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December 8, 2011

Ms. Traci Michel
Project Manager – Central Valley Project Cost Allocation Study
Bureau of Reclamation, MP-730
2800 Cottage Way
Sacramento, CA 95825

Subject: CVP Water Association Financial Affairs Committee (FAC) Comments on the Central Valley Project (CVP) Cost Allocation Study (CAS)

Dear Ms. Michel:

Representatives from the FAC attended Reclamation's October 21, 2011, public meeting where an update on the status of the CVP-CAS was provided. The FAC found the presentation provided much needed insight into the assumptions, data, and methods that Reclamation plans on using for its update of the CVP cost allocation.

However, based on the input received, the FAC is very concerned that Reclamation is headed down a path whereby stakeholders will not have an opportunity to provide timely and meaningful input into the cost allocation study process. The fact is that it has been over one year between public meetings. And while Reclamation did a commendable job explaining what they have been doing for the past year at the October 21, 2011 public meeting, a 1 to 2 hour meeting and allowance for comments after Reclamation has completed their work fails to meet the FAC's expectations for public involvement on this crucial and long overdue study.

We recognize the complexities associated with the CVP, that there is no perfect way to do this study and that there will be a lot of judgment(s) made throughout this process. And, as a result, there will be many questions about the assumptions made. The FAC would prefer to see these questions addressed before significant resources and effort is committed to a proposed path of action.

Consequently, the FAC agrees with Western Area Powers Administration's comment in their November 10, 2011 whereby the cost allocation study process could benefit from the use of a stakeholder technical advisory team, or, as a less desirable alternative, more frequent and timely meetings. Like Western, we also believe that continuous input throughout would have the effect of actually saving time and effort, and eventually providing greater validity and agreement to the approach used among Reclamation and interested stakeholders. In addition, the contractors are a knowledgeable and committed resource base.

The FAC offers the following specific comments:

1. The FAC understands, from Reclamation's modeling presentation, that Reclamation is applying the SCRUB methodology for each project purpose on a stand-alone basis. We recognize that there may well be valid alternative views and valuable input as to how the SCRUB analysis should be conducted. However, here again, we are concerned that these views and input will not be received in a useful time frame if the analysis is presented to stakeholders after much of the work is already completed.
2. The FAC has concerns with the single purpose alternative estimation use of indexed costs. We understand that Reclamation indexed historical construction costs for three cost categories (representing 70% of those historical costs) and "factored" the remaining 30% of historical costs to increase at the same rate as the costs of the three cost categories. And while we generally support the use of expedited procedures to simplify the analysis, we believe that this procedure will result in inaccuracies given the length of time that has elapsed since the historical costs were first incurred. Therefore, the FAC believes that Reclamation should consider re-pricing, as opposed to indexing the alternatives to ensure more accurate and true cost comparisons.
3. The FAC agrees with Reclamation's initial decision to compare future benefits against single purpose alternative costs when attempting to determine a maximum justifiable expenditure limit for each authorized project purpose.
4. The FAC recommends that Reclamation include not only construction costs, but also interest during construction (IDC) and annual operation, maintenance, and replacement (OM&R) costs when determining the maximum justifiable expenditure.
5. The FAC agrees with Reclamation's announcement of its intention to compute recreation benefits at Folsom Dam and Reservoir. In addition, we understand from Reclamation's presentation that recreation would be added as an authorized project purpose to other CVP reservoirs and we concur with that decision.
6. The FAC believes that the CVP Facilities List should exclude facilities that will not be affected by the outcome of the CVP-CAS, i.e. individual distribution systems that are repaid by either separate 9(d) repayment contracts or specific provisions in their water service contracts.
7. The FAC concurs with Reclamation's decision to not include Auburn Folsom South Unit costs for the purposes of this allocation study by categorizing these costs as being "in abeyance".
8. The FAC assumes that for purposes of the cost allocation, Reclamation will continue to maintain the status quo for deferred use costs (which exist within the first three reaches of the Tehama-Colusa Canal and the first two reaches of the Folsom South Canal) and not sub-allocate them. However, should Reclamation deem this to be the final CVP cost allocation, then a decision needs to be made on what to do with these deferred use costs. Under that scenario, we recommend that these costs be deemed non-reimbursable.
9. The FAC, as stated previously in their March 18, 2010 and February 23, 2011 letters, continues to encourage Reclamation to consider designating this cost allocation update as a final allocation

and not another interim one. And, due to the potential consequences of that decision, the FAC's expectation is that Reclamation will make that vital decision in the near future.

10. Lastly, the FAC, as stated in their February 23, 2011 letter, requests that Reclamation officially document that the results of this CVP-CAS will be applied prospectively and not retroactively, and make the documented decision available to the FAC as soon as possible.

The CVPWA FAC looks forward to participating with Reclamation throughout this important process. If you have any questions regarding these comments, please contact me at 559-303-4150 or mhagman@lindmoreid.com.

Sincerely,



Michael Hagman, Chairman
CVP Water Association Financial Affairs Committee

cc:

Ms. Katherine Thompson
Assistant Regional Director for Business Services
Bureau of Reclamation
2800 Cottage Way, MP-110
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Mr. Dave Gore
Assistant Regional Director of Technical Services
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IN REPLY REFER TO:

MP-700
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MAY 02 2012

Mr. Michael Hagman
Chairman
CVP Water Association Financial Affairs Committee
1521 I Street
Sacramento, CA 95814

Subject: Central Valley Project (CVP) Cost Allocation Study

Dear Mr. Hagman:

Thank you for your continued interest in the CVP Cost Allocation Study. Your participation in the public meeting held on October 21, 2011, as well as your feedback on the process is much appreciated.

In your enclosed letter dated December 8, 2011, the CVP Water Association Financial Affairs Committee (FAC) expressed concern over a number of items which are further addressed below. Generally, the Bureau of Reclamation understands the FAC's interest in being more actively involved in the Cost Allocation Study. Since the Cost Allocation Study is still in the early stages, Reclamation is currently reviewing options for providing improved, and more frequent, opportunities for stakeholder involvement.

Responses to specific comments follow:

1. "The FAC understands, from Reclamation's modeling presentation, that Reclamation is applying the SCRB methodology for each project purpose on a stand-alone basis. We recognize that there may well be valid alternative views and valuable input as to how the SCRB analysis should be conducted. However, here again, we are concerned that these views and input will not be received in a useful time frame if the analysis is presented to stakeholders after much of the work is already completed."

Response: A considerable amount of time over the past year has been focused on project management, work plan development, data collection and organization, as well as consideration of comments and feedback generated from stakeholders. At the public meeting held on October 21, 2011, Reclamation presented information on analytical approaches in response to stakeholder feedback, and provided insight to the type of information and assumptions that will need to be considered as the Cost Allocation Study progresses.

Additionally, Reclamation provided updates on the status of the effort at the regularly scheduled FAC meetings. As we move forward, we have scheduled more frequent meetings in 2012 and plan to increase usage of the project website, www.usbr.gov/mp/cvp/cvp-cas/index.html, in order to better engage stakeholders on a regular basis.

2. "The FAC has concerns with the single purpose alternative estimation use of indexed costs. We understand that Reclamation indexed historical construction costs for three cost categories (representing 70% of those historical costs) and 'factored' the remaining 30% of historical costs to increase at the same rate as the costs of the three cost categories. And while we generally support the use of expedited procedures to simplify the analysis, we believe that this procedure will result in inaccuracies given the length of time that has elapsed since the historical costs were first incurred. Therefore, the FAC believes that Reclamation should consider re-pricing as opposed to indexing the alternatives to ensure more accurate and true cost comparisons."

Response: Based on public input from the Cost Allocation Study public meeting held on October 21, 2011, Reclamation evaluated the use of re-pricing for the development of single-purpose alternative (SPA) cost estimates and presented a re-pricing methodology at the March 16, 2012, public meeting for feedback. We look forward to input on the proposed re-pricing methodology prior to adopting the methodology for additional analysis and use.

3. "The FAC agrees with Reclamation's initial decision to compare future benefits against single purpose alternative costs when attempting to determine a maximum justifiable expenditure limit for each authorized project purpose."

Response: As mentioned at the October 21, 2011, public meeting, Reclamation will compare 50 years of future benefits against SPA costs. In the event the value of 50 years of future benefits is less than the SPA cost, historic benefits will also be calculated, dating back to 1980 when the most recent CVP facility, New Melones, was placed in service.

4. "The FAC recommends that Reclamation include not only construction costs, but also interest during construction (IDC) and annual operation, maintenance, and replacement (OM&R) costs when determining the maximum justifiable expenditure."

Response: As part of the typical separable costs remaining benefits (SCRB) analysis, all facility construction costs, including IDC and OM&R costs, are included for the purpose of estimating the justifiable expenditure for each facility project purpose.

5. "The FAC agrees with Reclamation's announcement of its intention to compute recreation benefits at Folsom Dam and Reservoir. In addition, we understand from Reclamation's presentation that recreation would be added as an authorized project purpose to other CVP reservoirs and we concur with that decision."

Response: Because the CVP is an integrated system and the SCRB analysis is a benefits-based analysis, Reclamation supports the consideration of evaluating all purposes for all CVP facilities based on current and anticipated operations. We are currently seeking additional legal and policy guidance from the Office of the Regional Solicitor, Pacific Southwest Region, on this approach prior to spending time and resources on data collection and analysis. An update on this item will be provided at the next public meeting and via the project website.

6. "The FAC believes that the CVP Facilities List should exclude facilities that will not be affected by the outcome of the CVP-CAS, i.e. individual distribution systems that are repaid by either separate 9(d) repayment contracts or specific provisions in their water service contracts."

Response: Reclamation will continue to refine the CVP Facilities List and remove any single-purpose facilities not subject to the allocation update.

7. "The FAC concurs with Reclamation's decision to not include Auburn-Folsom South Unit costs for the purposes of this allocation study by categorizing these costs as being 'in abeyance'."

Response: Comment noted.

8. "The FAC assumes that for purposes of the cost allocation, Reclamation will continue to maintain the status quo for deferred use costs (which exist within the first three reaches of the Tehama-Colusa Canal and the first two reaches of the Folsom South Canal) and not sub-allocate them. However, should Reclamation deem this to be the final CVP cost allocation, then a decision needs to be made on what to do with these deferred use costs. Under that scenario, we recommend that these costs be deemed non-reimbursable."

Response: Legislation authorizing excess capacity in both canals provides that if the expanded service for which the deferred capacity was included did not occur, the deferred costs are to be repaid from CVP revenue. Declaring these costs non-reimbursable would require Congressional legislation.

9. "The FAC, as stated previously in their March 18, 2010 and February 23, 2011 letters, continues to encourage Reclamation to consider designating this cost allocation update as a final allocation and not another interim one. And due to the potential consequences of that decision, the FAC's expectation is that Reclamation will make that vital decision in the near future."

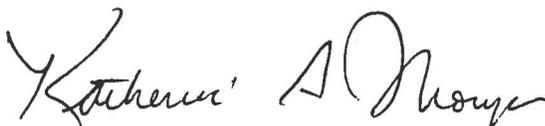
Response: Reclamation is diligently working to evaluate the implications associated with deeming the Cost Allocation Study as a final or interim study. A decision will be shared with you as soon as possible.

10. "Lastly, the FAC, as stated in their February 23, 2011 letter, requests that Reclamation officially document that the results of this CVP-CAS will be applied prospectively and not retroactively, and make the documented decision available to the FAC as soon as possible."

Response: The Cost Allocation Study, whether final or interim, will reallocate total CVP construction costs to date and recalculate project cost repayment obligations based on the new allocation. A credit will be applied to the updated water and power repayment obligations based on payments made to date. The reallocation will continue to apply to unpaid capital costs as well as future operation and maintenance costs.

Thank you again for your feedback to Reclamation on this important project. If you have any additional questions or comments, please feel free to contact Ms. Traci Michel, Project Manager, 916-978-5009 or tmichel@usbr.gov. We look forward to your continued involvement as we move forward with the effort.

Sincerely,



Katherine A. Thompson
Assistant Regional Director,
Business Services

Enclosure