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LC-4400  
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SEP 30 1996

Mr. David S. "Sid" Wilson, Jr.  
General Manager  
Central Arizona Water  
Conservation District  
23636 North 7th Street  
Phoenix, Arizona 85024

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

Dear Mr. Wilson:

In keeping with the Plan 6 Funding Agreement 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 New Waddell and modified Roosevelt Dams are substantially complete as of September 30, 1996, in accordance with Articles 5.22 and 9.3(e) of the Master Repayment Contract. This notice initiates repayment of New Waddell and modified Roosevelt Dams, making the first payment due and payable on January 15, 1997.

This notice provides CAWCD with the estimated amount of its repayment obligation for New Waddell and modified Roosevelt Dams as well as the revised repayment obligation for the Water Supply System, including payments for the period 1994 through 1996.

In consultation with CAWCD over the last year, Reclamation has updated the CAP Cost Allocation Study I (CAS I) to provide CAWCD with a current estimate of the repayment obligation for the Water Supply System (Stage One) and the New Waddell and modified Roosevelt Dams (Stage Two). This updated Cost Allocation Study II (CAS II) is considered an "Interim Final" cost allocation, and establishes the basis for this notice. The development of CAS II has been coordinated with your staff and was submitted for your review and comment on August 2, 1996. We have received no comments to date. We understand that other priorities have kept your staff from formally commenting. Due to the need to meet the deadline contained in the Plan 6 funding agreement, we must move forward with the notice at this time. We are still willing to consider your comments and will formally transmit the "Interim Final" cost allocation by separate letter. Any comments you may have can be considered prior to completion of the final cost allocation.

The estimated repayment obligation for Stage One is \$1,805,363,280, consisting of an interest bearing component of \$1,490,611,250 and a non-interest bearing component of \$314,752,030. The estimated repayment obligation for Stage Two is \$574,391,200, consisting of an interest bearing component of \$498,995,110 and a non-interest bearing component of \$75,396,090.

The Master Repayment Contract provides in Article 9.3(d) for the United States to determine whether a significant change in water use has or will occur, and to adjust the cost allocation and CAWCD's past and future repayment obligations as necessary at a minimum of 7-year intervals. Adjustments are also required to be made by the United States when subsequent construction stages are placed into repayment. In light of these future modifications, we have elected not to provide the entire estimated 50-year repayment schedule with this notice. CAWCD's modified payment schedule for the first seven years of repayment is as follows:

January 15, 1994	\$32,583,360
January 15, 1995	\$67,300,780
January 15, 1996	\$66,734,590
January 15, 1997	\$76,769,550
January 15, 1998	\$87,813,430
January 15, 1999	\$87,044,850
January 15, 2000	\$86,276,280

The Master Repayment Contract, in Article 9.2(e), requires that the repayment obligation and the obligation allocated to each construction stage be adjusted based on the latest cost allocation study, which in this case is CAS II. The modified repayment schedule for Stage One has been adjusted based on CAS II. Your payment amounts due for Stage One under CAS I were less than those that result using CAS II. Adjustments for the amount of under payments for Stage One for the years 1994 through 1996 must now be made. This adjustment is to accrue interest at the rate of 3.342 percent per annum (compounded annually) to the date of the adjustment. Your estimated repayment amounts under both CAS I and CAS II, for Stage One by year, are as follows:

	<u>CAS I</u>	<u>CAS II</u>	<u>Difference</u>	<u>Interest</u>	<u>Total</u>
1994	\$30,588,990	\$32,583,360	\$1,994,370	\$206,712	\$2,201,082
1995	\$63,585,710	\$67,300,780	\$3,715,070	\$252,465	\$3,967,535
1996	\$63,031,620	\$66,734,590	\$3,702,970	\$123,753	\$3,826,723

The estimated total adjustment including accrued interest is \$9,995,340, which is to be paid within 12 months of receipt of a statement from the United States. A statement for this element of the repayment will be sent to you along with the January 15, 1997 payment calculations by December 15, 1996.

The CAS II repayment is based on the project consisting of only the water supply system and the regulatory storage stages. The allocation indicates that CAWCD's repayment obligation for this two-stage project is \$2.38 billion, which exceeds the \$2.0 billion repayment ceiling established in the Master Repayment Contract. The CAS II allocated costs, modified payment schedule, and estimated repayment obligation assume that the repayment ceiling is sufficiently increased to fully complete the water supply system and

regulatory storage features of the project, including the correction of deficiency items.

As you know, Reclamation has withheld the expenditure of certain reimbursable funds until the repayment ceiling is adequately increased. To the extent it may avoid additional unnecessary costs, completing the project as soon as possible may serve our mutual interests. Therefore, we invite you to initiate consultation on the repayment ceiling provision as required by Article 9.3(e). We believe that an amendment to that effect may be accomplished without prejudice to the substantive issues currently in litigation, including, but not limited to, the repayment ceiling now in effect, costs allocable to CAWCD's repayment obligation and the liability of the United States for water supply costs. We believe that the Master Repayment Contract can be amended to address this issue alone, and thereby avoid additional difficulties which may otherwise occur as we continue to administer the terms of the contract (for example see Article 6.7).

Until consultation is satisfactorily completed, we will continue to expend construction appropriations only for non-reimbursable activities, ongoing construction contracts, public health and safety deficiencies, and other activities required by regulatory action or law.

If you have any questions or wish to respond to our request to initiate consultation, please contact me at 702-293-8411.

Sincerely,

**ROBERT W. JOHNSON**

Robert W. Johnson  
Regional Director

cc: Mr. Grady Gammage, Jr.  
President  
Central Arizona Water  
Conservation District  
23636 North 7th Street  
Phoenix AZ 85024

bc: Director, Operations  
Attention: W-6300, W-6333  
Director, Program Analysis Office  
Attention: D-5000  
Mr. Robert F. Snow  
Office of the Solicitor, MS 6412  
1849 "C" St. NW, Washington, D.C. 20240-1050  
Mr. John T. Stemplewicz  
Department of Justice, PO Box 875,  
Ben Franklin Station, Washington DC 20044  
Area Manager, Phoenix, AZ  
Attention: PXAO-1000, PXAO-1015, PXAO-3000, PXAO-4000, PXAO-4400

Field Solicitor, Phoenix Arizona  
Attention: Mr. Bob Moeller

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