

## Foreword

The final Central Valley Project (CVP) water rates for contract year (CY) 2017 and the final CVP annual contractor accountings for fiscal year (FY) 2015 have been posted to the Bureau of Reclamation website.

The final water rates and final annual contractor accountings for the years 2004 through 2017 can be found at [www.usbr.gov/mp/cvpwaterrates/ratebooks/index.html](http://www.usbr.gov/mp/cvpwaterrates/ratebooks/index.html).

If you have any questions or need additional information, please contact Mr. Jesus Reynoso at 916-978-5362, or by e-mail at [jreynoso@usbr.gov](mailto:jreynoso@usbr.gov).

## Site Security Costs

Projected costs for security guards and patrols for FY 2017 are included in the water rates. The estimated total projected costs for Irrigation and M&I are \$3,601,143 and \$547,058 respectively.

## Trinity Public Utility District (TPUD) Assessment

In accordance with Public Law 106-377, Section 203, Reclamation is required to collect annually \$162,000 (indexed) for payment to the Trinity Public Utility District. For the period March 2017 through February 2018 the TPUD rate will be \$0.30 per Acre-Foot. This assessment along with the CVP Restoration Fund charges and Friant surcharges are due within 30 days after the delivery of water.

## Water Marketing

Water marketing costs included in the CVP water rates include general expense. For 2017, the budgeted costs were \$3,485,000 and those allocated to irrigation and M&I were estimated at \$1,598,668 and \$128,717 respectively.

## Project Use Energy (PUE) Costs for FY 2015 Accountings

The PUE costs included in the FY 2015 annual CVP contractor accountings are based on estimated costs. This years' contractor accountings also includes a true-up of FY 2014 PUE costs. The breakdown of the PUE expenses are shown below:

|  |                     |
|--|---------------------|
| Estimated PUE Costs for FY 2015                  | \$23,400,000        |
| FY 2014 PUE True-up adjustment                   | (\$3,727,539)       |
| Total Irrigation and M&I PUE Expenses in FY 2015 | <b>\$19,672,461</b> |

## Increase in Project Use Energy (PUE) Costs

Due to the expiration of Reclamation's contract with PG&E on April 1, 2016, PUE costs are projected to increase. In fiscal year 2017, the increase is projected to be approximately \$6.9

million and is included in the 2017 water rates. In future years, the annual increase is anticipated to be \$8 to \$10 million per year.

## **CVP Cost Recovery Improvement**

Based on the results of a 2013 audit conducted by the Office of the Inspector General, a recommendation was made for Reclamation to improve the current rate setting practices to better recover CVP construction costs on an annual basis. Reclamation worked collaboratively with stakeholders to develop a revised process for projecting future water deliveries that serve as the basis for estimating water rates. Beginning with the 2016 Water Rates, the new practice for projecting future water deliveries include:

- Using a 7- year average of historical water deliveries as the basis for projecting future deliveries for calculating the irrigation and M&I operation and maintenance (O&M) component of the water rate.
  - Depending on whether or not reservoir levels are below normal, the 7 year average of water deliveries could be further reduced based on specific criteria.
    - For the 2017 Water Rates, since Shasta Reservoir levels were not below average at August 2016, further reductions were not considered based on this criteria.
    - In consultation with our Central Valley Operations Office, their interpretation of a likely outcome was that the water deliveries for the CVP in FY 2017 were most likely less than 20 percent of the 7-year average. As a result, Reclamation will continue to use a 20 percent reduction to the 7-year average for calculating O&M rates for the 2017 Water Year.
- Using a 7-year average of historical water deliveries as the basis for projecting future deliveries for calculating the irrigation and M&I construction component of the water rate. There is no further reduction to deliveries based on lower than normal reservoir levels.

***Exception: If a contractor has taken water 3 times or less in a 7 – year period, Reclamation will use the higher of the 7 year average or 14% of the contractor’s contract entitlement.***

For more information regarding improved Ratesetting practices, please visit the Reclamation website at [http://www.usbr.gov/mp/cvpwaterrates/wtr\\_ctr\\_notices/2015/](http://www.usbr.gov/mp/cvpwaterrates/wtr_ctr_notices/2015/) to review the decision paper that was posted in April 2015.

**Note: For the 2017 Water Rates: M&I Schedule A-13 and A-14 have been combined as Schedule A-13; M&I Schedule A-15 is now Schedule A-14.**

## **Extraordinary Operation and Maintenance (XO&M) Cost**

CVP XO&M costs are included in the current year CVP water rates along with annual O&M costs. While Public Law 111-11 provides Reclamation the authority to offer extended repayment of XO&M costs through the use of repayment contracts; the Mid-Pacific Region is still in the process of drafting a basis of negotiation to seek approval from the Commissioner to allow for the extended repayment of XO&M cost through the use of existing water service contracts. Reclamation and stakeholders are working collaboratively to develop a process for the extended

repayment of XO&M costs through the water rate process. The following tables show the estimated and actual XO&M costs for the period 2009 through 2017 for both irrigation and M&I.

#### Irrigation Extraordinary Operations and Maintenance Costs (XO&M)

| <b>Fiscal Year</b> | <b>Estimated Cost</b> | <b>Actual Cost</b> | <b>Variance</b> |
|--------------------|-----------------------|--------------------|-----------------|
| 2009               | \$0                   | \$4,192,153        | \$(4,192,153)   |
| 2010               | \$0                   | \$3,451,716        | \$(3,451,716)   |
| 2011               | \$0                   | \$3,385,405        | \$(3,385,405)   |
| 2012               | \$2,016,701           | \$3,466,279        | \$(1,449,578)   |
| 2013               | \$2,166,051           | \$2,088,288        | \$77,763        |
| 2014               | \$2,208,368           | \$3,336,697        | \$(1,128,329)   |
| 2015               | \$2,862,681           | \$2,610,238        | \$252,443       |
| 2016               | \$3,515,700           | TBD                | \$3,515,700     |
| 2017               | \$5,516,875           | TBD                | \$5,516,875     |
| Total              | \$18,286,376          | \$22,530,777       | \$(4,244,401)   |

#### M&I Extraordinary Operations and Maintenance Costs (XO&M)

| <b>Fiscal Year</b> | <b>Estimated Cost</b> | <b>Actual Cost</b> | <b>Variance</b> |
|--------------------|-----------------------|--------------------|-----------------|
| 2009               | \$0                   | \$510,567          | \$(510,567)     |
| 2010               | \$0                   | \$495,409          | \$(495,409)     |
| 2011               | \$0                   | \$391,926          | \$(391,926)     |
| 2012               | \$253,151             | \$518,316          | \$(265,165)     |
| 2013               | \$317,704             | \$361,150          | \$(43,446)      |
| 2014               | \$327,031             | \$623,990          | \$(296,959)     |
| 2015               | \$417,859             | \$418,594          | \$(735)         |
| 2016               | \$1,705,800           | TBD                | \$(1,705,805)   |
| 2017               | \$2,136,706           | TBD                | \$(2,136,706)   |
| Total              | \$5,158,251           | \$3,319,952        | \$(1,838,299)   |

### **Water Marketing Cost Associated with Suisun Marsh**

In the 2015 Accounting period, Reclamation included costs for Suisun Marsh that were for prior periods. Deliveries for the years 2013 and 2014 were used to pro-rate costs associated with the Suisun Marsh in those years. Normally, annual accounting costs are for and allocated based on the costs and deliveries posted in a fiscal year. However, with Suisun Marsh, invoices were not submitted for payment in the appropriate Accounting period. All payments were made on invoices in 2015; Therefore, costs were posted in 2015 for Suisun Marsh that occurred in 2013 and 2014.

## Federal Investments

Provided is the CVP Construction Allocation by Function and the Repayment through September 30, 2015 identifiable to irrigation and M&I:

### Construction Cost Allocation by Function through FY 2015

| Function                      | Allocation      | Repayment     | Unpaid        | % Repaid |
|-------------------------------|-----------------|---------------|---------------|----------|
| <b>Water Service:</b>         |                 |               |               |          |
| Irrigation                    | \$1,173,420,705 | \$526,093,984 | \$593,453,503 | 44.83%   |
| M&I                           | \$117,749,201   | \$112,931,848 | \$4,817,353   | 95.91%   |
| <b>Other Purposes:</b>        |                 |               |               |          |
| Commercial Power              | \$820,271,874   |               |               |          |
| Federal Taxpayer              | \$815,464,397   |               |               |          |
| State of California           | \$336,700,541   |               |               |          |
| Capital Relief Assigned (ATP) | \$53,873,218    |               |               |          |
| Local Entities                | \$261,400       |               |               |          |
| Total                         | \$3,317,741,336 |               |               |          |

Based on the new method to determine the estimated deliveries (see cost recovery improvement section), Reclamation anticipates improved construction repayment starting with the 2016 Water Year. Provided is a summary of repayment by year.

| Year | Actual IRR Construction Recovery | Projected Annual Average Construction Recover | Variance (Over/Under) |
|------|----------------------------------|---|-----------------------|
| 2003 | \$19,608,499                     | \$37,051,890                                  | \$(17,443,391)        |
| 2004 | \$23,341,327                     | \$37,404,088                                  | \$(14,062,761)        |
| 2005 | \$20,753,048                     | \$38,527,038                                  | \$(17,773,990)        |
| 2006 | \$28,322,351                     | \$39,211,192                                  | \$(10,888,841)        |
| 2007 | \$23,197,478                     | \$39,610,443                                  | \$(16,412,965)        |
| 2008 | \$11,754,668                     | \$41,578,408                                  | \$(29,823,740)        |
| 2009 | \$3,401,428                      | \$31,640,202                                  | \$(28,238,774)        |
| 2010 | \$13,878,181                     | \$33,202,989                                  | \$(19,324,808)        |
| 2011 | \$26,910,984                     | \$34,695,494                                  | \$ (7,784,510)        |
| 2012 | \$19,767,532                     | \$35,113,081                                  | \$(15,345,549)        |
| 2013 | \$10,735,953                     | \$34,987,828                                  | \$(24,251,875)        |
| 2014 | \$1,280,730                      | \$36,864,266                                  | \$(35,583,536)        |
| 2015 | \$0                              | \$37,174,567                                  | \$(37,237,642)        |

## Significant impacts from Draft Rates to Final Rates

### Project Use Energy (PUE) Cost

At the Financial Affairs Committee (FAC) Meeting on November 20, 2015, the Bureau of Reclamation proposed removing Project Use Energy (PUE) charges from the Central Valley Project (CVP) water rates due to Reclamation's inability to continue to record the PUE charges as revenue. The PUE charges that are collected through the CVP water rates is revenue that belongs to Western Area Power Administration. In the current Ratesetting process, PUE is included in the water rates along with CVP O&M costs, and when payment is remitted (CVP water rate x acre feet) the entire amount is recorded as revenue.

Water contractors requested that Reclamation continue to collect PUE charges through the Ratesetting process. To prevent recording the PUE charges as revenue in the future, a proposal was made that the PUE charges be paid separately by a few select contractors. These few contractors (identified below) graciously accepted Reclamation's proposal and agreed to pay direct pumping PUE and storage PUE costs in advance, on behalf of all CVP contractors, as part of their CVP water rates. The impact to these contractors is only in how they will remit their water payments in the future. Their water payments will separately identify direct pumping PUE and "other" PUE as components of their cost of service rate. The "other" PUE component is specifically to identify the amount of PUE charges that are being paid on behalf of other contractors, and in which a like credit will be given to offset the O&M component of their water rate. Overall, contractors' cost of service water rates will remain the same. This proposed future process for PUE will allow Reclamation to easily identify PUE revenue and deposit it to a separate account for payment to Western Area Power Administration.

The select few contractors are:

1. Westlands Water District (Irrigation, M&I)
2. Santa Clara Water District (Irrigation, M&I)
3. San Benito Water District (Irrigation, M&I)
4. Colusa County Water District (Irrigation, M&I)
5. Kanawha Water District (Irrigation, M&I)
6. Orland Artois Water District (Irrigation)
7. San Luis Water District (Irrigation, M&I)
8. Contra Costa WD (M&I)

Other contractors will still pay their share of Project Use Energy for Storage and Direct Pumping as offset revenue, rates developed for this purpose, to cover the credit in O&M the 8 contractors will receive for paying on their behalf.

## CVP Cost Allocation Study

CVP Cost Allocation Study Cost has been included annually in the Water Marketing cost component. The following table includes the total amount of which a share is recovered through the Water Marketing O&M. For the final 2017 Water Rates, refer to Schedule A-9 for both Irrigation and M&I.

| Fiscal Year | Estimated Cost | Actual Cost | Variance    |
|-------------|----------------|-------------|-------------|
| 2010        | \$750,886      | \$433,553   | \$317,333   |
| 2011        | \$700,000      | \$665,700   | \$34,300    |
| 2012        | \$700,000      | \$390,000   | \$310,000   |
| 2013        | \$740,091      | \$487,197   | \$252,894   |
| 2014        | \$2,120,635    | \$848,450   | \$1,272,185 |
| 2015        | \$1,797,383    | \$1,031,142 | \$766,241   |
| 2016        | \$1,416,525    | TBD         | \$1,416,525 |
| 2017        | \$1,000,000    | TBD         | \$1,000,000 |

## Full Cost Water Rates

The practice for calculating estimated deliveries for setting FC water rates has been improved for 2017 in order to be consistent with how deliveries are estimated for Cost of Service (COS) water rates. Previous calculations of FC water rates used estimated deliveries at contract entitlement without adjustment. For 2017 and forward, historical (1981 to present) and projected deliveries that are used to pro-rate construction cost by contractor for COS water rates will also be used for calculating FC water rates. Reclamation will still amortize construction costs over a 50 year period and use the weighted interest rates as required by the Reclamation Reform Act. The annualized construction amount by contractor will then be developed into a FC water rate. To develop the rate Reclamation will use the improved practice for estimating deliveries established in 2016 which uses a 7 year average. This brings the FC water rates up to date in its calculation and in line with the Reclamation Reform Act legislation while also incorporating consistent practices in the calculation of both FC and COS water rates.

Note that the components for the COS water rates and the FC water rates are the same, with the only exception being that interest is added to CVP construction for the FC water rates.

**COS Water Rates Components:** Annual O&M, O&M Deficit, Interest on O&M Deficit, and Construction

**FC Water Rate Components:** Annual O&M, O&M Deficit, Interest on O&M Deficit, Construction, and Interest on Construction

## Questions

Please direct any questions regarding the CVP 2017 final water rates or the CVP 2015 annual contractor accountings to Mr. Jesus Reynoso at 916-978-5362, or by email to [jreynoso@usbr.gov](mailto:jreynoso@usbr.gov).