

## Decision Document: Cost Recovery Improvement, Central Valley Project

### Purpose of Paper

To document revised Ratesetting practices for improving the recovery of Central Valley Project (CVP) construction costs on an annual basis per the recommendation of the Office of the Inspector General in their Evaluation Report dated March 26, 2013.

### Office of the Inspector General Concerns

1. A sufficient share of the CVP federal investment is not being recovered on an annual basis.
2. Steady progress toward repayment of the CVP federal investment is not being made.

### Revised Practice for Operation and Maintenance (O&M) Cost Recovery

#### Estimating O&M Cost

There will be no change to the process currently in place.

#### Estimating Acre-feet to Set O&M Water Rates

A 7-year average of historical deliveries will be used as the new basis for setting O&M water rates. Past Ratesetting practice has used a 5 year average of historical deliveries, which has not sufficiently recovered annual O&M costs. The 7-year average represents several years of deliveries that provide a good hydrological basis to provide a good representative average for the upcoming year without being too extreme with wet or dry periods. This average is also responsive to environmental, legislative, and operational conditions that can affect deliveries to water users.

Additionally, the 7-year average of historical deliveries will be further reduced based on lower than normal August reservoir levels as follows:

1. No adjustment if August 31 reservoir level is equal or greater than 100% of average

2. 10% adjustment to reduce delivery estimate if between 81% and 99% of average.
3. 20% adjustment to reduce delivery estimate if equal to or less than 80% of average.

## **Revised Practice for Construction Cost Recovery**

### **Distribution of Construction Costs**

A 7-year average of historical deliveries will be used as the new basis for projecting future deliveries for the purpose of distributing construction costs among contractors. In the past, the projected deliveries that were used to distribute costs was based on OCAP data that may not be representative for certain contractors within certain regions.

### **Estimated Acre-feet to Set Construction Water Rates**

A 7-year average of historical deliveries will also be used as the new basis for projecting deliveries for the purpose of setting water rates. In the past, the projected deliveries that were used to set the water rates were based on an average of actual deliveries from 1995 to the present.

## **Monitoring Process**

The use of the 7-year average of historical deliveries as described for O&M and construction will be monitored to assure that the revised Ratesetting practices are working as intended.

## **Effective Date**

Starting with the 2016 CVP water rates.