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The Revenue Runoff From Hoover Dam

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Although a revisionist school of history emphasizes Herbert Hoover's public service before and after his term in the White House, to most Americans he is the conservative president overwhelmed by the stock market crash of 1929, ensuing world-wide Depression and the electoral charisma of Franklin Roosevelt.

In the American Southwest, however, Hoover is remembered most dramatically for the massive structure bearing his name, Hoover Dam. In 1922, Secretary of Commerce Hoover, representing the U.S. government, coaxed the seven Colorado River Basin state representatives into agreeing on a compact dividing rights to use of the Colorado River's water between the Upper and the Lower Basins. A few years later, President Hoover confirmed agreements among the states and the water-and-power utilities of the Southwest that served as the basis for construction of one of early 20th-century America's greatest public works, the Boulder Canyon (now Hoover) Dam.

Now one of the key agreements negotiated in 1930, that allocating power generated from Hoover Dam, is up for review in Congress.

Certainly those who've benefited from the extraordinarily cheap power it has produced for 47 years have a crucial stake in the outcome. So do others in the Southwest who missed the opportunity during the Depression to negotiate for a share of the dam's output but would like a crack at a better deal the second time around. So do the taxpayers of the U.S. whose forebears made the investment in the dam and who now own the structure, the energy output of which Congress may soon allocate at a price far below its market value. And lastly, so do environmentalists, who recognize that if the current plan to allocate Hoover's power on a noncompetitive cost-recovery basis is signed into law, inevitably the environment of the Colorado River Basin and surrounding areas will suffer.

It is this convergence of environmentalists, taxpayer and free-enterprise-oriented groups, and excluded potential customers of Hoover power that is currently contesting the historic Hoover allottees. Those beneficiaries of Hoover have so far convinced the Interior and Energy departments and the Senate, and are on the verge of convincing the House, that their claim should get again.

Whatever damage Hoover Dam itself did to Boulder and Black Canyons was wrought long ago, and there are no more

canyons to preserve. But underpricing of Hoover Dam's power, and allocating it to a chosen few, leads to a greater demand for electricity, which in turn will lead to the construction of new power plants elsewhere that will wreak fresh and unnecessary damage on the environment. A particularly apt example involves the Modesto Irrigation District, a small, publicly owned utility in California. Modesto recently bought a share in a new coal-fired power plant in New Mexico, the transmission corridor of which runs right past Hoover Dam. To meet future power and energy demand, Modesto wants to build a huge dam on the Tuolumne River, one of California's premier white-water and trout-fishing streams. It would have no need to invest in such a dam if it could share in Hoover's output.

As for the taxpayers, the proponents of a renewed Hoover giveaway argue that the costs of constructing Hoover Dam will soon have been totally recovered by the U.S., so why should Washington profit from its ownership of this facility? Well, *why not?*

Although American taxpayers paid for construction of the dam (some of the associated generating equipment was financed by two utilities), the U.S., to make the project attractive to the original power purchasers, agreed that in the first 50 years of operation it would simply recover capital and operating costs. The result is that an uncaptured return on the taxpayers' investment has already accrued to the project beneficiaries. In 1980-87 alone, a conservative estimate of the subsidy exceeds \$900 million. That figure is based on half the difference between the price the current Hoover allottees will pay for the dam's output and the marginal cost of added power for the Southern California Edison Co., the largest utility among the allottees. In a truly competitive market, the government would receive full marginal cost for its resources, which would be more like \$1.8 billion above operating costs for the 1980-87 period. Whatever equity the current allottees may claim from having contracted originally to buy the dam's output, they have now been more than amply compensated.

If the subsidy continues after the expiration of the original contract period, its size will be even more impressive. Just in the first 10 years of a new contract period, 1938-97, the forgone revenue to the Treasury from selling the power at cost rather than market value would be more than \$3.5 billion in 1984 dollars.

Congress has the opportunity to make a

noticeable dent in the federal deficit, provided only that it is willing to sell the power for what it is worth. The first 50 years of the subsidy may have been justified to encourage settlement of an underpopulated, arid region; subsidizing the next 30 years would be a pure gift from taxpayers throughout the U.S. for the benefit of a handful of wholesale power customers in parts of three Southwestern states.

Instead of competition, the bill offers bureaucratic allocation. The allocation itself lacks any justification but historic accident, resulting in arbitrary selection of project beneficiaries; even the much maligned federal coal-leasing program purports to consider supply and demand.

Instead of market-pricing, allottees under the proposed legislation would receive power from a 21st-century resource at a Great Depression price. Sponsored by Rep. Morris Udall (D., Ariz.), chairman of the House Interior Committee, the bill proposes an allocation that subsidizes Los Angeles but excludes San Diego and San Francisco, and that expands Arizona and Nevada's shares of Hoover output but rejects any share at all for Utah, New Mexico or Colorado. Although it purports to favor publicly owned utilities over private ones, the bill gives a large share of Hoover's output to two private utilities, while excluding entirely other private, as well as public, utilities. The rationale for the bill—low-cost power will benefit project consumers—breaks down when one realizes that other consumers, equally worthy, get no such benefit yet still pay their share of taxes to the federal government to make up for the lost revenue that results from selling Hoover output too cheaply.

The Udall bill will soon come to the floor of the House, having already breezed through the Senate. While the Arizonan may not identify himself with Herbert Hoover the failed president, he and his allies enjoy a special kinship with Hoover the successful dam promoter. Environmentalists, taxpayers and advocates of free enterprise, on the other hand, have cause to want a new relationship.

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