



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

NOV 10 2011

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CODE	ACTION	SURNAME & DATE
730	✓	K. Duncan 14 Nov 2011
		to T. 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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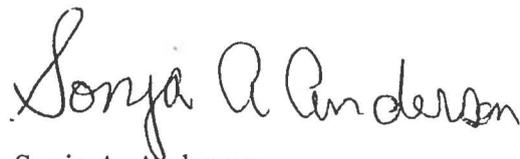
recommends that Reclamation also revisit and re-size the other SPAs for the purposes of this cost allocation study.

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 black ink that reads "Sonja A. Anderson". The signature is written in a cursive, flowing style.

Sonja A. Anderson  
Power Marketing Manager

SKlein

UNITED STATES DEPARTMENT OF ENERGY  
WESTERN AREA POWER ADMINISTRATION  
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Ms. Traci Michel  
Mid-Pacific Region, MP-730  
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# United States Department of the Interior

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

Tracy

IN REPLY REFER TO:

MP-700  
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MAY 17 2012

Ms. Sonja A. Anderson  
Power Marketing Manager  
Department of Energy  
Western Area Power Administration  
Sierra Nevada Customer Service Region  
114 Parkshore Drive  
Folsom, CA 95630-4710

Subject: Central Valley Project (CVP) Cost Allocation Study

Dear Ms. Anderson:

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 November 10, 2011, the Western Area Power Administration (Western) expressed concern and interest over a number of items which are further addressed below.

The Bureau of Reclamation welcomes Western's interest and involvement in the Cost Allocation Study, and we will be scheduling a meeting with you in the next several weeks to discuss our common interests. In addition, we are 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](http://www.usbr.gov/mp/cvp/cvp-cas/index.html), in order to better engage stakeholders on a regular basis. Additionally, we have asked that a Western representative(s) participate in our power benefits focus group.

Responses to your specific comments follow.

1. "Single Purpose Flood Control Alternative. From Reclamation's modeling presentation, Western understands that the 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 limitation as the multipurpose project. Western believes that this oversight could result in under sizing the SPA for flood control and corresponding underestimation of its cost. Since Western understands that this approach was used to formulate other SPAs, Western recommends that Reclamation also re-visit and re-size the other SPAs for the purposes of this cost allocation study.”

Response: Based on your comment above, Reclamation and Western staff met to further discuss incorporating regulatory requirements into the hydrology analysis used for the single-purpose alternative (SPA) facility sizing. The purpose of the separable costs remaining benefits (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 an 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.

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 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.”

Response: As a result of input from the Cost Allocation Study public meeting held on October 21, 2011, Reclamation evaluated the use of re-pricing for the development of 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. "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."

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. "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."

Response: All facility construction costs, including interest during construction, as well as annual operation, maintenance, and replacement costs are included for the purpose of estimating the justifiable expenditure for each facility project purpose.

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."

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. "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'."

Response: Comment noted.

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.”

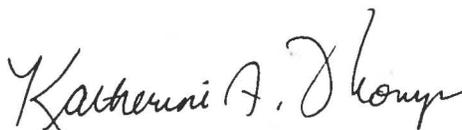
Response: Comment noted.

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 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.”

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.

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](mailto:tmichel@usbr.gov). We look forward to your increased involvement as we move forward with the effort.

Sincerely,



Katherine A. Thompson  
Assistant Regional Director,  
Business Services

Enclosure