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# ***DETERMINING HYDROPOWER ACCOUNT CREDITS***



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# ***Water Supply Authority***



- Water Supply Act of 1958
  - Assists states and local entities in developing water supplies in Federal projects.
  - Authorized Sec Army to modify projects to include water supply w/o further Congressional approval.
  - Water supply users pay for storage based on all purposes and share equitably in benefits of multi-purpose construction.
  - Authorized the Sec of the Army to reallocate storage in return for non-Federal payment.



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# ***Scope of Credit Authority***



The Secretary of the Army is authorized to provide such credits to Corps accounts to the extent that the credits reasonably reflect the economic consequences of the reallocation to the Federal government.



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# ***What are credits?***



- Adjust the HP account.
- Credits are account adjustments (book keeping).
- Not transfers of funds among Federal agencies or reimbursements to power customers.



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# ***Cost Accounts***



1. All income and expenses (investment, operation, maintenance, replacement, etc.) associated with the water supply function will be separately identified in the cost accounts.
2. A loss of revenue from existing purposes incurred because of water supply storage reallocation will be shown as a direct charge against the water supply function.
3. All revenues lost to the project and downstream areas must be considered.



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# ***Credit Process***



1. Revenues foregone.
2. Replacement power.
3. Such credits should not actually be made for replacement power until the costs are incurred and documented by the PMA.



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## ***Credit Timeline for the hydropower account***

Start of evaluation  
period

End of evaluation  
period



Remaining HP Contract Term

A Subsequent Term

\_\_\_\_\_  
Credit=Replacement Power  
Purchased for Power Customers

\_\_\_\_\_  
Credit=Revenues foregone to the  
Treasury



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# Crediting to the Account 1/2



- Water storage agreements have a 30-year repayment period.
- When annual water supply payments are collected, a portion of the payment is credited to the HP account.
- The credits are reported to the PMA as a line item on the Corps' power reports.





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# Crediting for Lump Sum Payment



If water storage agreement payment is made in lump sum:

- Develop a present value for the remaining HP credit using the current interest rate.
- Make a one-time credit to the HP account.
- Still must be broken down into P/I in CEFMS.



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# ***Factors that Complicate the Determination of Credits 1/4***



Question.

If the hydropower account is zero (paid off after the typical 50-year repayment through HP revenues) – what assets are left to credit?

Answer.

Essentially none; although relatively minor O&M costs could be applicable for credits.



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# ***Factors that Complicate the Determination of Credits 2/4***



Questions.

How do you determine credits when:

- there is specific legislation?
- the author knows what they want, but the legislation says something different? (or conflicts with law or policy)
- the legislation is specific about part of the credit determination, but is silent on other aspects?

Answer.

Involve HQUSACE early and often. Write coordination memos. Be prepared to bring new staff up to date as the study ~~drags on~~ progresses.



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# ***Factors that Complicate the Determination of Credits 3/4***



## Issue:

Policy states that credits for replacement costs will not be made until the costs are incurred and documented by the PMA.

## Complication:

No records.



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# ***Factors that Complicate the Determination of Credits 4/4***



## **Issue:**

The PMA may have a different opinion about the value of power.

## **Practical Application:**

Rely on the Hydropower Analysis Center



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# ***My Policy Suggestions***



- Update the policy for determining credits.
- Credit studies should establish an annual estimate of the credit limit.
- Credits should apply to the impacted project.
- When the HP revenues and credits repay the HP project account, credits should be suspended.
- If subsequent HP expenses, such as major replacements, occur, then credits should be reconsidered if the storage reallocation would still impact the ability to repay the HP account.



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## ***Further Information?***

- Water Supply Handbook and ER 1105-2-100
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