

Foreword

The final Central Valley Project (CVP) water rates for contract year (CY) 2014 and the final CVP annual contractor accountings for fiscal year (FY) 2012 have been posted to the Bureau of Reclamation website.

The final water rates and final annual contractor accountings for the years 2004 through 2014 can be found at www.usbr.gov/mp/cvpwaterrates/ratebooks/index.html

If you have any questions or need additional information, please contact Mr. Sabir Ahmad at 916-978-5187, or by e-mail at sahmad@usbr.gov.

Site Security Costs

Projected costs for security guards and patrols for FY 2014 are included in the water rates. The estimated total projected costs for Irrigation and M&I are \$3,188,905 and \$467,646, respectively.

Delta-Mendota Canal/California Aqueduct Intertie

In fiscal year 2012, Reclamation transferred the Delta-Mendota Canal/California Aqueduct Intertie (Intertie) construction costs from construction in progress to plant-in-service as part of the CVP, initiating Reclamation's responsibility to recover the cost of the facility through CVP water rates beginning with the 2014 water year. The cost to plan, design, and construct the Intertie was approximately \$26.2 million. The Intertie is considered new construction within the CVP; therefore, the construction costs are to be recovered over a separate 50 year repayment period in accordance with the 1988 Irrigation Ratesetting Document. For the purpose of cost recovery, the Intertie is included in the conveyance pumping cost component. For more information regarding the allocation and cost distribution of the Intertie construction costs, please visit the Reclamation website at www.usbr.gov/mp/cvpwaterrates/ratebooks/irrigation/2014/index.

Irrigation rate schedule A-2BC has been developed to identify the separate 50 year repayment period for the Intertie. This schedule also identifies credits applied to contractor obligations for contributed funding expended during the early years of construction.

In the draft 2014 water rates, a 10 year repayment period was identified for the portion of the Intertie construction costs funded by the American Recovery and Reinvestment Act (ARRA). The 10 year repayment period identified only applies to operation and maintenance costs and does not apply to the repayment of construction costs; therefore, a correction has been made to the final 2014 water rates to acknowledge the ARRA funded portion of the Intertie has the same 50 year repayment period as the portion of the Intertie that is funded by other sources.

Updated OCAP Percentages

The CVP OCAP percentages derived from the CALSIM model have been updated in the 2014 rate schedule A-14. The updated percentages are highlighted below:

| | CalSim percentages used in <u>2013</u> Rates (Sch A-14) | CalSim percentages in <u>2014</u> Rates (Sch A-14) |
|------------------------------------|---|--|
| North Delta M&I | 87.00% | 88.00% |
| South of Delta M&I | 86.00% | 81.00% |
| North Delta Ag | 68.00% | 66.00% |
| South of Delta Ag | 59.00% | 51.00% |
| Friant Kern Canal – Madera Class 1 | 94.50% | 91.40% |
| Friant Kern Canal – Madera Class 2 | 39.30% | 20.30% |
| Cross Valley Canal | 29.20% | 29.20% |

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. The 2014 assessment that was posted for the draft water rates was \$.05 per acre foot; however, due to the lower than average water deliveries that are expected for the 2014 water year, this amount has increased to \$.23 cents per acre foot for the final water rates. This assessment along with the restoration charges and Friant surcharges are due within 30 days after the delivery of water.

Refund of FY 2012 Surplus Balances

In November 2013, the Bureau of Reclamation transitioned to a new Financial Business Management System (FBMS). Due to the complexities associated with learning a new system, refund requests for FY 2012 surplus balances will be processed in March, 2014.

Water Marketing

Water marketing costs included in the CVP water rates include a general expense calculated as 18.5% of budgeted costs. For the 2014 draft rates, the irrigation and M&I estimated general expenses were \$1,381,068 and \$225,932, respectively. For the 2014 final rates, the estimated general expenses increased by \$327,435 and \$53,565, respectively.

CVP Cost Allocation Study

The costs associated with performing the CVP cost allocation study are included in the CVP water rates as Water Marketing and are recovered annually as an O&M cost.

Revenue Application of CVP Water Transfers

Beginning with the FY 2012 CVP annual contractor accountings, incremental transfer revenue is applied in accordance with the Bureau of Reclamation business practice guidelines for developing rates and applying revenue for CVP water transfers. The business practice guidelines have been revised as of November 2012, and are posted to Reclamation's website at <http://www.usbr.gov/mp/cvp/laws.html>.

Incremental revenues for FY 2012 are included with the final FY 2012 annual CVP contractor accountings as a supplemental schedule titled "Incremental Revenue".

Beginning with the FY 2009 annual CVP contractor accountings, incremental revenues for O&M direct pumping are credited to the transferee.

Project Use Energy (PUE) Costs for FY 2012 Accountings

The PUE costs included in the FY 2012 annual CVP contractor accountings are based on the Schedule of Estimated PUE Costs (water rate schedule A-11) from the 2012 Rate Book. It includes a true-up of FY 2011 PUE costs and a FY 2011 true-up for Bella Vista (McConnell Foundation water). The breakdown of the FY 2012 PUE expenses are shown below:

| | |
|---|------------------------|
| • Estimated PUE Costs from 2012 Schedule A-11 | \$22,500,000 |
| • FY 2011 PUE True-up adjustment | \$3,945,968 |
| • FY 2011 PUE True-up adj. for Bella Vista (McConnell Adj.) | \$0.00 |
| • PY adjustment (2010) | (\$2,589.60) |
| Total Irrigation and M&I PUE Expenses in FY2012 | <u>\$26,443,378.40</u> |

M&I Interest Adjustment (1986-2009)

An adjustment has been made to the interest previously assessed for CVP M&I contractors. The previous calculation for computing current year interest was overstating the annual amount due. The interest obligation has been recalculated and deficit balances adjusted. If a contractor's deficit balance has been fully repaid, the interest credit has been applied toward construction repayment. Please see M&I rate schedule A-6A for further information.

Significant Adjustments Between Draft Rates and Final Rates

Folsom South Canal Construction in Abeyance

In FY 2013, Reclamation was authorized to place 83.6% of the Folsom South Canal, the portion that was constructed for irrigation purposes, into construction in abeyance. This authorization was based on the Federal Accounting Standards Advisory Board's (FASAB) newly published Statement of Federal Financial Accounting Standard (SFFAS) 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.

In 1965 the Auburn-Folsom South Unit (AFSU) was authorized by Public Law (PL) 89-161. The project as formulated was determined to be the best alternative for managing water supplies on the American River, with the primary purpose of providing an agricultural supply to an area immediately north of the American River and extending south into San Joaquin County.

The major facilities authorized for construction, operation, and maintenance as components of the CVP included Auburn Dam (the largest storage facility), Auburn Power Plant, Sugar Pine Dam, County Line Dam and Reservoir, and FSC and its related structures. Auburn Dam was slated to be a concrete arch-gravity dam approximately 700 feet high with a capacity over 2 million acre feet.

Construction of Auburn Dam was halted in 1975 for redesign considerations due to seismic issues and has never resumed. Auburn Dam and Power Plant construction costs were placed in abeyance with \$287 million of sunk costs.

Folsom South Canal was planned and designed to be 68 miles long with a maximum flow rate of 3,500 cubic feet per second (cfs). Of this, only the head-works and the first two reaches of the canal totaling 27 miles were constructed between 1970 and 1973. The remaining unconstructed portion of about 41 miles is delayed pending appropriations from Congress. Today, the canal is only used for M&I purposes.

M&I Interest Adjustment – Folsom South Canal Construction in Abeyance

Due to the placement of 83.6% of Folsom South Canal into construction in abeyance, an interest adjustment has been calculated for those contractors included in the M&I conveyance cost pool. The interest obligation has been recalculated and the deficit balances adjusted. If a contractor's deficit balance has been fully repaid, the interest credit has been applied toward construction repayment. Please see M&I rate schedule A-6A for further information.

Irrigation and M&I Construction Adjustment – Folsom Safety of Dam (SOD)

Folsom Safety of Dam (SOD) construction costs have been removed from CVP construction repayment. An agreement was made to defer the costs until all eight phases of the modification are deemed substantially complete. As of Sept 30, 2012, the total deferred Folsom SOD costs for water supply are \$16,763,048.33.

M&I Interest Adjustment – Folsom Safety of Dam (SOD)

For fiscal years 2009 through 2011, Reclamation inadvertently included Folsom SOD costs in the rate schedules for repayment. For the 2014 final rates, the SOD costs have been removed and appropriate adjustments to interest and deficit balances have been calculated for M&I contractors. If a contractor's deficit balance has been fully repaid, the interest credit has been applied toward construction repayment. Please see M&I rate schedule A-6A for further information.

Schedule A-5 (Irrigation and M&I)

Due to the removal of the Folsom SOD costs from CVP construction repayment in the 2014 final rates, the total storage construction costs for irrigation and M&I have been reduced by \$10,252,593 and \$1,552,076 respectively.

Schedule A-9 (Irrigation and M&I) – Unfunded Delta Barrier and Wheeling Cost

Reclamation currently has a Use of Facilities Agreement with the Department of Water Resources (DWR) for 2012 through 2016; whereby, Reclamation has agreed to pay DWR for the operations and maintenance costs for conveying water that is pumped at Banks Pumping Plant and conveyed to O'Neill Forebay through the California Aqueduct. Reclamation has agreed to pay the portion of the costs associated with the installation, operation, maintenance, and removal of the temporary barriers. The operation of the barriers is essential to utilizing Banks Pumping Plant to convey CVP water. In the past, the Central Valley Operations Office has annually budgeted an amount to cover anticipated conveyance charges; however, beginning in 2012, the funding has not been available to support this action. As of December 9, 2013, this is considered an unfunded need. Reclamation believes that funding will be secured for this purpose; therefore, \$4.5 million has been included in the O&M conveyance component for the 2014 final rates.

Schedule A-9 (Irrigation) - Kesterson Reservoir

Based upon updated information \$175,000 has been budgeted for the Kesterson Reservoir for the 2014 final rates.

Schedule A-9 (Irrigation and M&I) – General Expense

Reimbursable water marketing costs for general expense have increased for irrigation and M&I by \$327,435 and \$53,565, respectively, due to the additional O&M costs added to the 2014 final rates for the Delta Barrier and Kesterson Reservoir.

Full Cost Water Rates

The irrigation full cost water rates are posted to the Bureau of Reclamation website along with the 2014 final CVP water rates.

Cost Allocation Study Cost

CVP Cost Allocation Study Cost has been included annually in the Water marketing cost component. The annual amount and year incurred are as follows:

| FY's | Estimated (budgeted cost) | Actual Cost |
|------|---------------------------|---------------|
| 2010 | \$750,886 | \$433,553 |
| 2011 | \$700,000 | \$665,700 |
| 2012 | \$700,000 | \$390,000 |
| 2013 | \$740,091 | No Actual Yet |
| 2014 | \$2,120,635 | No Actual Yet |

Trinity Public Utility District (TPUD) Assessment

The Trinity PUD assessment has increased from \$0.05 to \$0.23 per acre foot. This increase is effective for the period March 1, 2014 – February 28, 2015. For the 2014 draft rates, Reclamation provided notification that the TPUD assessment would be updated on a fiscal year basis; however, after further review, the decision has been made to continue to update the TPUD assessment on a contract year basis.

Questions

Please direct any questions regarding the CVP 2014 water rates or the CVP 2012 annual contractor accountings to Mr. Sabir Ahmad at 916-978-5187, or by email at sahmad@usbr.gov.