

June 4, 2014

Ms. Brooke Miller-Levy, MP-730
Project Manager, Central Valley Project Cost Allocation Study
United States Bureau of Reclamation
2800 Cottage Way
Sacramento, CA 95825-1898

Subject: Central Valley Project Cost Allocation Study Benefit Calculation Methodologies

Dear Ms. Miller-Levy,

Thank you for the opportunity to comment on the benefit calculation methodologies being considered by Reclamation in the current Central Valley Project (CVP) Cost Allocation Study (CAS). Santa Clara Valley Water District (SCVWD) staff has been attending the CAS public meetings and have reviewed the materials posted on the CAS website. We have the following general comments.

The proposed use of historic benefits to determine future cost allocation would be contrary to past practice and would almost certainly burden water and power customers with additional future costs that have no basis given today's CVP operating conditions. The proposed present worth analysis would assign more weight to historical benefits and inappropriately influence future benefit valuation. Given that this CAS will be the final cost allocation study for the CVP, it is critical that costs are assigned appropriately for each project purpose. In past cost allocation studies, Reclamation estimated benefits on a prospective basis so that the costs allocated to project beneficiaries reflect the then current and future benefits provided. This approach is a more appropriate one to take.

While we recognize that there is no single modeling tool that can be used to estimate benefits for all project purposes, Reclamation should endeavor to value benefits for each purpose on a level playing field by using the most appropriate methodology. For example, municipal water supply benefits should be valued in a way that represents how water supply alternative decisions are made by local agencies. In general this involves the concept of the least cost alternative. Other methods such as willingness to pay models are removed from how alternative water sources would actually be developed.

Reclamation has proposed that Refuge water supply benefits be valued based on the foregone use of that water, which in this case is irrigation water supply. We are in agreement with this method and feel that the same basis of valuation should be applied to the water quality and fish and wildlife enhancement purposes, or any other purpose where CVP water is necessary to meet operating requirements. Alternative methodologies such as benefit transfer methods will result in an undervaluing of these purposes.

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It should also be recognized that operating conditions on the CVP have changed significantly over the life of the project and will likely continue to change into the future. The extent to which the project is operated for each purpose has shifted dramatically, and the allocation of costs should reflect this. CVP water customers have seen a steady decline in deliveries over the past several decades as water has been reallocated to water quality and environmental purposes. According to the published CAS materials, Reclamation is including the San Felipe Division facilities in the list of facilities for which allocations will be confirmed or adjusted. However, the 2007 amendment to our water supply contract settled both the allocation and repayment period for the San Felipe Division facilities, and they therefore should not be included in the CAS.

Clearly, the results of the benefit determination could have significant impact on contractor repayment obligations, and it is important that contractors be given the opportunity to review and fully understand the analysis. Therefore, we request that Reclamation solicit additional comments as the results of the benefit estimation analysis become available.

We appreciate the opportunity to provide comment on the CAS work products to date and that Reclamation consider these comments when making their final decision on benefit calculations for the CVP CAS. If you have any questions please contact Mr. Dana Jacobson at (408) 630-2932.

Sincerely,



Cindy Kao, Imported Water Unit Manager

cc: David Murillo, Mid-Pacific Regional Director
Michelle H. Denning, Regional Planning Officer
Brenda Bryant, Assistant Regional Director for Business Services