



NOTICE TO

STATE WATER PROJECT CONTRACTORS

NUMBER: 06-05

DATE: 7/19/06

SUBJECT: Criteria for Bulletin 132-06

FROM: *Raphael D. Jones*
DEPUTY DIRECTOR, DEPARTMENT OF WATER RESOURCES

Attached for your information are copies of "Criteria for Bulletin 132-2006 Project Operations Studies" and "Interest and Escalation Rates for Preparing Bulletin 132-2006."

These criteria are being used by the Department of Water Resources (DWR) to prepare information for Bulletin 132-2006, "Management of the California State Water Project" and to determine Water Contractors' Statements of Charges for the year 2007.

If you have any questions, please contact Dan Flory, Chief of DWR's State Water Project Analysis Office, at (916) 653-4313, or you may call Susan Lee of his staff at (916) 653-1894.

Attachment

CRITERIA FOR BULLETIN 132-06 PROJECT OPERATIONS STUDIES

This criteria provides a summary of the basic operations assumptions to be used in developing the 2007 Statement of Charges. Actual Project operations may ultimately be different and contractor billings will be adjusted as appropriate.

1. **Water Deliveries.** Water demands for the water operation studies will be based on the short-range, five-year (2006-2010) requests submitted by the water contractors in October 2005 and the long-range (2011-2035) requests submitted by the contractors in October 2004.

2. **Water Supply.** The water and power studies will reflect compliance with the long-term NMFS Winter Run Biological Opinion as amended on May 17, 1995; the long-term USFWS Delta Smelt Biological Opinion dated March 6, 1995; the March 15, 2001 revision of the December 1999 Water Right Decision 1641; and applicable operational constraints from Endangered Species Act Biological Opinions. The water supply assumed for water and power operation studies will be as follows:
 - (a) **2006** – The initial operations study for 2006 will assume hydrology sufficient to deliver 4.220 MAF (includes 0.045 MAF of “seller’s water” to be stored in San Luis Reservoir and made available for later delivery to buyers and provides for 0.677 MAF of carryover water from 2005). Projections of power generation at Oroville will be based on the Oroville Reservoir inflow from the same hydrology. For generation at Pine Flat Reservoir, lower quartile inflow will be assumed. The 2006 water deliveries and water and power operations studies will be reviewed and finalized in March 2006 when the water supply forecast based on March 1, 2006 snow surveys becomes available.
 - (b) **2007** – State Water Project operations projected for 2007 are the basis for the 2007 Statements of Charges. The study will assume hydrology sufficient to deliver 4.259 MAF (contractors’ projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
 - (c) **2008** – The 2008 studies will assume hydrology sufficient to deliver 4.189 MAF (contractors’ projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
 - (d) **2009** – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.184 MAF.
 - (e) **2010** – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.169 MAF.
 - (f) **2011** and thereafter – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.271 MAF.

3. **Future Project Facilities.** The schedule for initial operation of future project facilities to be used when preparing information for Bulletin 132-06 is shown in the table on page 3.

4. **Water Supply Augmentation**

(a) **Delta Pumps.** The total capacity of Banks Pumping Plant is 10,300 cfs; however, actual daily pumping volumes will be limited as stated in the U.S. Army Corps of Engineers Public Notices 5820A, October 1981, and 19990715, May 2000.

(b) **South Delta Improvements Program.** This program is scheduled for implementation as one of the components of Stage 1 of the CALFED Bay-Delta Program to address local and SWP water supply problems in the South Delta. Facilities in the program include the following:

- ◆ Construction of four flow control structures (gates). Three gates are proposed in South Delta channels to control water levels and circulation in the South Delta. The fourth gate will provide protection for salmon migrating along the San Joaquin River.
- ◆ DWR will acquire a U.S. Army Corps of Engineers permit under Section 10 of the Rivers and Harbors Act to enable increased diversions into Clifton Court Forebay of 8,500 cfs at Banks Pumping Plant. The additional diversion capacity will increase SWP and CVP delivery capability and operational flexibility by enabling more water to be diverted when impacts to Delta fish are less.
- ◆ Selected channel dredging in the South Delta and modification of local diversion structures. Several miles of river channels are proposed to be dredged to reduce the need to operate gates for water state. Twenty-four shallow agricultural diversions will be extended to ensure access to water.

(c) **Ground Water Programs.** On August 9, 1996, ownership of the Kern Fan Element Property and the La Hacienda Facilities was transferred to the Kern County Water Agency and Dudley Ridge Water District through the Kern Water Bank Authority as part of the Monterey Amendment. Fifty percent of any project water remaining in storage from the Berrenda Mesa Demonstration Program and the La Hacienda Water Purchase Program was also transferred to KWBA. The SWP retains the right to recover 15,000 acre-feet under the recovery agreement with KCWA. Additionally, under the 1990 Demonstration Program, the SWP retains the right to 40,131 acre-feet currently stored in Semitropic Water Storage District.

(d) **Other Project Yield.** For purposes of preparing water and power studies for future years, it will be assumed that the Project will deliver full Table A requests. Additional water supply needed to meet future delivery of

requested Table A water would be assumed to be available from development of unspecified future conservation facilities.

5. **Power Operations.** Energy prices in the western states' power market have historically been highest during the on-peak hours and summer months. Despite recent market issues, this pattern is assumed to continue under the deregulated energy market. The aqueduct operation will be optimized to reduce power costs by minimizing on-peak pumping within the constraints of operating criteria.

For Bulletin 132-06, forecasted SWP power operations through the study period will be based on existing power sources and long-term power purchase and exchange contracts for off-peak power. Additional capacity and energy resources needed to meet power requirements will be from unspecified short-term purchases.

FUTURE PROJECT FACILITIES	Dates for Initial Operation	
	Bulletin 132-05	Bulletin 132-06
CALIFORNIA AQUEDUCT - EAST BRANCH		
East Branch Enlargement - Stage 2 Pearblossom Pumping Plant Units 10 & 11 (375 cfs)	Not Scheduled *	Not Scheduled*
Alamo Power Plant - Unit 2 (1,506 cfs)	Not Scheduled *	Not Scheduled*
East Branch Extension Phase II	Not Scheduled	2010
Tehachapi East Afterbay	Not Scheduled	February 2007
CALIFORNIA AQUEDUCT - WEST BRANCH		
West Branch Enlargement	Not Scheduled	No longer planned
Warne Power Plant - Additional units	Not Scheduled	Not Scheduled**
Gorman Creek Channel Modification	Deferred***	Deferred***
SOUTH BAY AQUEDUCT		
Improvement and Enlargement	Not Scheduled	November 2007
DELTA FACILITIES		
South Delta Improvement Program Facilities Permanent Operable Barriers	December 2008	December 2008
OTHER		
Los Banos Grandes Facilities	Not Scheduled	Not Scheduled

* Final units assumed to be available for water and power operation studies to transport project water as needed to meet water delivery requests. Capital costs and minimum OMP&R costs of final units will not be included in Bulletin 132-06 because of uncertainty of scheduling.

** This project cannot be justified.

*** Lack of staff.

TABLE 1

INTEREST RATES TO BE USED IN PREPARING DATA AND
 INFORMATION FOR BULLETIN 132-2006
 WATER CONTRACTORS' STATEMENTS OF CHARGES FOR 2007, AND
 DEPARTMENT FINANCIAL ANALYSIS STUDIES

<u>Item</u>	<u>Interest Rate¹</u> <u>Per Year</u>
1. Interest rates on future general obligation "Offset" bonds (If assumed sold) ²	5.5 (4.5%)
2. Interest Rate for future Water System Revenue Bonds ²	5.5 (4.5%)
3. Project Interest Rate for determining Statements of Charges for 2006	4.608 (4.610%)
4. Interest rate on future short-term investment of project funds ³	3.5 (2.0%)

¹ For the purposes of Department studies, these rates are to be used as the effective rates of interest. Figures in parentheses are Bulletin 132-05 assumptions.

² Future bonds are assumed to be repaid by the end of the Project repayment period (2035) or sooner, with maturities commencing in the year following the date of sale and with equal annual bond service for the principal repayment period.

³ Based on the expected rate of return for funds invested in the State's Surplus Money Investment Fund.

TABLE 2
BULLETIN 132-2006
COST ESCALATION RATES
FOR SWP FACILITIES
TO BE USED FOR FINANCIAL ANALYSIS STUDIES

<u>Item</u>	<u>Percent Increase</u> <u>Per Year</u> ^{1, 2}			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009-2035</u>
<u>Capital Costs</u>				
<u>State Operations</u>				
(Salaries and Benefits)	5 (5)	5 (5)	5 (5)	5
Construction, Direct Pay	3 (3)	3 (3)	3 (3)	3
Relocation, Direct Pay	4 (4)	4 (4)	4 (4)	4
Land and Rights, Direct Pay	4 (4)	4 (4)	4 (4)	4
<u>Operations and Maintenance Cost</u> ³				
<u>State Operations</u>				
(Salaries and Benefits)	5 (5)	5 (5)	5 (5)	5

¹ Statements of Charges for the year 2007 and Bulletin 132-06 will be based on unescalated January 1, 2006 capital costs.

² All figures in parentheses were Bulletin 132-05 assumptions.

³ Operation and Maintenance costs in the Statements of Charges for the year 2007 and in Bulletin 132-06 are to be escalated through 2008 and held at that level for the remainder of the Project repayment period. For specific Project studies requiring escalated costs, continue the percent rate for 2009-2035.

