

References to other points in regard to flood control relating to clauses in the treaty of doubtful or unacceptable intent are included in my letter to you of 23 Sept 63 and in my CI of IA paper for their Spring, 1963, Journal, all of which, I submit, require the closest consideration.

Re your Para 3

I am very pleased to learn that you agree, even if only in a negative sense, that the ultimate authority for determination of projects in Canada on "International Rivers" rests with the Federal Government of Canada. This relieves some of the grave anxiety I have felt since I became aware of the terms of the agreement which you entered into with the Government of B. C. under date of 8 July 1963. I do hope you and your colleagues in the Government of Canada will be persuaded to take the next step and forbid or "decline assent" to projects which do not implement the principles of proper economic selection, and particularly those which sacrifice, or even seem to compromise, the sovereign right of Canada to control our own waters within our own territories.

Re your Para 3 and your reference to the table (in Para 243) on Page 102 of the ICREB Report of March 1959, which you indicate represents "The average system cost of energy", may I caution that these figures were compiled in a study directed to the selection of the best physical array of projects without regard to the boundary, as agreed by the ICREB at its first meeting in 1944 when this was established as a principle. The interest rate used was 3%, which is about the weighted mean of the actual rates of 2½ and 5% which has been indicated for Canada and the U. S. respectively.

In consequence, while the total international costs given in the table on Page 101 (Para 242) are within the limits of reasonably acceptable error, those allocated nationally in Para 243 are slightly high for the U. S. but between 40% and 50% too low for Canada.

Moreover, in this calculation, the downstream benefits of upstream storage continue to be included in the U. S. figures, that is, where generated. So the upstream state, Canada, receives no credit for the large benefits created by Canadian reservoirs. In regard to flood control, these mostly arise from the Canadian storages and are omitted entirely in the ICREB figures, perhaps, I venture to say, as part of the U. S. endeavour to minimize the very large benefits rightly attributable to this source. In the result, the statement in Para 242, in the conditions stated, is qualitatively correct (except in regard to flood control), namely that the Dorr diversion plan produces the lowest cost incremental power, that is the highest system benefits to power. However, these incremental costs differ only slightly in the other plans.

In contrast, in Para 243, the figures for power benefits and power costs assigned to Canada are both much too low and there is no assurance that the ratio has any real meaning at all.

The great advantage to Canada of the Dorr plan is that the waters originating in the East Kootenay are conserved in Canadian storages and remain under the sovereign jurisdiction and control of Canada, whereas both the other plans include Libby in Montana and by the treaty, the physical and jurisdictional control of this storage in Libby and its refill are to be exercised by the U. S.