

# Reclamation Manual

## Directives and Standards

<b>Subject:</b>	Power Repayment
<b>Purpose:</b>	To provide the requirements for repayment of power costs and the Bureau of Reclamation's obligations to the Power Marketing Administrations (PMAs). The benefits of this Directive and Standard (D&S) are improved internal and external communication, efficiency, and transparency of power repayment requirements and processes.
<b>Authority:</b>	The Reclamation Act of 1902 (Act of June 17, 1902, 32 Stat. 388), Town Sites and Power Development Act of 1906 (Act of April 16, 1906, ch. 1631, 34 Stat. 116), Warren Act of February 21, 1911 (36 Stat. 926; 43 USC 525), Fact Finders' Act (Act of December 5, 1924, ch. 4, 43 Stat. 672), Bonneville Project Act of 1937 (Act of August 20, 1937, ch. 720, 50 Stat. 731), Interior Department Appropriation Act of 1939 - Hayden-O'Mahoney Amendment (Act of May 9, 1938; 52 Stat. 322), Reclamation Project Act of 1939 (Act of August 4, 1939, ch. 418, 53 Stat. 1187), Flood Control Act of 1944 (Act of December 22, 1944, ch. 665, 58 Stat. 887), Department of Energy Act of 1977 (Act of August 4, 1977, Pub. L. 95-91; 91 Stat. 565), and acts relating to individual dams or projects.
<b>Approving Official:</b>	Senior Advisor, Hydropower
<b>Contact:</b>	Power Resources Office (86-51000)

### 1. Introduction.

- A. Reclamation law requires that investments be repaid by the beneficiaries of that investment, except where that benefit is for the common welfare or defense of the nation. In general, water and power beneficiaries repay Reclamation project costs. Costs of a project allocated to power are broken into two portions: Those to be repaid by the Project Use Power beneficiaries; and those to be repaid by the Preference (and First Preference) Power beneficiaries (those receiving power surplus to project needs). The costs to be repaid by the Preference Power beneficiaries may include a component for aid to irrigation. Repayment of the project costs assigned to the Project Use Power beneficiaries is covered in Reclamation Manual (RM) D&S, *Project Use Power* (FAC 04-06).
- B. Power repayment and rate-setting is defined through three acts:
  - (1) **The Bonneville Project Act of 1937 (Pub. L. 75-329).** This act requires, in part, that rate schedules be based on the cost of energy production and established to encourage the widest possible diversified use.
  - (2) **The Reclamation Project Act of 1939 (Pub. L. 76-260).** This act provides for the preferential sale or lease of water or power to municipalities and other public

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corporations and agencies. It contains criteria for rates to be charged and an appropriate share of project costs to be repaid in a period not to exceed 40 years.

- (3) **The Flood Control Act of 1944 (Pub. L. 78-534).** This act requires, in part, power to be marketed at the lowest possible rate consistent with sound business principles.
- C. In addition to these acts, Congress has also provided project-specific guidance on items to be included or considered during the repayment and rate-setting processes – including if cost recovery occurs through other mechanisms (e.g., inclusion in the water rate). Furthermore, regional and/or project-specific repayment processes may also be influenced by applicable regulations, solicitor opinions, and court orders.
- D. The Department of Energy (DOE) Organization Act of 1977 (Pub. L. 95-91) in part, transferred Reclamation power marketing and transmission functions to DOE PMAs.<sup>1</sup> Pursuant to the DOE Organization Act of 1977, Reclamation law, and supporting agreements,<sup>2</sup> DOE PMAs are responsible for ensuring the repayment of Reclamation project costs allocated to power beneficiaries for repayment.<sup>3</sup> Reclamation is responsible for supporting DOE PMAs in administering power repayment functions.
2. **Applicability.** This D&S applies to all Reclamation personnel involved in the repayment of power costs.
3. **Definitions.** The following definitions are for purposes of this D&S:
- A. **Power Marketing Administration or PMA.** PMAs operate electric transmission systems and sell the electrical output of federally owned hydroelectric dams. Reclamation hydropower is marketed by BPA and WAPA.
- B. **Power Repayment Study (PRS).** The PRS is a tool the PMAs use to calculate a rate sufficient to recover the revenue requirements for each project to include annual operation, maintenance, and replacement costs; other annual costs, including interest expense; as well as capital repayment obligations, including aid to irrigation repayment.
- C. **Preference Power.** (Sometimes referred to as “firm” or “wholesale” power) Preference Power is that electrical power and energy generated, which is surplus to project needs and for which preference is given through the Reclamation Project Act of 1939, Section 9(c) to “municipalities and other public corporations or agencies; and

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<sup>1</sup> Including the Western Area Power Administration (WAPA) and the Bonneville Power Administration (BPA).

<sup>2</sup> Reclamation Contract No. 0-AG-30-P1037, Agreement between Water and Power Resources Service (Reclamation) and WAPA, March 26, 1980 (Master Agreement) defines WAPA and Reclamation functions and property. BPA authorities, as related to Reclamation projects, are defined in applicable legislation, e.g., Bonneville Project Act of 1937 (Pub. L. 75-329) and the Grand Coulee Dam – Third Powerplant Act (Pub. L. 89-448).

<sup>3</sup> DOE Order RA 6120.2, Power Marketing Administration Financial Reporting establishes PMA financial reporting policies, procedures, and methodology related to, in part, power repayment.

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also to cooperatives and other nonprofit organizations financed in whole or in part by loans made pursuant to the Rural Electrification Act of 1936 and any amendments thereof.”

- D. **Project Use Power.** Project Use Power is that electrical capacity, energy, and associated ancillary service components required to provide the minimum electrical service needed to operate and/or maintain project facilities in conformance with project authorization.

#### 4. Responsibilities.

- A. **Senior Advisor, Hydropower.** The Senior Advisor, Hydropower is responsible for:

- (1) establishing Reclamation-wide D&S for power repayment; and
- (2) providing guidance to the regions on compliance with the laws, policies, D&S, and other authorities that apply to power repayment.

- B. **Regional Directors.** Regional directors are responsible for:

- (1) providing PMAs general support and requested power operational and financial data in a timely manner for inclusion into the PRS and the consolidated financial statements to ensure power repayment (see data examples in Paragraph 6 of this D&S);
- (2) determining cost and sub-cost allocations in accordance with RM D&S, *Project Cost Allocations* (PEC 01-02);
- (3) determining and implementing Project Use Power rate and/or cost recovery requirements, in accordance with RM D&S, *Project Use Power* (FAC 04-06);
- (4) establishing and managing ability-to-pay calculations (see Paragraph 5 of this D&S);
- (5) administering Reclamation’s portion of the Reclamation Fund<sup>4</sup> and/or other project-specific funds within the Treasury; and
- (6) documenting regional and/or project-specific power repayment processes and ensuring documentation is available upon internal-Reclamation request in a timely manner.

5. **Aid to Irrigation/Ability-to-Pay.** (Sometimes referred to as “Irrigation Aid”) The Reclamation Project Act of 1939 established irrigation water users’ cost repayment on a

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<sup>4</sup> Per September 30, 2014 Office of Management and Budget memo, DOE manages Reclamation Fund Point Accounts 5000.26 and 5000.27.

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basis of their ability-to-pay in order to assure the success of the agricultural economy.<sup>5</sup> Under ability-to-pay, irrigation water users are required to pay annual operations, maintenance, and replacement (OM&R) costs, but a portion or all of their applicable construction cost repayment obligations may be non-reimbursable by the irrigation water user if it is demonstrated that the users do not have the ability-to-pay the applicable construction cost repayment obligations. Preference Power beneficiaries repay those construction costs for which the irrigation water users are unable to pay. Preference Power rates and revenue recovery are set “at cost” plus an additional amount, if applicable, to cover those costs that irrigation water users are unable to pay. Reclamation, acting through the Reclamation Project Act of 1939, has the responsibility to determine an irrigation water user’s ability-to-pay. Ability-to-pay processes have been established for each project, in accordance with project authorizations.

6. **Power and Operational Financial Data.** Noted in Paragraph 4.B.(1) of this D&S, regional directors are responsible for providing PMAs power operational and financial data in a timely manner for inclusion into the PRS and the consolidated financial statements to ensure power repayment. Examples of requested data include:
  - A. Project construction costs in accordance with RM D&S, Statement of Project Construction Cost and Repayment (SPCCR) (FIN 06-02). Power and multipurpose allocations provided to WAPA finance must be verified to match both SPCCR Sch. A allocations and Financial Statement Sch. 1 totals;
  - B. Annual power OM&R costs (including ability-to-pay costs, per Paragraph 5 of this D&S); and
  - C. Project Use Power costs and revenue data.

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<sup>5</sup> See: Solicitor Barry Opinion, 68 I.D. 305, 310 (1961).

## RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: \_\_\_\_\_

Release No. \_\_\_\_\_

Ensure all employees needing this information are provided a copy of this release.

### Reclamation Manual Release Number and Subject

### Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

### Filing instructions

Remove Sheets

Insert Sheets

All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: \_\_\_\_\_

Date: \_\_\_\_\_