

May 30, 2014

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Mr. David Murillo
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Subject: Central Valley Project Water Association (CVPWA) Concerns Regarding the Direction of the Current Central Valley Project (CVP) Cost Allocation Study (CAS)

Dear Mr. Murillo:

The CVPWA has a long history of working with Reclamation to collaboratively resolve complex, and occasionally contentious issues, affecting CVP water and power contractors (Contractors). It is in this spirit that we write to you today to express and share our concerns regarding the ongoing CVP CAS.

The CVPWA is aware of and recognizes the complexities of the CVP and the associated difficulties of undertaking and completing the CVP CAS. We understand that there is neither a perfect way to do this study nor a project in all of Reclamation to model this study after and that there will be many questions about the assumptions made along the way. The CVP is unique in that its construction period stretches from the 1930's to current and the project still hasn't been declared complete. As such, it is CVPWA's hope that common sense and business sense will play vital roles in determining an outcome that is fair and equitable to all concerns.

As you know, the last detailed CVP cost allocation study was completed in 1970 with a minor update in 1975. Since the late 1980's when water service contracts were starting to be renewed, construction and O&M costs have been allocated and annual water rates calculated based on the percentages developed in 1975. Since that 1975 update there have been legislative and operational changes affecting the benefits of the CVP. As a result, the current cost allocation is not a fair and equitable reflection of the current benefits among each of the project purposes.

It has been CVPWA's belief that when the CVP cost allocation study was updated, it would be done in the same manner as prior CVP cost allocations. That is, Reclamation would use the Separable Costs Remaining Benefits (SCRB) cost allocation methodology and the same practices as used in all prior CVP cost allocations to do the new study (which CVPWA would support).

Unfortunately, we are seeing telltale signs of changes in Reclamation practices that are unexpected, disconcerting and seemingly unjustified to the Contractors. The following are some examples:

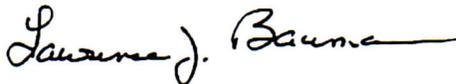
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1. In all prior CVP cost allocation studies Reclamation has used a 100 year benefit analysis period, using the lesser of the benefits or the Single Purpose Alternative (SPA) to determine the justifiable expenditure for each project purpose. Reclamation is proposing to evaluate benefits for only 50 years to see if initial benefits exceed SPA. This directly contradicts the SCRIB cost allocation methodology.
2. In all prior CVP cost allocation studies Reclamation has used a prospective basis when determining project benefits. They are now proposing using a historical benefit analysis which would, among other things: (a) inappropriately weigh the allocation of costs to project benefits provided in the past; (b) diminutively value operational changes that have occurred in the last 25 years; (c) not be aligned with current and future operations of the project; (d) be disconnected from future water and power rate setting; and (e) slant the SCRIB method so that the SPA becomes the justifiable expenditure for every project purpose.
3. In all prior CVP cost allocations, the "base year" was determined to the first year after the completion of the cost allocation study. Reclamation has stated that 2010 will be the base year in the current study.
4. Reclamation appears to be leaning toward retroactive application of the current CVP CAS results to past construction and operation and maintenance costs. It's CVPWA's belief that this decision would neither make good common nor business sense. Since the late 1980's and in accordance with CVP Irrigation and M&I water ratesetting policies, Reclamation has been keeping individual contractor accountings and calculating annual water rates by contractor based on those results. To make retroactive adjustments some 26 years later, without advance notification, is just not the right thing to do. And while the Reclamation Manual Directives and Standards may state that results will be applied retroactively, they are basing that on the assumption that all Reclamation projects are generally the same. The CVP is an anomaly and should be exempt from this practice.

Thank you for your time and consideration of our comments and concerns on this important process. If you have any questions regarding these comments, please contact me at 916-448-1638 or lbauman@cvpwater.org.

Sincerely,



Lawrence J. Bauman, Executive Director
Central Valley Project Water Association

cc:

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