

THE DOS RIOS PROJECT

Richard Wilson
Round Valley Conservation League
Cavelo, California

It is a great privilege coming before this group and having an opportunity to discuss a vital issue, namely the Dos Rios Project.

My assignment today is to discuss the economic feasibility of the project. Briefly, I would like to describe the project and then turn to economics.

On December 15, 1967, the Corps of Engineers announced that the only feasible way to build a water project was to construct the huge 730' Dos Rios Dam inundating Round Valley. This project will take 110,000 acres from Mendocino County and establish a dam the size of Oroville and Shasta combined - a dam with the storage capacity of 7.6 million acre feet.

The project is presented to the general public as a Multi-purpose Water Conservation Project with benefits attributed to water storage, flood control, recreation and hydro electric power.

The Corps of Engineers must meet certain benefit cost requirements before a project will be approved by the Congress. The benefits must exceed the costs in order for a project to gain authorization. The Dos Rios Project is currently being hailed as having a 1.9 to 1 benefit cost ratio - or for every tax payer dollar spent the public will be the recipient of \$1.90 worth of benefits.

After carefully reviewing the Corps' report it was the decision of the Directors of the Round Valley Conservation League and later Save the Eel River Association that the Achilles' heel of this project might well be found in the economic evaluations made by the Corps.

Dr. Gardner Brown was retained as a consultant from the University of Washington to review the Corps' calculations and the following are some of his findings:

Desalinization of Water: The Corps states that the cost of desalting sea water is \$100. and Dos Rios Water will be much cheaper delivered into Southern California. In arriving at this cost figure they make little allowance for escalating costs in a project the size of Dos Rios but assumes that desalting of sea water will cost \$100. per acre foot in 1985, \$100. per acre foot in the year 2085 and so on. They apparently feel that technology will never advance any further in this field to reduce costs.

Water Quality Differential: Desalted water is more valuable because it can be mixed with low quality sources such as waste water and saline ground water. The recent Texas Feasibility Studies indicate that the value of this blending process attributable to desalted water is in excess of \$12.00 per acre foot. The Corps does not recognize this as a benefit.

Subsidies: We are told by the Corps that Mr. Brown is in error by failing to include a Federal Subsidy of \$20.00 per acre foot in the 1964 estimates of the cost of water. It is indeed ironic to have the Corps of Engineers openly discussing subsidies. If the Corps defines the \$20.00 credit as a subsidy it can be argued with equal logic and force that all the Dos Rios Flood Control benefits constitute a subsidy from the taxpayers to the beneficiaries of flood control, particularly in the instance of the North Western Pacific Railroad which is expected to receive \$210,000. annually.

Interest: Recently the discount rate of 3-1/4% applied to the Dos Rios Project was raised to 4-5/8%. Changing this rate of interest is approximately equivalent to raising the annual project cost from 15.5 million to 22.2 million - an increase of 43%. This alone would reduce the advertised benefit cost ratio from 1.9 to 1.3. It is interesting to note that the recently published Clair Hill Report requested by the Senate Water Committee referred to the interest raise as insignificant.

Recreation: The Corps of Engineers estimates that Dos Rios has a potential for 7 million visitor days. However, due to the poor roads access will limit this to 2 million visitor days. While skeptical of the expected number of recreation days, the principal basis of the downward revision of annual benefits was our belief that the value of a recreation day was "STRETCHED". If the finest public recreation sites in the nation have a maximum value of \$1.50 per day, is it really sensible to assume that a day at Dos Rios is worth just 10¢ less or \$1.40, when it is known that the water supply purposes during a dry period will require a drop in the reservoir in the water level of 147 feet. The Corps of Engineers explicitly assumed no such draw down in its estimation of recreational benefits.

Hydro Power: The Corps estimated value of power on the basis of an alternative private opportunity at \$18.43. We argued that a unit value of \$9.28 should have been used, the number supplied to the Corps of Engineers by the Federal

Power Commission and a value representing a lower cost alternative. If one can purchase power for \$9.28 surely he does not consider it beneficial to pay \$18.43!

Deficiency in Cost Estimates: We noted that the California Department of Water Resources valued Round Valley at \$25. million, whereas the Corps of Engineers values Round Valley at \$12.2 million. In the reply to the Brown Report the Corps of Engineers states that it places the cost of Round Valley "at well over \$25. million". The Corps makes no adjustment on the cost side of the ledger even though they have added \$12.8 million. As a result of Dr. Brown's findings the Benefit Cost Ratio was not 1.9 to 1 but rather .6 to 1 or a return of \$.60 for every dollar spent - a ratio totally unacceptable to the Congress. The .6 to 1 benefit cost ratio does not reflect the increased rate from 3-1/4% to 4-5/8% which will drive the .6 down even further.

It is very apparent that the Corps of Engineers grossly understates its costs and overstates benefits. There is talk in water circles that different ground rules must be laid down so that greater benefits can be crammed into water projects. These new ground rules must be carefully watched as they develop.

If the environment that we cherish so much here in California as well as throughout the rest of the United States is to survive we cannot allow a Dos Rios or any other such foolish scheme where man, nature and his surroundings are totally disrupted by selfish forces armed with trumped up figures and a large political budget, flying under the banner "the greatest amount of good for the greatest number of people".