

Decision Document

Subject: Including Interest for Folsom Safety of Dams (SOD) in Repayment Status

Date: July 28, 2016

Issue: In a letter dated January 18, 2008, Central Valley Project (CVP) water contractors were notified that the total final cost of the Folsom SOD project will begin to be reflected in the construction component of the CVP water rates in the year after the Folsom SOD project is considered substantially complete. The Folsom SOD project has many phases. Currently, as each phase of the project is completed, the costs are transferred to Plant in Service while awaiting for the other phases of the project to be completed; however, these costs are not included in repayment status, as stated in the January 18, 2008 letter from the Regional Director.

When construction is in progress, interest during construction costs (IDC) are incurred. At the time that each phase of construction is completed, the project construction costs plus IDC are transferred to plant in service. Once costs are in plant in service, interest on investment (IOI) is then calculated, thereby compounding the interest. If the interest portion of the completed phases of the Folsom SOD project is not put into repayment status when transferred to plant in service, IOI costs continue to grow, and contractors do not have the ability to make payments toward the accumulating interest.

On June 16, 2016, Reclamation Finance sent a letter to all CVP M&I water contractors to make them aware of the compounding interest on their allocation of costs for Folsom SOD that is not currently in repayment status. The purpose of the letter was to get contractor feedback regarding whether or not they preferred to include the IOI portion of their cost for Folsom SOD in repayment status as it accumulates each year. This will allow M&I contractors to pay down their IOI charges on an annual basis.

Decision: The response to the June 16, 2016 letter from both individual M&I water contractors and those contractors that attended recent bi-monthly Financial Affairs Committee meetings was to include Folsom SOD IOI charges in repayment status on an annual basis. Therefore, beginning with the 2017 water rates, Folsom SOD IOI charges will be included in repayment status for M&I contractors.