

Reclamation Manual

Directives and Standards

Subject:	Water Rates and Pricing
Purpose:	To set forth general requirements and options for establishing contract rates for irrigation, municipal, industrial, and miscellaneous uses of project water under Reclamation law. The benefit of this Directive and Standard (D&S) is that it promotes consistency in the application of generally applicable rate setting requirements for water-related contracts.
Authority:	The Reclamation Act of 1902 (ch.1093, 32 Stat. 388); the Sale of Water for Miscellaneous Purposes Act of 1920 (1920 Act) (41 Stat. 451; 43 U.S.C. 521); the Reclamation Project Act of 1939 (1939 Act) (53 Stat. 1187; 43 U.S.C. 485, <i>et seq.</i>); the Water Conservation and Utilization Act of 1939 (WCUA) (53 Stat. 1418; 16 U.S.C. 590y, <i>et seq.</i>); the Water Supply Act of 1958 (WSA) (72 Stat. 320; 43 U.S.C. 390b); the Act of June 21, 1963 (77 Stat. 68; 43 U.S.C. 485(h)); and acts amending and supplementing these laws
Approving Official:	Director, Mission Assurance and Protection Organization (MAPO)
Contact:	Reclamation Law Administration Division (84-55000)

1. **Introduction.** This D&S sets forth generally applicable requirements and processes for pricing contract water provided pursuant to the 1939 Act, the 1920 Act, and the WCUA for irrigation use or municipal and industrial (M&I) use, as those terms are defined at Paragraphs 3.G. and 3.I. of Reclamation Manual (RM) Policy, *Water-Related Contracts—General Principles and Requirements* (PEC P05). It also identifies both required and discretionary components of contract prices.
2. **Applicability.**¹ This D&S applies to all Bureau of Reclamation (Reclamation) personnel involved in water-related contracting activities, within the following parameters:
 - A. **Higher-Level Authorities.** This D&S does not override requirements imposed by project-specific legislation,² treaties, judicial directives, or other applicable higher-level authorities, such as Federal regulations and Executive orders.
 - B. **Prospective Application to Contracts.** The requirements of this D&S will be applied prospectively to contracts executed, renewed, amended, or supplemented on or after its

¹The requirements in this D&S apply generally to water-related contracting activities. Given the variability of circumstances affecting these activities, it is appropriate to note that requests can be made to the Commissioner for a deviation from RM requirements in accordance with Paragraph 5 of RM Policy, *Bureau of Reclamation's Directives System - Reclamation Manual* (RCD P03) and D&S, *Request for Deviation from a Reclamation Manual Requirement and Approval or Disapproval of the Request* (RCD 03-03). The Commissioner cannot deviate from requirements fixed by higher-level authorities.

²Including statutes and documents incorporated by reference into statutes, as well as compacts, settlements, and other agreements directed or ratified by Congress.

Reclamation Manual

Directives and Standards

issuing date through the formal contracting process between the contractor and Reclamation.³ Contract amendments and supplements executed solely to conform a contract to the discretionary provisions of the Reclamation Reform Act of 1982 (Pub. L. 97-293, Title II, § 201; 43 USC 390aa, *et seq.*) or that do not provide any additional or supplemental benefit do not initiate the application of new requirements established by this D&S.

3. General Charges.

- A. **Annual Operation, Maintenance, and Replacement (OM&R) Costs.** Contracts subject to this D&S will cover an appropriate share of annual OM&R costs. The rate components addressed in Paragraphs 4 and 5 below are additional to any OM&R costs owed to the United States or the project operating entity. Full payment of OM&R costs are required in advance of water delivery. Advance payment of OM&R costs to the United States will be adjusted to actual costs either during the year or at the year's end.
- B. **Emergency Reserve Fund.** Where applicable, appropriate charges will be assessed for emergency reserve funds, in accordance with RM Policy, *Reclamation Standard Water-Related Contract Articles* (PEC P10) and either RM D&S, *Reclamation Standard Water-Related Contract Articles, Standard Article 8: Emergency Reserve Fund (Annual Deposit)* (PEC 10-08) or RM D&S, *Reclamation Standard Water-Related Contract Articles, Standard Article 9: Emergency Reserve Fund (One-Time Deposit)* (PEC 10-09).
- C. **Replacement Fund.** At the contractor's option, the contract will establish a replacement fund and replacement fund charge, which may continue to be assessed after payout of project construction costs, in accordance with Paragraphs 7.D. and E. below.⁴ If a contract establishes a replacement fund,⁵ the replacement fund charges will be additional to the minimum requirements established by contract for the emergency reserve fund and will be separately accounted for. The contract will limit the allowable uses of funds accumulated from replacement charges in accordance with the definition at Paragraph 7.D., below.

4. Irrigation Rates.

- A. **Irrigation Repayment Contracts Under Subsection 9(d) of the 1939 Act (9(d) Contracts).** Pricing for irrigation water made available under 9(d) Contracts will

³These contracting actions are normally requested by the contractor, rather than being sought by the United States.

⁴This provision sets forth options for rate components that contractors may utilize after payout of reimbursable project construction costs for accumulating funds for certain future costs associated with the relevant Federal facilities. This paragraph is not intended to limit other options that may be available to contractors for accomplishing the same objectives or to disturb existing arrangements that contractors may already have instituted with their water users.

⁵The regional director is encouraged to include discussion of a Replacement Fund charge in each water-related contracting action that is undertaken after the date of release of this D&S.

Reclamation Manual

Directives and Standards

include an appropriate share of the reimbursable construction costs allocated to irrigation, without interest. Construction costs charged to irrigators will be adjusted according to the ability of the irrigators to pay where irrigation assistance is available and appropriate. An ability to pay analysis shall support any such adjustment in accordance with RM D&S, *Irrigation Ability-to-Pay Analyses* (PEC 11-01). Annual payments will be established to ensure recovery of the repayment obligation within the contractual repayment period.⁶

- B. Irrigation Water Service Contracts Under Subsection 9(e) of the 1939 Act (9(e) Contracts).** Water service rates for 9(e) Contracts will reflect an appropriate share of reimbursable costs⁷ of constructing water supply facilities⁸ that are allocated to irrigation, without interest. When the contractor has paid an amount equal to the construction cost reflected in the water rate, this component will cease to be charged.
- (1) **Ability to Pay.** Where irrigation assistance is available, rate adjustments based on the ability of the irrigators to pay may reduce the construction component charge without affecting the overall share of construction costs attributed to the contractor.⁹ An ability to pay analysis shall support any such adjustment in accordance with PEC 11-01.
 - (2) **Rate Reviews.** Each contract will include a provision for rate adjustments based on periodic rate reviews or other criteria. The intervals between rate reviews will not exceed 5 years. Rate reviews are not required for contracts of less than 5 years or when a contract's remaining term is less than 5 years.
- C. Warren Act Contracts.**¹⁰ For requirements concerning Warren Act contracts, including requirements for pricing and the disposition of revenues, see RM Policy, *Use*

⁶Subsection 9(d) limits the contractual repayment period to a maximum of 40 years. Project-specific authorities may authorize a different maximum repayment period for contracts otherwise executed pursuant to subsection 9(d).

⁷These rates do not constitute repayment obligations that would bind the contractor to a specific sum, but they are calculated to recover outstanding project costs, and so are characterized as *reflecting*, rather than *including*, an appropriate share of those costs.

⁸Subsection 9(e) Contracts cannot be used to recover reimbursable costs associated with water distribution works, which must instead be recovered through repayment contracts under subsection 9(d). Water supply facilities are facilities or features of a unit or project that make the project water supply available through storage and/or transportation. Water distribution works are those works needed to transport the water from the supply facilities to the end users. A basic distinction between supply works and distribution works is that supply works are of general use to the project and can reasonably be expected to continue to serve their purposes if the specific locations of water use change, whereas distribution works are tied to specific locations of use. Most water contracts define these features.

⁹This is because, whereas repayment contracts fix repayment obligations to be completed within a given number of years, water service contracts can normally be renewed or converted to repayment contracts, so that lower periodic payments need not affect the amount of the overall agreed payment.

¹⁰The Warren Act of 1911 (Pub. L. 61-406; 43 USC 523 – 525) authorizes contracts under which water users may carry non-project water through Reclamation project facilities for irrigation purposes. Storage or carriage of *non-project* water in Reclamation facilities for M&I use is not authorized under generally applicable Reclamation law. Where it is authorized by project- or contract-specific legislation, this D&S and other Reclamation Policies and

Reclamation Manual

Directives and Standards

of Excess Capacity in Reclamation Projects for the Impoundment, Storage, and Carriage of Non-Project Water (WTR P04) and RM D&S, Use of Excess Capacity in Reclamation Projects for the Impoundment, Storage, and Carriage of Non-Project Water (WTR 04-01).

5. M&I Rates.

- A. **M&I Repayment Contracts under Subsection 9(c)(1) of the 1939 Act (9(c)(1) Contracts).** Pricing for M&I water made available under 9(c)(1) Contracts will include an appropriate share of the reimbursable project construction costs allocated to M&I, to be repaid over a period of not more than 40 years, with interest¹¹ at a rate not exceeding 3.5 percent¹².
- B. **M&I Water Service Contracts under Subsection 9(c)(2) of the 1939 Act (9(c)(2) Contracts).**¹³ Water service rates for 9(c)(2) Contracts will reflect an appropriate share of outstanding reimbursable costs¹⁴ that are allocated to M&I, with interest at a rate established in accordance with subsection 301(b) of the WSA,¹⁵ unless applicable project-specific legislation specifies a different interest rate. M&I rates under 9(c)(2) Contracts in paid-out projects or with paid-out contractors are no longer required to include a construction component charge.
- (1) **Developing Negotiating Parameters.**¹⁶ To the extent available, and where different rates or rate-setting methods are not specified by applicable law, the

D&S setting requirements for the water-related contracting program apply to the extent that they do not conflict with the authorizing legislation.

¹¹Required interest charges include interest during construction and interest on investment, as applicable according to the terms of RM D&S, *Interest During Construction* (FIN 07-21) and RM D&S, *Interest on Investment* (FIN 06-32). The terms “interest during construction” and “interest on investment” are used herein as defined at Paragraphs 4.A. and 4.B. of PEC 05-05.

¹²Project-specific legislation may establish a unique interest rate for that project. Specific interest rates are available on the U.S. Department of the Treasury’s website at:

http://www.treasurydirect.gov/govt/rates/tcir/tcir_index_opdirannual.htm

¹³The purpose of Paragraph 5.B. is to define and implement the Secretary’s broad authority under subsection 9(c)(2) of the 1939 Act and under the 1920 Act for establishing water rates. The statute provides the discretion to set rates in a manner that balances the needs of water users and the interests of the United States. In the case of 1920 Act contract rates, there is the additional option, at the contractor’s election, to include rate components after the reimbursable project costs have been paid for accumulating funding for certain future costs associated with maintaining and rehabilitating the relevant facilities (see Paragraph 5.C.).

¹⁴These rates do not constitute repayment obligations that would bind the contractor to a specific sum, but they are calculated to recover outstanding project costs, and so are characterized as reflecting, rather than including, an appropriate share of outstanding costs.

¹⁵This interest rate is updated annually and distributed by Policy and Administration to other Reclamation offices. It is available on the U.S. Department of the Treasury’s website at:

http://www.treasurydirect.gov/govt/rates/tcir/tcir_index_opdirannual.htm

¹⁶The purpose of these determinations is to assist in calculating an appropriate price range prior to negotiations.

Reclamation Manual

Directives and Standards

following data or methods will be used in determining a range of rates for negotiating purposes. See Appendix A to this D&S, *Application of M&I Rate Requirements in PEC 05-01*.

- (a) **Determining an Appropriate Baseline (Floor).** A current cost method will be used to establish a presumptive baseline or floor M&I rate for contract negotiation purposes,¹⁷ subject to determinations made in accordance with Paragraph 5.B.(1)(d), below.
- (b) **Determining an Appropriate Ceiling.** Where available, market data will be used to determine prevailing water service prices in the market,¹⁸ and the upper end of the market rate will serve as the ceiling¹⁹ for the negotiating range. For each proposed rate, Reclamation will, at a minimum, examine the water market in the area, or comparable areas, and document and analyze the extent to which market transactions provide appropriate guidance for pricing M&I water.
- (c) **Additional or Alternative Factors.** The following information will be used as available, and as needed or otherwise deemed appropriate, to develop and justify negotiating parameters.
 - (i) **Existing Contract Rates.** Where available, M&I rates under existing Reclamation water service contracts within the relevant area will be considered in determining an appropriate rate, to the extent that those rates reasonably represent the market rate, or in place of the market rate, if that data is unavailable.
 - (ii) **Opportunity Costs of Foregone Hydropower Production.** Where applicable, and unless prohibited by legislation, opportunity costs associated with foregone hydropower production resulting from the M&I water use established under the contract will be considered in developing the negotiating parameters for water rates.
- (d) **Payment Capability.** At the request of the contractor, Reclamation will conduct a study to determine the water users' payment capability. Reclamation will use the study's conclusions in determining an appropriate rate. The contractor requesting the study will be responsible for costs associated with performing the study. Existing payment capability studies that are relevant to the contracting entity, comply with applicable

¹⁷This can be accomplished by indexing original project construction costs to current dollars, or estimating the costs of constructing new facilities capable of developing and delivering comparable water supplies.

¹⁸This data may be requested from the Reclamation Law Administration Division of Policy and Administration (84-55000).

¹⁹If the presumptive floor rate under Paragraph 5.B.(1)(a) is higher than the absolute ceiling rate under Paragraph 5.B.(1)(b), the ceiling rate will serve as the contract rate.

Reclamation Manual

Directives and Standards

Reclamation policy, and were completed within the prior 5 years will be used to the extent deemed adequate by both parties.

- (2) **Use of Revenues.** Revenues exceeding the minimum requirements of Paragraphs 5.A. and 5.B., above, will be used for the following purposes and/or other purposes authorized by applicable Federal law and agreed by the parties:
 - (a) **Accelerated Repayment of M&I Costs.** Where there are outstanding project construction costs allocated to M&I, amounts collected through the negotiated subsection 9(c)(2) rates that are above the amounts needed to meet the minimum requirements under Paragraph 5.B. above will be used to accelerate repayment of those costs.
 - (b) **Irrigation Assistance.** Where reimbursable project construction costs allocated to M&I have been repaid, the construction component of the subsection 9(c)(2) rates will be used to assist in the repayment of any outstanding reimbursable project construction costs allocated to irrigation that have been determined to be beyond the ability of the project irrigation water users to pay.
 - (3) **Rate Reviews.** Each contract will include a provision for rate adjustments based on periodic rate reviews or other criteria. The intervals between rate reviews, where applicable, will not exceed 5 years.
- C. **1920 Act Contracts.** Rates for 1920 Act contracts will reflect an appropriate share of outstanding reimbursable project construction costs with interest at a rate established in accordance with subsection 301(b) of the WSA. Rate determinations will be made otherwise in accordance with Paragraph 5, above. See Paragraph 5.F.(2) of RM D&S, *Crediting Requirements for Incidental Revenues* (PEC 03-01) for disposition of revenues collected as the construction cost component. When all reimbursable project construction costs have been repaid, M&I rates under 1920 Act contracts are no longer required to include a construction cost component. At the contractor's option, the contract will include a construction cost component to be assessed after payout of project construction costs. Any revenues collected as construction cost components after payout will be deposited in the Reclamation fund as statutory credits,²⁰ in

²⁰The 1920 Act requires these revenues to be credited to the project providing the contract water, and the revenues are statutorily barred from being otherwise credited. Statutory credits are construction charge revenues accumulated in the Reclamation fund and credited to a particular project after the project's reimbursable construction costs have been repaid. Statutory credits are, in effect, advance payments to the Reclamation fund rather than funds requested from the Reclamation fund, and are therefore applied without the need for an appropriation. They are available only to defray future reimbursable construction repayment obligations (normally associated with dam safety) incurred for the project that generated them.

Reclamation Manual

Directives and Standards

accordance with PEC 03-01, to be applied against future obligations for repayment of project construction costs, including Safety of Dams costs (see RM D&S, *Safety of Dams Repayment and Cost Allocation* (PEC 05-05)).

- D. **M&I Contracts Pursuant to Section 9 of the WCUA.** In addition to general charges required under Paragraph 3, above, rates for water made available under contracts executed pursuant to section 9 of the WCUA will be calculated to produce revenues that are, at a minimum, sufficient to cover an appropriate share of outstanding reimbursable project construction costs allocated to M&I, with interest at a rate established in accordance with subsection 301(b) of the WSA, unless applicable project-specific authority requires a different rate. Revenues derived from WCUA M&I contracts will be deposited in the General Treasury as miscellaneous receipts. When all reimbursable project construction costs have been repaid, M&I rates under section 9 Contracts are no longer required to include a construction component charge.
6. **Documentation.** All pricing decisions require a documentary record describing how the relevant rates were developed and providing information to show rates that would have resulted if alternative methods had been used (e.g., market data, existing contracts, current cost calculations, etc.). A discussion concerning the rationale for selecting a particular rate will become part of Reclamation's official records concerning the transaction, including a justification for why market rates were not used in setting contract rates, if applicable.
7. **Definitions.** The definitions provided in Paragraph 3 of PEC P05 and the following definitions apply to this D&S wherever the defined terms are used herein.
- A. **Appropriate Share.** In reference to project construction and OM&R costs, a share that fairly reflects the project benefits accruing to the contractor through the contract.
- B. **Construction Costs.** The costs of labor, land, materials, and financing to plan, design, and construct a project facility or feature of a project facility (e.g., a dam, pipeline, canal, etc.) for the purpose of providing new or additional benefits (e.g., irrigation, M&I, etc.). See RM D&S, *General Property, Plant, and Equipment (G-PP&E)* (FIN 07-20) for a more detailed list of items considered construction costs.
- C. **OM&R Costs.**²¹ The annual costs of ongoing, regular, or routine operation, maintenance, repairs, replacements, and other activities and actions necessary for continued structural integrity and operational reliability of project facilities required for the delivery of project water. See Paragraph 3 above for associated requirements. See

²¹Note that the term "OM&R" is often used interchangeably with the term "O&M" (operation and maintenance). This D&S uses the term "OM&R," but either term may appear in contracts and other documents. Unless a different intention is apparent, "O&M costs" and "OM&R costs" should be understood to refer to the same costs.

Reclamation Manual

Directives and Standards

RM Policy, *Allocation of Operation, Maintenance, and Replacement Costs* (PEC P07) for definitions relating to types of OM&R costs and treatment of the various types of costs in the cost allocation process.

- D. **Replacement Fund.** An optional fund that is additional to the contractor's required emergency reserve fund, addressed above under Paragraph 3.B., and is funded, maintained, and used by the contractor to defray extraordinary maintenance (XM) costs according to contractually established terms and conditions. See also Paragraph 3 of RM D&S, *Extended Repayment of Extraordinary Maintenance Costs* (PEC 05-03) defining the term "XM."
- E. **Replacement Fund Charges.** Charges made by the contractor in accordance with the relevant provisions of its contract with Reclamation and deposited into a Replacement Fund, as defined above. These charges are beyond the contractor's emergency reserve fund and Reclamation's charges to cover annual OM&R costs. See Paragraph 3.C. above for associated requirements.
8. **Review Period.** The originating office will review this release every 4 years.

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: _____