

COMMENT SHEET
CVP COST ALLOCATION MEETING OF OCTOBER 21, 2011

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Comments:

NCPA provides the following comments on the material presented at the October 21, 2011 meeting:

1. List of CVP Facilities: We support the list of facilities proposed for inclusion in the upcoming cost allocation. We also agree that facilities currently in construction-in-abeyance, authorized but not planned for construction, and the planning stage should be excluded from the analysis.
2. Facility Authorized Purposes: We support Reclamation's decision to include the recreation function and the water quality objective as authorized project purposes for all CVP facilities in the cost allocation.
3. Opportunities for Simplified Methodology: We believe the cost allocation process should be kept as simple as possible and using an appraisal level cost estimate is appropriate if it yields results that are very close to a more detailed cost estimate. We are very concerned, however, that the indexed costs presented at the meeting are significantly different than reality, as using appraisal level indexes appears to have under estimated the flood control single purpose alternative by as much as a factor of ten. For the separable cost – remaining benefits cost allocation method to provide proper results, the indexed costs must have a fairly high degree of accuracy. Therefore, better cost estimation tools, such as using re-pricing rather than indexing, are needed for the flood control single purpose alternative.
4. Analysis Period: Reclamation proposed two different analysis periods for benefits – a 50 year benefit stream if benefits were greater than the single purpose alternative and a longer benefit period starting in 1980 if the 50-year benefit period did not produce benefits that exceeded the single purpose alternative. NCPA supports using the 50 year benefit stream from the current year going forward, because future project benefits will correspond to the future operation of the project. We do not support using a period that starts in 1980 or any other historical year because that skews the cost allocation to how the

project was operated in the past, not how the project will be operated in the future. Historical costs have already been allocated based on the historical operation and benefits of the project. The reason for a new cost allocation is to update the cost allocation percentages to reflect the current and future benefits of the project. The last cost allocation updates completed in 1970 and 1975 used future benefits only to update the allocation percentages.

If historical benefits are calculated starting in 1980, the historical financial data from 1980 forward would also need to be adjusted to reflect the revised cost allocation percentages. This would require significant accounting work. In addition, budget constraints could make it very difficult for Reclamation to implement the financial adjustments to water and power users if the customers paid more historical costs than required by the new cost allocation.

5. Hydrology modeling – Shasta flood control example: The process described to size the single purpose alternative (SPA) for flood control seems rational, except for one significant assumption. The flood control SPA did not meet the various water release criteria necessary for downstream temperature, water quality, river flow, and other environmental requirements. If the SPA's for the other project purposes meet these requirements, the flood control SPA needs to be resized so that the SPA's are comparable.

6. Flood Control Benefit Analysis: While the simplified flood control benefit analysis underestimates the benefits, a more detailed analysis may not be needed because the benefits greatly exceed the SPA. If a revised SPA yields results that are close to or above the flood control benefits, however, a more thorough evaluation of the flood control benefits will be needed.

7. Final Cost Allocation: Preference power customers will have repaid all of the power capital costs of the initial CVP features by the time the cost allocation is complete. Thus, this allocation should be the final one for the initial CVP facilities. New project additions with repayment periods beyond 2030 may need a cost allocation adjustment in the future, but we recommend that the cost allocation percentages derived from this process also be considered a final cost allocation determination for those facilities.

8. Power Benefit Analysis: Western, along with several other water and power organizations, hired HDR to evaluate the impacts of the Delta Reform Act on Northern California hydropower generation, including the CVP. Since Western is also developing a long term energy price forecast for the region, we strongly recommend Western take the lead role for the power benefit analysis, like the Corps of Engineers did for flood control.

9. Frequency of Meetings: The time frame between the first and second public meetings was more than one year. We recommend more frequent meetings to update customers on the progress of the cost allocation and to receive input from

customers on assumptions and logic to be used in the process. In addition, a public advisory committee should be created to provide frequent input into the cost allocation process.



United States Department of the Interior

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MAY 01 2012

Mr. Jerry Toenyas
Northern California Power Agency
651 Commerce Drive
Roseville, CA 95678

Subject: Central Valley Project (CVP) Cost Allocation Study

Dear Mr. Toenyas:

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 e-mail, dated December 7, 2011, Northern California Power Agency (NCPA) provided comments on a number of items which are further addressed below.

1. "List of CVP Facilities: We support the list of facilities proposed for inclusion in the upcoming cost allocation. We also agree that facilities currently in construction-in-abeyance, authorized but not planned for construction, and the planning stage should be excluded from the analysis."

Response: Comment noted.

2. "Facility Authorized Purposes: We support Reclamation's decision to include the recreation function and the water quality objective as authorized project purposes for all CVP facilities in the cost allocation."

Response: Because the CVP is an integrated system and the Separable Costs Remaining Benefits (SCRB) analysis is a benefits-based analysis, the Bureau of 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.

3. “Opportunities for Simplified Methodology: We believe the cost allocation process should be kept as simple as possible and using an appraisal level cost estimate is appropriate if it yields results that are very close to a more detailed cost estimate. We are very concerned, however, that the indexed costs presented at the meeting are significantly different than reality, as using appraisal level indexes appears to have underestimated the flood control single purpose alternative by as much as a factor of ten. For the separable cost – remaining benefits cost allocation method to provide proper results, the indexed costs must have a fairly high degree of accuracy. Therefore, better cost estimation tools, such as using re-pricing rather than indexing, are needed for the flood control single purpose alternative.”

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.

4. “Analysis Period: Reclamation proposed two different analysis periods for benefits – a 50 year benefit stream if benefits were greater than the single purpose alternative and a longer benefit period starting in 1980 if the 50-year benefit period did not produce benefits that exceeded the single purpose alternative. NCPA supports using the 50 year benefit stream from the current year going forward, because future project benefits will correspond to the future operation of the project. We do not support using a period that starts in 1980 or any other historical year because that skews the cost allocation to how the project was operated in the past, not how the project will be operated in the future. Historical costs have already been allocated based on the historical operation and benefits of the project. The reason for a new cost allocation is to update the cost allocation percentages to reflect the current and future benefits of the project. The last cost allocation updates completed in 1970 and 1975 used future benefits only to update the allocation percentages. If historical benefits are calculated starting in 1980, the historical financial data from 1980 forward would also need to be adjusted to reflect the revised cost allocation percentages. This would require significant accounting work. In addition, budget constraints could make it very difficult for Reclamation to implement the financial adjustments to water and power users if the customers paid more historical costs than required by the new cost allocation.”

Response: As mentioned at the October 21, 2011, public meeting, Reclamation will compare 50 years of future benefits against SPA costs. Reclamation believes it is likely future power benefits will exceed the SPA cost. However, in the event the value of 50 years of future benefits is less than the SPA cost, historic benefits will be calculated, dating back to 1980 when the most recent CVP facility, New Melones, was placed in service. As you noted, the last cost allocations were performed in the 1970s. The operation of the CVP changed significantly between the 1970s and the current day, motivating an analysis of historical benefits in order to gain a complete picture of benefits from the time the last CVP facility was placed in service. This analysis will only be done if needed.

5. “Hydrology Modeling – Shasta flood control example: The process described to size the single purpose alternative (SPA) for flood control seems rational, except for one significant assumption. The flood control SPA did not meet the various water release criteria necessary for downstream temperature, water quality, river flow, and other environmental requirements. If the SPA’s for the other project purposes meet these requirements, the flood control SPA needs to be resized so that the SPA’s are comparable.”

Response: Based on your comment above, Reclamation met with Western Area Power Administration (Western) to further discuss incorporating regulatory requirements into the hydrology analysis used for the SPA facility sizing. The purpose of the SCRB methodology is to isolate and hypothetically evaluate the individual purposes associated with a multipurpose facility. To do this, regulatory requirements associated with operating the multipurpose facility would not typically be incorporated into a SPA analysis. However, Reclamation did revisit hydrology analysis methodologies considered in the SPA analysis for flood control and found that incorporating the multipurpose regulatory requirements into the SPA analysis resulted in smaller SPA flood control facility sizes in most cases. This is largely due to the fact that a reservoir operating for other purposes will maintain higher storage levels and thus have commensurately higher outlet capacity during a flooding event, enabling releases that still do not exceed downstream flow thresholds, while not requiring as much storage space to contain the high inflow. Given this information, Reclamation is confident that either of the hydrology analysis methodologies considered for the SPA flood control purpose are conservative in nature and do not result in a potential undersizing of the SPA facility.

6. “Flood Control Benefit Analysis: While the simplified flood control benefit analysis underestimates the benefits, a more detailed analysis may not be needed because the benefits greatly exceed the SPA. If a revised SPA yields results that are close to or above the flood control benefits, however, a more thorough evaluation of the flood control benefits will be needed.”

Response: At the most recent public meeting held on March 16, 2012, Reclamation presented an updated SPA flood control cost based on a proposed re-pricing methodology. The re-pricing methodology resulted in a higher SPA cost. However, even with the increased SPA cost, the conservative flood control benefit value was still significantly higher, resulting in the SPA cost continuing to serve as the controlling value for incorporation into the SCRB analysis.

7. “Final Cost Allocation: Preference power customers will have repaid all of the power capital costs of the initial CVP features by the time the cost allocation is complete. Thus, this allocation should be the final one for the initial CVP facilities. New project additions with repayment periods beyond 2030 may need a cost allocation adjustment in the future, but we recommend that the cost allocation percentages derived from this process also be considered a final cost allocation determination for those facilities.”

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.

8. "Power Benefit Analysis: Western, along with several other water and power organizations, hired HDR to evaluate the impacts of the Delta Reform Act on Northern California hydropower generation, including the CVP. Since Western is also developing a long term energy price forecast for the region, we strongly recommend Western take the lead role for the power benefit analysis, like the Corps of Engineers did for flood control."

Response: Reclamation has secured an independent contractor to perform the power benefits analysis work, but plans to have Western closely involved with providing direction and input into the assumptions and information used in the power benefits analysis.

9. "Frequency of Meetings: The time frame between the first and second public meetings was more than one year. We recommend more frequent meetings to update customers on the progress of the cost allocation and to receive input from customers on assumptions and logic to be used in the process. In addition, a public advisory committee should be created to provide frequent input into the cost allocation process."

Response: Reclamation understands NCPA's interest in being more actively involved in the Cost Allocation Study and is currently reviewing options for providing improved, and more frequent, opportunities for stakeholder involvement. At a minimum, we have scheduled additional 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.

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