

Sellers, Suzanne

From: Chad Smith [smithc@headwaterscorp.com]
Sent: Tuesday, February 15, 2011 2:58 PM
To: Barels, Brian L.; bemerrill@usbr.gov; d.ament@hotmail.com; Dan Luecke; Dennis@pathfinderirrigation.com; dharmon@frie.com; dkraus@cnppid.com; doortee@earthlink.net; greg_wingfield@fws.gov; jennifer.schellpeper@nebraska.gov; jheaston@tnc.org; jim.schneider@nebraska.gov; jlawson@usbr.gov; kennyj@headwaterscorp.com; larry.schulz@comcast.net; mryan@usbr.gov; Mike_George@fws.gov; mpurce@state.wy.us; smithc@headwaterscorp.com; Sellers, Suzanne; Kowalski, Ted
Cc: courtneyb@headwaterscorp.com
Subject: FW: PMP-Pricing

Finance Committee:

Please see e-mail below from Mike Purcell regarding pricing related to Wyoming water. This is for discussion during the FC conference call on Thursday.

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From: Mike Purcell [<mailto:MPurce@state.wy.us>]
Sent: Tuesday, February 15, 2011 10:21
To: Jerry Kenny
Subject: PMP-Pricing

Jerry: Please forward this e-mail to the Finance Committee. Thanks.

The state's contract with the USBR basically specifies that the state can not profit from the sale of water from the Wyoming Account. However, the state has the right to determine the monetary rate to recover all costs associated with providing the water.

The draft contract with the Program, subsection III.A, proposes a rate based on the total cost of the project (\$14.5M) amortized at 4% for 50 years and divided by the annual yield of 9,600 acre feet. As I explained in the GC meeting of September 16, 2010, the total cost included the cost of the EA account. While no concerns were expressed at the meeting, since that time, concern has been expressed regarding the "optics" of Wyoming recouping some of the costs for its water contribution to the Program.

In order to come with an alternate, I looked at the original Boyle report. (See page 67, Attachment 5, Section 6). The Boyle report suggests a price based on 37% of the project cost (20,000/54,000) amortized at a rate of 6% and a term of 13 years. If we update this approach, the following is a consideration:

Cost of the Wyoming account = $\$14,500,000 \times 20,000/53,493 = 5,421,270$ Say \$5,420,000.
Interest rate = 6%, the water development accounts accrued interest at this rate in 2010.
Term = 8 years (2012-2019 inclusive)
Annual cost = \$872,815
Price per acre foot per year = $\$872,815/9,600 = \90.92 Say \$91

At this price, Wyoming, etal, would annually declare the amount of water available to the Program. The Program could decide if it wanted all, a portion, or none of the water.

If the Program would commit to taking the water, or a substantial portion thereof, I would suggest the above term could be increased from 8 years to 13 years, assuming there would be extensions to the Program.

Under this scenario:

Annual cost = \$612,245

Price per acre foot per year = $\$612,245/9,600 = \63.78 Say \$64

I look forward to discussing this matter at Thursday's Finance Committee meeting. I am sure we can come up with a price fair to all.