



United States Department of the Interior



BUREAU OF RECLAMATION
Central Valley Operations Office
3310 El Camino Avenue, Suite 300
Sacramento, California 95821

IN REPLY REFER TO:

CVO-100

2.2.2.10

VIA ELECTRONIC MAIL

Mr. Federico Barajas, Executive Director
San Luis & Delta-Mendota Water Authority
P.O. Box 2157
Los Banos, California 95635

Subject: San Luis Transmission Project (SLTP) – Financing Through Application for
Transmission Infrastructure Program (TIP) Funding

Dear Mr. Barajas:

The U.S. Bureau of Reclamation's California Great Basin Region appreciates the timely and collaborative support that the San Luis & Delta-Mendota Water Authority (SLDMWA) has provided in our effort to investigate alternative options to deliver Central Valley Project (CVP) generation to federal load at Gianelli, O'Neill, and Dos Amigos pumping plants after our existing transmission arrangements with Pacific Gas and Electric (PG&E) under Contract No. 14-06-200-2207A expired in 2016.

Since well before the contract with PG&E expired, our offices have worked closely together to help mitigate the concern of escalating Transmission Access Charges (TAC) assessed by the California Independent System Operator (CAISO), as well as increase our water delivery system's transmission durability and reliability.

Over the past 2-3 years, Reclamation, SLDMWA, and Duke American Transmission Company (DATC)/Duke Energy (DUKE), and Western Area Power Administration (WAPA) have been discussing an arrangement and agreement regarding the potential partnership, development and funding of the SLTP. This potential partnership would include DUKE owning 1,200 Megawatts (MW) of capacity and allow Reclamation, on behalf of our water customers, to purchase up to 400 MW of capacity for 30 years at an approximate cost of \$18-20 million dollars annually, with the potential for some excess capacity sales to reduce the overall costs to water customers. In order for the economics of this project to be viable, DUKE would likely utilize in part the WAPA's TIP to finance the project at low-cost interest rates.

In 2019, a three-party agreement was drafted between Reclamation, WAPA, and DATC; however, the agreement has not been finalized due to DATC not receiving solid commitments for the use of the SLTP line capacity, other than from Reclamation. DATC then backed out of the project, but DUKE is still interested in proceeding forward. However, in early 2020, DUKE

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too has stalled on the project because they still have not received solid commitments to ensure a return on their investment. As a result, Reclamation began to reconsider options including the possibility of applying for TIP funding on behalf of CVP water users.

Reclamation leadership recently met with WAPA's leadership to discuss the current stagnation of the SLTP and the possibility of Reclamation applying for a TIP loan to fund the SLTP. Reclamation leadership was informed that there is a possibility that Reclamation could qualify for a TIP loan under certain circumstances, provided Reclamation meets set criteria. TIP Funding is designed to allow infrastructure development at low costs and is awarded comparable to a traditional banking/loan process, including application, credit worthiness for interest rates, and litigation if default occurs. For an entity to qualify for TIP Funding, they must:

1. Have at least one terminus in WAPA's 15-state service territory
2. Demonstrate a reasonable expectation of repayment
3. Facilitate the delivery of clean energy
4. Not adversely impact system reliability or operations
5. Serve the public interest

Reclamation and SLTP presently meets all the above requirements except for (2): Demonstrate a reasonable expectation of repayment. A more solid basis would be to get backing by either water users or SLDMWA to demonstrate that they have a vested interest/benefit. WAPA's TIP Manager met with Reclamation representatives and explained that the program does not normally allow a federal agency to apply for TIP funding as it would be considered circumventing Congressional appropriations. However, in the case of SLTP, Reclamation would essentially be the conduit for the CVP water users to fund the project. Although the federal government owns the asset, 100% of the benefit is for the water customers who would be fully responsible for repayment. WAPA TIP Program leadership also expressed significant concern with payment should the loan default. The Office of Management and Budget is likely to have concerns as well. Of primary concern is how a guarantee is obtained when the project depends on Congressional appropriations. Reclamation and WAPA's leadership believe that SLDMWA may be able to help alleviate some of these concerns by demonstrating a willingness to support the project as a financial "backer" of Reclamation's TIP funding application, if Reclamation should default on a TIP loan.

Reclamation is requesting from the SLDMWA a letter of support that acknowledges the SLDMWA's interest and support in SLTP. Additionally, Reclamation is requesting that the SLDMWA explain what level of support they are willing to provide to help construct the SLTP. Specifically, Reclamation would appreciate the SLDMWA describing if they are willing to be a financial "backer" for Reclamation's TIP Application for funding, as well as how willing they are to be an applicant themselves if Reclamation is denied the ability to apply. Reclamation is willing to work with the SLDMWA to ensure that SLDMWA isn't unproportionately charged for costs related to SLTP.

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Should you have questions, please contact either Mr. Steven Melavic, Chief, Power Operations at (916) 979-3001, smelavic@usbr.gov or Mr. Richard Sanchez, Public Utilities Specialist at (916) 979-3009, rsanchez@usbr.gov.

Sincerely,

Kristin White
Operations Manager