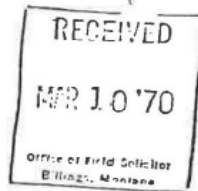


Reclamation Manual

Directives and Standards



UNITED STATES
DEPARTMENT OF THE INTERIOR
Office of the Secretary
Washington, D. C. 20240

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JAN 29 1970

ORDER NO. 2929

Subject: Standard repayment interest rate formula for new Federal power projects and system transmission facilities

Sec. 1 Purpose. The purpose of this Order is to establish a standard formula applicable to all Interior power agencies for fixing the interest rates for repayment purposes on new Federal power projects and system transmission facilities for which the administrative discretion to establish such rates is vested in the Secretary of the Interior. The resulting rates will more closely reflect the current interest costs of money borrowed by the Federal Government than the rates which have been utilized in recent years.

Sec. 2 Authority. This Order is issued pursuant to the authority of the Secretary of the Interior under section 9(c) of the Reclamation Project Act of 1939, 53 Stat. 1194, 43 U.S.C. 485h(c); section 5 of the Flood Control Act of 1944, 58 Stat. 890, 16 U.S.C. 825s; sections 6 and 7 of the Bonneville Project Act, 50 Stat. 734, 735, as amended, 16 U.S.C. 832d, c; Reorganization Plan No. 3 of 1950, 5 U.S.C. 1332-15, note (1964 ed.); and Section 2 of the Act of June 14, 1966, Public Law 89-448, 80 Stat. 200, as amended.

Sec. 3 Definitions. For the purpose of this Order:

(a) The term "Federal power project" means any reservoir project of the Department of the Interior or the Department of the Army which includes the generation of electric power as one of its purposes, or any unit or separable power feature thereof, which is treated as a separate entity for repayment purposes, including transmission, substation and other appurtenant facilities.

(b) The term "system transmission facilities" means transmission lines, substations and appurtenant facilities which are treated for repayment purposes as a separate entity not a part of a Federal power project.

(c) The terms "new Federal power project" and "new system transmission facilities" mean a Federal power project or system transmission facilities the construction of which is initiated after the date of this Order.

Sec. 4 Interest rate formula.

(a) Except as otherwise provided by law, the interest rate to be used for computing interest during construction and interest on

Reclamation Manual

Directives and Standards

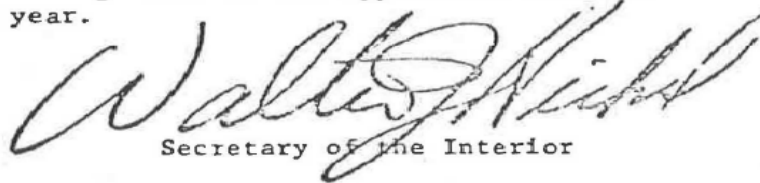
the unpaid balance of the costs of new Federal power projects and new system transmission facilities which are properly allocated to commercial power development, shall be the applicable rate, as hereinafter provided, during the fiscal year in which funds are first appropriated to initiate construction of such projects or facilities.

(b) The applicable rate for fiscal year 1970 shall be 4-7/8 percent.

(c) Each subsequent fiscal year, the Assistant Secretary--Water and Power Development shall request the Secretary of the Treasury to inform him of the computations made as of July 1 in accordance with subsection (d) for the preceding fiscal year. If the yield rate so computed does not differ from the applicable interest rate used by Interior for the previous fiscal year by more than 1/2 percent, the applicable rate to be used by Interior shall be equal to the yield rate. If the yield rate differs from the applicable interest rate used by Interior for the previous fiscal year by more than 1/2 percent, the applicable rate to be used by Interior shall be the applicable rate used in the previous fiscal year increased or decreased by 1/2 percent toward the yield rate.

(d) For the purposes of this section the yield rate is the average yield during the preceding fiscal year on interest-bearing marketable securities of the United States which, at the time the computation is made, have terms of 15 years or more remaining to maturity. The average yield shall be computed as the average during the fiscal year of the daily bid prices. Where the average rate so computed is not a multiple of one-eighth of 1 percent, the rate of interest shall be the multiple of one-eighth of 1 percent nearest to such average rate.

(e) The Assistant Secretary--Water and Power Development shall annually advise the power agencies of the applicable interest rate for the current fiscal year.


Secretary of the Interior

Reclamation Manual

Directives and Standards

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GUIDELINES for the Implementation of Secretarial Order No. 2929, on "Standard repayment interest rate formula for new Federal power projects and system transmission facilities," dated January 29, 1970

Purpose of Guidelines

The purpose of these guidelines is to set forth a common understanding to govern the application of the subject Order by the Department of the Interior.

Intent of Secretarial Order

The Order establishes a standard formula applicable to all interior power agencies for fixing the interest rates for repayment purposes on new Federal power projects and system transmission facilities for which the administrative discretion to establish such rates is vested in the Secretary of the Interior.

Stages of Development

1. The same interest rate will apply to all investment made in each separate stage of development (referred to in Subsections 3(a) and (b) of the Order as "a separate entity for repayment purposes").

Reservoir projects. For a generating project constructed by the Corps of Engineers or the Bureau of Reclamation the stage of development will normally comprise the reservoir project or unit, or separable power feature thereof, which is carried on the books of the constructing agency as a separate entity for purposes of construction and cost allocation, including transmission, substation and other appurtenant facilities which are included as an integral part of such project, unit or separable power feature. However, a new separate stage of development will be established for purposes of applying a different interest rate where (1) separate statutory authorization is required for the initial power

Reclamation Manual

Directives and Standards

Reclamation Manual

Directives and Standards

installation or for any segment of the power facilities, or (2) where the construction of all or a segment of authorized power facilities is postponed or interrupted for a significant period of time relative to the construction of other features of the project or unit, or separable power feature thereof. An example of the second case would be a project where the authorization includes six generating units, but only three are installed during the initial phase of construction; when the final three are installed at a later time, the investment in them would be considered a separate stage of development and would carry a separate interest rate.

In determining whether a postponement or interruption is significant for this purpose, consideration will be given to all relevant factors, including, but not limited to, expressions of Congressional intent, presentations made to Congress, commitments made to power customers, internal construction and funding schedule of the constructing agency, and the length of the postponement or interruption. In any event, the complete absence of all of the following actions during two consecutive fiscal years shall require the application of a separate interest rate to the subsequent investment:

- a. Purchase of any land, easement or right-of-way.
- b. Award of, or progress payments on, a contract for any kind of construction activity.
- c. Award of, or progress payments on, a contract for Government-furnished construction material or equipment.
- d. Conduct of any organized construction activity at the site of the project or unit, or separable power feature thereof.

System transmission facilities. The Order defines the term "system transmission facilities" in recognition of the fact that in many cases transmission facilities constructed by Department of the Interior power marketing agencies are not regarded for repayment purposes as part of a Federal reservoir project or unit, or separable power feature thereof, but instead are treated as part of a transmission system. Such transmission facilities may be handled in either of two ways, depending on the accounting practices of the agency, the purpose of the facility, the length of the construction period, and the relative volume of system transmission construction work carried out by the agency at the time. One method is to treat an individual transmission facility as a separate stage of development, in the same manner as a separable power feature of a reservoir project or unit. The other

Reclamation Manual

Directives and Standards

method, which it is expected will be utilized by the Bonneville Power Administration, is to treat the new investment in system transmission facilities made each fiscal year as a separate stage of development.

Replacements and additions. The interest rates for all new investment in replacements and additions, as shown in the capital plant accounts of the constructing agency, in reservoir projects or units, or separable power features thereof, or in system transmission facilities shall be determined in accordance with these guidelines regardless of when construction of the original project or facility was started.

Initiation of Construction

The Order applies only to the investment in a stage of development if, as provided in Subsection 3(c), the construction of the particular stage was initiated after the date of the Order, that is, after January 29, 1970. Also, Subsection 4(a) of the Order provides that the interest rate to be used shall be the applicable rate during the fiscal year in which funds are first appropriated to initiate construction of the stage of development. For these purposes the construction of a stage of development shall be considered initiated when the first of any of the following actions is taken:

- a. Award of a contract for any kind of construction activity.
- b. Award of a contract for Government-furnished construction material or equipment.
- c. Start of any organized construction activity such as grading, excavation or building of access roads.

Applicable Rates

For stages of development comprising a reservoir project or unit, or separable power feature thereof, or a system transmission facility handled under the first method described above, the construction of which is initiated after January 29, 1970, with funds appropriated in fiscal year 1970 or prior years, the interest rate shall be 4-7/8 percent.

For stages of development comprising a reservoir project or unit, or separable power feature thereof, or a system transmission facility handled under the first method described above, the construction of which is initiated after January 29, 1970 with funds appropriated in fiscal year 1971 or in any subsequent

Reclamation Manual

Directives and Standards

fiscal year, the interest rate shall be the applicable rate, as defined in Subsection 4(c) of the Order, for the fiscal year in which funds are first appropriated to initiate construction of the stage of development.

It will be assumed that the average construction period for replacements and additions is less than two years and that the investment therein is made in the fiscal year following the fiscal year in which funds are first appropriated to initiate construction. Accordingly, under this assumption, the Order will not apply to replacements and additions placed in service in fiscal year 1970; the interest rate for the investment in replacements and additions, placed in service in subsequent fiscal years shall be the applicable rate, as defined in Subsection 4(c) of the Order, for the fiscal year preceding the fiscal year in which the replacement or addition is placed in service. In unusual cases where the investment is of considerable magnitude and the construction period is three years or more, the replacement or addition may be treated as a separate stage of development.

Where the investment in system transmission facilities is handled on an annual basis under the second method described above, it will be assumed that the average construction period is less than two years and that the investment made in each fiscal year is from funds appropriated the preceding fiscal year. Accordingly, under this assumption, the Order will not apply to the investment made in fiscal year 1970; the interest rate for the investment made in system transmission facilities, including replacements and additions, in fiscal year 1971 shall be 4-7/8 percent; and the interest rate for the investment made in system transmission facilities, including replacements and additions, in subsequent fiscal years shall be the applicable rate, as defined in Subsection 4(c) of the Order, for the fiscal year preceding the fiscal year in which the investment is made.

Repayment Studies

Agencies which prepare repayment studies which include future investments in power facilities will apply the interest rate determined in accordance with the Order for the current fiscal year to all future investment included in the repayment studies, i.e., there will be no attempt made to forecast either increases or decreases in the interest rate for future investment for the purpose of preparing repayment studies.

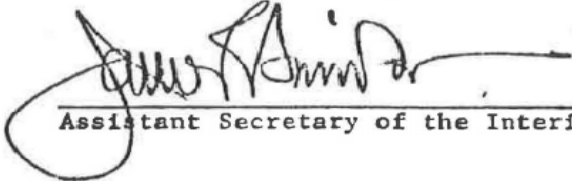
Other Applications

Agencies whose accounting procedures provide for taking an interest credit on cash receipts, or for calculating interest

Reclamation Manual

Directives and Standards

expense on working capital, shall use for such purposes the rate determined pursuant to these guidelines for application during the current fiscal year.



Assistant Secretary of the Interior