The Government would acquire the capacity entitlement by advancing funds to the plant owners from time to time during the construction period in a ratio not to exceed the ratio of the Federal capacity entitlement acquired to the total plant capacity.

In addition to the payments associated with construction, the Government would also pay annually a commensurate portion of the operation and maintenance costs, including such items as advances for working capital, and replacement costs as they occur. The United States would not participate in such costs as interest, financing charges, property taxes, franchise fees, or other similar items.

Transmission of power and energy to points of project use would be provided both by Federal construction of some of the transmission lines and by prepayment for capacity in lines jointly used by the plant owners and the Government, through the Government advancing a portion of the costs of such dual-use lines, again in a ratio not exceeding the ratio of the capacity requirement of the Government to the total capacity of such facilities.

The agreement between the Government and the non-Federal interests would be drawn, of course, to provide security for the Government's investment. In addition, there would need to be contractual arrangements for exchanges of power to assure backup and continuation of essential pumping during periods of equipment outages.

By means of the proposed prepayment arrangement, the project would obtain assured power for pumping at low cost reflecting the economy of large thermal electric powerplants; shared economical, high-capacity, extra-high-voltage transmission facilities; and the benefits of Federal financing. The Federal costs would become costs of the central Arizona project to be repaid by the project beneficiaries as are other reimbursable costs, following long-established reclamation policies.

On the basis of our discussions, I anticipate no difficulty in negotiating arrangements consistent with these principles with the members of the WEST planning group that are prospective participants in the project. Members of the WEST group are currently planning a large thermal powerplant in the vicinity of Page, Ariz., the location which was used as a basis for estimating costs for the report which we presented to the committee last session.

We estimate that through prepayment arrangements power will be made available for central Arizona project for project pumping at a rate of 3 mills per kilowatt-hour for irrigation water—reflecting the interest-free financing provisions of reclamation law—and 5 mills per kilowatt-hour for municipal and industrial water. The average cost of power and energy delivered to the loads over the repayment period is about 3.5 mills per kilowatt-hour.

Capacity and energy sufficient for project pumping when a full water supply is available will be acquired. The central Arizona project pumping requirements will be irregular and dependent on water conditions during a particular year or series of years. On the other hand, the 400-megawatt output available to the central Arizona project from the Page plant will be dependable throughout the year and the full output will be present at least 85 percent of the time regardless of water conditions.