



June 25, 2012

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Ms. Traci Michel  
Project Manager – Central Valley Project Cost Allocation Study  
Bureau of Reclamation, MP-730  
2800 Cottage Way  
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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 March 16, 2012, public meeting where an update on the status of the CVP-CAS was provided. Once again, the FAC acknowledges and recognizes the complexities that need to be dealt with as this study moves forward. And, as stated previously, the FAC believes that continuous input throughout this process 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.

Accordingly, the FAC appreciates Reclamation's efforts in addressing our concerns over the frequency and timeliness of these public meetings. However, the FAC decided to withhold comments on this public meeting until they received feedback to their comments on the last public meeting.

The FAC's responses are grouped into the following two categories: (1) comments on Reclamation's May 2, 2012 letter; and (2) comments on the March 16, 2012 public meeting.

**Response to Reclamation's May 2, 2012 letter:**

1. Response to Comment #1: Since the start of this process, the FAC has requested that Reclamation utilize their website for keeping stakeholders better informed on a regular basis. For example, we believe that all stakeholder letters (including CVPWA/NCPA joint March 21, 2006 and CVPWA's March 21, 2008 follow up letter), as well as responses, to Reclamation concerning and/or requesting changes to the then current CVP cost allocation be included on their website. To date, that information has not been posted and, in fact, there is very little information on this website.
2. Response to Comment #5: The FAC is confused by Reclamation's response. It was our understanding that Reclamation already had discussions with the

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Solicitor's Office on this matter. And, based on those discussions, we were of the opinion that Reclamation could evaluate and allocate joint costs to a purpose for a facility, even if that facility wasn't initially authorized that purpose. Is this not the case? The FAC requests that these decisions be memorialized in a Solicitor's Opinion.

3. Response to Comment #8: Should this CVP-CAS be deemed a final allocation, the FAC requests that Reclamation reclassify all CVP deferred use costs the same as Auburn Dam & Reservoir project costs (i.e. "Construction in Abeyance"). Our argument being that Folsom-South Canal deferred use was dependent on getting water developed from Auburn Dam and Reservoir and that appears very unlikely to happen now. In fact, Reclamation recently lost the water rights associated to Auburn Dam & Reservoir.

Regarding the Tehama Colusa Canal, those deferred use costs were contingent on additional water deliveries from the Sacramento River being moved through the Tehama Colusa Canal to furnish future water users in Yolo, Solano, Lake and Napa counties. With recent movement towards a possible Sites Reservoir (which is closer to the Sacramento River), the probability of increasing Sacramento River diversions through the Tehama Colusa Canal appears remote.

4. Response to Comment #9: The CVP Water Association Executive Committee was informed at a March 16, 2012 meeting that the MP Region had made their decision on whether or not the current CVP-CAS would be final or interim. They were also informed that the MP Region had sent their decision on to the Commissioner's Office and was waiting to hear back from them before making it public. Did the MP Region make a decision? If so, when do you expect it to be made public? If not, is one of the MP Region's concerns related to the possible conversion of water service contracts to repayment contracts? If so, how would H.R. \_\_\_ Accelerated Revenue and Repayment Act impact MP Region's decision?
5. Response to Comment #10: The FAC has interpreted your response to "reallocate total CVP construction costs to date and recalculate project cost repayment obligations" as meaning that you will apply the results of the CVP-CAS retroactively. Is that a correct interpretation? If so, the FAC will be highly focused on this determination as it believes that the situation in the CVP is a Reclamation-wide anomaly. In addition, it is our belief that retroactive adjustments could be limited or restricted by prior agreements such as those imposed during CVP contract renewal, for example, those affecting the irrigation non-interest bearing deficits.

**Comments on March 16, 2012 Public Meeting:**

6. The FAC wants to reiterate the desirability of having and sharing an overall study approach consisting of all CVP authorized functions to ensure: (1) consistent treatment of those functions; and (2) that all decisions are carried forward uniformly in order to avoid an inadvertent sub-optimization of study results.
7. The FAC is also interested in expediting the cost allocation study process. To do so, the FAC recommends that Reclamation, where ever possible, do the following: (1) identify the issues; (2) identify the pros and cons; (3) provide its recommended approach; and (4) invite stakeholder comments. This practice should streamline the stakeholder input process by bounding the range of feasible alternatives and approaches.
8. Regarding the single purpose flood control alternative, the FAC recommends Reclamation do the following when discussing either the Rule Curve Method or the Daily Model Assumptions

hydrology approach: (1) state whether or not either or both methods meet downstream environmental regulatory constraints; and (2) identify if the hydrology is related to the current (2012) 100-year maximum flood design criteria, or the 100-year criteria which was in effect at the time the original facility was constructed.

9. On the discussion as to whether to use the Rule Curve Method or the Daily Model Assumptions hydrology approach on an individual case-by-case basis, the FAC recommends that the most technically defensible approach may be to agree on one common method and then to apply it uniformly (unless a compelling business case exception exists for using a different approach for each reservoir exists). Otherwise, the FAC is concerned that, as the report undergoes higher level managerial review at the Department of Interior and the Office of Management and Budget, Reclamation and the stakeholders could be accused of cherry picking their results.
10. On estimating costs, the FAC wants to ensure that Reclamation understands that whether the indexing or repricing approach is used, that the selected approach would also need to be uniformly applied to the multipurpose and multipurpose without project functions too.
11. For Folsom and New Melones Dams, which were constructed by the Corps of Engineers, the FAC is interested in knowing if there is any specific guidance outlining the minimal flood control reservation expectations for either of those facilities.

The CVPWA FAC looks forward to its continued 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](mailto:mhagman@lindmoreid.com).

Sincerely,



Michael Hagman, Chairman  
CVP Water Association Financial Affairs Committee

cc:

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