

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.