



Department of Energy
 Western Area Power Administration
 Sierra Nevada Customer Service Region
 114 Parkshore Drive
 Folsom, California 95630-4710

NOV 19 2011

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CODE	ACTION	SURNAME & DATE
130	✓	K. Duncan 14 Nov 2011
		to Traci Michel

Ms. Traci Michel
 Program Manager – Central Valley Project Cost Allocation Study
 Mid-Pacific Region
 Bureau of Reclamation
 2800 Cottage Way
 Sacramento, CA 95825

Dear Ms. Michel:

Representatives from Western attended Reclamation’s October 21, 2011, public meeting where an update on the status of the Central Valley Project (CVP) Cost Allocation Study was provided. The presentation was informative and provided significant insight into the assumptions, data, and methods that Reclamation plans to use for its cost allocation update for the CVP.

From an overall perspective, Western believes that the cost allocation study process would benefit from either the use of a technical advisory group or, as an alternative, more frequent and timely meetings with interested stakeholders. In either case, as important decisions related to the conduct of the study are made, Reclamation cannot only communicate these decisions but, as appropriate, receive feedback before significant resources and effort are committed to a proposed path of action. We believe that continuous input throughout the study process would have the effect of actually saving time and effort and thus lead not only to better results but better agreement among Reclamation and interested stakeholders.

Western appreciates the many complexities associated with this study effort and offers these comments only in the context of maximizing our assistance to you. Our specific comments are as follows:

1. Single Purpose Flood Control Alternative. From Reclamation’s modeling presentation, Western understands that the single purpose alternative (SPA) costs for flood control at Shasta Dam and Reservoir did not explicitly incorporate existing environmental regulatory compliance requirements associated with Reclamation’s statutory obligations to meet its downstream and in-stream commitments. These obligations are based on existing biological opinions developed under the Endangered Species Act, as well as other regulatory operating requirements, as stipulated by the California State Water Resources Control Board under the CVP’s existing water rights permits. While the SPA for flood control should not recognize operational criteria for other project purposes, it should, however, be formulated to meet the same environmental compliance limitations as the multipurpose project. Western believes that this oversight could result in under sizing the single purpose flood control alternative and corresponding underestimation of its cost. Since Western understands that this approach was used to formulate other SPAs, Western

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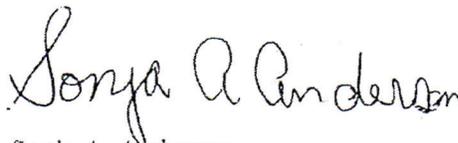
recommends that Reclamation also revisit and re-size the other SPAs for the purposes of this cost allocation study.

2. Indexed Costs. Another potential issue with the SPA estimation process relates to the use of indexed costs. Western understands that historical construction costs for three cost categories which represent 70 percent of those historical costs were indexed to current dollars by application of Reclamation's construction cost indices for those categories. The remaining 30 percent of historical costs were not indexed by category but were simply "factored" to increase at the same rate as the costs of the three cost categories. While we generally support the use of expedited procedures to simplify the analysis, we are concerned that this procedure may result in inaccuracies given the length of time that has elapsed since the historical costs were first incurred. We also believe that Reclamation may want to consider re-pricing, as opposed to indexing, the alternatives to ensure more accurate cost comparisons.
3. Time-Horizon for Benefits. Western agrees with Reclamation's initial decision to compare future benefits against SPA costs when attempting to determine a maximum justifiable expenditure limit for each authorized project purpose.
4. Scope of SPA Costs. Reclamation's presentation focused on comparing single purpose construction costs to benefits when determining the maximum justifiable expenditure. When performing a cost allocation, SPA costs should ordinarily include not only construction costs but also interest during construction and annual operation, maintenance, and replacement costs. Western assumes that all three cost components will be computed and reflected in the SPA cost line when cost distribution factors are ultimately developed for the CVP cost allocation study.
5. Recreation Benefits. Reclamation announced its intention to compute recreation benefits at Folsom Dam and Reservoir. In addition, Western understands from Reclamation's presentation that recreation would be added as an authorized project purpose to other CVP reservoirs.
6. Auburn-Folsom South Unit. Western concurs with Reclamation's decision to not include Auburn-Folsom South Unit costs for the purposes of this allocation study by declaring these costs to be "in abeyance."
7. Deferred Use Costs. Western assumes that for purposes of the cost allocation, Reclamation will continue to maintain the status quo for deferred use costs (exists 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.
8. Status of the Cost Allocation. Under the existing cost allocation, the preference power purpose is responsible for repaying its share of the allocated costs, plus any capital investment costs originally allocated to the irrigation purpose which exceed an "irrigator's ability to repay." Western's current power repayment schedule anticipates that the "in-basin" set of base CVP facilities (excludes Auburn-Folsom South Unit, San Felipe

Division, and New Melones Unit, but includes initial set of facilities through the San Luis Unit) will be repaid by the end of fiscal year 2014, and the associated "irrigator's inability to repay" component plus the New Melones Unit investment costs will be fully repaid by the end of fiscal year 2030. Western's preference power customers are accordingly sensitive to the specter of a future cost allocation update potentially increasing and/or extending the preference power communities' repayment obligations. Western thus encourages Reclamation to consider designating this cost allocation update as a final allocation and not another interim one.

Western appreciates the opportunity to provide comments to Reclamation on the cost allocation. If we can be of any service, please do not hesitate to contact us. Should you have any questions, please contact Ms. Regina Rieger (916-353-4629) or Howard Hirahara (916-353-4019) at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Sonja A. Anderson". The signature is written in dark ink and is positioned above the printed name and title.

Sonja A. Anderson
Power Marketing Manager

