



## Foreword

The final Central Valley Project (CVP) water rates for contract year (CY) 2022 and the final CVP annual contractor accountings for fiscal year (FY) 2020 have been posted to the Bureau of Reclamation website.

The final water rates and final annual contractor accountings for the years 2004 through 2022 can be found at <https://www.usbr.gov/mp/cvpwaterrates/ratebooks/index.html>.

If you have any questions or need additional information, please contact Sabir Ahmad at 916-978-5187 or by e-mail at [sahmad@usbr.gov](mailto:sahmad@usbr.gov).

## Ability to Pay Studies

Certain Sacramento River settlement contractors have Ability-to-Pay (ATP) relief that expired on March 30, 2019. A new ATP study covering the period April 1, 2019 to March 31, 2024 is currently being prepared, but still considered draft. In the interim, the water rates for these contractors are based on the draft results of the forthcoming study as presented in Schedule A-1. Once the new study is finalized, all applicable water and Restoration Fund charges will be determined and communicated to contractors and the results of the study will be applied over the entire period of analysis (April 1, 2019 to March 30, 2024).

In addition, Sutter MWC, Natomas Central MWC and Pelger MWC have ATP relief that expire on March 31, 2021. Until a new study is completed, the water rates for these contractors are based on the results of the previous study as presented in Schedule A-1. Once a new ATP study is completed, any changes to Sutter MWC, Natomas Central MWC, and Pelger MWC's water rates and CVPIA Restoration Fund charges will be communicated to affected contractors and incorporated into water rates; the results of the forthcoming ATP study will be applied over the entire period of analysis (April 1, 2021 to March 30, 2026).

Many CVP water contractors are utilizing provisions of WIIN 4006 to convert their water service contracts to repayment contracts and prepay their outstanding construction obligations. When the contracts are signed, the contractor makes an agreement to execute the contract with the understanding that the construction will be paid under a 9d contract and as such there will not be applicable rates for construction and there would be no associated ATP relief for the intended repayment.

## CVP Final Cost Allocation - Implementation

The Final CVP Cost Allocation (FCA) was completed in January 2020 and has been incorporated in the plant-in-service and O&M cost allocations that are used in the water ratesetting process. The FCA is based on both historic and current operations of the CVP using a two-period two cost allocation methodology, and the resulting cost allocation factors are used to allocate the construction costs of CVP facilities and also incorporated in the allocation of projected OM&R costs. Due to the implementation of the FCA into CVP water rates, there are instances of substantial shifts in costs relative to previous years, which were based on the interim cost allocation updated most recently in 1975. However, in addition to the FCA, there are other factors that affect the allocation of costs across project beneficiaries year over year, primarily new costs that have been incurred in the CVP (and their associated purpose) and shifts in project operations (i.e., water deliveries and hydropower generation) that are used to true-up the cost allocation over time. As a result, it is difficult to isolate the role of the FCA on water rates, but some general observations can be made.

The effect of the FCA on CVP water rates can be viewed across cost pools and the distribution of water supply costs between irrigation and M&I water users. For construction costs, the effect on cost pools is driven by changes in facility-level cost allocations, where the cost of each facility is first allocated among the authorized purposes of the CVP, including water supply, which in turn is sub-allocated based on use of the water and assigned to a particular cost pool depending on the characteristics of each facility.

The cumulative effect is a decline of \$40.9 million in construction costs allocated to water users in the CVP. However, when evaluated from the perspective of project beneficiaries, irrigation water users experienced a decline in allocated costs, while M&I users realized an increase in costs. This disparity among water users is attributed to relatively higher water deliveries to M&I contractors compared to irrigation contractors under current and prospective operations of the CVP.

O&M costs are allocated individually and assigned to an applicable cost pool. The allocation of projected O&M costs follows similar patterns across cost pools and water users, although it is less dependent on the FCA because many O&M costs are allocated based on Reclamation policy and applicable laws and legislation. Overall, allocated O&M costs increased for both irrigation and M&I water users, primarily due to the increase in total O&M costs in the CVP.

The CVP Cost Allocation Study Cost have 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. Since the study is considered complete, there will not be an estimate for the 2022 Water Rates.

<b>Fiscal Year</b>	<b>Estimated Cost</b>	<b>Actual Cost</b>	<b>Difference (Over)/Under</b>
2010	\$750,886	\$433,553	\$317,333
2011	\$700,000	\$665,700	\$34,300

Fiscal Year	Estimated Cost	Actual Cost	Difference (Over)/Under
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	\$1,325,757	\$(325,757)
2018	\$1,000,000	\$751,676	\$248,323
2019	\$1,000,000	\$420,426	\$579,574
2020	\$ 500,000	\$467,781	(\$32,219)
2021	\$ 0	TBD	TBD
2022	N/A	N/A	

### 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/](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 and irrigation estimated deliveries to use a 7-year average for 2022.

## 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 California Great Basin 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 2022 for both Irrigation and M&I. These are cost that specifically have been identified to be recovered as O&M.

There will be a further review of our Financial Statement to determine if there is a repayment adjustment for Plant in Service cost that have historically been included as capitalized cost and recovered as part of the Plant but need to be considered for cost recovery as O&M. As this process proceeds, it will be discussed with the Financial Affairs Committee and further informed to water users through the Financial Management Division California Great Basin, Bureau of Reclamation WEB site.

### 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	\$1,238,095	\$4,278,780
2018	\$6,236,549	\$196,538	\$6,040,011
2019	\$6,118,000	\$7,745,741	\$(1,627,741)
2020	\$8,432,204	\$4,480,928	\$(3,951,276)
2021	\$8,216,208	TBD	TBD
2022	\$4,99,955	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	\$169,622	\$1,967,085
2018	\$890,154	\$85,023	\$805,131
2019	\$795,720	\$4,084,412	\$(3,288,692)
2020	\$1,236,940	\$802,235	(\$434,705)
2021	\$4,370,769	TBD	TBD
2022	\$1,075,512	TBD	TBD

## Interest during Construction & Interests on Investment Adjustment

Per FIN 07-21, when construction of the project is determined to be substantially complete, a Final Cost Allocation (FCA) is required. The Central Valley Project FCA study was completed and finalized in January 2020, hence per FIN 07-21, requires Reclamation to adjust Interest during Construction (IDC) on CVP facilities. Once IDC is adjusted, we will consider recalculating Interest on Investment (IOI) if applicable per FIN 06-32. Reclamation is currently working internally on these topics and as we have more information to share, we will communicate with stakeholders.

## Federal Investments

Provided is the CVP Construction Allocation by Function and the Repayment through September 30, 2020, identifiable to Irrigation and M&I. These costs take into account the implementation of the Final Cost Allocation Study.

### Construction Cost Allocation by Function thru FY 2020 (excludes DMC Intertie)

Function	Allocation	Repayment	Unpaid	% Repaid
<b>Water Service</b>				
Irrigation	\$1,133,560,356	\$1,029,734,218*	\$103,826,138	90.84%
M&I	\$151,180,866	\$127,619,946*	\$23,560,919	84.42%
<b>Other Purposes</b>				
Commercial Power	\$891,206,963			
Federal Taxpayer	\$1,176,137,944			
State of California	\$256,005,902			
Local Entities	\$261,400			
	\$3,665,228,431			

\*Ability to pay relief and WIIN payments/discounts are included as repayment.

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
<b>O&amp;M</b>			
2016	1,087,556	1,549,749	(462,193)
2017	2,295,294	2,574,135	(278,841)
2018	2,543,787	1,920,756	623,031
2019	2,861,259	1,713,135	1,148,124
2020	1,770,758	1,928,932	(158,174)
2021	TBD	1,616,424	
<b>Construction</b>			
2016	1,087,556	1,949,621	(862,065)
2017	2,295,294	1,545,547	749,747
2018	2,543,787	1,607,776	936,011
2019	2,861,259	1,552,257	1,309,002
2020	1,770,758	1,529,480	241,278
2021	TBD	1616,424	

<b>Year</b>	<b>Actual IRR Construction Recovery</b>	<b>Projected Annual Average Construction Recovery</b>	<b>Difference (Over)/Under</b>
2003	\$17,053,906	\$37,051,890	\$(19,997,984)
2004	\$21,751,380	\$37,404,088	\$(15,652,708)
2005	\$18,070,693	\$38,527,038	\$(20,456,345)
2006	\$24,305,293	\$39,211,192	\$(14,905,899)
2007	\$19,598,561	\$39,610,443	\$(20,011,882)
2008	\$14,194,121	\$41,578,408	\$(27,384,287)
2009	\$4,251,593	\$31,640,202	\$(27,388,609)
2010	\$14,877,772	\$33,202,989	\$(18,325,217)
2011	\$25,444,957	\$34,695,494	\$(9,250,537)
2012	\$19,365,287	\$35,113,081	\$(15,747,794)
2013	\$13,781,066	\$34,987,828	\$(21,206,762)
2014	\$4,229,536	\$36,864,266	\$(32,634,730)
2015	\$2,631,789	\$37,174,567	\$(34,542,781)
2016	\$5,695,535	\$39,328,648	\$(33,633,113)
2017	\$60,544,218	\$42,253,883	\$18,290,335
2018	\$94,243,950	\$46,218,850	\$48,025,100
2019	\$80,983,138	\$44,719,334	\$36,263,804
2020	\$219,067,950	\$10,555,836	

## **Folsom-South Canal**

The Folsom-South Canal costs have been reclassified from construction in abeyance to Plant-in-Service. For repayment purposes, the Operation and Maintenance costs and the Construction costs are being reviewed by the Bureau of Reclamation. For 2020 M&I O&M and the 2021 M&I Construction and O&M Water Rates, the Folsom-South Canal costs were identified 16.4% as recoverable.

## **Friant Surcharge and Associated Water Rate Offset**

Public Law 111-11, Title X, provides a provision for Friant Division water contractors to receive a temporary reprieve in their Friant Surcharge if the Secretary of the Interior does not need those funds for the ongoing federal costs of the San Joaquin River Restoration Settlement Act Program (Program). The Public Law identifies that this could occur in Fiscal Year (FY) 2020. However, Reclamation has determined that the surcharge should not be reduced as it is necessary for the Program. Since Reclamation will include the surcharge at a rate of \$7.00 per acre-foot, and not reduce the rate (up to a \$3.00 reduction), Reclamation will offset Water Marketing for the Friant Division contractors to the extent allowed by the Federal law. Please refer to Schedules A-8, A-2A, and A-1 of the water rate books to identify the offset.

## 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 2021, there will be costs projected to be approximately \$11.2 million and are included in the 2022 water rates*

## Project Use Energy (PUE) O&M Cost in the Water Rates

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.

## Site Security Costs

Projected costs for security guards and patrols for FY 2022 are included in the water rates. The estimated total projected costs for Irrigation and M&I are \$2,89,260 and \$583,668 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 2022 through February 2023 the TPUD rate will be \$0.15 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 2022, the budgeted costs were \$462,989 and those allocated to Irrigation and M&I were estimated at \$403,662 and \$59,327, respectively.

## **WIIN Act Repayment Contracts**

Public Law 114-322, Section 4011 directs that upon request of the contractor, certain water service contract(s) shall be converted to repayment contract(s). As part of this process, the requesting contractor(s) will enter into an amended or integrated form of contract which includes among other things repayment of construction balances that are properly assignable to the contractor and in effect at the time of contract conversion. Once the contract is converted, the water rates will be updated under the amended contract for the month following the execution date to exclude the construction component of the water rate.

## **Questions**

Please direct any questions regarding the CVP 2022 final water rates or the CVP 2020 annual contractor accountings to Sabir Ahmad at 916-978-5187 or by email at [sahmad@usbr.gov](mailto:sahmad@usbr.gov).