

Foreword

The final Central Valley Project (CVP) water rates for contract year (CY) 2018 and the final CVP annual contractor accountings for fiscal year (FY) 2016 have been posted to the Bureau of Reclamation website.

The final water rates and final annual contractor accountings for the years 2004 through 2018 can be found at <https://www.usbr.gov/mp/cvpwaterrates/ratebooks/index.html>.

If you have any questions or need additional information, please contact Jesus Reynoso at 916-978-5362 or by e-mail at jreynoso@usbr.gov.

Site Security Costs

Projected costs for security guards and patrols for FY 2018 are included in the water rates. The estimated total projected costs for Irrigation and M&I are \$3,981,059 and \$596,622 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 2018 through February 2019 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 2018, the budgeted costs were \$3,579,000 and those allocated to Irrigation and M&I were estimated at \$1,853,664 and \$149,248 respectively.

Project Use Energy (PUE) Costs for FY 2016 Accountings

The PUE costs included in the FY 2016 annual CVP contractor accountings process are based on estimated costs. This years' contractor accountings also includes a true-up of FY 2015 PUE costs. The breakdown of the PUE expenses are shown below:

Estimated PUE Costs for FY 2016	\$24,992,498
FY 2015 PUE True-up Adjustment	(\$10,227,690)
Total Irrigation and M&I PUE Expenses in FY 2016	\$14,764,808

Increase in Project Use Energy (PUE) Costs

Due to the expiration of Reclamation's contract with PG&E on April 1, 2016, PUE costs have increased. In fiscal year 2018, there will be costs projected to be approximately \$6.9 million and are included in the 2018 water rates. In future years, these costs are 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 continues to work collaboratively with stakeholders to develop a revised process for projecting future water deliveries that serve as the basis for estimating water rates.

The process to estimate deliveries for setting O&M water rates has been improved from the original process included for the 2016 Water Rates. The new process provides more flexibility in the determination of the deliveries for setting O&M water rates. A decision document is to be updated and included in the water contractor notices section of the Reclamation website at http://www.usbr.gov/mp/cvpwaterrates/wtr_ctr_notices/. Provided is the improved process:

O&M

1. Consider using the 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.
 - a. 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.
2. Consult with Central Valley Operations Office to see if this average is appropriate for the calculation of the water rates.
3. If CVO recommends considering an alternative to the 7-year average due to their estimate being considerably different, consider using an alternative approach.

In consultation with our Central Valley Operations Office, the interpretation is that it is appropriate for M&I estimated deliveries to use a 7-year average for 2018. For irrigation, the interpretation is that water deliveries for the CVP in 2018 were to be considerably higher than the 7-year average. As a result, Reclamation decided to consider other alternatives for calculating irrigation O&M water rates. For 2018, Reclamation decided to use the following for estimating irrigation O&M water deliveries:

- 35% of contract entitlement (CE) for the majority of water service contracts;
- 75% of CE for Sacramento River Settlement contractors; and
- The higher of the 7-year average or 35% of CE for direct pumping contractors.

Construction

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.

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 (enacted March 30, 2009) 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 2018 for both Irrigation and M&I.

Irrigation Extraordinary Operations and Maintenance Costs (XO&M)

Fiscal Year	Estimated Cost	Actual Cost	Variance
2009	-	\$4,192,153	\$(4,192,153)
2010	-	\$3,451,716	\$(3,451,716)
2011	-	\$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	\$4,857,366	\$(1,341,666)
2017	\$5,516,875	TBD	TBD
2018	\$6,236,549	TBD	TBD

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

Fiscal Year	Estimated Cost	Actual Cost	Variance
2009	-	\$510,567	\$(510,567)
2010	-	\$495,409	\$(495,409)
2011	-	\$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	\$923,456	\$782,344
2017	\$2,136,706	TBD	TBD
2018	\$890,154	TBD	TBD

Full Cost (FC) Water Rates

The practice for calculating estimated deliveries for setting FC water rates has been improved for 2017 and forward years 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 FC construction 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 Rate Components	FC Water Rate Components
Annual O&M	Annual O&M
O&M Deficit	O&M Deficit
Interest on O&M Deficit	Interest on O&M Deficit
Construction	Construction
	Interest on Construction

Federal Investments

Provided is the CVP Construction Allocation by Function and the Repayment through September 30, 2016 identifiable to Irrigation and M&I:

Construction Cost Allocation by Function thru FY 2016

Function	Allocation	Repayment	Unpaid	% Repaid
Water Service:				
Irrigation	\$1,179,261,833	\$583,638,802*	\$595,623,033	49.49%
M&I	\$118,613,501	\$114,780,670	\$3,832,832	96.77%
Other Purposes:				
Commercial Power	\$895,103,895			
Federal Taxpayer	\$804,423,271			
State of California	\$338,500,052			
Local Entities	\$261,400			
	\$3,336,163,952			

*Ability to pay relief is included as repayment in the amount of \$56,338,332.

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. In order for improved recovery, the estimated deliveries for setting O&M and construction rates have to be lower than or equal to the actual deliveries. Included is a summary of the Fiscal Year 2016 deliveries forward for irrigation and the summary of irrigation construction repayment by year.

Year	Actual IRR Deliveries in Acre-Feet	Projected Irrigation Deliveries in Acre-Feet	Difference (Over)/Under
O&M			
2016	1,087,556	1,549,749	(462,193)
2017	TBD	2,574,135	TBD
2018	TBD	1,920,756	TBD
Construction			
2016	1,087,556	1,949,621	(862,065)
2017	TBD	1,545,547	TBD
2018	TBD	1,607,776	TBD

Year	Actual IRR Construction Recovery	Projected Annual Average Construction Recovery	Difference (Over)/Under
2003	\$19,608,449	\$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	-	\$37,174,567	\$(37,174,567)
2016	\$1,120,449	\$39,328,648	\$(38,208,199)

Significant impacts to Water 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 select few contractors. These select 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. Westland’s 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 2018 Water Rates, refer to Schedule A-9 for both Irrigation and M&I.

Fiscal Year	Estimated Cost	Actual Cost	Difference (Over)/Under
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	\$1,005,766	\$410,759
2017	\$1,000,000	TBD	TBD
2018	\$775,000	TBD	TBD

CVP Reclamation Reform Act Section 215 Revenue Credit

The guidelines for crediting RRA 215 revenue is included on the WEB site at https://www.usbr.gov/mp/cvpwaterrates/wtr_ctr_notices/2015/. Per the guidelines on the WEB site, Reclamation has credited the RRA 215 Revenue to contractors in fiscal year 2016. The credit associated with Water Marketing was allocated to water contractors and first applied to ARRA balances and then to other O&M deficits. The credit for Conveyance Construction was applied to the Conveyance Construction component. Provided is the RRA 215 Water Rate Revenue that was credited in FY 2016:

Irrigation

Water Marketing O&M	\$2,914,886
Conveyance Construction	\$1,856,893
Other	\$45,821

M&I

Water Marketing O&M	\$67,132
Conveyance O&M	\$16,429
Conveyance Construction	\$211,486
Other	\$23,823

Questions

Please direct any questions regarding the CVP 2018 final water rates or the CVP 2016 annual contractor accountings to Jesus Reynoso at 916-978-5362 or by email at jreynoso@usbr.gov.