



United States Department of the Interior

WATER AND POWER RESOURCES SERVICE

WASHINGTON, D.C. 20240

IN REPLY
REFER TO: 440
832.

24 JUN 1980

Code	Action	Surname & Date
100		Carter
115		Schell
400		
440		W. R. ... 8/27

Memorandum

To: Assistant Secretary - Land and Water Resources

From: Commissioner (Sgt) R. Keith Higgins

Subject: Irrigation Contracting Policies

On January 10, 1979, you approved certain irrigation contracting policies set forth in my memorandum of December 29, 1978 (copy enclosed). Since that time, several events have prompted me to reassess these policies.

My policies, as expressed in my December 29, 1978, memorandum, were designed to implement a uniform approach to irrigation contracting practices throughout the Service. However, deviations from a few of the most important policies have occurred in contract negotiations with the Westlands Water District and the formulation of a comprehensive ratesetting policy for the Central Valley Project (CVP). These areas of concern include (1) establishment of water rates no lower than the irrigators' ability to pay and (2) additional water deliveries to long-term contractors only through interim water service contracts.

The ratesetting procedures for the Westlands negotiations and those being contemplated for the entire CVP are premised on establishing an irrigation water rate equal to the full cost of service (excluding interest) or the payment capacity of the contractor, whichever is less. I feel that it is vital to maintain a degree of consistency among Service projects. Therefore, the ratesetting precedent set for this major project, the CVP, should be extended to other projects.

Historically, irrigators have not had sufficient payment capacity to repay the full capital costs associated with irrigation water supply, conveyance, and drainage works. Assistance from surplus power and municipal and industrial (M&I) revenues has been required to repay those capital costs beyond the irrigators' ability to pay. In such situations, the irrigators must pay all operation and maintenance costs and 100 percent of the residual payment capacity is utilized to repay a portion of the allocable capital costs. Therefore, a policy of setting water rates and annual payment obligations based on the lesser of full cost of service or payment capacity is the reality for many existing projects and probably will be the reality for the majority of future irrigation projects.

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The proposed water service contract with Westlands allows provision of water, beyond the maximum specified in the contract, at the rates specified for firm water service. In other words, it does not contemplate that temporary or interim water service contracts need be executed to furnish water in excess of 1,150,000 acre-feet. I believe that as long as we have the firm rate-setting policy specified above and adjustable rates, there is no particular need to provide additional water service through a short-term contract rather than under a long-term, permanent contract.

Your concurrence with these policies will also influence the Service's policy on ratesetting and repayment of the M&I functions of projects. We expect to have a comprehensive analysis and policy established for M&I contracting in the next few months.

I request your concurrence with the following contracting policies which represent a revision of those presented in my December 29, 1978, memorandum. First, irrigation water rates will be established and adjusted to recover the full cost of service (based on the authorized repayment period) or the contractor's payment capacity, whichever is less. Second, service of surplus water, beyond the maximum specified in a long-term water service contract, may be made available pursuant to terms and conditions of said long-term contract instead of under an additional temporary contract.

Enclosure

Concur:

(SGD) DANIEL P. BEARD

12 AUG 1980

Assistant Secretary - Land and Water Resources
and Returned

Date .

bc: Secretary's Reading Files--LWP (2)
Assistant Secretary - LW
Regional Director, PN, MP, UC, LC, UM, LM, SW
W.O. Code 180, 700
(w/o enclosure)

Note to bc's: Please place this in section II of the loose-leaf policy book sent to you on February 26, 1980.

LWP:K Maxey:bw:6/3/80:x5671
Returned:LWP:KMaxey:lt:6/9/80:x5671