed in the Folsom service area.

ALLOCATIONS OF TOTAL ESTIMATED CONSTRUCTION COSTS
OF PROJECTS AND REPAYMENT OF REIMBURSABLE ALLOCATIONS

This section presents information on the magnitude, status, and reimbursability of the Federal program for developing revenue-producing water resources development projects in the Central Valley basin, California.

The following schedule summarizes the costs of completed works and construction work in progress at June 30, 1960, and the latest estimated costs to complete the authorized construction program of the Bureau of Reclamation and the Corps of Engineers in the Central Valley basin, exclusive of nonreimbursable projects of the Corps of Engineers.

	<u>Total</u>	<u>Bureau of Reclamation</u>	<u>Corps of Engineers</u>
	(000 omitted)		
Completed works	\$ 624,552	\$ 564,016	\$ 60,536
Construction work in progress	157,631	128,871	28,760
Estimated costs to complete authorized projects	<u>714,905</u>	<u>509,441</u>	<u>205,464</u>
Total	<u>\$1,497,088</u>	<u>\$1,202,328</u>	<u>\$294,760</u>

TENTATIVE ALLOCATION OF TOTAL ESTIMATED CONSTRUCTION COSTS OF BUREAU OF RECLAMATION PROJECTS

In January 1961 the Bureau estimated the construction costs of Bureau of Reclamation projects in the Central Valley basin to be \$1,202,328,000. This amount is exclusive of interest during construction, which is not included in the Bureau's construction cost estimates and project financial records.

The composition of total estimated construction costs and construction costs at June 30, 1960, are as follows:

	Estimated total construction costs	Construction costs at <u>June 30, 1960</u>
	(000 omitted)	
Central Valley Project:		
Trinity River division	\$ 250,000	\$121,715
Shasta division	181,624	181,828
American River division	52,917	45,879
Folsom dam and reservoir	61,517	61,517
Sacramento River division	70,561	6,588
Delta division	95,322	86,782
Friant division	145,663	138,112
San Luis unit	290,430	642
Water rights and general property	10,935	10,286
Other costs (net)	<u>1,093</u>	<u>1,152</u>
Total	1,160,062	654,501 ^a
Solano Project	38,936	38,226
Orland Project	<u>3,330</u>	<u>2,902</u>
Total	<u>\$1,202,328</u>	<u>\$695,629</u>

^aThis amount was taken from the budget control records because the accounting records do not show amounts by divisions or units. The accounting records show a total of \$651,758,983.

The cost estimate includes \$290,430,000 for the San Luis Unit, which was authorized for construction as an integral part of the Central Valley Project by the Act of June 3, 1960 (74 Stat. 156).¹ The Bureau currently is negotiating with the State of California on cost-sharing of joint-use facilities planned for the San Luis

¹The appendix on page 62 contains additional information on the legislative authorization of the San Luis Unit.

Unit; following agreement, the Federal share of San Luis Unit construction costs is expected to be considerably less than the \$290,430,000 estimate. The Bureau's construction cost estimate does not include provision for San Luis Unit distribution systems and a drainage canal which may be constructed by the United States and for which \$192,650,000 is authorized by the Congress. The Administrative Assistant Secretary of the Interior advised us that the cost of the distribution system and drains has not been included in the estimated costs of the San Luis Unit because it is not known whether Federal or nonfederal construction will be involved.

The Bureau's allocation of the costs of projects in the Central Valley basin using the separable costs--remaining benefits method of allocation is summarized below.

	Estimated total construction costs	Project		
		Central Valley	Solano	Orland
		(000 omitted)		
Reimbursable purposes:				
Irrigation	\$ 781,725	\$ 743,971	\$34,424	\$3,330
Commercial power	240,596	240,596	-	-
Municipal and industrial water	45,296	42,041	3,255	-
Fish and wildlife	<u>7,906</u>	<u>7,906</u>	<u>-</u>	<u>-</u>
Total	<u>1,075,523</u>	<u>1,034,514</u>	<u>37,679</u>	<u>3,330</u>
Nonreimbursable purposes:				
Flood control	81,216	80,084	1,132	-
Fish and wildlife	28,406	28,406	-	-
Navigation	16,623	16,623	-	-
Recreation	<u>560</u>	<u>435</u>	<u>125</u>	<u>-</u>
Total	<u>126,805</u>	<u>125,548</u>	<u>1,257</u>	<u>-</u>
Total	<u>\$1,202,328</u>	<u>\$1,160,062</u>	<u>\$38,936</u>	<u>\$3,330</u>

The above total for the Central Valley Project represents a significant increase over the Bureau's last allocation prepared in November 1959. The principal reason for the increase is that the latest allocation includes \$290,430,000 for the San Luis Unit, whereas no costs for that unit were included in the November 1959 allocation. The irrigation allocation has increased by about \$273,000,000 and the commercial power allocation decreased by about \$78,000,000 because large quantities of electric power will be required for San Luis Unit irrigation pumping.

Court of Claims settlement costs
not included in project costs

Settlement claim costs, incurred by the Government in the Court of Claims for judgments against the Bureau of Reclamation because of project construction and operation, are not recorded as a cost of the Central Valley Project. We believe that these costs should be recorded in the project accounts and be considered recoverable by the Government to the same extent as any other project cost.

Until July 1, 1955, awards by the Court of Claims arising from project activities were considered project costs and were recorded in the Bureau's project accounts in the same manner as costs paid by the Bureau of Reclamation. At the Central Valley Project the largest of these awards was \$306,700, representing a Court of Claims settlement of the value of certain Shasta reservoir lands inundated following the construction of Shasta Dam. Other large awards, ranging from about \$34,000 to \$83,000, resulted from settlement of San Joaquin River water rights.

In fiscal year 1956, Court of Claims settlement costs were eliminated from the accounting records pursuant to a revision to Reclamation Instructions. At the Central Valley Project the amount of costs eliminated from the records totaled \$688,000.

The Administrative Assistant Secretary of the Interior advised us that the present policy of the Bureau of Reclamation is to exclude from project accounts all costs associated with Court of Claims settlement, except in those instances where such costs are scheduled for return to the United States as a part of obligations stated in contracts covering the repayment of construction costs. The Administrative Assistant Secretary advised that the reasons for exclusion of such costs from project accounts previously furnished us by the Bureau of Reclamation are still appropriate. The Bureau had previously furnished the following as the reasons for exclusion of such costs; (1) payment of approved claims is made by the Treasury on authority of appropriations made by the Congress, (2) appropriations are not made to the Bureau, nor is documentation furnished the Bureau relative to these payments, and (3) the appropriations acts making these funds available to the Treasury contain no instructions from the Congress that the amounts are to be included in the Bureau's accounts or to be reimbursed in any way, in contrast with appropriations made directly to the Bureau.

It is our opinion that Court of Claims settlements such as those described herein and similar Federal expenditures directly identified with the construction or operation of Federal

reclamation projects are properly chargeable to project activities because, in the absence of dispute, these claim settlement amounts would have been paid from the Bureau's regular appropriations.

Recommendation to the Secretary of the Interior

To properly show the cost of Reclamation projects and amounts to be repaid by project beneficiaries, we recommend that the Secretary of the Interior issue instructions to the Bureau of Reclamation providing for the recording of Court of Claims settlement costs arising from project activities and recovery by the Government of these costs in the same manner as other costs paid by the Bureau of Reclamation.

REPAYMENT OF REIMBURSABLE COST ALLOCATIONS--
CENTRAL VALLEY PROJECT

The Bureau's January 1961 repayment analysis is projected through fiscal year 2018. The following summary of the repayment analysis shows the total estimated net operating revenues from the various project purposes and the amounts covered by the estimated revenues.

	<u>Total</u>	<u>Irrigation</u>	<u>Commercial power</u>	<u>Municipal and industrial water</u>
	(000 omitted)			
Estimated net operating revenues	<u>\$1,450,247</u>	<u>\$524,760</u>	<u>\$657,648</u>	<u>\$267,839</u>
Amounts covered by estimated net operating revenues:				
Irrigation costs	\$ 743,971	\$516,854	\$ 28,901	\$198,216
Commercial power costs	240,596	-	240,596	-
Municipal and industrial water costs	42,041	-	-	42,041
Fish and wildlife costs	7,906	7,906	-	-
Interest on the Federal investment	116,951	-	89,369	27,582
Excess	<u>298,782</u>	<u>-</u>	<u>298,782</u>	<u>-</u>
Total	<u>\$1,450,247</u>	<u>\$524,760</u>	<u>\$657,648</u>	<u>\$267,839</u>

Interest on the Federal investment is computed at the rate of 3 and 2.5 percent on the unrepaid balances of the commercial power and municipal and industrial water supply investments, respectively.

Repayment of construction costs
allocated to commercial power

According to the Bureau's January 1961 repayment analysis, by the end of fiscal year 1984 commercial power revenues will have repaid the construction costs allocated to commercial power of \$240.6 million, as well as \$89.4 million as interest on the Federal investment. After provision for irrigation assistance totaling \$28.9 million, surplus commercial power revenues are shown to accumulate earned surplus of \$298.8 million by the end of fiscal year 2018.

Particulars on the repayment of the commercial power investment as of June 30, 1960, are shown below:

Commercial power plant in service		<u>\$136,696,000</u>
Cumulative power revenues and expenses:		
Gross power revenues	\$133,533,928	
Less operating revenue deductions, exclusive of depreciation	<u>30,018,905</u>	
Net operating revenues	103,515,023	
Less interest at 3 percent a year on the unrepaid Federal investment	<u>16,741,383</u>	
Net revenues for repayment of the Federal investment		<u>\$ 86,773,640</u>

The allocated commercial power investment shown above does not include Trinity River division power facilities now under construction. The first of these facilities is scheduled for completion in 1963. When all facilities are completed the commercial power investment will increase to an estimated \$342.5 million. However, following San Luis Unit construction, the commercial

power allocation after fiscal year 1967 is expected to be reduced to \$240.6 million because of planned increased use of power for irrigation pumping.

Repayment of construction costs
allocated to irrigation

Currently the Bureau estimates that by the end of fiscal year 2018 net irrigation revenues will amount to \$524.8 million, \$227 million less than the project investment allocated to irrigation. The following summary shows estimated repayment of the irrigation investment, including an allocation of \$7,906,000 for reimbursable fish and wildlife activities.

Reimbursable irrigation and fish and wildlife allocations	<u>\$751,877,000</u>
Estimated repayment:	
Water service operations	\$447,869,000
Construction cost contracts	<u>76,891,000</u>
Total irrigation revenues	524,760,000
Municipal and industrial water supply revenues	198,216,000
Commercial power revenues	<u>28,901,000</u>
Total estimated repayment	<u>\$751,877,000</u>

Amounts shown above for water-service operations represent revenues from the sale of water for irrigation at fixed rates. At June 30, 1960, water-service operations were classified into 12 areas, with acre-foot rates for delivery ranging from \$1.50 at river bank to \$3.50 for firm supply delivered to irrigation distribution systems. Long-term irrigation service contracts for water had been executed with 40 agencies at June 30, 1960, and negotiations with 33 agencies were in progress.

Amounts shown above for construction cost contracts represent repayment installments under irrigation distribution system construction contracts. At June 30, 1960, contracts totaling \$73,126,522 for the construction of irrigation distribution systems had been executed with 14 water-user organizations of which 4 contracts had not yet been approved by the courts.

At June 30, 1960, irrigation plant in service totaled \$258.6 million; cumulative collections under construction cost repayment contracts amounted to \$5.1 million and cumulative net revenues of irrigation operations for project repayment totaled \$4.7 million.

Repayment of construction costs allocated
to municipal and industrial water supply

The Bureau estimates that by the year 2018 net municipal and industrial water supply revenues will have been sufficient to repay the estimated project construction costs of \$42 million allocated to that purpose as well as \$27.6 million in interest and also provide \$198.2 million for repayment of the irrigation investment at the Central Valley Project.

Project financial records show that at June 30, 1960, municipal and industrial water supply operations have resulted in a cumulative deficit of \$1.5 million, exclusive of depreciation. The Bureau estimates that far greater amounts of water will be available and sold for municipal and industrial use in future years so as to eliminate the existing deficit and to provide \$267.8 million toward repayment of the Central Valley Project.

REPAYMENT OF REIMBURSABLE CONSTRUCTION COST
ALLOCATIONS--SOLANO AND ORLAND PROJECTS

Shown below are the reimbursable construction cost allocations and estimated repayment amounts reported by the Bureau of Reclamation for the Solano Project as of June 30, 1960.

	<u>Reimbursable</u> <u>allocations</u>	<u>Estimated</u> <u>repayment</u>
Irrigation	\$34,423,540	\$25,211,900
Municipal and industrial water supply	<u>3,255,466</u>	<u>12,467,106</u>
Total	<u>\$37,679,006</u>	<u>\$37,679,006</u>

Repayment is expected to be obtained principally through water service contracts. Through June 30, 1960, net operating revenues applied toward repayment of construction costs totaled \$24,173 and contributions of \$64,965 had been made, for a total repayment of \$89,138. Net revenues available for repayment are expected to increase significantly when the water distribution systems are completed. These systems are being constructed by the Solano Irrigation District principally with funds loaned the district by the Bureau of Reclamation pursuant to the act of July 4, 1955 (43 U.S.C. 421b).

The estimated total construction cost of the Orland Project of \$3,330,295 is allocated entirely to irrigation. Repayment is expected to be obtained principally under a long-term repayment contract with the Orland Water Users' Association. At June 30, 1960, the total contract obligation amounted to \$3,286,202 of which \$1,788,375 had been repaid.

TENTATIVE ALLOCATION OF ESTIMATED CONSTRUCTION COSTS
OF MULTIPLE-PURPOSE CORPS OF ENGINEERS PROJECTS

The following tabulation shows the total estimated construction costs and status of multiple-purpose projects authorized for construction by the Corps of Engineers in the Central Valley basin.

<u>Status of projects</u>	<u>Estimated total con- struction costs</u>	<u>Corps construction investment at June 30, 1960</u>
	(000 omitted)	
In operation:		
Kings River	\$ 40,950	\$39,183
Isabella	<u>21,910</u>	<u>21,738</u>
	<u>62,860</u>	<u>60,921</u>
Under construction:		
Success	14,200	11,758
Terminus	21,500	10,813
Black Butte	13,000	2,487
New Hogan	<u>18,000</u>	<u>1,189</u>
	<u>66,700</u>	<u>26,247</u>
Advanced planning:		
New Melones	<u>88,000</u>	<u>236</u>
Deferred:		
Iron Canyon (Table Mountain Reservoir)	<u>77,200</u>	<u>615</u>
Total	<u>\$294,760</u>	<u>\$88,019</u>

Among the authorized purposes of Corps multiple-projects in the Central Valley basin are flood control, navigation, conservation (irrigation), and power. Project costs allocated to flood control and navigation are nonreimbursable. Power generating facilities are not planned for the six Corps projects currently in operation or under construction, although the Corps has allocated \$2,260,000 of Kings River Project construction costs to future

power development. Also, Isabella Project construction costs amounting to \$1,051,000 are allocated to downstream power benefits. Costs allocated to irrigation are reimbursable and are to be recovered by the Bureau of Reclamation through repayment contracts with water users.

Corps of Engineers construction cost allocations for authorized multiple-purpose projects in the Central Valley basin are summarized below.

<u>Status of projects</u>	<u>Estimated total construction costs</u>	<u>Project purpose</u>		
		<u>Irrigation</u>	<u>Flood control</u>	<u>Other</u>
		(000 omitted)		
In operation:				
Kings River	\$ 40,950	\$14,250	\$ 19,250	\$ 7,450 ^a
Isabella	<u>21,910</u>	<u>4,573</u>	<u>15,469</u>	<u>1,868^b</u>
	<u>62,860</u>	<u>18,823</u>	<u>34,719</u>	<u>9,318</u>
Under construction:				
Success	14,200	1,296	12,404	500 ^c
Terminus	21,500	3,160	19,190	-850 ^c
Black Butte	13,000	7,300	11,000	-5,300 ^c
New Hogan	<u>18,000</u>	<u>6,362</u>	<u>11,213</u>	<u>425^c</u>
	<u>66,700</u>	<u>18,118</u>	<u>53,807</u>	<u>-5,225</u>
Advance planning:				
New Melones	<u>88,000</u>	<u>31,960</u>	<u>12,820</u>	<u>43,220^d</u>
Deferred:				
Iron Canyon (Table Mountain Reservoir)	<u>77,200</u>	-	-	<u>77,200^e</u>
Total	<u>\$294,760</u>	<u>\$68,901</u>	<u>\$101,346</u>	<u>\$124,513</u>

^aFor the Kings River Project the Corps has allocated \$607,000 for channel improvements and \$2,260,000 for future power development. Costs of \$4,583,000, representing construction cost overruns, are unallocated.

^bFor the Isabella Project \$1,051,000 has been allocated to downstream power benefits. Unallocated construction cost overruns total \$817,000.

^cThese amounts represent construction cost overruns and underruns which are to be allocated to project purposes upon completion of construction.

^dPower is an authorized purpose of the New Melones Project and \$36,183,000 has tentatively been allocated by the Corps to that purpose. Other estimated costs totaling \$7,037,000 have not been allocated.

^eNo cost allocation has been prepared for the Iron Canyon Project.

The cost allocations shown above were based on the separable cost-remaining benefit method except for the Kings River Project allocation which was determined by the Secretary of War and reported to the Congress on January 31, 1947 (H. Doc. No. 136, 80th Cong., 1st session).

REPAYMENT OF REIMBURSABLE CONSTRUCTION
COST ALLOCATIONS--CORPS PROJECTS

Kings River and Isabella projects

Construction of the Kings River and Isabella projects was authorized by the Flood Control Act of 1944 (58 Stat. 901), and since 1954 water storage has been available for irrigation use at both projects. From calendar years 1954 through 1959 the Bureau of Reclamation sold Kings River Project water and the Corps of Engineers sold Isabella Project water. Pursuant to an agreement announced March 17, 1959, assigning to the Secretary of the Interior responsibility for contracting for all irrigation service at Corps projects in the Central Valley basin, the Bureau of Reclamation assumed responsibility for sale of water of the Isabella Project beginning in calendar year 1960.

At both projects water storage for irrigation use has been sold since 1954 under interim contracts providing that the water users pay \$1.50 per acre-foot for water releases. The interim contracts for calendar years 1956 through 1961 provide that net revenues thereunder shall be credited against the water users repayment obligations when established in permanent repayment contracts. Negotiations for permanent repayment contracts have been under way since 1947 at Kings River and 1953 at Isabella but have not yet been successfully concluded, principally because the water users have been reluctant to accept the excess land provisions of reclamation laws. Generally, under these provisions, private lands in excess of 160 irrigable acres in any one ownership are ineligible

to receive water from any project if the owners thereof refuse to execute valid recordable contracts for the sale of such excess lands under terms and conditions satisfactory to the Secretary of the Interior and at prices not to exceed those fixed by the Secretary of the Interior.

Construction costs allocated to irrigation at the Kings River and Isabella projects are \$14,250,000 and \$4,573,000, respectively. The Kings River Project allocation was determined by the Secretary of War on January 31, 1947, when estimated project construction costs amounted to \$36,367,000, as compared with the \$40,950,000 estimate at June 30, 1960. The additional \$4,583,000 of Kings River Project construction costs remained unallocated at June 30, 1960. The Isabella Project allocation was prepared by the Corps in December 1955, and was based on estimated construction costs amounting to \$21,093,000. Estimated construction costs have increased to \$21,910,000 at June 30, 1960, with the result that construction costs of \$817,000 are unallocated. These amounts are exclusive of \$227,013 and \$98,383 of Bureau of Reclamation investigation costs for Kings River and Isabella, respectively.

Negotiations with water users have been conducted on the basis that the water users' permanent contract obligations to repay construction costs will total \$14,250,000 and \$4,573,000 at Kings River and Isabella, respectively, the amounts allocated to irrigation, and that water users will pay the Corps annual operation and maintenance expenses allocated to irrigation and a portion of the

Bureau's administrative expenses. Corps officials consider it unnecessary to revise the allocations to take into account increases in construction costs and Bureau investigation costs. Their opinion, that the water users' repayment obligations would not be increased if revised allocations were made, is based on the following considerations:

1. Under a long term contract with the Pacific Gas and Electric Company the Corps is selling water storage space at the Kings River Project. For fiscal years 1956-1960, total revenues under this contract amounted to \$646,000. Revenues from this source were not anticipated at the time the original construction cost allocation was made. However, in any revised allocation construction costs would be allocated to this purpose and thereby partially offset the additional amounts otherwise allocable to irrigation.
2. Certain other revenues from project operations are considered sufficient to offset any additional costs that might be allocated to irrigation if revised allocations were made.
 - a. At the Kings River Project, net revenues of \$1,097,542 from the calendar years 1954 and 1955 interim contracts with water users are to be applied toward the water users' repayment obligations. Also, under the proposed permanent repayment contracts, the Government would retain \$750,000 of the net interim contract revenues as payment for Fresno Slough water rights. In addition, the Government will retain \$199,500 received as payment for water users' unauthorized sales of water.
 - b. At the Isabella Project, net revenues of \$153,474 from the calendar years 1954 and 1955 interim contracts with water users are also to be applied toward the water users' repayment obligations.

In addition, the Director of Civil Works, Office of the Chief Engineer, Department of the Army, advised us as follows:

"With respect to the Kings River project, it has been concluded that because of the submittal of a cost allocation in compliance with a Congressional directive, the Chief of Engineers is without authority to make a new cost allocation without specific Congressional authority.

In the case of Isabella project, the amounts involved are relatively small and the cost of making a new allocation could exceed several times any probable readjustment that might be effected. Such a cost allocation would be time consuming and not in the public interest."

Early in calendar year 1961 the Department of the Interior announced that agreement on the repayment contracts for the Kings River and Isabella projects had been reached with the water users and draft contracts had been tentatively approved by the Department of the Interior. However, on December 31, 1961, the Secretary of the Interior, based on advice from the Department of the Interior Solicitor and the Department of Justice, announced that the proposed repayment contracts cannot be signed in their present form because they are not in harmony with Federal reclamation laws regarding acreage limitations under single and joint ownership. The Department plans to renew negotiations for a permanent agreement with the water users, however, in the interim the Secretary of the Interior has approved new 1-year contracts to continue water service to water users in the Kings River and Isabella project areas during calendar year 1962.

In addition to the amounts expected to be repaid by water users of the Isabella Project, Bureau of Reclamation officials advised us that the Federal Power Commission is currently determining assessments against downstream power beneficiaries of that project pursuant to 16 U.S.C. 803 (f).

Success and Terminus projects

The Success Project on the Tule River and the Terminus Project on the Kaweah River were authorized for Corps of Engineers

construction by the Flood Control Act of 1944 (58 Stat. 887), approved December 22, 1944. Both projects were under construction at June 30, 1960, and are scheduled to be in operation in June 1961 and June 1962, respectively. The Bureau of Reclamation is negotiating with the water users for permanent repayment contracts covering the project reimbursable irrigation allocations, estimated at \$1,296,000 and \$3,160,000 for the Success and Terminus projects, respectively, and future operation and maintenance costs.

Bureau officials advised us that water service to users in the Terminus Project area will be available for the calendar year 1962 irrigation season. Therefore, pending the outcome of negotiations for a permanent repayment contract the Bureau anticipates that water service will be furnished under an interim 1-year contract. We were also advised that the announcement by the Secretary of the Interior, that the excess land provisions of reclamation law are applicable to irrigable lands in the Kings River and Isabella project areas, will be considered in planned negotiations for a permanent repayment contract with water users in the Success and Terminus project areas.

Black Butte and New Hogan projects

The Black Butte Project located on Stony Creek, near Orland, California, and the New Hogan Project located on the Calaveras River, California, were authorized for Corps of Engineers construction by the Flood Control Act of 1944.

The Bureau of Reclamation has entered into identical repayment contracts with the State of California whereby the State of

California in effect guarantees repayment of construction costs allocated to irrigation at the Black Butte and New Hogan projects. The allocations were fixed at 39.9 percent and 36.2 percent of actual construction costs for the Black Butte and New Hogan projects, respectively. Percentages were established for operation and maintenance costs at 40.2 percent and 38 percent, respectively. The State's construction cost repayment obligation for each project is \$10,000 annually for seven years after construction is completed, with the remaining balances repayable in 33 equal annual installments. As the Bureau negotiates permanent repayment contracts with local water users the State's repayment obligations are to be proportionately reduced.

ELECTRIC PLANT CONSTRUCTION AND OPERATION

Project authorizations to the Bureau of Reclamation in the Central Valley basin have provided for the construction of hydroelectric power plants for generation of electric energy as a feature at certain Central Valley Project reservoirs. Although by law the power program is generally subordinate to other purposes at multiple-purpose projects, it has developed into a major activity from a construction and operating point of view. Revenues from commercial power sales are required to enable project repayment; in addition, a part of the energy generated is used for pumping water for irrigation and municipal and industrial water-supply purposes.

The authorized Federal hydroelectric power plants operated as part of the Central Valley Project at June 30, 1960, are as follows:

<u>Power plant</u>	<u>Initial operation of first unit</u>	<u>Number of generating units</u>	<u>Name-plate capacity (kilowatts)</u>
Shasta	1944	7	379,000
Keswick	1949	3	75,000
Folsom	1955	3	162,000
Nimbus	1955	<u>2</u>	<u>13,500</u>
Total		<u>15</u>	<u>629,500</u>

The act of August 12, 1955 (69 Stat. 719), authorized construction of the Trinity River division of the Central Valley Project so as to divert excess waters from watersheds outside the basin into the Central Valley. The Trinity River division construction program includes the installation of 384,300 kilowatts of

generating capacity at four generating plants. Power from these plants is scheduled for initial delivery in 1963.

In addition to hydroelectric power plants, Central Valley Project power facilities include 764 miles of transmission lines. The Bureau has programed the construction of 267 additional miles of transmission lines for delivery of Trinity River generation.

FINANCIAL RESULTS FROM POWER OPERATIONS

Operation of Central Valley Project power facilities by the Bureau of Reclamation during fiscal year 1960 resulted in power sales of \$10,556,329 and net revenues of \$4,852,624, exclusive of charges for depreciation on plant in service. Depreciation on plant in service is not recorded in the Bureau's accounts. At June 30, 1960, cumulative net power revenues of the Central Valley Project amounted to \$86,748,251. A statement of power operations is given on schedule 3, page 51, in the financial statements included with this report.

ENERGY PRODUCTION AND DELIVERIES

A summary of Central Valley Project power generation, interchanges, purchases, and energy disposition for fiscal years 1960 and 1959 is shown in the following tabulation:

	<u>Fiscal year 1960</u>		<u>Fiscal year 1959</u>	
	<u>Thousand</u>		<u>Thousand</u>	
	<u>kilowatt-</u>	<u>Percent</u>	<u>kilowatt-</u>	<u>Percent</u>
	<u>hours</u>		<u>hours</u>	
Source of energy:				
Central Valley Project				
power plant generation				
less station use:				
Shasta	1,655,412	59	2,221,694	70
Keswick	348,755	12	453,723	14
Folsom	392,392	14	407,314	13
Nimbus	<u>48,921</u>	<u>2</u>	<u>51,994</u>	<u>2</u>
Total	2,445,480	87	3,134,725	99
Energy purchased from PG&E	<u>353,231</u>	<u>13</u>	<u>26,666</u>	<u>1</u>
Total energy available for disposition	<u>2,798,711</u>	<u>100</u>	<u>3,161,391</u>	<u>100</u>
Disposition of energy:				
Sales to Bureau cus- tomers:				
Sacramento Municipal Utility District	1,463,993	52	1,315,528	42
Pacific Gas & Elec- tric Company	370,551	13	897,961	28
Ames Aeronautical Laboratory (NASA)	149,620	6	158,492	5
Mare Island Naval Shipyard	87,317	3	94,533	3
Other preference cus- tomers (23)	<u>239,504</u>	<u>9</u>	<u>198,590</u>	<u>6</u>
Total	2,310,985	83	2,665,104	84
Project and other uses	333,307	11	306,291	10
Interchange energy deliv- ered to PG&E	28,085	1	26,725	1
Transmission and associ- ated losses	<u>126,334</u>	<u>5</u>	<u>163,271</u>	<u>5</u>
Total energy disposition	<u>2,798,711</u>	<u>100</u>	<u>3,161,391</u>	<u>100</u>

CUSTOMERS SERVED

Particulars on sales of electric energy for the fiscal years 1960 and 1959 to the various users of Central Valley Project energy are presented in the following summary:

Description and number of customers	<u>Fiscal year 1960</u>		<u>Fiscal year 1959</u>	
	<u>Revenue</u>	Average rate per kilowatt- hour (mills)	<u>Revenue</u>	Average rate per kilowatt- hour (mills)
Sacramento Municipal Utility District (1)	\$ 5,993,201	4.09	\$ 5,380,405	4.09
Pacific Gas and Electric Company (1)	1,302,183	3.51	3,349,233	3.73
Federal agencies (15)	2,057,958	5.21	1,976,806	5.21
Rural cooperatives (1)	49,885	4.55	40,388	4.44
Municipalities (1)	137,350	4.64	115,946	4.63
State agencies and public authori- ties (8)	182,484	4.47	170,709	4.50
Project use and inter- project sales (10)	<u>833,268</u>	2.50	<u>765,728</u>	2.50
Total (37)	<u>\$10,556,329</u>	3.99	<u>\$11,799,215</u>	3.97

Pacific Gas and Electric Company power contracts

Central Valley Project electric power plants are integrated with facilities of the Pacific Gas and Electric Company (PG&E) through long-term contracts for (1) transmission and exchange service, and (2) sale and interchange. See page 14 for the current status of our prior years' comments on these contracts.

Contract 175r-2650, dated April 2, 1951, requires PG&E to accept delivery of project electric power and energy into its transmission system and to deliver an equivalent amount, adjusted for losses, to the United States and its customers. The minimum

transmission service (wheeling) fee after loss adjustment is one mill per kilowatt-hour, for deliveries made at 44,000 volts or higher.

On September 29, 1959, PG&E agreed to wheel power to the San Luis Unit of the Central Valley Project upon request of the United States. For deliveries made entirely outside PG&E's peak load period and at specified voltages, the contract wheeling fee is one-third of a mill per kilowatt-hour.

Contract 175r-3428, dated October 3, 1951, provides for sale by the United States of Central Valley Project hydroelectric power and energy not required for the use of the United States and its customers. Conversely, whenever the output of Central Valley Project plants is insufficient, PG&E must deliver certain amounts of energy from its own plants to the United States or its customers. The project dependable capacity available for sale to the Bureau's customers is 450,000 kilowatts. The Bureau of Reclamation reports that only 190,000 kilowatts of dependable capacity would be available to it for sale without the PG&E contractual arrangements or alternative means of providing support for generation at the Central Valley Project hydroelectric plants.

In 1963 when Trinity River division power facilities with an installed capacity of 384,300 kilowatts, are placed in service, the project dependable capacity will be increased substantially. However, the amount of increase is contingent upon the outcome of negotiations currently being held with PG&E. Also, when the San Luis Unit is later added to the Central Valley Project, project

dependable capacity available for sale to the Bureau's customers will be decreased because of large San Luis Unit electric power requirements for pumping water.

Preference customer sales

Federal and State agencies, municipal utilities, and rural cooperatives receive preference in the delivery of power available from the Central Valley Project. The Sacramento Municipal Utility District, with a contract demand of 290,000 kilowatts, is the largest preference customer of the Central Valley Project. Second largest, with a contract demand of 50,000 kilowatts, is the Ames Aeronautical Laboratory of the National Aeronautical and Space Administration.

On June 29, 1960, the Department of the Interior announced reallocations of 446,629 kilowatts of the 450,000 kilowatts of project dependable capacity. The Department stated that these reallocations will result in an equitable sharing of the firm power available from the project based upon actual power use since the last allocation which was made in October 1958. In addition, 24,000 kilowatts of withdrawable power was allocated the City of Redding, California, and 16,500 kilowatts of withdrawable power was allocated the Ames Aeronautical Laboratory. These withdrawable allocations resulted from Bureau of Reclamation studies indicating that during the load build-up period of each customer the power not needed by several customers, together with the diversity expected to occur between peak loads of all customers, could be sold on a short term or withdrawable basis.

WATER-SERVICE PLANT CONSTRUCTION AND OPERATION

Construction of the multiple-purpose water features that are part of initial comprehensive plans for the development of the Central Valley basin has been substantially completed by the Bureau of Reclamation and the Corps of Engineers. During fiscal year 1960, no additional water-service features were placed in operation.

Fundamentally these features consist of dams and reservoirs to control headwaters of major streams in the basin and to store the water utilized for irrigation, municipal and industrial water supply, fish and wildlife, and power needs. The seven major multiple-purpose dams and the two reregulating dams in operation provide storage capacity totaling 9,262,600 acre-feet. After release from storage, water is transported by an initial network of conveyance canals to the various irrigation and other users. Generally, water is delivered by gravitational flow. At certain locations pumping plants are necessary to lift the water to a sufficient elevation to enable gravitational flows.

In the Bureau's Central Valley and Solano projects total water deliveries from the various conveyance canals and distribution systems during fiscal year 1960, were 1,267,711 acre-feet compared with total deliveries of 1,883,694 acre-feet during the fiscal year 1959.

At June 30, 1960, the cumulative net revenues from water-service operations in the Central Valley and Solano projects totaled \$4,658,609, exclusive of charges for depreciation on fixed

plant in service. Irrigation and fish and wildlife net revenues were \$6,157,971, but municipal and industrial water-supply operations showed an excess of deductions over revenues totaling \$1,499,362. Depreciation on fixed plant in service is not recorded in Bureau of Reclamation financial accounts for water-service operations, or in the Corps of Engineers' accounts for projects in the Central Valley basin.

Fiscal year 1960 results from operation of water-service facilities of the Central Valley and Solano projects are shown on schedule 4, page 52, of this report. Cumulative net revenues or deficits from the Corps' Isabella and Kings River projects are shown on schedule 2, page 50, of this report.

SCOPE OF AUDIT

Our audit of the activities of the Bureau of Reclamation and the Corps of Engineers with respect to revenue-producing water resources development projects in the Central Valley basin, California, included the following procedures.

1. We reviewed the basic laws authorizing the activities and the pertinent legislative history to ascertain the purposes of the activities and their intended scope.
2. We ascertained the policies and procedures adopted by the Bureau and the Corps and examined into their adequacy and effectiveness.
3. We examined selected transactions to the extent we deemed appropriate and with due regard for the nature and volume of transactions and the effectiveness of internal control including internal audits.

Our audit was conducted at the Sacramento, California, regional office of the Bureau of Reclamation and the Sacramento, California, district office of the Corps of Engineers.

OPINION OF FINANCIAL STATEMENTS

The accompanying statement of assets and liabilities (schedule 1) and statements of power operations and nonpower operations (schedules 2 through 5), for revenue-producing water resources development projects in the Central Valley basin, California, were prepared by us from the accounting records of the Bureau of Reclamation and Corps of Engineers. In assembling these combined statements we have made certain reclassifications that do not affect the combined net results of operations for these projects.

In our opinion, the accompanying financial statements do not present fairly the financial position at June 30, 1960, and the financial results of operations for the fiscal year then ended mainly because of the conditions set forth below, the full effect of which cannot now be determined.

1. Depreciation of fixed plant in service is not recorded in Bureau of Reclamation accounts and therefore the financial results of Central Valley Project commercial power activities are not presented on a basis consistent with generally accepted accounting principles. In Accounting Principles Memorandum No. 5 dated December 16, 1960 (2 GAO 1286), and in previous memorandums, the Comptroller General has required that depreciation be recorded for Federal power projects, but the Bureau of Reclamation has not complied with this requirement.

2. The allocation of project construction costs to power and nonpower purposes of the Central Valley Project of the Bureau of Reclamation is not firm. Until a firm allocation of project costs

is adopted and approved by the Secretary of the Interior, the assignment of costs between project purposes in the accompanying financial statements must be considered tentative.

3. The Bureau of Reclamation has not recorded interest during construction on its investment in electric power and municipal water supply facilities of the Central Valley Project.

4. Payments totaling about \$688,000 which were awarded by the Court of Claims for settlement of claims arising from project activities are not recorded as costs of the Central Valley Project.

5. At the Kings River and Isabella projects, the Corps accounts do not show the allocation of construction costs and operation and maintenance expenses between reimbursable and other project purposes. Therefore, net revenues available for repayment of reimbursable costs are not shown. Isabella Project revenues for fiscal year 1960 are overstated because they include Corps revenues earned during the last six months of fiscal year 1959.

FINANCIAL STATEMENTS

SCHEDULE 1

CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS (note 1)

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1960

	ASSETS			LIABILITIES		
	Combined	Bureau of Reclamation	Corps of Engineers	Combined	Bureau of Reclamation	Corps of Engineers
PLANT, PROPERTY, AND EQUIPMENT:						
Completed works (note 2)	\$624,552,349	\$564,016,124	\$60,536,225			
Construction work in progress (note 2)	157,631,079	128,871,443	28,759,636			
Service facilities, less allowances for depreciation of \$1,376,959	<u>3,428,550</u>	<u>3,428,550</u>	<u>-</u>			
Plant, property, and equipment, net	<u>785,611,978</u>	<u>696,316,117</u>	<u>89,295,861</u>			
COSTS OF PRELIMINARY INVESTIGATIONS AND ADVANCE PLANNING OF POTENTIAL PROJECTS	<u>1,577,076</u>	<u>1,478,693</u>	<u>98,383</u>			
CASH AND OTHER ASSETS:						
Unexpended funds in U.S. Treasury	11,858,105	8,476,758	3,381,347			
Special and trust funds on deposit	2,028,310	2,028,310	-			
Accounts receivable:						
Power customers	1,624,603	1,624,603	-			
Water customers	927,989	927,989	-			
Other	62,833	62,100	733			
Materials, supplies, prepayments, and miscellaneous deferred charges	<u>2,055,744</u>	<u>2,055,744</u>	<u>-</u>			
Total cash and other assets	<u>18,557,584</u>	<u>15,175,504</u>	<u>3,382,080</u>			
	<u>\$805,746,638</u>	<u>\$712,970,314</u>	<u>\$92,776,324</u>			
				INVESTMENT OF U.S. GOVERNMENT AND ACCUMULATED EXCESS OF REVENUES OVER DEDUCTIONS:		
				Congressional appropriations, net (note 3)	\$842,421,038	\$688,069,072
				Cost and property transfers, net (note 4)	6,317,525	67,774,571
				Interest on the Federal investment (note 5)	<u>19,164,244</u>	<u>19,164,244</u>
					867,902,807	775,007,887
				Less funds returned to the U.S. Treasury (note 6)	<u>179,201,434</u>	<u>177,184,364</u>
				Net investment of U.S. Government	<u>688,701,373</u>	<u>597,823,523</u>
				Excess of revenues over deductions (schedule 2)	<u>92,301,055</u>	<u>91,681,926</u>
				Total	<u>781,002,428</u>	<u>689,505,449</u>
				MATURED INSTALLMENTS OF FIXED OBLIGATIONS FOR USE OF FACILITIES (note 8)	<u>3,163,154</u>	<u>3,163,154</u>
				CURRENT LIABILITIES:		
				Accounts payable, including accrued payroll and contractors' earnings	4,665,004	3,385,659
				Other current liabilities	<u>2,009,410</u>	<u>2,009,410</u>
				Total current liabilities	<u>6,674,414</u>	<u>5,395,069</u>
				OTHER DEFERRED CREDITS	<u>5,741,184</u>	<u>5,741,184</u>
				ACCUMULATED ALLOWANCES FOR REPLACEMENT AND DEPRECIATION ON MOVABLE EQUIPMENT (note 9)	<u>8,993,335</u>	<u>8,993,335</u>
				CONTRIBUTIONS IN AID OF PROJECT DEVELOPMENT AND CONSTRUCTION	<u>172,123</u>	<u>172,123</u>
					<u>\$805,746,638</u>	<u>\$712,970,314</u>
						<u>\$ 92,776,324</u>

The notes on pages 54 through 60 are an integral part of this statement.

The opinion of the General Accounting Office on the financial statements appears on pages 46 and 47.

CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES
DEVELOPMENT PROJECTS (note 1)

SUMMARY STATEMENT OF EXCESS OF REVENUES OVER DEDUCTIONS
FOR FISCAL YEAR 1960 AND CUMULATIVE TO JUNE 30, 1960

	Fiscal year <u>1960</u>	Cumulative to June 30, <u>1960</u>
POWER OPERATIONS (schedule 3)	<u>\$4,852,624</u>	<u>\$86,748,251</u>
WATER OPERATIONS:		
Irrigation (schedule 4)	393,519	6,050,097
Municipal and industrial (schedule 4)	-242,608	-1,499,362
Reimbursable--Fish and Wildlife (schedule 4)	<u>-9,644</u>	<u>107,874</u>
Total water operations	<u>141,267</u>	<u>4,658,609</u>
NET NONOPERATING AND MISCELLANEOUS (note 7):		
Nonoperating (schedule 4)	12,790	147,228
Miscellaneous (schedule 5):		
Kings River	87,914	-134,991
Isabella	<u>118,255</u>	<u>754,120</u>
Total nonoperating and miscel- laneous	<u>218,959</u>	<u>766,357</u>
NET INCOME NOT CREDITABLE FOR PROJECT REPAYMENT	<u>8,590</u>	<u>105,478</u>
NET INCOME PENDING DISTRIBUTION	<u>-</u>	<u>22,360</u>
TOTAL EXCESS OF REVENUES OVER DEDUCTIONS	<u>\$5,221,440</u>	<u>\$92,301,055</u>

The notes on pages 54 through 60 are an integral part of this statement.

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CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS

STATEMENT OF RESULTS OF POWER OPERATIONS

CENTRAL VALLEY PROJECT

FOR FISCAL YEARS 1960 AND 1959

	<u>Fiscal year</u>	
	<u>1960</u>	<u>1959</u>
REVENUES:		
Sales of electric energy:		
Private electric utilities	\$ 1,302,183	\$ 3,349,233
Federal agencies	2,057,958	1,976,806
State agencies and public authorities	6,175,685	5,551,114
Rural cooperatives	49,885	40,388
Municipalities, towns, and villages	<u>137,350</u>	<u>115,946</u>
Total outside sales	9,723,061	11,033,487
Project use and sales to other projects	<u>833,268</u>	<u>765,728</u>
Total sales of electric energy	10,556,329	11,799,215
Rents and other revenues	<u>100,726</u>	<u>87,617</u>
Total operating revenues	<u>10,657,055</u>	<u>11,886,832</u>
DEDUCTIONS:		
Production expenses:		
Direct expense	649,827	660,647
Allocated multiple-purpose expenses	344,177	298,823
Purchased power	1,005,985	76,126
Transmission expenses:		
Wheeling charges	564,009	527,331
All other	444,833	431,514
Customers' accounting and collecting	20,149	27,171
Power marketing expenses	26,398	3,891
Administrative and general expenses:		
Direct expense	73,302	71,748
Allocated multiple-purpose expenses	<u>356,013</u>	<u>334,869</u>
Total operation and maintenance expenses	3,484,693	2,432,120
Provision for replacement and depreciation (note 9)	693,151	677,727
Interest on the Federal investment (note 5)	<u>1,626,587</u>	<u>1,807,356</u>
Total deductions	<u>5,804,431</u>	<u>4,917,203</u>
EXCESS OF REVENUES OVER DEDUCTIONS OF POWER OPERATIONS	<u>\$ 4,852,624</u>	<u>\$ 6,969,629</u>

The notes on pages 54 through 60 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on pages 46 and 47.

CENTRAL VALLEY BASIN, CALIFORNIA
REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS

STATEMENT OF REVENUES AND DEDUCTIONS FOR NONPOWER OPERATIONS
CENTRAL VALLEY PROJECT^a
FISCAL YEAR 1960

	<u>Total</u>	<u>Irrigation</u>	<u>Municipal and industrial water</u>	<u>Reimburs- able fish and wildlife</u>	<u>Non- operating activities</u>
REVENUES:					
Rental of water	\$4,550,620	\$3,824,910	\$634,010	\$ 91,700	\$ -
Miscellaneous revenues	<u>23,963</u>	<u>7,615</u>	<u>1,764</u>	<u>-</u>	<u>14,584</u>
Total revenues	<u>4,574,583</u>	<u>3,832,525</u>	<u>635,774</u>	<u>91,700</u>	<u>14,584</u>
DEDUCTIONS:					
Storage system:					
Allocated multiple-purpose expense	287,853	274,215	6,626	7,012	-
Carriage system:					
Direct expense	2,157,592	2,157,592	-	-	-
Allocated multiple-purpose expense	559,099	202,940	277,989	78,170	-
Water marketing:					
Direct expense	156,214	156,214	-	-	-
Allocated multiple-purpose expense	66,451	59,532	4,238	2,681	-
Administrative and general expenses:					
Allocated multiple-purpose expense	571,867	499,980	60,011	11,876	-
Other expenses	<u>26,705</u>	<u>24,911</u>	<u>-</u>	<u>-</u>	<u>1,794</u>
Total operation and maintenance expense	3,825,781	3,375,384	348,864	99,739	1,794
Provision for replacement	72,766	63,622	7,539	1,605	-
Interest on the Federal investment	<u>521,979</u>	<u>-</u>	<u>521,979</u>	<u>-</u>	<u>-</u>
Total deductions	<u>4,420,526</u>	<u>3,439,006</u>	<u>878,382</u>	<u>101,344</u>	<u>1,794</u>
EXCESS OF REVENUES OVER DEDUCTIONS FOR NON- POWER OPERATIONS	<u>\$ 154,057</u>	<u>\$ 393,519</u>	<u>-\$242,608</u>	<u>\$ -9,644</u>	<u>\$12,790</u>

^aIncludes the following Solano Project revenues and deductions:

	<u>Irrigation</u>	<u>Non- operating activities</u>
Revenues	\$47,304	\$155
Deductions	<u>26,689</u>	<u>-</u>
Excess of revenues over deductions	<u>\$20,615</u>	<u>\$155</u>

The notes on pages 54 through 60 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on pages 46 and 47.

CENTRAL VALLEY BASIN, CALIFORNIA

REVENUE-PRODUCING WATER RESOURCES DEVELOPMENT PROJECTS

STATEMENT OF REVENUES AND DEDUCTIONS

KINGS RIVER AND ISABELLA PROJECTS

FOR FISCAL YEAR 1960

	<u>Kings River Project</u>			<u>Isabella Reservoir Project</u>		
	<u>Total</u>	<u>Bureau of Recla- mation</u>	<u>Corps of Engineers</u>	<u>Total</u>	<u>Bureau of Recla- mation</u>	<u>Corps of Engineers</u>
REVENUES:						
Water rental and storage	\$781,861	\$547,807	\$234,054	\$253,565	\$57,677	\$195,888
Other revenues	<u>3,001</u>	<u>-</u>	<u>3,001</u>	<u>10,761</u>	<u>-</u>	<u>10,761</u>
Total revenues	<u>784,862</u>	<u>547,807</u>	<u>237,055</u>	<u>264,326</u>	<u>57,677</u>	<u>206,649</u>
DEDUCTIONS:						
Operation and maintenance expenses:						
Joint facilities	115,688	-	115,688	70,148	-	70,148
Recreation	8,514	-	8,514	678	-	678
Other expenses	24,939	-	24,939	17,568	-	17,568
Water marketing, administrative, and general expenses	<u>2,944</u>	<u>2,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>152,085</u>	<u>2,944</u>	<u>149,141</u>	<u>88,394</u>	<u>-</u>	<u>88,394</u>
EXCESS OF REVENUES OVER DEDUCTIONS	<u>\$632,777</u>	<u>\$544,863^a</u>	<u>\$ 87,914</u>	<u>\$175,932</u>	<u>\$57,677^a</u>	<u>\$118,255</u>

^aThe Bureau of Reclamation's cumulative excess of revenues over deductions at June 30, 1960, for the Kings River and Isabella projects totaled \$3,548,873 and \$57,677, respectively. These amounts are included in the statement of assets and liabilities (schedule 1) as other deferred credits.

The notes on pages 54 through 60 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on pages 46 and 47.

EXPLANATORY NOTES TO AND COMMENTS ON THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial statements include the amounts recorded by the Bureau of Reclamation, Department of the Interior, and the Corps of Engineers, Department of the Army, for those projects in the Central Valley basin, California, which include revenue producing features; namely, power, irrigation, and municipal water supply.

Projects included in the financial statements and their status at June 30, 1960, are as follows:

<u>Project</u>	<u>Agency</u>	<u>Status</u>
Central Valley	Bureau of Reclamation	In operation
Solano	do.	do.
Orland	do.	do.
Kings River	Corps of Engineers	do.
Isabella	do.	do.
Success	do.	Under construction
Terminus	do.	do.
Black Butte	do.	do.
New Hogan	do.	do.
New Melones	do.	Advance planning
Table Mountain (Iron Canyon)	do.	Deferred

2. Completed works and construction work in progress

At June 30, 1960, costs of completed works and construction work in progress by projects were as follows:

<u>Project</u>	<u>Combined</u>	<u>Completed works</u>	<u>Construction work in progress</u>
Bureau of Reclamation:			
Central Valley	\$651,758,983	\$524,063,480	\$127,695,503
Solano	38,226,207	37,368,774	857,433
Orland	2,902,377	2,583,870	318,507
Corps of Engineers:			
Kings River	39,182,833	38,982,270	200,563
Isabella	21,738,178	21,553,955	184,223
Folsom	1,276,712	-	1,276,712
Success	11,757,974	-	11,757,974
Terminus	10,812,967	-	10,812,967
Black Butte	2,486,730	-	2,486,730
New Hogan	1,189,402	-	1,189,402
New Melones	236,457	-	236,457
Table Mountain (Iron Canyon)	614,608	-	614,608
Total	\$782,183,428	\$624,552,349	\$157,631,079

Construction work in progress shown for Folsom consists of Corps construction costs arising after the project was turned over to the Bureau for operation and maintenance in 1956. Ultimately these costs are to be transferred to the Bureau.

Following is the June 30, 1960, classification of completed works obtained from Bureau and Corps financial records.

	<u>Total</u>	<u>Bureau of Reclamation</u>	<u>Corps of Engineers</u>
Multiple-purpose plant	\$465,903,523	\$405,367,298	\$60,536,225
Electric plant	101,570,036	101,570,036	-
Irrigation plant	<u>57,078,790</u>	<u>57,078,790</u>	-
Total	<u>\$624,552,349</u>	<u>\$564,016,124</u>	<u>\$60,536,225</u>

Multiple-purpose plant is operated for at least two purposes, such as irrigation, power, flood control, or municipal water supply.

At June 30, 1960, interest during construction was not recorded as a project cost by either the Bureau of Reclamation or the Corps of Engineers.

3. Congressional appropriations, net

Net appropriations totaling \$842,421,038 have been allotted to the Bureau of Reclamation and Corps of Engineers for projects in the Central Valley basin, as follows:

	<u>Total</u>	<u>Bureau of Reclamation</u>	<u>Corps of Engineers</u>
Construction and rehabilitation	\$790,025,213	\$637,197,577	\$152,827,636
Operation and maintenance	51,097,495	49,837,165	1,260,330
General investigations	264,000	-	264,000
Other, including appropriations prior to fiscal year 1925	<u>1,034,330</u>	<u>1,034,330</u>	-
Total	<u>\$842,421,038</u>	<u>\$688,069,072</u>	<u>\$154,351,966</u>

Funds appropriated to the Bureau for operation and maintenance may be obligated only for the year for which the funds are appropriated. All other funds appropriated to the Bureau of Reclamation and the funds appropriated to the Corps of Engineers remain available for obligation until expended.

4. Cost and property transfers, net

Costs of equipment, materials, and supplies and services transferred to or from other projects within the Bureau of Reclamation or other Federal agencies, without a transfer of funds, are recorded by the Bureau and the Corps as a part of the investment of the United States Government.

The cost of property and services (net) furnished to the Bureau and the Corps is comprised of:

	<u>Total</u>	<u>Bureau of Reclamation</u>	<u>Corps of Engineers</u>
Transfer of cost of Folsom Dam and Reservoir from Corps to Bureau	\$ -	\$61,689,700	-\$61,689,700
Other transfers, net	<u>6,317,525</u>	<u>6,084,871</u>	<u>232,654</u>
Total	<u>\$6,317,525</u>	<u>\$67,774,571</u>	<u>-\$61,457,046</u>

5. Interest on the Federal Investment

At June 30, 1960, interest on the Federal investment in the Central Valley Project was recorded by the Bureau of Reclamation as follows:

Commercial power	\$16,741,383
Municipal and industrial water supply	<u>3,511,879</u>
Subtotal	20,253,262
Less interest due from U.S. Treasury	<u>1,089,018</u>
	<u>\$19,164,244</u>

Amounts for interest on the commercial power and municipal and industrial water supply investments represent interest charges to operations at rates of 3 and 2.5 percent, respectively, on the unrepaid Federal investments in these purposes. Interest during construction is not recorded by the Bureau.

The amount shown as interest due from the United States has been added by the Bureau to cumulative allowance for replacement (note 9) on the theory that the replacement annuity factor takes into consideration that amounts credited to the provision earn interest during the repayment period.

6. Funds returned to the United States Treasury

Funds totaling \$177,184,364 returned to the United States Treasury by the Bureau of Reclamation to June 30, 1960, consist of Reclamation Fund receipts of \$172,664,910 and general fund receipts of \$4,519,454 as follows:

	Net change fiscal year <u>1960</u>	Cumulative to <u>June 30, 1960</u>
Reclamation Fund:		
Collections exclusive of power revenues	\$ 6,149,571	\$ 45,301,931
Power revenues	9,910,774	127,362,979
Other collections, deposited in general fund of the Treasury	<u>864,966</u>	<u>4,519,454</u>
Total funds returned to U.S. Treasury	<u>\$16,925,311</u>	<u>\$177,184,364</u>

Funds returned to the United States Treasury by the Corps of Engineers to June 30, 1960, were collected from the following projects:

<u>Project</u>	<u>Total</u>
Isabella	\$1,295,733
Kings River	715,840
Folsom	4,822
Terminus	<u>675</u>
Total	<u>\$2,017,070</u>

These amounts consist principally of collections received from the sale and storage of water and receipts from the leasing of reservoir areas for farming and grazing.

7. Nonoperating and miscellaneous excess of revenues over deductions

At June 30, 1960, Bureau of Reclamation nonoperating and miscellaneous net revenues totaled \$147,228, of which \$146,343 represents net Central Valley Project revenues, principally from rental of grazing and farm lands, sale of special use permits, and miscellaneous income.

Corps of Engineers nonoperating and miscellaneous net revenues totaling \$619,129 consist principally of revenues from the sale of stored water, net of operating and maintenance expenses of the Kings River and Isabella projects. Isabella Project revenues for fiscal year 1960 are overstated because they include Corps water storage sales made during the last six months of fiscal year 1959. Since project operation and maintenance expenses had not been allocated between reimbursable and other purposes as of June 30, 1960, net Corps revenues available for project repayment are not shown. In this connection, the Corps advised us that these costs have now been allocated to project purposes and so recorded in the accounts on the basis of anticipated percentages to

be used in permanent contracts for these projects. Bureau of Reclamation net revenues from sale of water at these projects, amounting to \$3,606,549, are classified as other deferred credits.

8. Matured installments of fixed obligations for use of facilities

Water users' organizations have contracted to repay a part of the Government's investment in certain irrigation facilities through long-term repayment contracts. At June 30, 1960, the status of these Central Valley and Orland project contracts was as follows:

Repayment contracts		\$76,412,724
Less:		
Unmatured charges	\$73,070,242	
Advance payments for operation and maintenance, and penalties	<u>179,328</u>	<u>73,249,570</u>
Repayment contracts matured		<u>\$ 3,163,154</u>

9. Accumulated allowances for replacement and depreciation

The Bureau records, as a charge to operations, an allowance for replacement of those items of plant in service which are estimated to require replacement during the repayment period, generally 50 years. Depreciation of plant in service is not recorded by the Bureau and charged as a cost of operations, except for relatively minor items such as construction facilities.

Summarized below are the accumulated allowances for replacement and depreciation of the Bureau at June 30, 1960.

	<u>Total</u>	<u>Plant classification</u>		
		<u>Multiple- purpose</u>	<u>Electric</u>	<u>Irrigation</u>
Accumulated provi- sion for:				
Depreciation	\$1,091,246	\$1,091,246	\$ -	\$ -
Replacement	<u>7,902,089</u>	<u>1,284,421</u>	<u>6,105,418</u>	<u>512,250</u>
	<u>\$8,993,335^a</u>	<u>\$2,375,667</u>	<u>\$6,105,418</u>	<u>\$512,250</u>

^aThe amounts shown above relate to the Central Valley Project except for \$2,374 accumulated depreciation on the Solano Project.

The Corps of Engineers has not recorded depreciation as a cost of operations for any of its projects in the Central Valley basin.

10. Costs not recorded

The Corps and the Bureau do not record certain costs, applicable to their activities, of administrative and other services furnished by other Federal agencies without charge.

The administrative costs of the Office of the Chief of Engineers and of division offices are not distributed to construction, operation and maintenance, and other programs. Likewise, the costs of the Commissioner's Office, Denver, and the regional offices of the Bureau of Reclamation are not distributed to projects as costs.

APPENDIX

AUTHORIZATIONS FOR WATER RESOURCEDEVELOPMENT IN THE CENTRAL VALLEY BASIN

Our audit report to the Congress dated December 11, 1957, on water resource development in the Central Valley basin for fiscal year 1956 summarized the legislative authorizations of the projects of the Bureau of Reclamation and the Corps of Engineers in the basin. The principal authorization approved subsequent to June 30, 1956, is discussed below.

AUTHORIZATION OF THE SAN LUIS UNIT

Public Law 86-488 (74 Stat. 156), approved June 3, 1960, authorized the construction of the San Luis Unit as an integral part of the Central Valley Project. This unit will provide facilities to irrigate approximately 500,000 acres of land in Merced, Fresno, and Kings Counties, California, and will also provide water for municipal and domestic use, recreation, and fish and wildlife purposes. The principal engineering features of the San Luis Unit will be a dam and reservoir, a forebay and afterbay, the San Luis canal, the Pleasant Valley canal, and necessary pumping plants, distribution systems, and related facilities.

The act authorizes the Secretary of the Interior to enter into an agreement with the State of California to provide for coordinated operation of the San Luis Unit, including joint use facilities. The joint use facilities, consisting of the dam and reservoir, forebay and afterbay, pumping plants and the San Luis canal, may be constructed jointly with the State or as a separate Federal undertaking.

The act provides further that the Secretary will not commence construction of the San Luis Unit until he has secured, or has satisfactory assurance of his ability to secure, all rights to the use of water necessary to carry out the purposes of the unit. Also, the Secretary is to be governed by the Federal reclamation laws in the operation of the San Luis Unit.