

FEB 19 2013

MP-3400
FIN-3.00

To: Central Valley Project Water Contractors

Subject: Application of Contractor Revenues to the American Recovery and Reinvestment Act (ARRA) Funded Costs

Dear Water Contractor:

The purpose of this correspondence is to clarify how the Bureau of Reclamation applies contractor revenues to operation and maintenance (O&M) expenditures funded by the ARRA. The priority in which Reclamation applies revenues is consistent with existing authority, Reclamation's Irrigation Ratesetting Policy, Reclamation's Municipal and Industrial (M&I) Interim Ratesetting Policy, and in accordance with the provision of the ARRA, as approved by the Reclamation Commissioner.

The sequence of application of revenues in the Irrigation Ratesetting Policy is as follows:

- Current Year (CY) O&M expenses (including the one-tenth of the CY ARRA)
- Interest expenses
- Interest-bearing O&M deficits
- Non-interest bearing O&M deficits
- Capital repayment

The sequence of application of revenues in the M&I Interim Ratesetting Policy are as follow:

- CY O&M expenses (including the one-tenth CY ARRA)
- Interest expenses
- Capital repayment
- Interest bearing O&M deficits
- Non-interest bearing O&M deficits

A letter from the Commissioner to Mid-Pacific Region, dated November 8, 2010, stipulated a 10-year repayment period for O&M expenditures that were funded by the ARRA. Reclamation's practice is to include one-tenth of the ARRA funded costs with the CY O&M expenditures for the Central Valley Project (CVP). Contractors have the option to make a voluntary payment for the remaining nine-tenths of the CY ARRA funded costs to satisfy their repayment responsibility over a shorter period of time and to avoid interest charges.

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Reclamation's decision to include only one-tenth of the ARRA funded costs with contractor O&M obligations for the CVP is based upon the following legislation and policies:

- January 2009, Division A, Title IV of the ARRA of 2009
- Reclamation Commissioner Letter, November 8, 2010
(Internal Document – Not to Release)
- Reclamation Irrigation Ratesetting Policy of 1988
www.usbr.gov/mp/cvpwaterrates/docs/indiv_ctr_def_1988
- Reclamation Mid Pacific Region Letter, December 29, 2010 (enclosed)
www.usbr.gov/mp/cvpwaterrates/docs/mi_water_interim_1993.html

The Commissioner's direction for the repayment of the ARRA funded costs over a 10-year period is supported by Division A, Title IV of the ARRA of 2009 which prescribed:

“...that the costs of extraordinary maintenance and replacement activities carried out with funds provided in this Act shall be repaid pursuant to existing authority, except the length of repayment period shall be as determined by the Commissioner, but in no case shall the repayment period exceed 50 years and the repayment shall include interest, at a rate determined by the Secretary of the Treasury as of the beginning of the fiscal year in which the work is commenced...”

If you have any questions regarding the application of water revenues, please contact Ms. Autumn Wolfe at 916-978-5391 or awolfe@usbr.gov.

Sincerely,

Brenda Bryant
Regional Financial Manager



United States Department of the Interior

BUREAU OF RECLAMATION
Mid-Pacific Regional Office
2800 Cottage Way
Sacramento, California 95825-1898

IN REPLY
REFER TO:

MP-440
WTR-4.00

DEC 29 2010

To: Central Valley Project Water Contractors

Subject: Notification That Costs of Extraordinary Maintenance and Replacement (RAX) Activities Costs Funded by the American Recovery and Reinvestment Act of 2009 (ARRA) Carried Out in the Central Valley Project (CVP) Will be Included in CVP Irrigation, Municipal and Industrial (M&I), and Hydropower Rates

Dear Water Contractor:

This letter serves as official notification of matters conveyed herein.

The ARRA appropriated funds to be used to complete six RAX projects in the CVP. The Commissioner of the Bureau of Reclamation has approved the repayment to Reclamation of the cost of these RAX projects pursuant to the existing CVP Irrigation Ratesetting Policy approved in 1988 and either the Interim CVP M&I Ratesetting Policy approved in 1995 or a final CVP M&I Ratesetting Policy, if adopted and in effect at the time of repayment.

In accordance with Reclamation law, these RAX projects are considered to be operation and maintenance (O&M) costs and are therefore reimbursable. O&M costs are normally payable in advance of being incurred. However, the ARRA provided for the repayment of certain operation and maintenance costs over an extended time period, with interest. Reclamation has determined that a 10-year repayment period is appropriate. Repayment will be allocated among project purposes (i.e., irrigation, M&I, and hydropower) in accordance with the CVP cost allocation. Those contractors who benefit from these reimbursable project purposes are responsible for repaying the reimbursable costs of O&M. Under the CVP ratesetting policies cited above, this includes virtually all CVP contractors.

The total cost of the six RAX projects is currently estimated to be \$17,640,000 of which approximately \$15,717,765 will be reimbursable. For as long as the current interim CVP allocation procedures are in effect, the reimbursable costs will be allocated approximately as follows: \$6,105,630 to irrigation, \$905,626 to M&I, and \$8,706,509 to hydropower. However, when the projects are complete, the actual costs will be allocated according to an updated cost allocation in accordance with Public Law 99-546.

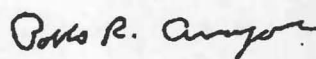
These figures are estimates, calculated for planning purposes. The final total cost, and therefore the final reimbursable cost, may be higher or lower upon the project's completion. Your water rates will begin to reflect these costs in the year after each RAX project is substantially complete.

Subject: Notification That RAX Costs Will be Included in CVP Rates

and placed in service. When construction is complete and all costs known, Reclamation will furnish you with a full accounting of the total cost and the amount of the reimbursable portion to be allocated to each reimbursable project purpose.

If you have any questions regarding this notification, please contact Mr. Rick Woodley, Regional Resources Manager, at 916-978-5200, or e-mail rwoodley@usbr.gov.

Sincerely,



FOR

Donald R. Glaser
Regional Director