

10/1/93

SEP 30 1993

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DATE	SURNAME	CODE
9/29	Kliron	143
9/29	Walker	440
9/29	Stacy	100
9/29	Stacy	300
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LC-440  
WTR-4.00

Mr. Thomas C. Clark  
General Manager  
Central Arizona Water  
Conservation District  
23636 North 7th Street  
Phoenix AZ 85024

Subject: Notice of Completion for the Central Arizona Project (CAP) Water Supply System, Contract No. 14-06-W-245, Amendment No. 1 (Master Repayment Contract) Between the United States and the Central Arizona Water Conservation District (CAWCD) for Delivery of Water and Repayment of Costs of CAP (Repayment Contract)

Dear Mr. Clark:

On December 3, 1992, the United States and CAWCD signed an agreement entitled "Agreement Between the United States and the Central Arizona Water Conservation District Regarding Initiation of Repayment, Central Arizona Project" (Contract No. 3-07-30-W0286). As required in that agreement, the United States provided CAWCD with a written notice on December 14, 1992, indicating the Bureau of Reclamation's (Reclamation) intent to issue the notice of completion for the CAP water supply system on October 1, 1993.

In keeping with that intent and in accordance with the authority delegated to this office to serve as contracting officer for the Master Repayment Contract, CAWCD is hereby notified that the CAP water supply system is substantially complete as of October 1, 1993, in accordance with articles 5.22 and 9.3(e) of the Master Repayment Contract. Among other things, this notice initiates repayment of the CAP water supply system making the first payment due and payable on January 15, 1994.

This notice provides CAWCD with the estimated amount of its repayment obligation for the water supply system and the amount of its initial payment due on January 15, 1994. The notice also discusses: (1) the repayment ceiling issue; (2) CAWCD's obligation to begin funding the emergency operation, maintenance, and replacement (OM&R) and repayment reserve funds; and (3) the interim operating instructions.

In consultation with CAWCD over the last year, Reclamation has updated the CAP cost allocation to provide CAWCD with a current estimate of the repayment obligation for the water supply system and all stages of the project. The "Interim Final" cost allocation, that is the basis for this notice, will be sent to CAWCD by separate letter, along with a summary of the cost allocation.

In accordance with the current cost allocation, the estimated repayment obligation for the water supply system is \$1,677,395,530, consisting of an interest-bearing component of \$1,417,290,640 and an interest-free component of \$260,104,890. CAWCD's first payment is due on January 15, 1994, and includes interest on the interest-bearing portion of the estimated obligation from October 1, 1993, through January 14, 1994. CAWCD's initial annual payments for the first 5 years of repayment (which include the regulatory storage stage) are as follows:

January 15, 1994	\$30,588,990
January 15, 1995	\$63,585,710
January 15, 1996	\$63,031,620
January 15, 1997	\$81,031,790
January 15, 1998	\$80,328,600

The Master Repayment Contract provides that the cost allocation and CAWCD's past and future payments may be adjusted by the United States when subsequent construction stages are placed under repayment. In light of the pending adjustments, we have elected not to provide the entire estimated 50-year repayment schedule for the water supply system with this notice.

Based on the December 3, 1992, agreement entitled "Agreement Between the United States Department of the Interior and the Central Arizona Water Conservation District to Fund the Acquisition of Harquahala Valley Irrigation District," CAWCD is entitled to a credit against its initial annual payment(s) to the United States. Pursuant to article 3.3(a) of that agreement, CAWCD is entitled to a credit of \$31,043,364 against the initial annual payment based on the current cost allocation. Since the amount of the credit exceeds the initial payment of \$30,588,990, there is no net payment due to the United States on January 15, 1994. The remaining unused credit of \$454,374 will be applied toward the January 15, 1995, payment.

The cost allocation is based on the project consisting of three construction stages: the water supply system, regulatory storage, and Tucson terminal storage. The current cost allocation indicates that CAWCD's repayment obligation for a project containing these three stages is expected to be \$2.203 billion. The repayment ceiling established in the Master Repayment Contract for a project consisting of such stages is \$2.09 billion. We acknowledge that CAWCD has a different interpretation regarding the repayment ceiling based on your August 26, 1993, letter to this office.

Under either CAWCD's or Reclamation's position regarding the amount of CAWCD's repayment ceiling, the estimated repayment obligation (\$2.203 billion) exceeds the repayment ceiling. Based on the results of the current cost allocation, we have determined that it is appropriate for Reclamation to enter into negotiations with CAWCD to increase the repayment ceiling by amending the Master Repayment Contract. As you are aware, paragraph 9(e) of the Master Repayment Contract provides that, in the event the United States determines that an increase in the repayment ceiling is required during construction of the project, continuation of construction will be contingent upon the execution of an amendatory contract to increase the amount of the ceiling. Therefore, we intend to submit a basis of negotiation to the Commissioner of Reclamation seeking approval to enter into

such negotiations. We expect that CAWCD will be willing to enter into such a negotiation. In the event that CAWCD is not willing to pursue such a re-negotiation of the Master Repayment Contract, please let us know soon so that we can take actions to protect the Federal investment and the interests of the United States taxpayers.

We want to remind CAWCD that under subarticle 10.3(a)(i) of the Master Repayment Contract, it is required to accumulate and maintain an emergency OM&R reserve fund with annual deposits of \$400,000 beginning with transfer of OM&R of the Granite Reef (Hayden-Rhodes) Aqueduct and Havasu Pumping Plant to CAWCD. Since OM&R of these facilities was transferred to CAWCD on April 29, 1993, it should have already established such a fund and made the first deposit of \$400,000.

CAWCD is also required to accumulate and maintain a repayment reserve fund in accordance with subarticle 10.3(b)(i) of the Master Repayment Contract, beginning no later than 1 year following its last construction advance under the Plan 6 Funding Agreement. Since CAWCD's last construction advance under that agreement was made on July 30, 1992, the repayment reserve fund should have been established by July 30, 1993, with an initial deposit of \$4 million.

Please provide us with a report by November 1, 1993, showing the balance in the emergency OM&R and repayment reserve funds. In addition to that report, CAWCD is required under the Master Repayment Contract to provide us with a report on or before February 1 of each year showing the balance in both funds as of December 31 of the preceding year.

In compliance with article 5 of the contract entitled "Contract Between the United States of America and the Central Arizona Water Conservation District for the Transfer of Operation and Maintenance," (contract No. 7-07-30-W0167, dated August 5, 1987) CAWCD and Reclamation agreed to enter into an operating agreement prior to issuance of the notice of completion. In the absence of a completed operating agreement, Reclamation intends to provide CAWCD with interim operating instructions which will cover the details of CAP OM&R, OM&R funding, and environmental compliance and commitments. These instructions were agreed to by Reclamation and CAWCD personnel on September 22, 1993. Transmittal of the operating instructions will be by separate letter from the Project Manager of the Arizona Projects Office. The duration of the interim operating instructions will be from October 1, 1993, through June 30, 1994, unless replaced earlier by a permanent operating agreement.

We view the issuance of this notice of completion as a significant event in the history of CAP. The notice represents an important transition from Federal responsibility and control of the project to CAWCD and State of Arizona responsibility and control. As we proceed through this transition period, we look forward to continuing to work with CAWCD and the State to help ensure that CAP provides benefits to the State and its citizens by serving contemporary needs.

If you have any questions, please contact Mr. Robert W. Johnson at 702-293-8411.

Sincerely,

**ROBERT J. TOWLES**

Robert J. Towles  
Regional Director

bc: Assistant Commissioner - Program, Budget, and Liaison  
Attention: W-6400, W-6630  
Assistant Commissioner - Resources Management  
Attention: D-5810  
Project Manager, Phoenix AZ  
Attention: APO-105, APO-115, APO-400, APO-440, APO-726  
Field Solicitor, Phoenix AZ

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