

Even during the earlier years when project pumping is heavy, it is expected that there will be dry periods when low river flow will decrease the pumping requirements. We plan to balance this supply against the requirements through banking arrangements—this, of course, is a common and very excellent working arrangement that has been tested and tried in other areas—with other entities which have need for additional power during the same dry periods and are willing to return the power at such times as the respective needs of the central Arizona project have increased. The banking arrangement would be particularly feasible in the Arizona area, since, to the extent the central Arizona project pumping requirement decreases due to low river flow, the deep well irrigation pumping will tend to increase, and vice versa. The exchange arrangement would include suitable compensation for transmission services and losses, of course.

In the event the river's flows are not augmented, as we remain confident they will be, the average water supply for the central Arizona project will decrease due to the increased upstream depletions. In that event power excess to project needs would become available for other disposition, in gradually increasing amounts, although in relatively small quantities, particularly before 1990. Of course, diminution in overall water will also reduce hydrogeneration at the main stem plants, while ground water pumping requirements are increasing. The Salt River project, one of the prospective participants in the Page plant and a public agency, has already indicated that it could utilize such excess power in the event the central Arizona project pumping requirements are diminished. Any excess energy can, of course, be used in periods of low water flow to support capacity of the Upper Basin hydroelectric plants. Any such use would aid the upper basin development fund through a savings in the cost of purchased power.

With regard to the possible alternative means of obtaining pumping power for the project, the most obvious would be direct purchase of commercial power on the open market. We have previously presented testimony in which we stated that such power could be expected to cost an average of 6.5 mills per kilowatt-hour, as compared with the figures I gave a moment ago. This rate estimate is based upon the Bureau of Reclamation's experience in purchasing power in the Pacific Southwest with appropriate adjustments for anticipated reductions in rates in the future.

The higher cost of power purchased from utilities in the commercial market compared to power obtained under prepayment arrangements is the result of three major factors.

First, utility rates are based upon overall costs of the utility system which include a number of older, less efficient plants.

Second, such rates reflect the amortization of capital investments at interest rates higher than those of Federal financing. And third, private utility charges include allowances for profit and for Federal and State taxes.

Another alternative to prepayment would be contract arrangements to obtain power from a specific powerplant built for others with capacity included for this specific purpose. This type of arrangement would permit the Government to obtain the economic advantage of a modern, efficient, large size powerplant. Unlike the proposed prepayment plan, however, the rates in such a case would reflect costs of