



United States Department of the Interior

BUREAU OF RECLAMATION
Mid-Pacific Regional Office
2800 Cottage Way
Sacramento, CA 95825-1898

IN REPLY REFER TO:

MP-700
FIN-6.20

MEMORANDUM

To: Commissioner

Through: Roseann Gonzales
Director, Policy and Administration

MAY 24 2013

From: Donald R. Glaser
Regional Director

SEP 26 2012

Subject: Final Cost Allocation Study for Central Valley Project Facilities With 2030 Repayment Obligations

In late 2010, the Mid-Pacific Region initiated a cost allocation study to determine and distribute the costs of multipurpose Central Valley Project (CVP) facilities among the seven congressionally authorized purposes (flood control, navigation, water supply, power, fish and wildlife, recreation, and water quality). The purpose of this memorandum is to request your concurrence to make this a final allocation for CVP facilities subject to the 2030 repayment requirement, rather than an interim allocation for reasons described below. A status report of the overall effort is also attached.

Background - The last major cost allocation study (CAS) for the CVP was completed in 1970, with a minor update in 1975. Only minimal annual changes related to project water and power uses have been made since. CVP hydrologic conditions, operations, water supply and power accomplishments, and benefits have changed significantly since the 1970 allocation. In addition, Public Law 99-546 Section 102 (c) (2) required a CAS and full repayment of all existing CVP facilities by 2030.

The current CVP CAS will be the basis for repayment requirements for irrigation, municipal and industrial, and commercial power contractors. As planned, the CAS will be completed in approximately 6 years at an estimated cost of \$10 million. Both schedule and cost depend upon availability of data, modeling and cost estimating requirements, and stakeholder input. The CAS will confirm or adjust allocations for CVP facilities in the following divisions or units:

- Shasta and Trinity River Division
- Friant Division
- Canals Unit, Sacramento River Division

- Folsom Unit, American River Division
- Delta Division
- San Luis Unit, San Felipe Division
- San Joaquin Division
- New Melones Unit, Stanislaus Division

With the exception of the San Felipe Division, the Safety of Dams program improvements, and potentially CVP Improvement Act-authorized projects and facilities, all current CVP facilities are subject to the 2030 repayment obligation. Facilities with post-2030 repayment obligations would incorporate the updated allocation resulting from the study, but would continue to have separate repayment terms.

CAS Process - The CAS is being led by the MP Region in coordination with other Federal agencies including the U.S. Fish and Wildlife Service, U.S. Army Corps of Engineers, and Western Area Power Administration. A leadership team consisting of assistant regional directors, division managers, and a representative from Policy and Administration meet regularly to advise the technical team and the Regional Director.

Information is shared with the public and CVP water and power contractors through meetings, briefings, and a project website. To date, we have held three public meetings and received feedback on methodologies and assumptions to be used. Efforts to date helped identify the following issues influencing a final allocation recommendation:

- Water and power contractors have stated that a final CVP cost allocation is needed now to firm up account balances and provide sufficient time for financial planning required to ensure full repayment of CVP construction costs by 2030.
- The current CAS is estimated to take 6 years to complete, with additional time needed to implement any changes resulting from the CAS, such as contract renewals, conversions, and balance adjustments as follows:
 - Many Friant Division contractors converted to 9(d) contracts. Friant 9(d) repayment contracts require repayment of assigned CVP construction costs after a final allocation has been determined. Contractors have up to 10 years to repay any additional construction obligations. A final allocation should then be completed prior to 2020 to assure full repayment by 2030.
 - In addition, current water service contracts include the option to convert to repayment contracts following a final allocation, among other requirements. It will take the MP Region several years to complete the contract conversions and make necessary accounting adjustments. There will likely not be enough time to fulfill the contract conversion options and meet the 2030 repayment deadline if a final allocation is delayed beyond 2020.

- An additional CAS would likely cost \$4 million to \$6 million and generate results similar to the current CAS, unless significant changes to CVP operations occur.

Recommendation and Concurrence - Based on input from stakeholders and the above-listed issues, I am requesting your concurrence to prepare a final allocation for all multipurpose CVP facilities subject to the 2030 repayment requirement.

If you have any further questions, please contact Ms. Brooke Miller-Levy at 916-978-5296, or bmillerlevy@usbr.gov.

Attachment

Concur:



Michael L. Connor
Commissioner

7/22/13

Date

BUREAU OF RECLAMATION

BRIEFING FOR: Mike Connor, Commissioner

DATE: September 25, 2012

PURPOSE OF PAPER: Central Valley Project (CVP) Cost Allocation Study (CAS) Update

CURRENT STATUS: The CVP CAS has been underway for almost 2 years. The purpose of this briefing is to provide an update of the CAS effort, including review of requests made by water and power contractors to consider this a final allocation for the CVP.

BACKGROUND: The last major CAS for the CVP was completed in 1970, with a minor update in 1975. Only minimal annual changes related to project water and power uses have been made since. CVP hydrologic conditions, operations, water supply and power accomplishments, and benefits have changed significantly since the 1970 CAS. In addition, Public Law 99-546 Section 102 (c)(2) required a new CAS and full repayment of all existing CVP facilities by 2030.

CAS Scope - The separable costs remaining benefits methodology will be used to determine and distribute the costs of multipurpose CVP facilities among the seven congressionally authorized purposes (flood control, navigation, water supply, power, fish and wildlife, recreation and water quality). The CAS will confirm or adjust allocations for CVP facilities in the following divisions or units:

- Shasta and Trinity River Division
- Friant Division
- Canals Unit, Sacramento River Division
- Folsom Unit, American River Division
- Delta Division
- San Felipe Division and San Luis Unit
- San Joaquin Division
- New Melones Unit, Stanislaus Division

The CAS is estimated to take 6 years to complete at a cost of \$5 to \$10 million, depending on data access and availability, modeling and cost estimating needs, and feedback received. Attachment 1 provides an overview of the CAS process and costs.

The CAS effort has been led by the Mid-Pacific Region in coordination with other Federal organizations including the U.S. Fish and Wildlife Service, U.S. Army Corps of Engineers, and Western Area Power Administration. A Leadership Team consisting of assistant regional directors, division managers, and representatives from Denver Policy and Administration meet regularly to advise the technical team and Regional Director.

CAS Public Meetings - To date, we have held four public meetings and received feedback on methodologies and assumptions to be used. Summaries of comments and questions raised at the public meetings, as well as written comment letters and Reclamation responses, are posted on the project website: <http://www.usbr.gov/mp/CVP/CVP-CAS>.

Comments received to date include requests for Reclamation to consider this as a final CVP cost allocation. Contractors have stated that a final CVP cost allocation would firm up repayment amounts and provide sufficient time for the financial planning required to help ensure full repayment of CVP construction costs by 2030.

Analysis of a Final and Interim CVP Cost Allocation - The Leadership Team evaluated the impacts of both a final and interim allocation as follows:

Option 1: Final Cost Allocation - This option would separate the CVP allocation into two categories:

1. All completed facilities subject to the 2030 repayment requirement would have final allocations. This includes the majority of CVP facilities.
2. San Felipe, the Safety of Dams Program facilities, and potentially CVP Improvement Act projects and facilities, which have post 2030 repayment obligations, would incorporate the updated allocation resulting from the CAS, but would continue to have separate repayment terms.

Any facilities authorized and constructed after the CAS is completed and declared final would have their own separate allocation.

Analysis: Completing the CVP CAS is resource intensive. Declaring the CVP CAS as a final allocation would eliminate the need for a future CAS for the majority of CVP facilities.

Article 2(d) of Reclamation's current water service 9(e) agreements permits conversion to a repayment contract at the contractor's request, once a final cost allocation is made. Should contractors elect to convert their water service agreements to repayment contracts, as allowed, Reclamation staff will need several years to complete contract negotiations and conversions. Attachment 2 highlights the main differences between the two contracts and their respective terms.

Many Friant Division contractors converted to 9(d) contracts. Friant 9(d) repayment contracts require repayment of assigned CVP construction costs after a final allocation has been determined. Contractors have up to 10 years to repay any additional construction obligations. A final allocation should then be completed prior to 2020 to assure full repayment by 2030.

Option 2: Interim Cost Allocation - This option would update the CVP allocation as an interim allocation, potentially requiring another update to finalize the allocation prior to the 2030 repayment deadline.

Analysis: With an interim allocation, additional resources would be needed at a later date to complete the final allocation process. Also, water and power contractors would have less time to prepare for repayment of their final balances in advance of the repayment deadline. It is also uncertain whether Reclamation staff would have the ability to complete contract conversions, if requested, in advance of the 2030 repayment deadline.

This interim option provides an opportunity to update the allocation should CVP operations change significantly between now and the 2030 repayment deadline. Under this scenario, any new features considered in the future would be integrated into the current CVP cost allocation.

POSITION OF INTERESTED PARTIES: There has been expressed interest that some stakeholders would like this to be a final allocation for 2030 facilities.

RECOMMENDATION: Based on information reviewed to date, the leadership team and Regional Director recommend preparing the CVP cost allocation study as a final allocation for all completed facilities subject to the 2030 repayment requirement. As such, a memorandum has been provided in conjunction with this status report briefing, requesting the Commissioner's concurrence with the proposed recommendation.

PREPARED BY: Donald R. Glaser, Mid-Pacific Regional Director, 916-978-5000.

CVP Cost Allocation Study Workplan/Schedule

Year	Phase	Major Tasks	Product/Goal	Cost
1-2	Strategy/ Workplan	<ul style="list-style-type: none"> Establish Team, Workplan, Budget & Schedule Prepare Modeling & Operation Assumptions Identify Data Needs Complete Service Agreements 	<ul style="list-style-type: none"> Approved Work Plan, Budget & Schedule Service Contracts in Place Prepared to Initiate Modeling 	\$1.38 million
3-4	Data Collection & Modeling	<ul style="list-style-type: none"> Data Collection Initiate Modeling Efforts Modeling Analyses Refinements Data Quantification /Appraisal-Level Facility Analyses 	<ul style="list-style-type: none"> Organized Data Identify Missing Information Initial Modeling Complete 	\$1.25 million to \$3.25 million
5-6	Evaluation	<ul style="list-style-type: none"> Continued Data Collection Cost Estimating & Benefits Analyses Develop Preliminary Estimates & Findings Complete Subsequent Modeling/Analyses 	<ul style="list-style-type: none"> Complete Data Collection Complete Cost Estimates Complete Benefits Analyses 	\$1.55 million to \$3.35 million
7	Report Preparation	<ul style="list-style-type: none"> Develop Draft Report Circulate Draft Report for Review & Comment Incorporate Comments & Prepare Final Report 	<ul style="list-style-type: none"> Completed Study Updated Cost Allocations 	\$750,000 to \$1.6 million
Ongoing	Public Involvement	<ul style="list-style-type: none"> Develop Outreach Strategy Identify Stakeholders Public Meetings Website/Newsletters 	<ul style="list-style-type: none"> Transparent Process Informed Staff & Community Supportable Report 	



Indicates current stage

TOTAL COST \$4.9 million to \$9.5 million

CVP Cost Allocation Study – Comparison of Contract Types

