

Delta-Mendota Canal/California Aqueduct Intertie Repayment Analysis

Date

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Overview

In fiscal year 2012, the Bureau of Reclamation (Reclamation) Mid-Pacific (MP) Region transferred the Delta-Mendota Canal/California Aqueduct Intertie (Intertie) costs from construction in progress to plant-in-service as part of the Central Valley Project (CVP), initiating Reclamation's responsibility to recover the cost of the facility through CVP water rates. A decision must be made regarding the appropriate cost allocation and recovery determination of the \$26.2 million in Intertie construction costs (planning, design, and construction), and the appropriate Ratesetting cost component, in which to apply the construction costs.

Background

The Intertie was planned by Reclamation as an operations and maintenance (O&M) activity since 1999, and it was subsequently confirmed to be an O&M activity in Public Law (PL) 108-361 (October 24, 2004). PL 108-361 also authorized Reclamation to design and construct the facility in anticipation of expanding the Intertie to allow use of the full operational capacity of Jones Pumping Plant (PP), approximately 5,100 cubic feet per second (cfs).

Prior to PL 108-361, Reclamation received approximately \$2 million in appropriations for planning and environmental activities, and post-PL 108-361, Reclamation received over \$2 million in Bay-Delta appropriations to continue planning, design, and permitting. Twenty two CVP contractors, that receive CVP supplies via the C.W. "Bill" Jones Pumping Plant and the Delta-Mendota Canal (DMC), entered into contributed funds agreements to complete planning, design, and construction of the Intertie. The Intertie was partially implemented prior to being halted by litigation. Partial implementation included establishment of a permanent easement, as well as manufacturing and acquiring pumps, rotors, and valves.

Reclamation used Bay-Delta funds to prepare an Environmental Impact Statement (EIS), Record of Decision (ROD), and various construction and O&M agreements and contracts. By the time Reclamation was set to proceed again to construction, the American Recovery and Reinvestment Act (ARRA) was passed.

Consequently, the CVP contractors who had contributed funds applied for ARRA funding and received the necessary funds to construct the project. In 2011, the unspent portion of the contributed funds were returned to those contractors who advanced the funding. Reclamation will credit the appropriate contractors for the amount of contributed funds expended on the Intertie, in the final 2014 CVP water rates.

As time passed since the inception of the planning process, several financial reviews and audits brought to light that the MP Region had been erroneously allowing extended repayment of O&M projects (without interest) for irrigators. At the time that ARRA funds were requested, the contractors were informed that the construction costs would have to be expensed as an O&M project. After extensive review, it was determined that the authorization to design and construct the project with features to allow expansion (i.e., two extra bays to house two additional pumps if authorized at a later date) allowed the Intertie to be characterized as new construction or a new project feature (instead of as O&M), thus allowing extended repayment without interest for irrigators.

Reclamation Policy PEC 01-02 requires a cost allocation for each new project. The purpose of a cost allocation is to relate the costs to the benefits derived from the project. This is particularly important for a multi-purpose project. As the Intertie had been planned as an O&M activity, it was assumed that the existing CVP cost allocation for similar existing feature that would apply for repayment purposes. With the decision that the Intertie was a new feature, a separate cost allocation was required. Reclamation prepared a draft cost allocation in early 2013 that, most importantly, identified the Intertie as a single-purpose agricultural water supply project. The cost allocation study also identified regions of the CVP that received the increase in water supply reliability due to the operation of the Intertie.

Discussion

Since MP Region personnel and CVP contractors had originally thought that the construction costs of the Intertie would be added to the current CVP water rates for extended repayment, discussion of the appropriate rate cost component began as early as 2002. Reclamation, San Luis and Delta-Mendota Water Authority (SLDMWA), and representatives of a few CVP contractors discussed how construction costs would be spread to the CVP contractors in both the conveyance cost component and the conveyance pumping cost component. These cost components identify the reimbursable costs to be repaid (note: some CVP costs are allocated to benefits that are authorized as non-reimbursable) and which contractors are to repay them.

In order to enter into contributed funds agreements in excess of \$5,000, the MP Regional Director requested the authority to negotiate contributed funds agreements for up to \$28.3 million. The content of the request was shared with SLDMWA and representatives of a few water contractors. The request stated that the Intertie was a conveyance pumping plant and that the costs would be recovered from the beneficiaries of the project. The Basis of Negotiation provided by the Commissioner did not reflect on the classification of the project or identify the appropriate cost component, but did state that the MP Region is to recover the costs from the beneficiaries of the project, consistent with PL 108-361.

Definitions

The following definitions of the CVP cost components apply to the Intertie project and this analysis:

COS Rate Components:¹

- **Conveyance Component.** The conveyance O&M and capital cost components include the costs associated with Project facilities designed and used for transporting water throughout the Project. Canals such as the Delta-Mendota, San Luis, and Friant-Kern Canals, are the primary type of facility included in this cost component.
- **Conveyance Pumping Component.** The conveyance pumping O&M and capital cost components include the costs of the three main Project pumping facilities used to move M&I water through the Project; the Jones Pumping Plant, the O'Neill Pumping-Generating Plant, and the Dos Amigos Pumping Plant. Separate O&M and capital rates are computed for each of the three pumping plants and those rates are assigned to contractors whose water is pumped through these pumping plants.

Options for Cost Recovery

Upon review, the Intertie constructions costs could only be appropriately added to either the conveyance pumping component or the conveyance component. The purpose of the project, as described in the Record of Decision, alludes to both conveyance and conveyance pumping.

Three potential options for recovering the construction costs of the Intertie project are considered. The beneficiaries of the Intertie were generally identified in the

¹ Ratesetting Process Glossary
www.usbr.gov/mp/cvpwaterrates/rate_process/glossary.html

Delta-Mendota Canal/California Aqueduct Intertie Cost Allocation Information Report (Reclamation, 2013).

The following three cost recovery options are analyzed for the conveyance and conveyance pumping components of the CVP ratesetting policies.

1. Add the costs to the conveyance cost component and recover the costs from the State of California, all CVP water and power contractors, as well as assigning 7.9 percent of the costs to the non-reimbursable fish and wildlife purpose.
2. Add the costs to the conveyance pumping cost component, and recover the costs according to a cost distribution specific to the beneficiaries of the Intertie.
3. Add the costs to the conveyance cost component, and recover the costs according to a cost distribution specific to the beneficiaries of the Intertie. This option would require a restructuring of the conveyance component to distribute and recover all conveyance construction costs from only those contractors who benefit from each canal.

All options have merit; however, the parity, precedence, and long term impacts of each option must be carefully considered.

The Intertie is considered new construction within the CVP; therefore, the construction costs are to be recovered over a separate repayment period. The CVP Irrigation Ratesetting Document states:

“New 50-year repayment periods will be established for the capital cost of major rehabilitations and new facilities added to the CVP. All other construction and rehabilitation costs affecting existing facilities will fall within the initial 50-year repayment period ending in year 2030.”

All options consider only the recovery of construction costs. The O&M responsibilities for CVP canals (with the exception of Folsom South Canal) have been transferred to the Water Authorities; therefore, O&M costs are recovered directly by these Authorities. The O&M costs for the Folsom South Canal are recovered through the CVP water rates.

Option 1 – Add the Intertie construction costs to the conveyance cost component and recover the costs according to the current cost distribution for conveyance.

The language included in the legislative authority (PL 108-361) and the ROD (Final EIS – December 2009) identifies that the Intertie’s purpose is related to conveyance.

PL 108-361 provides Reclamation the authority to construct an intertie between the State Water Project California Aqueduct and the CVP DMC under the heading of “Conveyance”. Appropriated funding is authorized for the purpose of conducting feasibility studies and for the evaluation of increased capacity.

The ROD for the Intertie identifies the purpose as improving the operation and maintenance abilities of the CVP by addressing constraints in the DMC just south of the Jones PP. Improvements that are expected as a result of the Intertie are:

1. Improved DMC conveyance capacity.
2. Improved flexibility for the operation and maintenance of the DMC; and
3. Improved flexibility for emergency activities.

As identified, a purpose of the Intertie was to restore canal capacity to the DMC. If the determination is made to include the Intertie construction costs in the CVP Ratesetting conveyance cost component, these costs would be distributed for repayment using the same percentages that are used to distribute conveyance construction costs within the DMC. Table 1A identifies how the Intertie construction costs would be distributed for repayment. Table 1B identifies the cost distribution per acre foot based on a new 50-year repayment period. Table 1C identifies the average potential change to the CVP water rates for contractors north of the delta, south of the delta, and in the Friant/Madera division.

Table 1A. Intertie Cost Distribution – Conveyance Cost Component

| Project Purpose | Distribution Percentage | Intertie Distribution |
|---|-------------------------|-----------------------|
| Reimbursable | | |
| Irrigation | 82.7 | \$21,712,658 |
| Municipal and Industrial (M&I) | 7.3 | \$1,916,595 |
| Commercial Power | 1.4 | \$367,566 |
| State of California | 0.7 | \$183,783 |
| Non-Reimbursable (Federal Taxpayers) | | |
| Fish and Wildlife (Wildlife Refuges) | 7.9 | \$2,074,123 |
| Total Intertie Construction Costs | | |
| Totals | 100.0 | \$26,254,725 |

1/ If the Intertie costs were to be distributed differently (i.e. 100 percent to water supply project purposes), this would deviate from the current methodology used for distributing all other conveyance construction costs included in this cost component.

Table 1B. Intertie Cost Distribution (per acre-foot) to Water Supply – Conveyance Cost Component

| Project Purpose – Water Supply | Cost Distribution per Acre-Foot |
|--------------------------------|---------------------------------|
| Irrigation | \$0.21 |
| Municipal and Industrial | \$0.13 |

Table 1C. Average Change in CVP Water Rate (per Acre-Foot) – Conveyance Cost Component

| Project Purpose | North of Delta | Friant/Madera | South of Delta ¹ | |
|--------------------------|----------------|---------------|------------------------------------|--|
| | | | Before Crediting Contributed Funds | After Crediting Contributed Funds ² |
| Irrigation | +\$0.21 | +\$0.21 | +\$0.21 | +\$0.07 |
| Municipal and Industrial | +\$0.13 | +\$0.13 | +\$0.13 | +\$0.06 |

1/ The per acre foot impact for south of delta contractors is less than that of the other areas because many south of delta contractors provided contributed funds that were credited toward their Intertie construction obligation. The rate impact identified in this table is the remaining obligation after the contributed funds were applied toward repayment.

2/ Contributed funds were first applied to the construction obligation for M&I (interest bearing), and then if any funds remained, to the irrigation obligation.

This approach introduces inconsistencies in historical commitments and traditions within the CVP, and would not be consistent with the Basis of Negotiation signed by Commissioner Keyes, specifying that costs would be recovered from the beneficiaries of the Intertie. Furthermore, it is a departure from the traditional application of limiting repayment in the conveyance cost component to only gravity fed project facilities.

Fiscal Effects

The fiscal effects of Option 1 are as follows:

- Spreads the repayment responsibility among a larger number of contractors; consequently, minimizing the overall rate impact to CVP contractors, particularly water rates for contractors south of delta.
- Aligns with treating the CVP as a fully integrated project, both operationally and financially.
- Recovers Intertie construction costs using the current conveyance cost component. Consequently, the costs would be distributed to CVP contractors that do not benefit from the Intertie, including the wildlife refuges (non-reimbursable costs borne by the taxpayers), and contractors in the Friant/Madera Division.
- Distributes a portion of repayment to the commercial power purpose and also may result in the potential shift of additional CVP construction costs to power contractors because of irrigation contractors' ability-to-pay relief per PL 99-546. There are thirteen north of delta contractors included in the conveyance cost component that are currently granted aid to irrigation from CVP construction costs due to their inability to pay these costs. Consequently, the disproportionate cost allocation to the power contractors would be exacerbated.
- Increases construction costs for the north of delta contractors (due to the repayment obligation of the Intertie) and could result in even more north of delta contractors becoming eligible for aid to irrigation.
- Distributes a portion of the Intertie construction costs to the Friant-Kern Canal contractors for repayment. The Friant-Kern Canal contractors (except for International WD) have fully repaid their CVP construction obligation through 9D repayment contracts. Consequently, new contracts would have to be negotiated.

Option 2 – Add the Intertie construction costs to the conveyance pumping cost component, and recover the costs according to a cost distribution specific to the beneficiaries.

The Intertie (with a total pumping capacity of 467 cfs.) was constructed as a primary project component and the primary function of the Intertie is to pump water uphill into the California Aqueduct. Also, per the ROD, one purpose of the Intertie is to allow the Jones PP to operate at its original designed pumping capacity of approximately 4,600 cfs. There are some pumping facilities associated with dams that are included in the storage construction cost component for the purpose of cost recovery because the cost related to the pumping is difficult to segregate from the cost of the dams.

The current Ratesetting practice is to distribute conveyance pumping construction costs to those contractors who benefit from the facility (for the purpose of repayment). This is done for Corning PP, Jones PP, O'Neill PP, and Dos Amigos PP.

The ROD identifies three operation scenarios in which the Intertie would be used. Two of the three operation scenarios involve pumping water:

1. Up to 467 cfs. would be pumped from the DMC to the California Aqueduct to help meet water supply demands of CVP contractors or to be stored in the CVP portion of San Luis Reservoir for later release to meet CVP demands.
2. Up to 467 cfs. would be pumped from the DMC to the California Aqueduct to minimize impacts on water deliveries attributable to temporary restriction in flow or water levels in the DMC south of the Intertie, or the California Aqueduct north of the Intertie, for system maintenance or because of an emergency outage.

The only predictable and quantifiable benefits calculated for the Intertie result from operation scenario 1. Option 2 was developed on the premise that the Intertie operation scenarios and the function of the facility could be used as the basis for including the Intertie construction costs in the conveyance pumping cost component.

Another argument that can be made for using the conveyance pumping cost component is that this method would assign the construction costs of the Intertie only to those contractors who directly benefit from the Intertie.

If the determination is made to include the Intertie construction costs in the CVP Ratesetting conveyance pumping cost component, these costs would be allocated 100 percent to water supply (irrigation) for repayment based on the Draft Cost Allocation Information Report and the results of the CalSim II model (see Table 2A). Table 2B identifies the cost distribution per acre foot based on a new 50-year repayment period. Table 2C identifies the average change to the CVP water rates for contractors north of the delta, south of the delta, and in the Friant/Madera division. Because construction costs for pumping facilities included in the conveyance pumping cost component are only distributed to beneficiaries for repayment, only contractors south of the delta would have an increase to their water rate. The rate change averages \$0.48 per acre foot. The contractors with a relatively small change to their water rate most likely provided contributed funding that will be credited toward their construction obligation for the Intertie.

Table 2A. Intertie Cost Distribution – Conveyance Cost Component

| Project Purpose | Distribution Percentage | Intertie Distribution |
|---------------------|-------------------------|-----------------------|
| Reimbursable | | |
| Irrigation | 100 | \$26,254,725 |

Table 2B. Intertie Cost Distribution (per acre-foot) for Irrigation Conveyance Pumping Cost Component

| Project Purpose | Cost Distribution per Acre-Foot |
|-----------------|---------------------------------|
| Irrigation | \$0.57 |

Table 2C. Average Change to CVP Water Rate (per acre-foot) – Conveyance Pumping Cost Component

| Project Purpose | North of Delta | Friant/Madera | South of Delta | |
|-----------------|----------------|---------------|------------------------------------|-----------------------------------|
| | | | Before Crediting Contributed Funds | After Crediting Contributed Funds |
| Irrigation | \$0 | \$0 | +\$0.57 | +\$0.48 |

Fiscal Effects

The fiscal effects of Option 2 are as follows:

- The impact of physical and regulatory limitations on the benefits of the CVP as a whole is heavily borne by the south of the delta contractors. However, the balance of the CVP beneficiaries would not financially assist in mitigating this impact.
- Distributes construction costs only to the beneficial users of the Intertie (irrigation) and is consistent with PL 108-361 and the Commissioner’s delegation of authority.
- Does not distribute (or shift) any portion of the construction costs to commercial power or M&I for repayment.
- Is consistent with the current practice of recovering the construction costs of conveyance related pumping facilities from beneficial users.
- Does not determine repayment based on the purpose and need statement for the Intertie environmental documents.

- Restricts the repayment responsibility among a small number of contractors south of the delta, although the conveyance capacity is increased as a result of the Intertie project.

Option 3 – Add the Intertie construction costs to the conveyance cost component and restructure the cost component to recover costs from only those contractors who benefit from each canal.

Another option for the repayment of the Intertie construction costs is to restructure the current CVP Ratesetting conveyance cost component and recover conveyance construction costs from only those contractors that benefit from each of the different canals within the CVP. The Intertie construction costs would be added as a new conveyance facility for the DMC and SLC.

If this approach is used, the Intertie construction costs would still be distributed among project purposes as identified in Tables 1A and 3A. However, the 50-year pooled rate used to distribute construction costs among contractors for repayment would be replaced by 50-year rates that are segregated for each of the different canals. Contractors would then only be distributed conveyance construction costs based on the segregated 50-year rate for each of the different canals they use. Table 3B identifies the per acre foot cost distribution of the Intertie to the individual canals within the CVP based on a new 50 year repayment period. Table 3C identifies the average potential change to the CVP water rates for contractors north of the delta, south of the delta, and in the Friant/Madera division.

Table 3A. Intertie Cost Distribution – Conveyance Cost Component

| Project Purpose | Distribution Percentage | Intertie Distribution |
|---|-------------------------|-----------------------|
| Reimbursable | | |
| Irrigation | 82.7 | \$21,712,658 |
| Municipal and Industrial | 7.3 | \$1,916,595 |
| Commercial Power | 1.4 | \$367,566 |
| State of California | 0.7 | \$183,783 |
| Non-Reimbursable (Federal Taxpayers) | | |
| Fish and Wildlife (Wildlife Refuges) | 7.9 | \$2,074,123 |
| Total Intertie Construction Costs | | |
| Totals | 100.0 | \$26,254,725 |

Table 3B. Intertie Cost Distribution (per acre-foot) by Canal Conveyance Cost Component with Restructured Distribution

| Project Purpose | North of Delta | | | | | | | Friant/Madera | | South of Delta | |
|-----------------|----------------|-----------|---------------|------------------|------------------|---------------|----------------|---------------|--------|----------------|----------|
| | Clear Creek | Cow Creek | Corning Canal | Contra Costa | Folsom South | Tehama-Colusa | Toyon Pipeline | Friant-Kern | Madera | Delta-Mendota | San Luis |
| Irrigation | \$0 | \$0 | \$0 | N/A ¹ | N/A ² | \$0 | N/A | \$0 | \$0 | +\$1.39 | +\$1.39 |
| M&I | \$0 | \$0 | N/A | | \$0 | \$0 | \$0 | \$0 | N/A | +\$0.25 | +\$0.25 |

1/ Contra Costa Canal construction costs are not included in the CVP construction conveyance cost component. These costs are only recovered by Contra Costa WD through a 9D repayment contract. As a result, Contra Costa WD is not included in the CVP construction conveyance cost component.

2/ The construction costs for the irrigation portion of the Folsom South Canal were transferred to construction in abeyance in fiscal year 2013.

N/A: not applicable

Table 3C. Average Change in CVP Water Rate (per acre-foot) – Conveyance Cost Component with Restructured Distribution (Intertie Only)

| Project Purpose | North of Delta | Friant/Madera | South of Delta ¹ | | | |
|-----------------|----------------|---------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | | | Delta-Mendota | | San Luis | |
| | | | Before Crediting Contributed Funds | After Crediting Contributed Funds | Before Crediting Contributed Funds | After Crediting Contributed Funds |
| Irrigation | \$0 | \$0 | +\$1.39 | +\$1.25 | +\$1.39 | +\$1.19 |
| M&I | \$0 | \$0 | +\$0.25 | +\$0.21 | +\$0.25 | +\$0.22 |

1/Contributed funds were first applied to the construction obligation for M&I (interest bearing), and then if any funds remained, to the irrigation obligation.

The following supplemental tables display the historical cost recovery impacts of a restructured conveyance cost component. Table 3(a) Supplemental compares the historical pooled conveyance cost component (per acre foot) to the restructured conveyance cost component broken out by canal (per acre foot). The impact of this approach varies widely depending on the canals used, ranging from a 89 percent decrease in cost per acre foot (Madera Canal for irrigation) to a

4,328 percent increase in cost per acre foot (Tehama Colusa Canal for M&I).
 Table 3(b) Supplemental demonstrates the impact to the water rate for SOD with the conveyance cost component segregated by canal.

Table 3(a). Supplemental – Historical Cost Distribution (per acre-foot) by Canal Conveyance Cost Component with Restructured Distribution

| Conveyance Facility | Irrigation | | | M&I | | | | | | |
|----------------------------------|---------------------|-------------------------|---------------|---------------------|-------------------------|----------|------------------|---------------|------------------|---------------|
| | Pooled 50-Year Rate | Segregated 50-Year Rate | % Change | Pooled 50-Year Rate | Segregated 50-Year Rate | % Change | | | | |
| North of Delta | | | | | | | | | | |
| Clear Creek | \$3.48 | \$10.34 | +197% | \$3.62 | \$9.41 | +160% | | | | |
| Cow Creek | \$3.48 | \$3.68 | +6% | \$3.62 | \$3.34 | -8% | | | | |
| Corning Canal | \$3.48 | \$5.81 | +67% | N/A | | | | | | |
| Contra Costa Canal | N/A ¹ | | | | | | | | | |
| Folsom South Canal | N/A ² | | | \$3.62 | \$2.48 | -32% | | | | |
| Tehama-Colusa Canal | \$3.48 | \$12.11 | +248% | \$3.62 | \$160.29 | +4,328% | | | | |
| Toyon Pipeline | N/A | | | \$3.62 | \$1.26 | -65% | | | | |
| Friant/Madera Division | | | | | | | | | | |
| Friant-Kern Canal | \$3.48 | \$2.26 | -35% | \$3.62 | \$1.40 | -61% | | | | |
| Madera Canal | \$3.48 | \$0.39 | -89% | N/A | | | | | | |
| South of Delta | | | | | | | | | | |
| Delta-Mendota Canal ³ | 3.48 | Without Intertie | With Intertie | Without Intertie | With Intertie | \$3.62 | Without Intertie | With Intertie | Without Intertie | With Intertie |
| | | \$5.33 | \$6.72 | +12% | +93% | | \$1.47 | \$1.72 | -59% | -53% |
| San Luis Canal | \$3.48 | \$2.52 | \$3.91 | -28% | +12% | \$3.62 | \$0.41 | \$0.66 | -89% | -82% |

1/ Contra Costa Canal construction costs are not included in the CVP construction conveyance cost component. These costs are only recovered by Contra Costa WD through a 9D repayment contract. As a result, Contra Costa WD is not included in the CVP construction conveyance cost component.

2/ The construction costs for the irrigation portion of the Folsom South Canal were transferred to construction in abeyance in fiscal year 2013.

3/ The construction costs for the intertie are included in the segregated 50 year rate calculated for the DMC for both irrigation and M&I.

N/A: not applicable

Table 3(b). Supplemental – Average Change in CVP Water Rate (per acre-foot) for South of Delta Conveyance Cost Component with Restructured Cost Distribution (Intertie + Segregated Rate)

| Project Purpose | South of Delta ¹ | | | |
|-----------------|-----------------------------|----------------------------|------------------|----------------------------|
| | Delta-Mendota | | San Luis | |
| | Without Intertie | With Intertie ² | Without Intertie | With Intertie ² |
| Irrigation | +\$1.85 | +\$3.10 to +\$3.24 | -\$0.96 | +\$0.23 to +\$0.43 |
| M&I | -\$2.15 | -\$1.90 to -\$1.94 | -\$3.21 | -\$2.96 to -\$2.99 |

1/Contributed funds were first applied to the construction obligation for M&I (interest bearing), and then if any funds remained, to the irrigation obligation.

2/The range identified is based on whether or not funds were contributed. Not all contractors contributed funding for the Intertie.

There are also non-financial impacts to this approach. For example, this approach necessitates changes to the current Ratesetting policy because recovery of conveyance construction cost is currently treated as a CVP wide benefit rather than a regional benefit determined by proximity to and use of CVP canals. Additionally, this approach would require a public review and comment process, and consensus on the timing for implementing the change, either immediately or after the current CVP cost allocation study is completed.

Fiscal Effects

The fiscal effects of Option 3 are as follows:

- Recovers the cost of the Intertie as a conveyance activity, which is consistent with the interpretation of authorizing language and the purpose and need statement for the Intertie.
- Distributes the water supply portion of the Intertie construction costs only to those contractors who benefit from it.
- Equitably distributes the conveyance construction costs among the beneficial users of each of the canals and mitigates the subsidies that exist in the existing conveyance cost component (see Table 3(a) Supplemental).
- Reduces the conveyance construction costs distributed to many contractors, specifically for M&I water.
 - Construction costs currently distributed to contractors that are represented by the Friant Water Authority would be reduced.

- The Friant Kern Canal contractors may be eligible for a credit because the Friant-Kern Canal contractors (except International WD) have fully repaid their CVP construction obligation.
- The distribution of conveyance costs to SMUD would be reduced resulting in a lower construction rate component. Although SMUD is included in the conveyance O&M cost component for the Friant Kern Canal, the distribution of conveyance O&M costs would not change as a result of this approach.
- Consolidates the Intertie construction costs in with the DMC project purposes, including fish and wildlife and commercial power, despite the results of the CalSim II model that indicates that neither purpose directly benefits from the Intertie.
- Distributes Intertie construction costs to those who do not benefit from the Intertie, such as commercial power contractors.
- Has the potential to significantly increase the amount of CVP construction costs that are shifted to commercial power contractors due to potential increases in ability-to-pay relief for irrigators.
 - There are thirteen north of delta contractors who currently have aid to irrigation. This approach would distribute even more construction costs to these contractors, thereby, shifting more costs to commercial power contractors for repayment.
 - The substantial impact of this approach on water rates paid by those contractors who use Clear Creek, Cow Creek, Corning Canal, and Tehama Colusa Canal for conveyance could push even more contractors into qualifying for ability-to-pay relief.
- Requires retroactive adjustments (increases and decreases) to:
 1. Interest charged on unpaid construction obligations for M&I contractors.
 2. Interest charged on unpaid capital interest included in the O&M deficit for M&I contractors.
- Would require the time and cost of at least two Accountants to adjust the rate calculations for cost recovery. These costs would be treated as reimbursable O&M costs and included in the water marketing cost component for recovery in future contractor accountings.
- Affects inconsistent repayment treatment in the irrigation and M&I Ratesetting policies unless applied universally. Although the Proposed Municipal and Industrial Water Central Valley Project – California

Ratesetting Policy of 1993 is an interim document, the CVP Irrigation Ratesetting Document of 1988 is a final policy document. Revising Ratesetting policy would take up to one to two years and could potentially result in other policy changes.