

Comments and Responses to Proposed Changes for the Finalization of the M&I Ratesetting Policy, Central Valley Project

Currently Reclamation is in the process of finalizing the M&I Policy. A Workshop was held on June 23, 2014 that addressed changes that were being proposed to the M&I Policy from the current interim document. From the date of the workshop, contractors were provided 30 days to review and provide comments on the draft M&I Ratesetting Policy. Reclamation has received several comments. Provided are the comments and Reclamation's responses to them.

1. **Comment:** District understands from discussions occurring during the June 23, 2014 workshop that the revised M&I Ratesetting Policy attempts to be "in line with the Irrigation Ratesetting Policy (1988) as much as possible". It is further understood that no changes to the Irrigation Ratesetting Policy will occur as a carry-over from this revision and finalization process to the M&I Ratesetting Policy.

Response: That is correct. A background section will be added to the Policy that makes reference to this (discussed below).

2. **Comment:** On page 7, in the conveyance paragraph the computational mechanics appear to have been omitted. The District requests that this be corrected in the final version and that it be kept "in line with the Irrigation Ratesetting Policy."

Response: Under the section "Attributes of the M&I Ratesetting Policy", subsection B identifies the mechanics for the development of the construction water rates. Under the "Description of Water Rate Components", this section should identify any clarifying points that need to be addressed further. As such, we will include a clarifying point to identify who is assigned conveyance rates with the following statement: "All contractors receiving conveyance services are assigned the same Project-wide construction rates".

3. **Comment:** District has identified grammatical errors.

Response: Those noted by district have been corrected.

4. **Comment:** The Draft M&I Ratesetting Policy interchangeably uses the words or phrases: investment, plant-in-service investment, plant investment; construction costs, capital, and M&I plant cost. Keeping in line with the migration away from reference to "capital" to the

phrases “construction cost” Reclamation could update this policy accordingly. Adding a definition for “Construction Cost” to the glossary would add clarity to this term.

Response: A definition is being included for Construction Cost to read “In this document, plant-in-service and construction cost are used interchangeably to refer to construction cost that have been placed into service for recovery purposes”.

Any other term has been adjusted within the document to use either plant-in-service or construction cost.

5. **Comment:** The initial reference to “O&M” is at the top of page 4, “as well as allocable operation and maintenance expenses.” This should be revised to “as well as allocable operating and maintenance (O&M) expenses” and further references to operating cost, operating expenses or operating and maintenance costs or expenses should be revisited to simply O&M”.

Response: The term initially identified will be operation and maintenance and included as part of the statement “as well as allocable operation and maintenance (O&M) costs”... Any other reference as you mentioned above will be updated to use the abbreviated form O&M.

6. **Comment:** A “Background” Section noting and explaining the transition from the existing long-term “Interim” policy to the proposed “Final” one. Certain key things should be noted such as the following: (1) Reclamation has had an approved interim CVP M&I water ratesetting policy in place since 1995; (2) on March 3, 2005 Reclamation and M&I contractors reached settlement on a lawsuit regarding certain provisions of that interim policy; and (3) Reclamation is proposing very few changes in their draft final policy (suggest listing those changes here).

Response: Suggested Background section is attached and proposed to be included in the document.

7. **Comment:** Definition - **Historical Water Deliveries.** Is Section 215 water, when taken, included in a contractors’ record for water deliveries (for ratesetting purposes) in that year under their long-term contract?

Response: The Section 215 Draft Business Practice Guideline has identified that Section 215 water is included in a contractors’ record for water deliveries if the contractor is a Friant Division Contractor and the contractor chooses to take this water as Class 2 water. Any other section 215 water will not be included in a contractor’s record for water deliveries.

8. **Comment:** Definition - **Long-term Contractor.** There is concern about removal of “on a regular basis” from the definition. This leads right into concern regarding the potential for and, real possibility, of a number of M&I contractors not taking any of their project supply between now and the end of the repayment period. As you know, should this happen, the construction costs originally assigned to them will gradually shift to the remaining contractors (without advanced notification) over time.

Response: Reclamation would like to leave the definition as is. Regarding assignment of cost, Central Valley Project Improvement Act (PL 102-575), Section 3405(d) (4) identifies that “the Secretary is to charge contractors only for water actually delivered”. This premise has been part of the framework to allocate and pro-rate costs too. To reduce cost shifting, the estimated deliveries and the actual deliveries need to reflect what most likely would occur in the future.

9. **Comment:** Water Contractor Representatives recommend that any changes to the Interim Policy be applied prospectively only.

Response: Concur. This is to be addressed in the introduction section of the Policy.

10. **Comment:** The order of applying water rate revenue should be the same as the application of revenue for irrigation contractors and the Policy should list the order of repayment in the same format as the irrigation document.

Response: Concur. The M&I Policy will read as follow:

The M&I Ratesetting Policy applies all annual water revenues by individual Contractor in the following priority:

- O&M Expenses
- Interest Expenses
- Deficit Repayment
- Construction Repayment