

Withdrawal and Turn-Back Parts Of Power Contracts Explained

Initial Terms of Contract
With L. A. Must Be
Changed, Said

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Under the terms of the Swing-Johnson bill, construction of Boulder dam was predicted on the sale of the electrical energy to be generated at a price which would insure repayment of the government's investment in the project within fifty years.

The rights of the states of Nevada and Arizona to prior consideration in the distribution of this power, were recognized in the act which provided that sovereign states were to have first chance to contract for power, with municipalities next in line.

At the time the contracts were signed, Nevada was in no position to contract for any of the power. The city of Los Angeles, Southern California Edison company, Metropolitan Water District, Nevada-California Power company and several southern California cities were ready and willing to do so. Arizona was not interested.

Nevada representatives demanded that the state not be shut out forever because of its inability to guarantee the use of her rightful share of the power developed, and secured recognition of the state's equity in this regard thru allocation to each of the state of Arizona and Nevada for use within the states of 18 per cent of the firm horsepower generated.

The city of Los Angeles was designated as the generating agency for the states, and they were given the right to withdraw power and turn it back under certain very rigid regulations.

A maximum of 2,000 horsepower could be withdrawn upon the giving of a year's notice, and only 2,000 horsepower could be withdrawn in any one year.

For amounts over 2,000 horsepower, two years notice had to be given, and according to the interpretation of the city of Los Angeles, the state was limited to 5,000 horsepower in any two year period. The same terms apply to the turnback of power.

It was the best concession that could be secured from Secretary Wilbur at the time, and was accepted by Nevada in the hope that when the project got into actual operation, these terms might be modified.

Experience of the Nevada Colorado river commission since power has been ready for delivery, established the fact that these terms were prohibitive and that so long as they were in effect the state could hope for little in the way of the long anticipated industrial development.

Chief stumbling block was the fact that the state was held responsible to the secretary of interior for any power contracted for here. The state, in turn, had to protect itself against any loss due to sudden shutting down of plants, for under the contracts power once in use could not be turned back on less than a year's notice, and if a concern shut down over night, the state would be left with the power on its hands together with a contract to pay for it.

Hence the commission was forced to require industrial concerns to post a bond to cover this contingency—in the case of large users, a sizeable power bill for two years, which they would lose in the event of a shutdown caused by strike, fire or any other contingency.

The commission had before it a potential user, planning to locate in southern Nevada, requiring 20,000 horsepower of electrical energy. That concern would, under existing circumstances, be forced to post a bond of \$600,000 to safeguard the state against loss.

If that bond could be secured at ordinary premium, the requirement might not be so serious

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Withdrawal

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But, because of the numerous possibilities for interrupted plant operation, this was impossible. The bond would have to be cash or government securities. That meant tying up \$600,000 permanently, together with the interest thereon, something not even a large concern could agree to. In addition, the interpretation

placed on the withdrawal clause by the city of Los Angeles, restricted the state to ridiculously small amounts of power each year and made it impossible to attract large users if other conditions were equal.

Several users had contacted the commission prior to the Washington conference of April 16, and each was driven away by the conditions to be met in order to secure power.

This, then, developed into the primary objective of the Nevada

commission's visit to Washington, and was the main reason Governor Kirman dispatched the entire board to the capital together with Attorney - General Gray Mashburn and Consulting Engineer Jay Carpenter. Instructions were to secure a modification of the contract arrangement which would make Boulder dam power use within the state attractive to industrial concerns.

Realizing that this was the paramount objective of the Nevada group, F. E. Scattergood

general manager of the bureau of power and light, started in discussing liberalized terms almost immediately after the end of the general hearing before Dr. Merriam, for Scattergood realized that until this was disposed of Nevada would not discuss any terms for reduction of the price of power, which was his single, paramount objective.

And it was on this single point that most of the negotiations turned. Other questions were discussed and worked toward solution, but each was secondary to this main point.

To go into a history of the negotiations would require more space than is available for this discourse. They covered several hours every day for a period of eight days—one conference lasting thruout the night.

From the beginning representatives of the city assured the Nevadans that there would be no difficulty in working out a satisfactory schedule, but it was a long tedious process during the course of which Los Angeles representatives threatened to "walk out" on the negotiations and the Nevada commissioners almost beat them to it by leaving themselves.

The specter of the Nevada congressional delegation actively opposing the reduced power rate program, however, kept the temper of the Los Angeles group far more congenial than in the days when California's Ray Lyman Wilbur was secretary of interior and Hiram Johnson was running the senate on western questions.

Times had changed, and with it Nevada's power in the congress of the United States.

That may not have been the reason for Los Angeles' willingness to go to any reasonable length to placate Nevada. Perhaps it was the sincereness of the Scattergood expression that "we're interested in the development of the whole southwest not just one portion of it. To be truly great, Los Angeles must have a prosperous back-country. Whatever benefits southern Nevada benefits Los Angeles. We are not trying to hinder, we're trying to help. Come to us with your problems and we'll help you work them out. We want you to grow and will do whatever we can to aid your program."

It's the sensible viewpoint, of course, but was NOT the viewpoint of California in other years. Happily it is now. May it continue that way.

Negotiations started on April 17, but it was not until Saturday, April 24, that the city finally submitted to the Nevada commission, a proposed supplementary contract, amendatory to the present contracts, and liberalizing the terms on which Nevada can withdraw and turn back power.

These amounts and the notice required are as follows:

Amount	Notice
0 to 5,000 h.p.—	6 months
5,000 to 12,500 h.p.—	12 months
12,500 to 20,000 h.p.—	18 months
20,000 to 40,000 h.p.—	24 months
40,000 or over	—36 months

These terms apply both to withdrawal and turn-back of power.

In addition, the city added a paragraph which said: "In order to aid either state (Nevada or Arizona) in promptly beginning

the use of electric energy, a first or initial contract, over and above any contract falling within the above schedule, may be made with either or each of said states at any time during the year 1937, providing for the delivery of not to exceed 20,000 horsepower of maximum demand upon 12 months notice."

This second item means that during the present year a total of 32,500 horsepower might be withdrawn (or notice given) by either of the states.

The new schedule has the effect of cutting the bond requirements more than in half, if the commission still requires a bond, for notice on turnback is reduced that much.

New plans are being discussed, however, which might eliminate the bond entirely. These are in the formative stage, at present, and will be discussed by the commission later.

One thing developed in Washington was a determination on the part of all members of the Nevada commission, to make the requirements for use of power

within the state no more difficult than for use within the city of Los Angeles. How this can be done and still protect the state from loss remains to be seen, but the commission is convinced there IS an answer.

One important factor, was the assurance of Los Angeles representatives that the schedule outlined above is for contract purposes only. That in actual operating practice, whatever contingency Nevada is forced to meet in the matter of power use or turnback, will be sympathetically analyzed by the bureau and met on terms satisfactory to Nevada if at all possible.

With this attitude on the part of Scattergood and his fellow executives, it appeared that the problems foreseen by the Nevada commission were more fancied than real. The contract, outlined above, however, protects the state in the event this attitude should change, which is not regarded as likely.

This contract has been approved by the city of Los Angeles and the Nevada commission, and has

been placed with the secretary of interior for approval, which is expected to be forthcoming shortly. He could have no possible objection, for it is a matter entirely between Nevada and the city.

To pass from this subject without commenting again on the attitude of the representatives of the city of Los Angeles, would be to fail to emphasize perhaps the most important development of the conference.

During the closing days of negotiation, this attitude was one of complete understanding, sympathy and cooperation. Scattergood placed the research department, and all its experts at the command of the Nevada commission to aid in working out any particular problem which might arise.

If this spirit prevails on into the future, Nevada has little to worry about from a power and industrial standpoint.

That it has not always been thus, however, has caused the Nevada commission most of its concern.