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UNITED STATES GENERAL ACCOUNTING OFFICE

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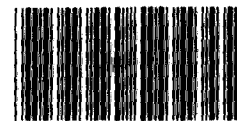
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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-202886

APRIL 21, 1981

The Honorable George Miller
House of Representatives



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Dear Mr. Miller:

Subject: [Information on the Resale of Water Provided
Under Contract by the Federal Government
in California] (CED-81-95)

On April 8, 1981, we met with you to discuss our findings on your requests of April 30, 1980, and January 8, 1981, concerning the resale of Federal water supplied under contract to State and local districts. We agreed to provide information on the following questions:

- Do Department of the Interior's Water and Power Resources Service policies and procedures address water resales?
- Are California's five largest Resources Service customers (districts) profiting from the resale of federally supplied water outside their service areas?
- Do provisions in new water service contracts require periodic recalculation of water rates?

The Resources Service's current policy and contract provisions provide that water resales outside a service area must meet specific Resources Service requirements and be approved by the Resources Service. None of the five districts have resold federally supplied water outside their service areas. However, we found that one of the districts purchased water from other districts at rates equal to applicable Resources Service and district costs.

Since the Resources Service adopted a Service-wide policy in December 1978 to periodically recalculate water rates, only two long-term contracts have been negotiated for federally supplied water in California. Both contracts include a 5-year rate adjustment provision.

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To obtain the requested information, we interviewed Water and Power Resources Service midpacific and lower Colorado regional office officials and California water district officials. We reviewed (1) water delivery reports, (2) resale policies, procedures, and requirements established by the two regional offices, and (3) water contracts for the five districts. We also reconciled water delivery and associated financial information and reviewed district records to determine whether federally supplied water had either been purchased or sold during the last 5 years. Although we obtained information on water rates and deliveries to customers within a service area, we did not attempt to identify water resales within these areas.

SAFEGUARDS OVER PROFITING FROM
RESALES OF FEDERALLY SUPPLIED WATER

Resources Service current policy and contract provisions (1) prohibit changes in a district's approved water uses without Resources Service approval and (2) require Resources Service approval of any water transfers to users outside the district's service areas. Moreover, before water resales will be approved, the Resources Service's midpacific regional office requires, among other things, that water transfers

- must not adversely affect the water supply of other long-term contractors;
- must be covered by Resources Service-approved transfer agreements stating the delivery period and the quantity to be transferred; and
- can only be priced at the seller's cost of water plus reasonable expenses; however, if the price is less than that of water normally supplied by the Resources Service, the purchaser must reimburse the Service for the difference.

DISTRICTS HAD NO RESALES
OUTSIDE THEIR SERVICE AREAS

The Resources Service's five largest water customers in California are:

- Imperial Irrigation District.
- Westlands Water District.
- Palo Verde Irrigation District.

--Metropolitan Water District of Southern California.

--Coachella Valley Water District.

These districts were established under various State laws primarily to supply water to users within their service areas. With one exception--Metropolitan Water District of Southern California--the districts primarily supply irrigation water. Metropolitan supplies water primarily for municipal and domestic use and is the only district that delivers water to other water agencies within its service area which, in turn, sell directly to consumers.

In 1979 the five districts received about 6.3 million acre-feet of water from two federally managed water systems--the Central Valley Project and the Colorado River--as shown below.

Water Deliveries to Selected
Districts During 1979

<u>District</u>	<u>Deliveries</u> (acre-feet)
From the Colorado River:	
Imperial Irrigation District	2,884,235
Palo Verde Irrigation District	951,757
Metropolitan Water District	812,608
Coachella Valley Irrigation District	530,733
From Central Valley Project:	
Westlands Water District	<u>1,094,087</u>
Total	<u><u>6,273,420</u></u>

Most, if not all, of this water is committed to water users. Therefore, the five districts do not have surplus water which could be resold. Only Westlands Water District has purchased water from other Central Valley Project water districts receiving federally supplied water. For example, in 1980 Westlands purchased 32,948 acre-feet of water from other districts.

We reviewed the Westlands water purchase agreements and corresponding payments for water purchased during the last 5 years. We found valid water purchase agreements for all of these water purchases. We also found that the Resources Service did not lose revenue, and neither Westlands nor the selling districts received profits from these transactions.

The Metropolitan Water District currently has water exchange agreements 1/ with two water agencies--Coachella Valley Water District and the Desert Water Agency which services Palm Springs, California. Both agreements allow Metropolitan to exchange Colorado River water it is entitled to for equal quantities of State project water that the other districts are entitled to. These exchange agreements require the approval of all parties in California who are entitled to Colorado River water, the California State Division of Water Resources, and the Resources Service.

Metropolitan also has an agreement with Mexico to transfer up to 10,500 acre-feet of Colorado River water through Metropolitan's distribution system to Tijuana. In 1979, 2,164 acre-feet of water was transferred. Under the agreement, Mexico is charged only the costs associated with transporting the water; Metropolitan officials said that Mexico is not charged for administration expenses or other costs.

PERIODIC RECALCULATION OF WATER RATES

The Resources Service traditionally has entered into 40-year, fixed-rate contracts for water deliveries. In recent years, however, various reports have recommended that the Resources Service recalculate water rates at frequent intervals.

In a 1970 letter report, 2/ we recommended that the Secretary of the Interior:

"* * * establish specific procedures requiring that provisions be included in all future long-term Bureau 3/ water service contracts for adjusting water rates which are found to be inadequate to recover all costs allocated to the municipal and industrial purpose."

1/These exchanges are mutually beneficial. Metropolitan receives better quality water, and the other parties save the expense of constructing delivery systems that would be needed to receive State project water.

2/B-125045, May 8, 1970.

3/The Bureau of Reclamation is now known as the Water and Power Resources Service.

In a 1975 report, 1/ we recommended that the Secretary of the Interior require the Bureau to:

"Make provision in future irrigation contracts for periodically adjusting the total construction cost obligation and the related water rates and other payments on the basis of changes in the irrigator's ability to pay."

In addition, a 1975 Resources Service special task force study on water marketing recommended that provisions be included in all municipal, industrial, and agricultural water service contracts requiring reviews and possible water rate adjustments every 5 years. This recommendation was endorsed in the 1978 San Luis Task Force Report, which dealt with water marketing at the Central Valley Project's San Luis Unit. This report recommended that:

"* * * the Bureau of Reclamation adopt a uniform policy in all of its regions, for all new or amendatory contracts, requiring standard contract language for adjustment of the water rate at 5-year intervals."

In 1977 the Resources Service's midpacific region began including periodic recalculation provisions in its water service contracts. These provisions were not standardized, however, until December 1978 when the Resources Service adopted a uniform policy requiring that water rates be periodically recalculated. Since then, two long-term water service contracts have been negotiated for federally supplied water in California. These contracts, signed by the Resources Service, are with the El Dorado Irrigation District and the East Yolo Community Services District and include 5-year rate adjustment provisions.

Westlands is the only district covered by our review that is subject to the Resources Service's new periodic recalculation policy. A proposed contract being negotiated between Westlands and the Resources Service has a 5-year rate adjustment provision. The proposed provision would immediately apply to 250,000 acre-feet of water but will not apply until the year 2007 to another 900,000 acre-feet that will be delivered annually. However, the proposed contract does provide for a one-time rate increase in 1985 of \$1.33 an acre-foot for the 900,000 acre-feet of water and will establish the water rate at \$9.33 per acre-foot for the period 1985-2007 for this 900,000-acre-foot portion.

1/"More Effective Procedures Are Needed for Establishing Payment Terms and Development Periods for Irrigation Projects" (RED-75-372, May 23, 1975).

The other four districts we reviewed have contracts for permanent water delivery and thus generally are not subject to the periodic recalculation policy. One possible exception involves Metropolitan's water storage cost for Colorado River water. Metropolitan's cost of 25 cents per acre-foot storage charge is only applicable during the repayment period for Hoover Dam. In 1987, when the Hoover Dam is repaid, the Congress will have to decide whether continued storage charges are appropriate. If so, the Congress will have to decide if the charges should be periodically recalculated.

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At your request, we did not take the time to obtain written agency comments. The matters covered in the report were discussed with the Resources Service's midpacific and lower Colorado regional offices as well as headquarters officials, and their comments are included in the report where appropriate.

As arranged with your office, we are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of the Interior. Copies will also be available to other interested parties who request them.

Sincerely yours,



Henry Eschwege
Director