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FILE

**REPORT TO
THE CONGRESS OF THE UNITED STATES**



**REVIEW OF
POWER ACTIVITIES,
UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION,
UNITED STATES AND MEXICO,
DEPARTMENT OF STATE,
FISCAL YEARS 1958-1960**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
JUNE 1961**

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

JUN 30 1961

B-125014

Honorable Sam Rayburn
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the review of power activities of the United States Section, International Boundary and Water Commission, United States and Mexico, Department of State, for the fiscal years ended June 30, 1958, 1959, and 1960.

Falcon Dam Project is the only project operated by the United States Section which produces hydroelectric energy. Under the act of June 18, 1954 (68 Stat. 255), rate schedules for the sale of Falcón power shall be drawn having regard to the recovery of the cost of producing and transmitting the electric energy, including the amortization of the capital investment allocated to power by the Secretary of the Interior in collaboration with the Secretary of State. Although construction of Falcón Dam was substantially completed in November 1953 and the first generator was placed in commercial operation in October 1954, a firm allocation of construction costs to power had not been made at June 30, 1960. Until an allocation of construction costs to power is resolved and approved by the Secretary of the Interior in collaboration with the Secretary of State, it will not be possible to make an adequate evaluation of the status of repayment and adequacy of power rates. In a letter dated March 29, 1961, the Administrative Assistant Secretary, Department of the Interior, informed the General Accounting Office that the Department would take appropriate action to obtain the necessary cost data from the Secretary of State and to collaborate with him in preparing a firm allocation of Falcón Dam costs to power on an incremental cost basis.

Because the allocation of construction costs of the Falcón Dam Project to project purposes is not firm, we cannot express an opinion as to whether the financial statements present fairly the financial position of the United States Section at June 30, 1959 and 1960, and the financial results of operations for the fiscal years ended June 30, 1958, 1959, and 1960. A summary of the status of principal recommendations in our prior report to the Congress, covering fiscal years 1956 and 1957, is included in the forepart of this report.

B-125014

This report is also being sent today to the President of the Senate. Copies are being sent to the President of the United States; the Secretary of State; the Secretary of the Interior; and the Commissioner, United States Section, International Boundary and Water Commission.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Eugene Campbell".

Comptroller General
of the United States

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REPORT ON REVIEW
OF
POWER ACTIVITIES
UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
DEPARTMENT OF STATE
FISCAL YEARS 1958-1960

The General Accounting Office has made a review of the power activities of the UNITED STATES SECTION, INTERNATIONAL BOUNDARY AND WATER COMMISSION, UNITED STATES AND MEXICO, for the fiscal years ended June 30, 1958, 1959, and 1960. This review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the review work performed is described on page 38 of this report.

GENERAL COMMENTS

The United States Section, International Boundary and Water Commission, United States and Mexico (also referred to as Section or as United States Section), operates under the foreign policy direction of the Department of State. This activity was created by the treaty of March 1, 1889 (26 Stat. 1512), between the United States and Mexico, with jurisdiction to examine and decide questions arising on the fluvial boundary between the two countries growing out of changes in the beds of the boundary streams, works constructed in these streams, or any other cause affecting the

boundary. The Commission's jurisdiction was extended to the overland boundary from El Paso, Texas, to the Pacific Ocean by the Water Treaty of February 3, 1944 (59 Stat. 1219).

All costs of construction and operation and maintenance of the Section's projects and activities are nonreimbursable except for the cost of producing electric energy, including amortization of the capital investment allocated to power. The only project having a reimbursable purpose operated by the Section is the Falcón Dam Project. This project, constructed, operated, and maintained jointly by the Governments of the United States and Mexico through the International Boundary and Water Commission, serves flood control, water conservation, power, and other purposes. The conservation storage capacity is divided between the two countries in the proportion of 58.6 percent to the United States and 41.4 percent to Mexico. Costs of constructing the dam and reservoir were shared by the two Governments in the same proportion as the allocation of storage capacity; costs of constructing the power plants were divided equally. (See p. 19.)

The act of June 18, 1954 (68 Stat. 255), authorized the Secretary of the Interior to transmit and market electric power generated at Falcón Dam and Powerplant which is made available to the United States but not required in the operation of the project. By Secretarial Order No. 2765, dated July 30, 1954, the Secretary of the Interior delegated to the Bureau of Reclamation the duties of marketing Falcón Dam power and energy.

The United States Section is headed by a Commissioner who is appointed by, and serves at the pleasure of, the President of the

United States. The United States Commissioner is responsible to the Secretary of State in matters of policy.

At June 30, 1960, the United States Section consisted of a headquarters office in El Paso, Texas, and seven field offices and nine subfield offices located along the United States-Mexican border. The number of employees of the United States Section at June 30, 1960, totaled 363, compared with 359 and 328 at June 30, 1959 and 1958, respectively. These employees were located as follows:

	June 30, <u>1960</u>	June 30, <u>1959</u>	June 30, <u>1958</u>
Headquarters, El Paso, Texas	68	68	67
Field and subfield offices	<u>295</u>	<u>291</u>	<u>261</u>
Total	<u>363</u>	<u>359</u>	<u>328</u>

A more complete history and organization of the United States Section appears in our report to the Congress for fiscal years 1956 and 1957 (B-125014 dated March 18, 1958).

A list of officials responsible for the administration of the programs of the United States Section and the marketing of Falcón Dam electric power during the period covered by our review and of the current officials follows.

Department of State

<u>Position</u>	<u>Incumbent</u>	<u>Date of appointment</u>
Secretary of State	John Foster Dulles Christian A. Herter Dean Rusk	January 21, 1953 April 22, 1959 January 21, 1961
Assistant Secretary for Inter-American Affairs	Roy R. Rubottom, Jr. Thomas C. Mann Wymerley DeR. Coerr (Acting)	June 18, 1957 August 7, 1960 April 3, 1961
Commissioner, United States Section, Inter- national Boundary and Water Commission	Colonel L. H. Hewitt	June 17, 1954

Department of the Interior

Secretary of the Interior	Fred A. Seaton Stewart L. Udall	June 8, 1956 January 21, 1961
Assistant Secretary for Water and Power Devel- opment	Fred G. Aandahl Kenneth Holum	February 10, 1953 January 30, 1961
Commissioner, Bureau of Reclamation	Wilbur A. Dexheimer Floyd E. Dominy	July 1, 1953 May 1, 1959

For activities reviewed by us, we believe that generally the United States Section is discharging its responsibilities effectively and in conformance with basic legislation. However, we noted a significant problem concerning the need for resolution and approval of allocation of power construction costs of Falcón Dam by the Secretary of the Interior in collaboration with the Secretary of State. This problem, as well as the status of recommendations made in our prior report to the Congress covering fiscal years 1956 and 1957, is summarized below.

SUMMARY

NEED FOR RESOLVING AND APPROVAL OF
ALLOCATION OF POWER CONSTRUCTION COSTS OF FALCÓN DAM
BY THE SECRETARY OF THE INTERIOR IN COLLABORATION
WITH THE SECRETARY OF STATE

Although construction of Falcón Dam was substantially completed in November 1953 and the first generator was placed in commercial operation in October 1954, a firm allocation of construction costs to power had not been made at June 30, 1960. Moreover, a review of the records of the United States Section did not show that there has been an exchange of information since November 1957 with the Department of the Interior or the Bureau of Reclamation with a view to resolving the allocation of construction costs of Falcón Dam.

The act of June 18, 1954 (68 Stat. 255), provides that the Secretary of the Interior shall market the power surplus to the needs of the project and that rate schedules for the sale of power shall be drawn having regard to the recovery of cost of producing and transmitting electric energy, including the amortization of the capital investment allocated to power. The act also authorized the Secretary of the Interior in collaboration with the Secretary of State to make an allocation of the capital investment at Falcón Dam to power.

SUMMARY

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In our audit report to the Congress dated March 18, 1958, on the United States Section, International Boundary and Water Commission, for the fiscal years 1956 and 1957, we recommended that the allocation of the total estimated construction cost of the Falcón Dam Project be made in such a manner that each purpose would bear to the extent appropriate a share of the costs of the joint project features (by the separable costs-remaining benefits method of cost allocation).¹ We recommended also that certain additional costs that were omitted from a tentative allocation prepared by the Section in March 1955 be included in the final allocation. (See pp. 24 through 29 for details on the present status of these recommendations.)

In a letter dated February 3, 1958, the Department of the Interior advised the General Accounting Office that several years of operating experience might be required to form a firm basis for agreement between the Departments involved in the cost allocation

¹The separable costs-remaining benefits method of cost allocation is based on allocating the separable costs of a given purpose plus a share of the residual joint costs, in a manner which has the objective of providing for the proportional sharing of the savings resulting from multiple-purpose development. The separable costs of a given purpose is the difference between the cost of a multiple-purpose project and the cost of the same project with the given purpose omitted. This difference is also referred to as the incremental cost of the given purpose. The incremental method of cost allocation is based on allocating to a given purpose only the separable costs of that purpose.

process and that, until such time as additional authorized storage on the Rio Grande is planned in detail or constructed, it is impossible to determine the firm generating capacity of Falcón Dam and Powerplant.

By letter dated January 19, 1961, the Commissioner, United States Section, informed the General Accounting Office that the allocation of costs to Falcón power made by the Section is tentative, subject to final determination, possibly some years hence, by the Secretary of the Interior in collaboration with the Secretary of State in light of the pertinent data and operating experience available at the time the final determination is made. Furthermore, the Commissioner stated that agreement for the authorized Amistad Dam was about to be concluded by the two Governments and operation of this dam, and possibly also of an international hydroelectric power plant in connection therewith, would increase the value of Falcón power. Accordingly, he concluded that final determination of construction costs allocable to Falcón power should be deferred until such time as the effect of the Amistad Project upon Falcón power can be evaluated.

The position of the Section and the Department of State was that construction costs tentatively allocated by the United States to Falcón power should properly be the United States' share of the difference between the cost of construction of the dam with power and the cost of construction without power (incremental method of cost allocation).

We believe that, in the light of considerations given early in 1960 to repayment of construction costs by the Senate Committee

on Foreign Relations and the House Committee on Foreign Affairs concerning the proposed joint construction of a second major international storage dam (Amistad Dam, see pp. 33 and 34), the incremental method of cost allocation advocated by the Section may be used for the allocation of costs to power at both Falcón and Amistad Projects. We believe also that, under the incremental method of cost allocation, potential additional benefits that may inure to Falcón power as the result of the construction of Amistad Dam Project or any future international dam project constructed under the Mexican Water Treaty of February 3, 1944, are unlikely to change the allocation of construction costs to power at the Falcón Dam Project. Accordingly, we are recommending that the Section and the Bureau of Reclamation take action to resolve the amounts properly allocable to power at the Falcón Dam Project so that a firm allocation can be established by the Secretary of the Interior in collaboration with the Secretary of State. In a letter dated March 29, 1961, the Administrative Assistant Secretary, Department of the Interior, informed the General Accounting Office that the Department would take appropriate action to obtain the necessary cost data from the Secretary of State and to collaborate with him in preparing a firm allocation of Falcón Dam costs to power on an incremental cost basis. (See pp. 24 through 29.)

Until a firm allocation of the total estimated construction costs of the Falcón Dam Project has been made to power by the Secretary of the Interior in collaboration with the Secretary of State, it will not be possible to make an adequate evaluation of

the status of repayment and the adequacy of power rates. Moreover, because the allocation to project purposes of construction costs of Falcón Dam Project is not firm, we cannot express an opinion as to whether the financial statement on pages 41 through 43 present fairly the financial position of the United States Section of the International Boundary and Water Commission at June 30, 1959 and 1960, and the financial results of operations for the fiscal years ended June 30, 1960, 1959, and 1958. (See p. 39.)

STATUS OF PRINCIPAL RECOMMENDATIONS
IN PRIOR REPORT

Our audit report to the Congress dated March 18, 1958, on the United States Section of the International Boundary and Water Commission for fiscal years 1956 and 1957 contained comments on the allocation of estimated construction costs of Falcon Dam Project to purposes and on other matters on which corrective action was needed, together with our recommendations for corrective action. Details on the present status of allocations appear on pages 24 to 29 of this report. The current status of our other findings is summarized below.

1. Transfer of responsibility for maintaining
the western land boundary fence

Our prior report contained comments on the placing of responsibility for the maintenance of the United States Section's western land boundary fence. Because the primary purpose of the fence is to stop the free movement of livestock across the border and to help prevent smuggling, we stated that the Congress may wish to review the authorization to the United States Section for maintenance of the fence and, if justified, to assign the responsibility for maintenance to a Federal agency more directly concerned with responsibilities for its purposes.

During fiscal year 1958, the Section transferred jurisdiction over portions of the land boundary fence to other Government agencies. The Immigration and Naturalization Service, Department of Justice, accepted ownership of all chain-link fence (13.47 miles) and the National Park Service, Department of the Interior, accepted ownership of 14.68 miles of ranch-type fence. Title to the

remainder of the ranch-type fence (about 195 miles) remains with the Section. Attempts of the Section to transfer jurisdiction over the remainder of the ranch-type fence to the Department of Agriculture have not been successful.

2. Cost of operating and maintaining the Douglas-Agua Prieta Sanitation Project

In our audit report for fiscal years 1956 and 1957, we noted that the United States Section had negotiated an agreement with the city of Douglas, Arizona, which provides that the city will bear annually the lesser of \$4,500 or 75 percent of the annual operation and maintenance costs of the Douglas-Agua Prieta Sanitation Project that are allocated to the United States under an agreement with Mexico yet to be consummated. We pointed out that the effect of the agreement with the city of Douglas was to obligate the Federal Government, in perpetuity, to pay part of the cost of operating and maintaining the sewage treatment plant constructed for the benefit of, and without cost to, the city of Douglas.

The Sanitation project was built at a cost of \$205,000 to treat raw sewage of the cities of Douglas, Arizona, and Agua Prieta, Mexico. Ninety percent of the construction cost was apportioned to the United States, and 10 percent was apportioned to Mexico. The American-Mexican Treaty Act approved September 13, 1950 (64 Stat. 846), authorized the Secretary of State to conclude an agreement with the appropriate official or officials of Mexico for the joint operation and maintenance by the Commission of the Douglas-Agua Prieta Project, such agreement to provide for division of costs between the two Governments and to be concluded only

after the city of Douglas had given satisfactory assurances that, as long as the agreement remains in force, the city "will contribute an equitable proportion, as determined by the United States Section of said Commission, subject to the approval of the Secretary of State, of the costs of such operation and maintenance allocated to the United States." Pending execution of the agreement between the United States and Mexico and negotiation of an amendatory agreement between the city of Douglas and the Section, costs of operation and maintenance of the sewage treatment plant are borne by the city of Douglas, Arizona, except for one plant operator provided by Mexico.

In our previous reports to the Congress we recommended that, if the Commission assumes responsibility for operating and maintaining the project, the United States Section should obtain full reimbursement from the city of Douglas, Arizona, for its share of the costs of operating and maintaining the project.

In response to our report the United States Commissioner by letter dated January 10, 1958, informed us that the United States Section had endeavored to negotiate an amendatory contract with the city of Douglas under which the city would assume all the annual operation and maintenance costs allocated to the United States. He stated, however, that the city of Douglas preferred to defer consideration of an amendatory contract pending the outcome of studies and investigations being made by the two Sections of the Commission, at the direction of the respective Governments, to determine the necessity for expansion of the sewage treatment plant.

Our audit for fiscal years 1958-60 disclosed that a joint report dated June 18, 1959, and subsequently approved by the Commissioners of the International Boundary and Water Commission, recommended enlargement of the treatment facilities, the cost to be shared by the United States and Mexico. An amendatory contract, however, that would give effect to the recommendation in our previous report has not been executed with the city of Douglas, Arizona.¹

¹In a letter dated March 3, 1961, the Commissioner, United States Section, advised the General Accounting Office that the Section has been endeavoring for several years to conclude an amendatory agreement with the city of Douglas but has been unable to do so.

FINANCING

APPROPRIATIONS BY THE CONGRESS

Funds required by the United States Section to carry out the activities of the Commission have been appropriated by the Congress under appropriation titles, and in amounts, as follows:

<u>Appropriation titles</u>	Fiscal year <u>1960</u>	Cumulative to <u>June 30, 1960</u>
Salaries and expenses	\$ 573,000	\$ 15,362,163
Construction	1,400,000	67,362,960
Operation and maintenance	2,610,000	11,290,840
Rio Grande emergency flood protection	-	350,100
Allotments (net) of National Industrial Recovery Administration (NIRA) and Public Works Administration (PWA) funds	-	<u>5,834,088</u>
	4,583,000	100,200,151
Lapses and transfers	<u>-4,495</u>	<u>-272,539</u>
Total	<u>\$4,578,505</u>	<u>\$ 99,927,612</u>

Appropriations for salaries and expenses have been made annually to the United States Section since the creation of the permanent Commission in 1894, under the Convention of 1889, and are used to finance general administrative and engineering costs incurred at the El Paso headquarters office. These appropriations finance also the costs incurred in making preliminary surveys and investigations which serve as a basis upon which authorizations for the construction of specific projects or facilities are granted. Funds appropriated for salaries and expenses are available for obligation only in the fiscal year for which the funds are appropriated.

Appropriations for construction are made to the United States Section to finance the costs of facilities to be constructed as

part of approved projects undertaken to (1) provide flood protection and to conserve water, (2) correct sewage problems which result in the pollution of domestic water supplies and other health hazards, and (3) erect monuments to mark the boundary line between the United States and Mexico. Before fiscal year 1948, separate appropriations of construction funds were made by the Congress for each approved project. Beginning in fiscal year 1948, funds for construction are provided by a single appropriation. These appropriations remain available to the United States Section until fully expended or rescinded.

Appropriations for operation and maintenance were made initially in fiscal year 1954 to finance costs incurred in the operation and maintenance of completed construction projects and completed integral segments of projects under construction. Before fiscal year 1954, operation and maintenance activities were financed from the salaries and expenses and the construction appropriations. Funds appropriated for operation and maintenance are available for obligation only in the year for which the funds are appropriated.

Appropriations for Rio Grande emergency flood protection were formerly provided to pay the costs of emergency flood control work, including protection, reconstruction, and repair of all structures under the jurisdiction of the United States Section in the Rio Grande Canalization, Rio Grande Rectification, and Lower Rio Grande Flood Control Projects. The last appropriation for Rio Grande emergency flood protection was made for fiscal year 1953

act of June 18, 1954 (68 Stat. 255). Revenues from sales of power generated at Falc3n Dam and Powerplant through June 30, 1960, totaled \$1,615,770.

SOURCES AND APPLICATION OF FUNDS

A statement of sources and application of funds for fiscal year 1960 and cumulatively to June 30, 1960, follows:

	Fiscal year <u>1960</u>	Cumulative to June 30, <u>1960</u>
Sources of funds:		
Appropriations by the Congress, net	\$4,578,505	\$ 94,093,524
Allotments of appropriations for NIRA and PWA, net	-	5,834,088
Contributions in aid of construction	-	213,635
Revenue from sales of power	<u>398,788</u>	<u>1,615,770</u>
Total	<u>\$4,977,293</u>	<u>\$101,757,017</u>
Application of funds:		
Costs of property, plant, and equip- ment, including surveys and inves- tigations, less retirements, sales, and other dispositions	\$1,163,648	\$ 68,220,153
Costs of operation, maintenance, and administration of non-revenue- producing operations, net	4,081,099	29,170,747
Costs of operating and maintaining Falcon Dam Powerplant	312,609	1,625,175
Revenues and other collections de- posited into U.S. Treasury	430,581	1,802,252
Transfers of property or costs, net	<u>-281,656</u>	<u>2,066,557</u>
	5,706,281	102,884,884
Less amounts included above for de- preciation of fixed assets	<u>925,649</u>	<u>3,656,709</u>
	4,780,632	99,228,175
Increase in net working assets	<u>196,661</u>	<u>2,528,842</u>
Total	<u>\$4,977,293</u>	<u>\$101,757,017</u>

Revenues from the sales of the United States portion of the electric power and energy generated at Falc3n Dam are recorded in the accounts of the Section although collections by the Bureau of

Reclamation are deposited by the Bureau directly into the Treasury of the United States. The United States Section's portion of expenses of operating and maintaining the power plants is financed from annual appropriations by the Congress.

FALCÓN DAM PROJECT POWER OPERATION

Falcón Dam and Powerplant is located on the Rio Grande about 130 miles upstream from Brownsville, Texas (Matamoras, Tamaulipas, Mexico), about 75 miles downstream from Laredo, Texas (Nuevo Laredo, Tamaulipas, Mexico). The dam is 26,294 feet long (about 5 miles) and has a maximum height of 150 feet. When filled to its capacity of 4,085,000 acre-feet of water, the reservoir is about 60 miles long and 11 miles wide.

Two power plants, one on each side of the river, are identical in equipment and generating capacity and are owned by the United States and Mexico, respectively. Each power plant has three 10,500 kilowatt generators for a total installed capacity of 63,000 kilowatts. Although interconnected for transfer of electric energy from one to the other, each power plant has a centralized control room with separate and independent facilities. The generation from the two power plants is combined, and the total combined generation is divided equally between the United States and Mexico. From the United States' share of the total generation, deductions are made for station and local use and for one half of total transmission losses. The remaining United States portion of the energy generated is available for delivery to and sale by the Bureau of Reclamation. The first generator was placed in commercial operation October 11, 1954.

MARKETING OPERATIONS

Except during flood conditions, United States water releases are based on the requirements of irrigators below the dam as communicated to the Special Water Master of Hidalgo County Court,

Texas. He, in turn, advises the United States Section's office at Falcón Dam, and water is released to suit these requirements. The demands of downstream water users take priority over the demands for all other uses of water in the Falcón reservoir in keeping with paragraph (c) of the Senate Resolution of April 18, 1945 (59 Stat. 1265), ratifying the Water Treaty of 1944. Paragraph (c) provides:

"That nothing contained in the treaty of protocol shall be construed as authorizing the Secretary of State of the United States, the Commissioner of the United States Section of the International Boundary and Water Commission, or the United States Section of said Commission, directly or indirectly to alter or control the distribution of water to users within the territorial limits of any of the individual States."

The water is discharged through the turbines of Falcón Dam power plants, to the extent of capacity, and through supplemental tunnels should the requirements exceed the turbine capacity.

As a means of deriving some salable peaking capacity¹ from the United States power capacity at Falcón Dam, Minute 205, dated May 21, 1956, was approved and adopted by the United States and Mexican Sections, providing for the release of water belonging to Mexico for the purpose of generating power when such release is not required for the irrigation interests in the Lower Valley. The Mexican Section can capture the water in downstream Mexican reservoirs for release when needed by that country. The use of Mexican water for power purposes permits the United States Section to deliver peaking power.

¹Capacity made available to assist a customer in meeting that portion of peak load which is above base load.

The entire United States share of marketable energy generated at Falc6n Dam is sold to the Central Power and Light Company. A contract was executed between the Bureau of Reclamation as marketing agent and the Central Power and Light Company on April 30, 1957, covering the period May 1, 1957, to December 28, 1961. Charges under the contract are 1.75 mills per kilowatt-hour for the first 400 hours times the billing demand and 1 mill per kilowatt-hour for the balance of energy, plus an annual charge of \$15 per kilowatt of declared annual peaking capacity. For each of the fiscal years 1958, 1959 and 1960, the declared annual peaking capacity was 15,000 kilowatts. The contract provides also for a reduction in the annual kilowatt charge, in the event power production is curtailed because of lack of water. However, an informal supplemental agreement was effected in 1957 whereby the power facilities are considered as being in a stand-by status when power is not needed by the utility company. Even though water is not available to generate power, there will be no reduction in the annual kilowatt charge, as provided by the contract, while the facilities are in a stand-by status and a demand is not made for the power. The rate schedule (R5-S2) used in the contract of April 30, 1957, with Central Power and Light Company is shown in appendix I.

The rate schedule provides that the peaking capacity charge will be paid in October of each year. As of June 30, 1960, the Section had potential earnings of \$112,500, for the period January 1 through June 30, 1960, representing one half of the estimated annual peaking capacity earnings of \$225,000. However, the rate schedule provides that, should it be necessary to curtail the

peaking capacity below the amount required by the customer or below the billing demand (15,000 kilowatts) for the calendar year and should a demand be made for the capacity, the minimum contract rate of delivery for peaking capacity of 10,000 kilowatts would apply. Should it be necessary to curtail the peaking capacity below the minimum contract rate during the off-season months, the billing demand would be considered as 50 percent of the minimum contract rate of delivery. If peaking capacity were curtailed below the minimum contract rate during the peak-season months (June, July, August, and September), the billing demand would be zero. Because earnings of \$112,500 are potential at June 30, 1960, they are not shown in the financial statements for fiscal year 1960.

FINANCIAL RESULTS FROM POWER OPERATIONS

Since the power plants were placed in commercial operation in October 1954, the United States Section through June 30, 1960, earned power revenues totaling \$1,615,770 and incurred operating expenses, including depreciation, totaling \$1,625,175. Financial results from power operations for fiscal years 1958, 1959, and 1960, and cumulative to June 30, 1960, based on the accounts of the Section, are shown in schedule 2. Results of power operations for fiscal years ended June 30, 1958, 1959, and 1960, and cumulative to date, are summarized as follows:

	Cumulative from October 11, 1954, to June 30, 1960	Fiscal years		
		1960	1959	1958
Operating revenues:				
Sales of electric energy	\$1,615,770	\$398,788	\$470,503	\$250,826
Operation and maintenance expenses	562,182	113,797	100,521	100,507
Multiple-purpose expenses distributed to power	202,183	40,463	36,689	37,829
Provision for depreciation	860,810	158,349	157,438	156,736
Total operating expenses	1,625,175	312,609	294,648	293,072
Net gain or (-loss) exclusive of interest on investment allocable to power (note a)	\$ -9,405	\$ 86,179	\$175,855	\$42,246

^aDoes not include costs incurred by the Bureau of Reclamation for power revenue collection and power contract administration expenses. These costs totaled about \$59,500 through June 30, 1960.

In 1957 a supplemental informal agreement was effected with Central Power and Light Company whereby the power facilities were placed in a stand-by status when power was not in demand even though unfavorable water conditions would prohibit power production. In calendar years 1958 and 1959, while the power facilities were in a stand-by status, we understand that no power was available for 39 and 16 days, respectively. The Section advised us that, had the supplemental agreement not been in existence, the revenues for these years would have been decreased by \$112,500 in 1958 and by the same amount in 1959. From January 1 through August 1, 1960, while the facilities were in a stand-by status, no power was available during 10 days.

The distribution of depreciation between power and nonpower purposes was made by the Section on the basis of power-plant-in-service costs and certain plant-in-service assets considered by the Section to benefit power. Until the allocation of project cost to power is firm (see pp. 24 through 29), financial statements cannot be presented that show fairly the financial position and results of operations of Falcón Dam Project.

ENERGY PRODUCTION AND DISPOSITION

The electric energy generated and interchanged and the disposition of the energy expressed in thousand kilowatt-hours, for fiscal years ended June 30, 1958, 1959, and 1960, and cumulative to date, are summarized as follows:

	Cumulative from October 11, 1954, to June 30, 1960	Fiscal years		
		1960	1959	1958
(Thousand kilowatt-hours)				
Gross generation:				
United States plant	565,001	115,909	170,805	81,421
Mexican plant	<u>564,585</u>	<u>115,528</u>	<u>170,699</u>	<u>81,489</u>
Total	1,129,586	231,437	341,504	162,910
Less Mexico's share of gross genera- tion	<u>564,797</u>	<u>115,724</u>	<u>170,750</u>	<u>81,425</u>
United States' share of gross generation	564,789	115,713	170,754	81,485
Interchange-in	<u>328</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>565,117</u>	<u>115,713</u>	<u>170,754</u>	<u>81,485</u>
Less:				
Station-service use	5,751	1,037	1,052	1,023
Camp use	5,518	1,144	1,060	970
Station losses	8,504	2,238	2,584	1,126
Interchange-out	<u>328</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>20,101</u>	<u>4,419</u>	<u>4,696</u>	<u>3,119</u>
Sales to Central Power and Light Company for account of United States Section	<u>545,016</u>	<u>111,294</u>	<u>166,058</u>	<u>78,366</u>

ALLOCATION OF ESTIMATED CONSTRUCTION
COSTS OF FALCÓN DAM PROJECT TO PURPOSES

The act of June 18, 1954 (68 Stat. 255), authorized the Secretary of the Interior to transmit and market electric power and energy generated at Falcón Dam which is made available to the United States but not required in the operation of the project. Under the legislation the Secretary of the Interior, in collaboration with the Secretary of State, was authorized also to make an allocation of the capital investment at Falcón Dam to power and to draw rate schedules having regard to the recovery of costs. By Secretarial Order No. 2765, dated July 30, 1954, the Secretary of the Interior delegated to the Bureau of Reclamation the duties of marketing Falcón Dam power and energy.

Early in fiscal year 1955 the Bureau of Reclamation requested a report on the allocation of total estimated United States construction costs of Falcón Dam to purposes, and in March 1955 the United States Section submitted a report to the Bureau. The allocation of construction costs of Falcón Dam, as amended in November 1957, is summarized as follows:

<u>Purpose</u>	Estimated construction cost to the United States exclusive of interest during <u>construction</u>	Interest during construction (<u>note a</u>)	Estimated construction cost to the <u>United States</u>
Power	\$ 6,473,848	\$ 471,386	\$ 6,945,234
Flood control	<u>27,070,673</u>	<u>1,971,116</u>	<u>29,041,789</u>
Total	<u>\$33,544,521</u>	<u>\$2,442,502</u>	<u>\$35,987,023</u>

^aInterest at a rate of 2.5 percent on cumulative accrued expenditures during construction was allocated to purposes in the ratio of the cost of each feature to the total cost of all features.

In our previous report, we pointed out that the report prepared by the Section and submitted to the Bureau of Reclamation did not include all costs to the United States incurred on the project, and allocations of costs of all joint features to the extent appropriate had not been made to all purposes served by the project. We recommended in our prior audit report that:

1. The United States Section include \$574,053 for preliminary surveys and testing costs as part of the total estimated construction costs to the United States of the Falcón Dam Project so that these costs could be considered as a part of the total construction costs for allocation to purposes.
2. The Secretary of the Interior in collaboration with the Secretary of State make the allocation of the total estimated construction costs to the United States of the Falcón Dam Project so that each purpose would bear to the extent appropriate a share of the costs of joint project features.
3. An appropriate portion of the construction cost of the Falcón Dam Project be allocated to irrigation.
4. The cost of outlet work and penstocks resulting from the inclusion of hydroelectric power for the Falcón Dam Project be allocated to power.
5. The \$1,057,818 of costs of plans and specifications prepared by the Bureau of Reclamation applicable to the Mexican side of the project be allocated to project purposes, as appropriate.

Our recommendations were largely in contemplation of the use of the separable-cost remaining benefits method of cost allocation.

In response to our prior report, the United States Commissioner by letter dated January 10, 1958, advised us that it was the view of the Section that only that cost incurred in constructing the project with power over and above costs of constructing the project without power, should be allocated to power. However, the Acting Commissioner, Bureau of Reclamation, on May 1, 1957, in

answer to a letter from the Department of State dated April 16, 1957, expressed the view that the project's legislative history was broad enough to cover the inclusion of a share of joint costs commensurate with the value of power in the allocation to power. In his letter of January 10, 1958, the Commissioner of the United States Section stated that, although he still believed that the view of the Section was sound, he recognized that there was also merit in the views held by the General Accounting Office regarding allocations to power. Accordingly, with the approval of the Department of State, he revised the allocation of construction costs and allocated (1) \$209,366 of the preliminary surveys and testing costs previously excluded from the allocation construction costs, to power (\$70,072) and to flood control (\$139,294), (2) a portion of the costs of Falcón Village previously allocated to the flood control (\$236,985) to power, and (3) a portion of the costs of outlet works and penstocks previously included in the flood control allocation (\$47,256) to power.

With respect to our recommendation regarding allocating an appropriate portion of the construction costs to irrigation, in a letter dated January 10, 1958, the United States Commissioner reiterated his position contained in a letter dated November 16, 1955. In that letter the Commissioner advised us that allocation to irrigation of an appropriate portion of construction costs to the United States is a matter for determination by the Congress. He stated that the legislative history of the Falcón Dam Project shows that, while the Congress gave consideration to allocation to irrigation of a portion of the project costs, no such allocation

and has now been fully expended. Under the provision of the act of June 20, 1956 (70 Stat. 302), the Commissioner is authorized to allot, from existing appropriations, such sums as may be necessary for major flood emergency operations, it being understood that such sums will be replenished.

For fiscal year 1961, the United States Section obtained appropriations of \$578,000 for salaries and expenses, \$1,982,000 for operation and maintenance, and \$4,000,000 for construction under the Departments of State and Justice, the Judiciary, and Related Agencies Appropriation Act, 1961 (74 Stat. 558). Additional construction funds of \$5,225,000 were appropriated in the Supplemental Appropriation Act, 1961 (74 Stat. 514).

REVENUES AND DISPOSITION

All revenues (e.g., land and equipment rentals and sales of scrap, salvage, and equipment) collected by the United States Section, except those for rental of quarters at Fort McIntosh (Laredo), Texas, and Falcon Village, Texas, are paid into the United States Treasury as miscellaneous receipts. The budget presentations prepared by the United States Section provide for a reduction in the amounts of funds requested for construction and for operation and maintenance in the amount of the estimated revenue from rental of quarters at Fort McIntosh and Falcon Village.

Revenues collected by the Bureau of Reclamation as marketing agent for electric power and energy generated at Falcon Dam and Powerplant for the United States are deposited into the United States Treasury as miscellaneous receipts in accordance with the

was made, and the project was therefore built and has been placed in operation on that basis.

Our current review disclosed that no progress has been made in arriving at a firm cost allocation to power and that the Section is restudying its tentative allocation to determine the propriety of the distribution of the total costs of outlet works and penstocks.

In enacting recent legislation (act of July 7, 1960, 74 Stat. 360) authorizing the conclusion of an agreement for the joint construction by the United States and Mexico of Amistad Dam on the Rio Grande, the Senate Committee on Foreign Relations and House Committee on Foreign Affairs gave consideration to the repayment of power facilities and water supply and irrigation costs.

The Senate Committee on Foreign Relations in considering the construction of Amistad Dam stated in Senate Report 1670 (see pp. 7 and 8):

"*** the committee recommends that the House bill be amended *** so that the Secretary of State, *** is authorized to conclude an agreement for the construction, operation, and maintenance on a self-liquidating basis of facilities for generating hydroelectric energy ***. It is the committee's intention that, as originally proposed by the executive branch, the U.S. Government will construct the power intakes and penstocks but that the United States will undertake construction, operation, and maintenance of a hydroelectric facility if it is determined to be self-liquidating."

In connection with the repayment of water supply and irrigation costs at the Amistad Dam Project, the Senate Committee on Foreign Relations stated:

"*** It was pointed out to the Committee that Amistad Dam, being an international venture, falls in a different category than dams built in the United States

entirely by the U.S. Government and that present water users below Falcón Dam are not now required to repay the cost allocated to conservation. There would appear to be no logic in now including repayment features to the authorization for the Amistad Dam."

Similar views were expressed by the House Committee on Foreign Affairs in its consideration of the construction of the Amistad Dam Project in House Report 1654 (see p. 6).

In recognition of the views expressed by the Senate and House Committees on the repayment of power facilities and water supply and irrigation costs in authorizing the Amistad Dam Project, we are not repeating our previous recommendations relating to the allocation of construction costs of Falcón Dam Project in this report. Also, we are not repeating our recommendation relating to inclusion of costs of preliminary surveys and testing and of costs of plans and specifications incurred by the Bureau of Reclamation applicable to the Mexican side of the project, except as such costs may appropriately be allocated to power under the incremental method of cost allocation.

We believe that the views of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs support the use of the incremental method of allocation of costs to power for both the Amistad Dam Project and the Falcón Dam Project. We believe also that, under the incremental method of cost allocation, potential additional benefits that may inure to Falcón power as the result of the construction of Amistad Dam Project or any future international dam project constructed under the Mexican Water Treaty of February 3, 1944, are unlikely to change the allocation of construction costs to power at the Falcón Dam Project.

In a letter dated March 29, 1961, commenting upon our proposed report, the Administrative Assistant Secretary, Department of the Interior, informed the General Accounting Office that on May 1, 1957, the Department advised the Secretary of State that data and power system experience over several years would be used in the determination of a proper allocation of costs. He stated that this approach was necessary under the separable costs-remaining benefits method but that the Department of the Interior would also consider the views on repayment of Amistad Dam Project costs and the major purposes of both Falcón and Amistad Dam, as expressed by Senate and House Committees considering Amistad Dam legislation in February 1960. Therefore, the Department will take appropriate action to obtain the necessary cost data from the Secretary of State and to collaborate with him in preparing a firm allocation of Falcón Dam costs to power on an incremental cost basis.

Recommendation

We recommend that action be taken by the United States Section and the Bureau of Reclamation to finally resolve the amounts that should be allocated to power and that the proposed allocation be submitted for approval by the Secretary of the Interior in collaboration with the Secretary of State. The costs allocated to power will then provide a firm basis on which to evaluate the adequacy of rates and to prepare financial statements that will fairly and fully disclose the financial results of power operations of the Falcón Dam Project.

REPAYMENT OF CONSTRUCTION COSTS

ALLOCATED TO POWER

The only project operated by the United States Section having a reimbursable purpose is the Falcón Dam Project. Legislation for marketing electricity produced for the United States at Falcón Dam provides for recovery of the Federal investment allocated to power. Under the act of June 18, 1954 (68 Stat. 225), power rates shall be drawn:

"***having regard to the recovery *** of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power by the Secretary of the Interior in collaboration with the Secretary of State, over a reasonable period of years."

An administrative policy has been established by the Department of the Interior for repayment of construction costs allocated to commercial power within 50 years from the date the facilities are placed in service. As the Department applies the policy, commercial power refers to electricity salable to other than project irrigation districts for irrigation pumping. All power produced at Falcón Dam for sale by the United States is sold commercially.

As power marketing agent for Falcón Dam, the Bureau of Reclamation has prepared a "Financial Analysis of Falcón Project," dated November 6, 1959, showing the anticipated revenues and estimated expenses, including operation and maintenance expenses, provision for replacements, and marketing expenses. The report shows that anticipated net revenues over a 50-year period will be about \$12,800,000. These net revenues will be available for repayment of the Federal investment allocable to power and interest on the

unrepaid Federal investment. At June 30, 1960, the total estimated construction cost of Falcón Dam, including interest during construction, allocated to power by the United States Section amounted to \$7,028,193. On the basis of amortization of this investment in 50 annual installments under the sinking fund method, interest at 2.5 percent on the unpaid balance of the investment would total about \$5,400,000, for a total repayment obligation of about \$12,400,000. The difference between \$7,028,193 and \$6,945,234 reported to the Bureau of Reclamation (see p. 24) represents net additions charged to power during fiscal years 1958-1960.

Repayment of the net Federal investment in power was not included in the Bureau's report because an allocation of construction costs to power has not been resolved and approved by the Secretary of the Interior, in collaboration with the Secretary of State. Until an allocation of construction costs to power is resolved and approved, it will not be possible to adequately evaluate the status of repayment and the sufficiency of power rates.

AMISTAD DAM AND RESERVOIR PROJECT

Public Law 86-605 (74 Stat. 360) approved July 7, 1960, authorized the conclusion of an agreement for the joint construction, operation, and maintenance by the United States and Mexico of the Amistad Dam and Reservoir Project on the Rio Grande.

The Amistad Dam and Reservoir Project is the second of the major international storage dams that the Governments of the United States and Mexico agreed in the Mexican Water Treaty of 1944 (59 Stat. 1219) to construct on the Rio Grande. From the standpoint of flood control and conservation surveys and studies,¹ the most feasible site was determined to be below the confluence of the Devil's River and the Rio Grande, 12 miles upstream from Del Rio, Texas.

To provide the optimum feasible capacity, Amistad Dam will be 253 feet high at the river channel and will have a total length of about 6-1/2 miles. When filled to its capacity, the reservoir will contain approximately 5,660,000 acre-feet of water.

The total cost of the project to the United States and Mexico is estimated at \$109,554,000. Of this amount, the United States share of the cost is estimated at \$71,846,000, divided according to main features as follows:

¹Report entitled "Rio Grande International Storage Dams Project - Proposed Amistad Dam and Reservoir (formerly known as Diablo Dam)," prepared by the United States Section of the International Boundary and Water Commission, United States and Mexico, dated September 1958. *W.F.*

<u>Feature</u>	<u>Cost</u>
Dam	\$26,870,000
Power intake and penstocks	2,179,000
Access roads and Government camp	1,301,000
Land costs, relocations, and damages	23,296,000
Interest during construction	2,682,000
Preliminary investigations and engineering	<u>751,000</u>
	57,079,000
Less present worth of terminal land salvage after 50 years	<u>450,000</u>
	56,629,000
Add power plant (70,000 kilowatt capacity)	<u>15,217,000</u>
	<u>\$71,846,000</u>

Benefits to the United States are estimated to exceed the costs to the United States. The ratio of the annual primary and secondary benefits from the project to the annual costs over a 50-year life is 1.6 to 1.

In Senate Report 1670, Eighty-sixth Congress, second session, the Committee on Foreign Relations considered the matter of repayment of power facility costs and water supply and irrigation costs for Amistad Dam and Reservoir. Regarding power, the Committee recommended that the Secretary of State conclude an agreement with Mexico for the construction, operation, and maintenance of facilities for generating hydroelectric energy on a self-liquidating basis. Section 2 of the act of July 7, 1960, authorizes the Secretary of State acting through the United States Commissioner to conclude with appropriate Mexican officials an agreement consistent with article 7 of the treaty of February 3, 1944, for the construction, operation, and maintenance on a self-liquidating basis, for

the United States' share of facilities for generating hydroelectric energy. Under article 7 each Government is to pay one half the cost of the construction, operation, and maintenance of any hydroelectric plant constructed and each Government is to receive one half of the energy generated. The act of July 7, 1960, provides that, if agreement for the construction of separate facilities for generating hydroelectric energy is concluded between the two countries, the United States Commissioner, International Boundary and Water Commission, shall construct, operate, and maintain such self-liquidating facilities for the United States.

The Committee stated also that there would be no logic in requiring the repayment of water supply and irrigation costs because Amistad Dam, being an international venture, falls in a different category than dams built in the United States entirely by the United States and because present water users below Falcón Dam are not now required to repay the costs of Falcón Dam allocated to conservation. Similar views on repayment of water supply and irrigation costs were expressed by the House Committee on Foreign Affairs in its consideration of the construction of Amistad Dam Project in House Report 1654, Eighty-sixth Congress. The act of July 7, 1960, makes no provision for repayment of water supply and irrigation costs.

In the Supplemental Appropriation Act, 1961 (74 Stat. 509), the Congress has made available to the Section for construction purposes \$5,225,000 of which \$5,000,000 was provided for beginning construction of Amistad Dam.

ACCOUNTING POLICIES

DEVELOPMENT OF ACCOUNTING SYSTEM

The accounting system in use by the United States Section is based on recognized accounting principles with the accounts for power operations maintained to the extent practicable in accordance with the uniform system of accounts prescribed for public utilities by the Federal Power Commission under the Federal Power Act (16 U.S.C. 825b). The system was developed jointly by representatives of the Office of Budget and Finance, Department of State, the United States Section, and the General Accounting Office. The conversion to the revised system was completed in March 1952. The new system is designed to provide management with meaningful data for reviewing operations and for a realistic and informative budget presentation to the Congress. The principles, procedures, and policies set forth in the Section's accounting manual were approved by the General Accounting Office in January 1953.

The system of the Section is based on accrual accounting and distinguishes between capital and revenue expenditures. Capital expenditures are charged to fixed asset accounts, and revenue expenditures are charged to operations. A work order system has been prescribed for accumulating costs incurred for each kind of project work.

COST ACCOUNTING PRACTICES

Costs of administrative and other services, rendered by other Federal agencies, that benefit projects of the United States Section are not borne by the Section when not assignable to projects

pursuant to law or administrative policy. These services include rentals and services furnished without charge by the General Services Administration and other Federal agencies, and the handling of death and disability claims on account of Section employees paid by the Bureau of Employees' Compensation,¹ Department of Labor.

Expenses of the Bureau of Reclamation incurred for marketing power from Falcón Dam (United States Section) are not included in the power operating costs. The Bureau began marketing this power in fiscal year 1955. Expenses totaling \$59,472 for the 6 years ended June 30, 1960, were financed from appropriations to the Bureau.

INTEREST ON THE FEDERAL INVESTMENT

Interest on the power portion of the United States Government's investment in Falcón Dam is not deducted from power revenues in determining the financial results from power operations. We have been advised by officials of the United States Section that they consider interest on the Federal investment in power to be a proper financial charge but that it will not be shown as a deduction from power revenues on the financial statements until the construction cost properly allocable to power has been approved by the Secretary of the Interior in collaboration with the Secretary of State.

¹Government agencies will be required to bear the cost of payments made on account of the injury or death of its employees occurring after December 1, 1960 (Public Law 86-767, 5 U.S.C. 785).

Interest accrued during construction in the amount of \$2,442,502 has been recorded in the financial accounts of the Section since our previous audit. Until a firm allocation to power is approved by the Secretary of the Interior in collaboration with the Secretary of State, interest accrued during construction cannot be definitely determined. Therefore, the interest recorded in the financial records of the Section cannot be considered firm.

SCOPE OF REVIEW

Our audit of the United States Section, International Boundary and Water Commission, United States and Mexico, for the fiscal years 1958, 1959, and 1960, was directed primarily toward an evaluation of its power activities, construction practices, and the rental and electricity charges for its Falcón Village residences. We examined financial transactions to the extent deemed appropriate in view of the nature and volume of the transactions and the effectiveness of internal controls. Comments pertaining to construction contracting, and rental and electricity charges for its Falcón Village residences are contained in a separate report to the Commissioner, United States Section. The audit was conducted principally at the United States Section's El Paso, Texas, headquarters office, but we observed operations at other selected sites.

OPINION OF FINANCIAL STATEMENTS

The accompanying statements of assets and liabilities (schedule 1), results from power operations (schedule 2), and expenses of nonreimbursable operations (schedule 3) were prepared from the accounts and reports of the United States Section. The Section does not prepare formal financial statements.

We cannot express an opinion as to whether the accompanying financial statements present fairly the financial position of the United States Section at June 30, 1959 and 1960, and the financial results of operations for the fiscal years 1958, 1959, and 1960, because the allocation of construction costs of the Falcon Dam Project to project purposes is not firm and consequently amounts included in the financial statements for interest accrued during construction and allowances for depreciation and for joint operating costs are subject to change.

FINANCIAL STATEMENTS

DEPARTMENT OF STATE
 UNITED STATES SECTION
 INTERNATIONAL BOUNDARY AND WATER COMMISSION
 UNITED STATES AND MEXICO

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1960 AND 1959

ASSETS

LIABILITIES

	June 30		June 30	
	1960	1959	1960	1959
PLANT, PROPERTY, AND EQUIPMENT:				
Plant in service (note 1):				
Falcon Dam (includes interest of \$2,442,502)	\$36,636,354	\$36,388,657		
Flood control plant	13,354,714	12,682,837		
Rectification and canalization improvements	10,531,513	10,460,580		
Other plant improvements	<u>2,751,725</u>	<u>2,736,812</u>		
	63,274,306	62,268,886		
Less accumulated depreciation	<u>3,656,709</u>	<u>2,731,060</u>		
	59,617,597	59,537,826		
Construction work in progress	<u>4,762,550</u>	<u>4,650,532</u>		
Total plant, property, and equipment, net	<u>64,380,147</u>	<u>64,188,358</u>		
CURRENT ASSETS:				
Unexpended funds in accounts with U.S. Treasury	2,604,268	2,661,254		
Accounts receivable	208	-		
Accrued power revenues	28,392	18,680		
Material and supplies	175,587	168,063		
Prepayments and advances	-	800		
Total current assets	<u>2,808,455</u>	<u>2,848,797</u>		
DEFERRED CHARGES:				
Preliminary survey and investigation costs (note 2)	2,633,002	2,586,792		
Other deferred charges	<u>87</u>	<u>1,129</u>		
Total deferred charges	<u>2,633,089</u>	<u>2,587,921</u>		
Total assets	<u>\$69,821,691</u>	<u>\$69,625,076</u>		
			INVESTMENT OF U.S. GOVERNMENT:	
			Congressional appropriations, net	\$ 99,927,612
			Interest charged to construction-- Falcon Dam	<u>2,442,502</u>
				<u>102,370,114</u>
				97,791,609
			Less:	
			Payments to U.S. Treasury	1,802,252
			Transfers of property or cost, net	2,066,557
			Total expenses of nonreimburs- able operations (schedule 3)	<u>29,170,747</u>
				<u>33,039,556</u>
				28,809,532
				69,330,558
			Excess of costs over revenues from power operations (schedule 2)	<u>-9,405</u>
				<u>-95,584</u>
			Net investment of U.S. Gov- ernment	<u>69,321,153</u>
				68,886,493
			CURRENT LIABILITIES:	
			Accounts payable	154,574
			Liability for deposit and imprest funds	<u>103,320</u>
				<u>363,585</u>
			Total current liabilities	<u>257,894</u>
				524,612
			DEFERRED CREDITS	<u>29,009</u>
				336
			CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>213,635</u>
				213,635
			Total liabilities and in- vestment of U.S. Govern- ment	<u>\$ 69,821,691</u>
				<u>\$69,625,076</u>

The notes on pages 44 and 45 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 39.

DEPARTMENT OF STATE
 UNITED STATES SECTION
 INTERNATIONAL BOUNDARY AND WATER COMMISSION
 UNITED STATES AND MEXICO

STATEMENT OF RESULTS FROM POWER OPERATIONS
 FOR THE FISCAL YEARS ENDED JUNE 30, 1960, 1959, AND 1958

	Fiscal years					
	1960		1959		1958	
	Average rate per kwh (mills)	Amount	Average rate per kwh (mills)	Amount	Average rate per kwh (mills)	Amount
OPERATING REVENUES:						
Sales of electric energy to Central Power and Light Company	<u>3.58</u>	<u>\$398,788</u>	<u>2.83</u>	<u>\$470,503</u>	<u>3.20</u>	<u>\$250,826</u>
OPERATING EXPENSES:						
Operation expenses:						
Supervision and engineering		\$ 9,267		\$ 8,064		\$ 7,372
Hydraulic		14,835		13,645		12,582
Electric		45,924		41,048		39,112
Miscellaneous		<u>74</u>		<u>83</u>		<u>72</u>
		70,100		62,840		59,138
Maintenance expenses:						
Supervision and engineering		8,065		7,925		7,298
Structures and improvements		6,218		5,952		3,762
Electric plant		26,786		21,255		25,157
Miscellaneous plant		<u>2,628</u>		<u>2,549</u>		<u>5,152</u>
		<u>43,697</u>		<u>37,681</u>		<u>41,369</u>
Total		113,797		100,521		100,507
Operation and maintenance expenses of multiple-purpose facilities distributed to power		40,463		36,689		35,829
Provision for depreciations:						
Power facilities		141,030		140,303		138,880
Joint multiple-purpose facilities distributed to power		<u>17,319</u>		<u>17,135</u>		<u>17,856</u>
		<u>158,349</u>		<u>157,438</u>		<u>156,736</u>
Total operating expenses		<u>312,609</u>		<u>294,648</u>		<u>293,072</u>
NET INCOME (-LOSS) FOR THE FISCAL YEAR FROM POWER OPERATIONS EXCLUSIVE OF INTEREST ON INVESTMENT ALLOCABLE TO POWER AND MARKETING EXPENSES OF THE BUREAU OF RECLAMATION		86,179		175,855		-42,246
NET LOSS FROM PRIOR YEARS' OPERATIONS		<u>-95,584</u>		<u>-271,439</u>		<u>-229,193</u>
CUMULATIVE EXCESS OF COSTS OVER REVENUES FROM POWER OPERATIONS EXCLUSIVE OF INTEREST ON INVESTMENT ALLOCABLE TO POWER AND MARKETING EXPENSES OF THE BUREAU OF RECLAMATION (schedule 1)		<u>\$ -9,405</u>		<u>\$ -95,584</u>		<u>-\$271,439</u>

The notes on pages 44 to 45 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 39.

D E P A R T M E N T O F S T A T E

UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION

UNITED STATES AND MEXICO

STATEMENT OF EXPENSES OF NONREIMBURSABLE OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1960, 1959, AND 1958

	Fiscal years		
	<u>1960</u>	<u>1959</u>	<u>1958</u>
OPERATING EXPENSES:			
El Paso projects--canalization and rectification	\$ 1,300,230	\$ 543,282	\$ 549,024
Lower Rio Grande--flood control and bank protection	683,468	340,127	409,655
International water control and hydrographic studies	313,410	307,432	271,416
Falcon Dam--multiple-purpose plant	92,081	82,060	93,940
Other plant and improvements	<u>546,892</u>	<u>-</u>	<u>13,042</u>
Total	2,936,081	1,272,901	1,337,077
General office engineering expenses	118,648	119,752	110,865
General administrative expenses	343,368	329,191	316,199
Depreciation on plant and facilities	714,091	604,561	477,291
Miscellaneous collections	<u>-26,724</u>	<u>-13,563</u>	<u>-9,914</u>
Expenses of nonreimbursable operations for the fiscal year (net)	<u>4,085,464</u>	<u>2,312,842</u>	<u>2,231,518</u>
PRIOR YEARS' EXPENSES, NET:			
Expenses at beginning of year	25,089,648	24,361,388	22,330,401
Adjustments applicable to prior years (note 3)	<u>-4,365</u>	<u>-1,584,582</u>	<u>-200,531</u>
Total prior years' expenses, net	<u>25,085,283</u>	<u>22,776,806</u>	<u>22,129,870</u>
TOTAL EXPENSES OF NONREIMBURSABLE OPERATIONS (schedule 1)	<u>\$29,170,747</u>	<u>\$25,089,648</u>	<u>\$24,361,388</u>

The notes on pages 44 to 45 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 39.

NOTES TO FINANCIAL STATEMENTS

1. During fiscal year 1959, the United States Section completed an inventory of flood control and bank protection improvement plant in service. As a result of the inventory, the flood control and bank protection improvement plant accounts were increased by \$1,654,768 and \$56,837, respectively, with corresponding reductions in the amounts charged to nonreimbursable costs.

During fiscal year 1958 the United States Section transferred jurisdiction over portions of a land boundary fence to other Government agencies. The transfers involved land boundary fence costs of \$365,696 and \$2,689 in connection with transfers to the Immigration and Naturalization Service and to the National Park Service.

2. Construction and salary and expense appropriations are available for conducting examinations, surveys, and studies, preparing designs, and formulating plans prior to constructing the Section's projects. Preliminary survey and investigation costs are accumulated until a project is approved for construction or has been determined to be infeasible. The balance in the account at June 30, 1960, and at June 30, 1959, was composed of the following project costs:

<u>Project</u>	<u>June 30</u>	
	<u>1960</u>	<u>1959</u>
Rio Grande dams--upper	\$1,623,159	\$1,608,355
Colorado River flood control	709,380	682,750
Tijuana River development	139,960	139,258
Santa Cruz River development	125,044	124,319
Various sanitation projects	19,082	11,962
All other	<u>16,377</u>	<u>20,148</u>
Total	<u>\$2,633,002</u>	<u>\$2,586,792</u>

3. The net adjustments to prior years' expenses of nonreimbursable operations included the following amounts for fiscal years 1960, 1959, and 1958:

	<u>Fiscal year</u>		
	<u>1960</u>	<u>1959</u>	<u>1958</u>
Transfer of cost to property accounts due to analysis and survey of plant in service	\$ -	-\$1,711,605	\$ -
Transfers of cost to and from preliminary survey and investigations accounts	-	126,622	-221,367
Transfers of property not recorded in plant accounts	4	-1,409	-9,240
Proceeds from sale of property not included in plant accounts	-4,369	-	-13,445
Prior year depreciation and inventory adjustments	-	1,810	41,336
Cost of emergency flood control work	<u>-</u>	<u>-</u>	<u>2,185</u>
Net adjustments	<u>-\$4,365</u>	<u>-\$1,584,582</u>	<u>-\$200,531</u>

APPENDIXES

Copy

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
REGION 5

Falçón Project, Texas

INTERIM SCHEDULE OF RATES FOR SALE OF PEAKING CAPACITY

Effective:

December 28, 1956

(Confirmed and approved by Federal Power Commission for period
of five years only)

Available:

At the 138-kv Switchyard of Falçón powerplant.

Applicable:

To customers which agree to utilize with peaking capacity, all
energy which can be delivered therewith which is not in excess of the
quantity represented by the customer's daily load factor applied to
the billing demand for peaking capacity.

Character and Conditions of Service:

Alternating current, sixty cycles, three-phase delivered and
metered at the 138-kv bus of the Falçón powerplant.

Rate:

ANNUAL PEAKING CAPACITY CHARGE: Fifteen dollars (\$15.00) per
kilowatt per year of billing
demand payable in October of
each year.

MONTHLY ENERGY CHARGE: First 400 hours times the billing demand, @ 1.75 mills/kwhr. Balance of energy @ 1.0 mill/kwhr.

Definitions:

Annual Peaking Capacity:

That capacity to be available continuously (exclusive of Saturdays and Sundays), which is scheduled in accordance with the billing demand. The United States may restrict deliveries associated with such capacity so that daily deliveries of energy are equal to the billing demand times 6 hours' use, except that energy deliveries may be further restricted to a quantity equal to 20 hours' use for any 5-day operating period.

Maximum Contract Rate of Delivery - Is the maximum rate of delivery acceptable to customers and set forth in the contract.

Minimum Contract Rate of Delivery - Is the minimum rate of delivery stipulated in the contract and is the customer's pro rata share of the power and energy generated at a minimum operating head from the United States power plant as determined by the United States Section, International Boundary and Water Commission.

Billing Demand:

Prior to January 1 of each year the United States will declare the kilowatts of peaking capacity available for the following year and such initial declaration, unless revised by later adjustments for inadequate capacity as herein provided in the adjustment section of this rate schedule, shall constitute the billing demand for said

following year. Such initial declaration shall not exceed the maximum contract rate of delivery for peaking capacity and shall not be less than the minimum contract rate of delivery.

Adjustments:

For Inadequate Capacity:

If peaking capacity is curtailed by the United States below the amount required by the customer or below the billing demand as initially established, whichever is the lesser, the billing demand for that calendar year shall be the minimum contract rate of delivery. If peaking capacity is curtailed by the United States below the minimum contract rate of delivery during the off-season months of January, February, March, April, May, October, November, and December, then the billing demand shall be considered as fifty percent of the minimum contract rate of delivery. If peaking capacity is curtailed by the United States below the minimum contract rate of delivery during the peak season months of June, July, August and September, the billing demand shall be zero. Appropriate credit shall be allowed the customer for overpayments.

Curtailement of peaking capacity shall be considered as having occurred when there has been interruption to service in excess of thirty (30) minutes duration which during the calendar year occurs:

1. On five successive operating days (exclusive of Saturdays and Sundays) all of which are in the peak season; or

2. On a total of 15 operating days (exclusive of Saturdays and Sundays) and said curtailment shall be considered as occurring in the season in which the majority of said operating days fall.

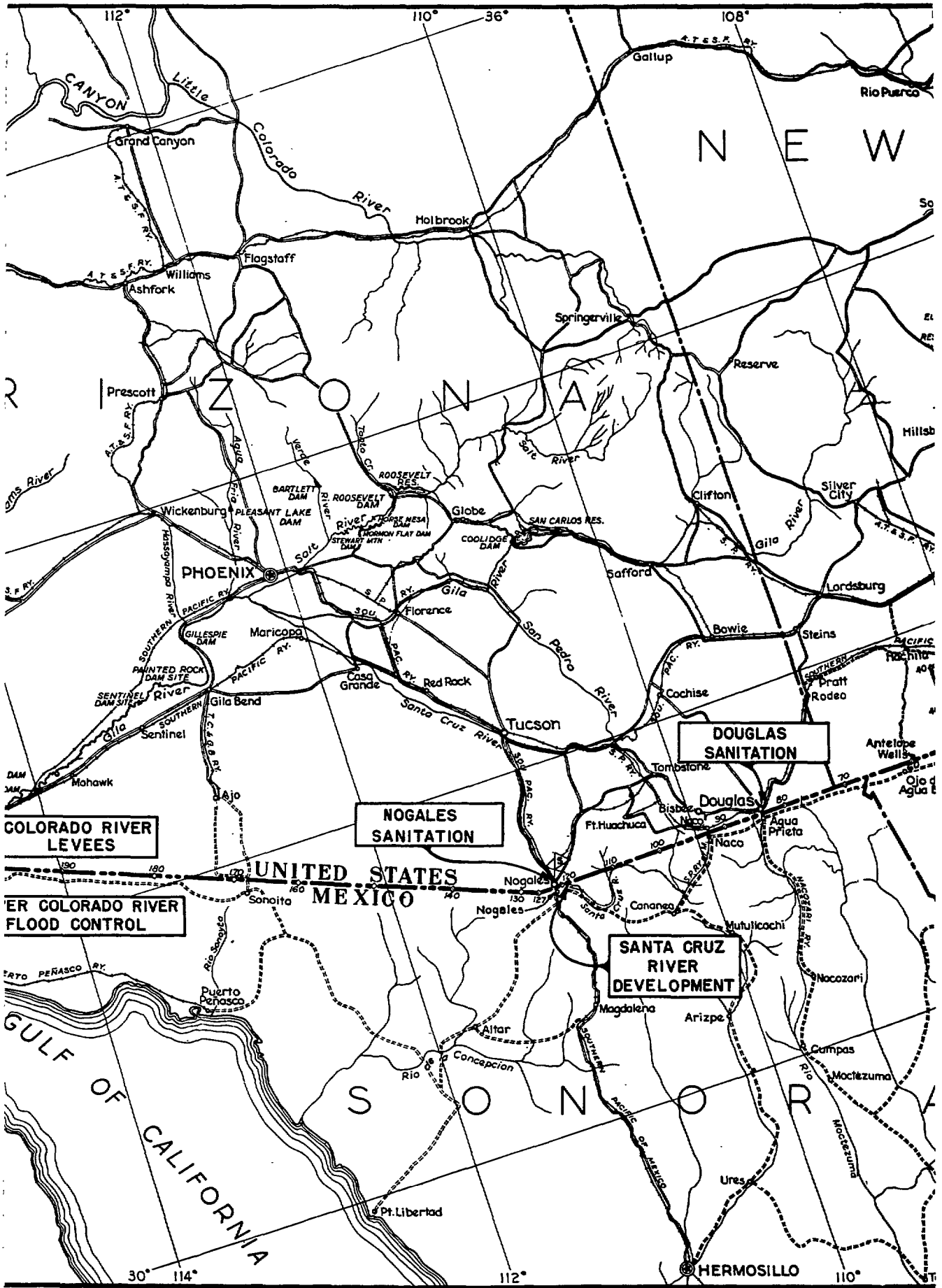


COLORADO RIVER LEVEES

LOWER COLORADO RIVER FLOOD CONTROL

MORELOS DAM (IRRIGATION DIVERSION)

TIJUANA RIVER DEVELOPMENT



COLORADO RIVER LEVEES

UPPER COLORADO RIVER FLOOD CONTROL

NOGALES SANITATION

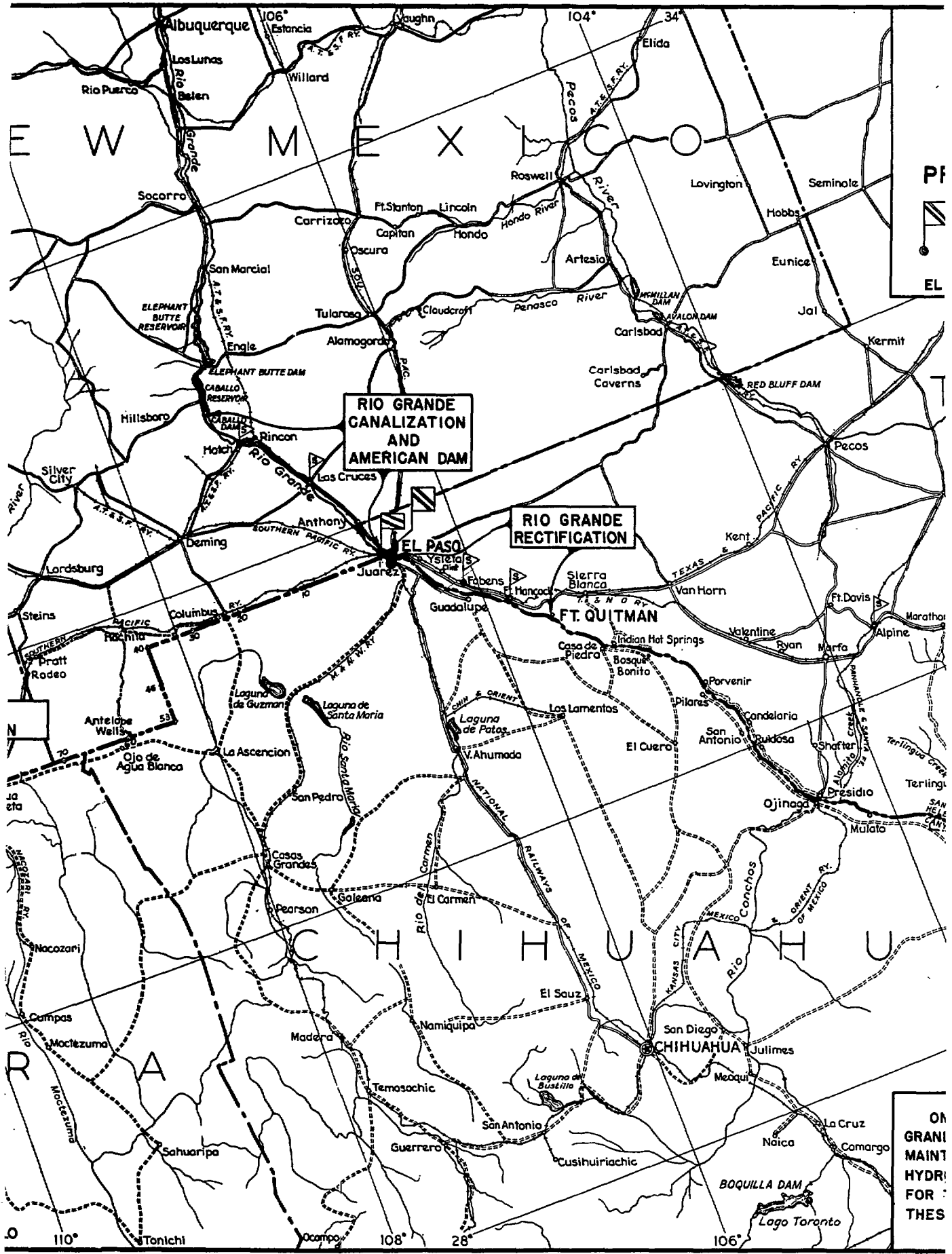
DOUGLAS SANITATION

SANTA CRUZ RIVER DEVELOPMENT

UNITED STATES MEXICO

GULF OF CALIFORNIA

HERMOSILLO



**RIO GRANDE
CANALIZATION
AND
AMERICAN DAM**

**RIO GRANDE
RECTIFICATION**

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INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
UNITED STATES SECTION

THE BOUNDARY LINE BETWEEN THE UNITED STATES AND MEXICO AND PROJECTS OF THE COMMISSION

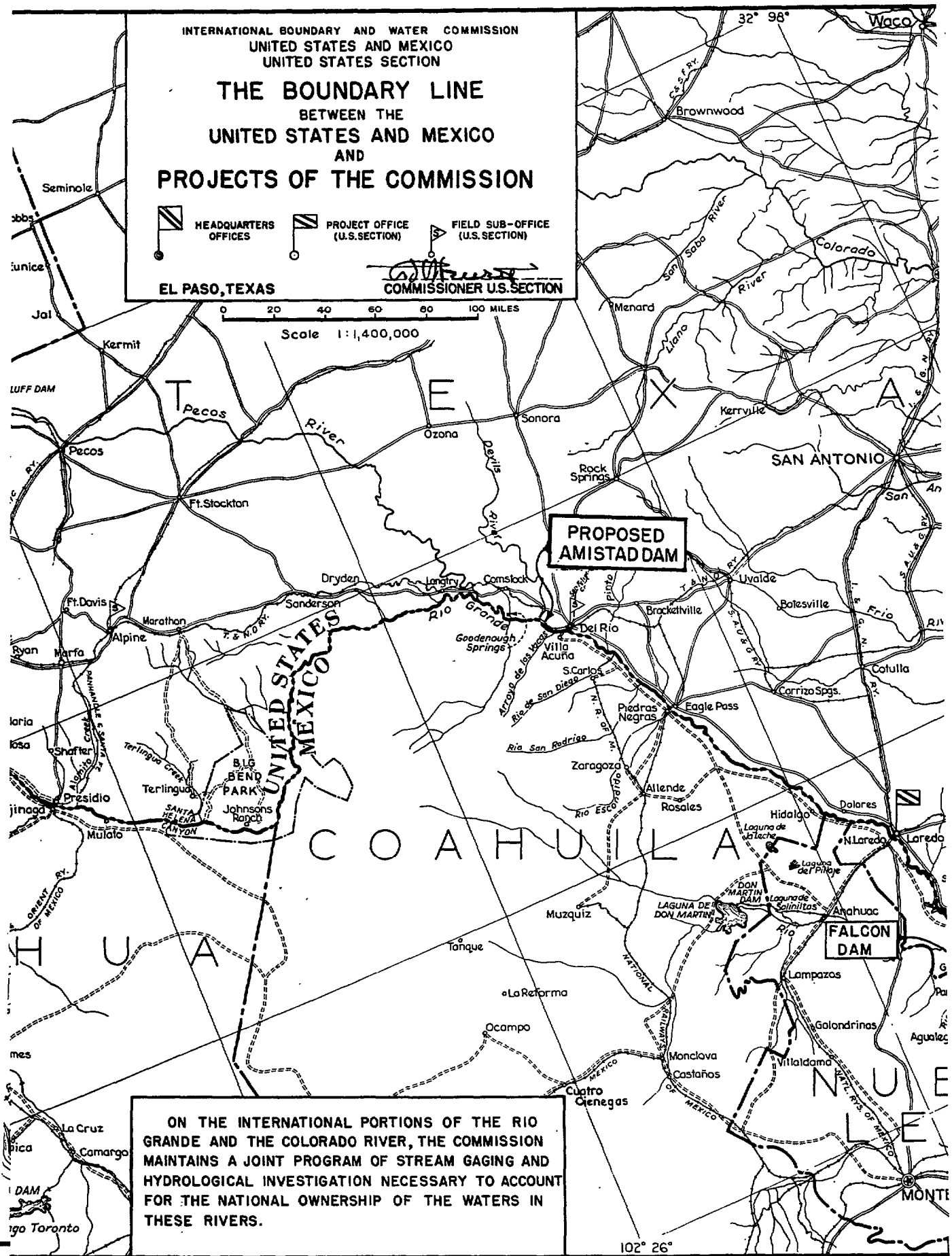
 HEADQUARTERS OFFICES
 PROJECT OFFICE (U.S. SECTION)
 FIELD SUB-OFFICE (U.S. SECTION)

EL PASO, TEXAS

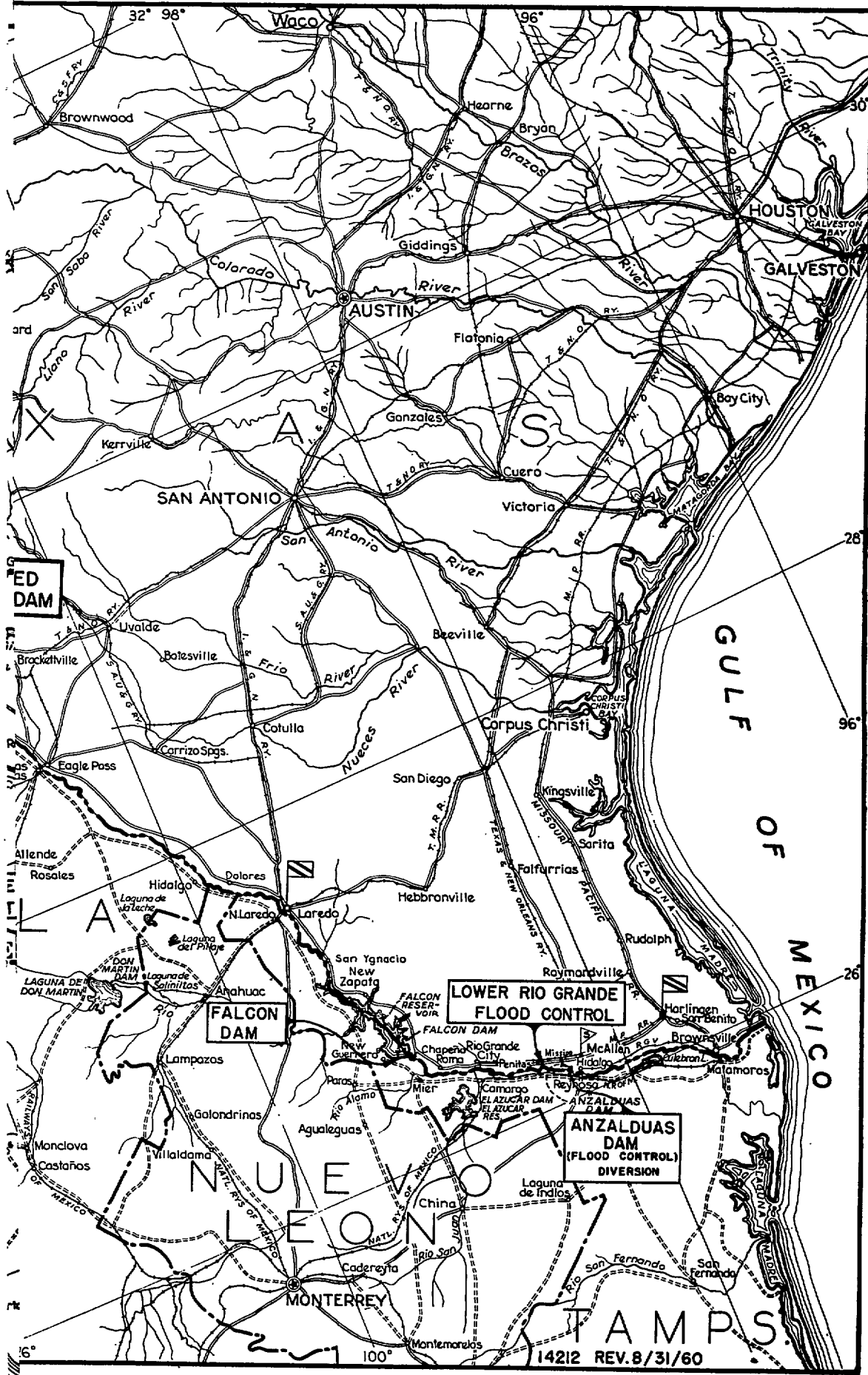
COMMISSIONER U.S. SECTION

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ON THE INTERNATIONAL PORTIONS OF THE RIO GRANDE AND THE COLORADO RIVER, THE COMMISSION MAINTAINS A JOINT PROGRAM OF STREAM GAGING AND HYDROLOGICAL INVESTIGATION NECESSARY TO ACCOUNT FOR THE NATIONAL OWNERSHIP OF THE WATERS IN THESE RIVERS.



14212 REV. 8/31/60