



# United States Department of the Interior

BUREAU OF RECLAMATION  
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IN REPLY REFER TO:

MP-3400

December 29, 2016

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VIA ELECTRONIC MAIL ONLY

## MEMORANDUM

To: Karl Stock  
Manager, Reclamation Law Administration

From: Rodney Whitfield /s/ Autumn Wolfe ACTING FOR  
Financial Manager, Mid-Pacific (MP) Region

Subject: Central Valley Project (CVP) Full Cost Water Rates

In 2006, the MP Region changed its practice for estimating future water deliveries for purposes of setting the CVP Cost of Service (COS) water rates. Prior to 2006, expected future water deliveries were based on the contractors' contract entitlement; which, was not representative for how contractors were actually taking project water. In years where the water rates were underestimated, the result was little repayment toward contractor construction obligations. Working with water contractors, an improved practice of using a five year historical average as the basis for estimating future water deliveries was implemented. The contractors agreed that this improved practice better represented how they were taking project water. The improved practice was considered only for water contractors' COS water rates; not Full Cost water rates. In 2016, another change was implemented for estimating water deliveries that are used to calculate the COS water rates; again not Full Cost water rates. The improved practice is based on a seven year historical average of water deliveries, with a potential across the board reduction (up to 20%) based on lower than normal reservoir levels. The objective was to more accurately estimate expected future water deliveries for setting water rates.

Through 2016, the Full Cost water rates for the CVP were still calculated based on the old practice of using the contractors' contract entitlement for estimating future water deliveries. The changes that were implemented in both 2006 and 2016 for the COS water rates were not implemented for the Full Cost water rates. For 2016, the COS water rates for the CVP were calculating at a higher rate than the CVP Full Cost water rates for many water contracts.

In 2017, the improved practice established in 2016 for estimating future water deliveries for the COS water rates will be implemented for the purpose of calculating the Full Cost water rates. This brings the Full Cost water rates in line with how the COS water rates are set.

The components of the COS water rates and the Full Cost water rates are the same, with the only exception being that interest is added to CVP construction for the Full Cost water rates.

Calculation of the interest on construction continues to follow the approved methodology from November 1988, however, the conversion to a rate will now be based on historic deliveries and reservoir levels rather than contract entitlement.

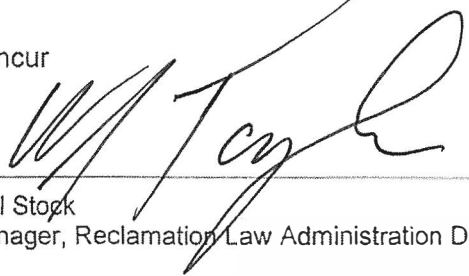
Cost of Service Water Rate Components	Full Cost Water Rate Components
O&M Component	O&M Component
O&M Deficit Component	O&M Deficit Component
Interest on O&M Deficit	Interest on O&M Deficit
Construction Component	Construction Component
	Interest on Construction

In 2016, the calculated Full Cost water rates ranged from \$30.66 to \$203.92 per acre foot. Had the improved practice for estimating deliveries been used for calculating the 2016 Full Cost water rates, the range would have been from \$40.86 to \$271.23 per acre foot. For some customers the increase is significant, ranging up to a 336% increase; however, for many years these same customers paid a Full Cost rate that was substantially underestimated. Currently, there are approximately 30 CVP customers who pay Full Cost water rates.

In preparation for implementing the improved practice for estimating water deliveries for setting the 2017 Full Cost water rates, the region reached out to water contractors at bi-monthly Financial Affairs Committee meetings with the Central Valley Project Water Association. Examples were provided to the group to show contractors how the deliveries that are used to estimate the Full Cost water rates are calculated in the same way as they are for the COS water rates. The contractors agreed that the delivery estimate used for setting the Full Cost rates needed to be updated to better represent how project water is currently delivered.

Beginning with the 2017 Full Cost water rates, MP Region plans to use the improved practice for estimating water deliveries that was implemented in 2016 for setting COS water rates. The MP Regional Ratesetting staff has collaborated with the Reclamation Law Administration Division (RLAD) staff regarding the updated process and requests your concurrence with the proposed changes identified in this memo.

Concur

  
Karl Stock  
Manager, Reclamation Law Administration Division

cc:  
Autumn Wolfe

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