



Westlands Water District

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June 5, 2014

Ms. Brooke Miller-Levy, MP-730
Project Manager, Central Valley Project Cost Allocation Study
Bureau of Reclamation, Mid-Pacific Regional Office
2800 Cottage Way
Sacramento, CA 95825

Subject: CVP Cost Allocation Study (CAS) Draft Findings and Recommendations
Table Comments to Issue Paper: Capital Cost Evaluation Methodology

Dear Ms. Miller-Levy:

Attached are Westlands Water District (District) comments associated with the CAS Draft Findings and Recommendations Table updated May 7, 2014 to include issue paper entitled *CVP Cost Allocation Study Technical Team Recommendation for Construction and Capital Cost Evaluation (Estimating) Methodology*.

Included in the attached comments are concerns the District has related to the details of the facility cost estimating process discussed at the CAS Public Meeting held on May 2, 2014.

The District looks forward to Reclamation's response to our comments and to the release of all comments and responses to these matters. The District anticipates that it will have an opportunity to review and comment on the draft cost allocation decision prior to that decision becoming final.

Please contact Mr. Stephen Farmer at 559-241-6240 or sfarmer@westlandswater.org if you have any questions or require any additional information.

Sincerely,

Thomas W. Birmingham
General Manager

Attachments

Bureau of Reclamation
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cc: David Murillo
Regional Director

Brenda Bryant
Assistant Regional Director for Business Services

Jason Phillips
Deputy Regional Director

Westlands Water District
Comments on
Central Valley Project Cost Allocation Study
Findings and Recommendations Table
Updated May 7, 2014

June 5, 2014

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Comments on CVP CAS Findings and Recommendations

Westlands Comment 9: Capital Cost Evaluation Methodology

References:

- Capital Cost Evaluation: Methodology Issue Paper: http://www.usbr.gov/mp/cvp/cvp-cas/docs/Draft_Findings/CVP_CAS_Leadership_Team_Recommendation_Cost_Evaluation_Methodology.pdf
- Engineering News Record (ENR) Building Cost Index (BCI): <http://enr.construction.com/economics/>
- Reclamation Directives and Standards FAC 09-01 Cost Estimating: <http://www.usbr.gov/recman/fac/fac09-01.pdf>

District Comments:

Reclamation is recommending the use of the Engineering News Record (ENR) Building Cost Index (BCI) to bring construction and capitalized costs to constant “base year” dollars. The construction and capitalized costs for each multi-purpose facility needs to be equated to a common base year for comparison with base year facility benefits in the Separable Cost – Remaining Benefits (SCRB) method for allocating cost. The base year currently recommended for the CVP CAS is 2010.

Reclamation has looked at two alternative cost normalization methodologies for use in the CVP CAS: indexing and re-pricing. Each method has strengths and weaknesses, which Reclamation has enumerated in the Capital Cost Evaluation Methodology Issue Paper.

Reclamation Directives and Standards FAC 09-01 paragraph (9)(B) Cost Estimating notes that “re-pricing (re-estimating) is the most accurate method for determining current construction bid values for a specific project” and that issues with indexing are the inability to use local wages and prices, an inflation lag to real-time estimates, absence of up to date technology, and the passage of applicable laws during the intervening period.

Nevertheless, Reclamation is recommending the ENR BCI indexing (rather than re-pricing) be used to bring actual CVP construction and capitalized costs to base year (2010) dollars¹ and to develop cost curves for major bid items to price the single purpose alternative and separable costs as part of the SCRБ method of determining the cost share of multi-purpose facilities construction and capitalized costs and operating and maintenance costs.

Westlands Water District (District) supports using the ENR BCI index for both of these purposes as long as it is applied to each project facility and each project purpose equally. Using the same estimating methodology across all purposes for each single and multi-purpose facility ensures that any advantage or disadvantage of the ENR BCI index is equally applied in the SCRБ process and the development of cost allocation factors.

District staff attended the May 5, 2014 Public Meeting that focused on this issue and has some concerns with the information presented. Mr. Fred Holz, the Civil Engineering Branch Chief, who led the discussion

¹ Westlands Water District understands the CVP CAS will not be using the ENR BCI for updating estimates.

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Comments on CVP CAS Findings and Recommendations

was unaware of the details in the Project Facilities Issue Paper issued February 27, 2014 which relied on Reclamation’s 2012 CVP Financial Statement Schedule No. 1 Plant, Property and Equipment (2012 Schedule No. 1) to develop the Draft Facilities List. Mr. Holz and civil engineering staff are using Schedule No. 1 from 2010 for their work.

The District is concerned because there are significant changes between the 2010 and 2012 schedules, as highlighted in Table 1 “Total Plant, Property and Equipment,” below. Of note are the addition of the Delta-Mendota Canal/California Aqueduct Intertie and Note 4 of 2012 Schedule No. 1 regarding Folsom Safety of Dams (SOD) repayment. SOD repayment will not begin until the SOD modifications are substantially complete (expected 2021). In accordance with the Reclamation SOD Act of 1978, as amended, and Reclamation Policy, 15% of the SOD modification costs are reimbursable and will be repaid within 50 years of substantial completion. These additions and modifications from the 2010 Schedule No. 1 to the 2012 Schedule No. 1 could result in errors such as allocating Folsom SOD Costs classified as Plant-in-Service in the 2010 Schedule 1 and inefficient use of engineering labor.

Table 1. Total Plant, Property and Equipment

	Plant in Service	Plant in Service CVPIA	Construction in Abeyance	General Construction	O&M Construction	Total to Date
2010	\$1,074,135,449	\$135,676,682	\$295,940,120	\$ 93,705,073	\$163,906,280	\$1,763,365,614
2012	1,162,633,360	187,347,125	296,026,977	180,907,053	199,310,764	2,026,227,292
Change	\$ 88,497,911	\$ 51,670,443	\$ 86,857	\$ 87,201,980	\$ 35,404,485	\$ 262,861,678

Engineering labor inefficiencies also seem to be occurring in the effort to normalize single purpose facility costs to the 2010 base year. The District is concerned that this part of the CVP CAS effort is not useful because single purpose facilities and single purpose features of multi-purpose facilities do not require cost allocation analysis. The construction and capitalized costs and the operating and maintenance costs of single purpose facilities, as indicated on Reclamation’s Financial Statement Schedule 1, should simply be allocated 100% to the specific facility purpose. Reclamation staff attempted to explain the purpose of normalizing the single purpose facilities to the base year 2010. However, the District does not understand why this is required and what benefits it provides in terms of the SCRB methodology or the CVP Cost Allocation Study. The District considers the efforts supporting normalizing single purpose facilities to base year 2010 to be unnecessary and requests further explanation why this effort, scheduled to be completed in mid-May 2014, was required. If there can be no reasonable relationship established between the effort to normalize the costs of single purpose facilities to the base year, and benefits it provides, the District expects that all costs associated with the effort would be excluded from the Cost Allocation Study.