




# NOTICE TO STATE WATER PROJECT CONTRACTORS

NUMBER: 07-03

DATE: FEB 9 2007

SUBJECT: Criteria for Bulletin 132-07

FROM:

  
DEPUTY DIRECTOR, DEPARTMENT OF WATER RESOURCES

Attached for your information are copies of "Criteria for Bulletin 132-2007 Project Operations Studies" and "Interest and Escalation Rates for Preparing Bulletin 132-2007."

These criteria are being used by the Department of Water Resources (DWR) to prepare information for Bulletin 132-2007, "Management of the California State Water Project" and to determine Water Contractors' Statements of Charges for the year 2008.

If you have any questions, please contact Robert Cooke, Acting Chief of DWR's State Water Project Analysis Office, at (916) 653-5945, or you may call Susan Lee of his staff at (916) 653-1894.

Attachment

## CRITERIA FOR BULLETIN 132-07 PROJECT OPERATIONS STUDIES

This criteria provides a summary of the basic operations assumptions to be used in developing the 2008 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 (2007-2011) requests submitted by the water contractors in October 2006 and the long-range (2012-2035) requests submitted by the contractors in October 2005.
  
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) 2007 – The initial operations study for 2007 will assume hydrology sufficient to deliver 4.105 MAF (includes 0.021 MAF of “seller’s water” to be stored in San Luis Reservoir and made available for later delivery to buyers and provides for 0.580 MAF of carryover water from 2006). 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 2007 water deliveries and water and power operations studies will be reviewed and finalized in March 2007 when the water supply forecast based on March 1, 2007 snow surveys becomes available.
  - (b) 2008 – State Water Project operations projected for 2008 are the basis for the 2008 Statements of Charges. The study will assume hydrology sufficient to deliver 4.267 MAF (contractors’ projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
  - (c) 2009 – The 2009 studies will assume hydrology sufficient to deliver 4.177 MAF (contractors’ projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
  - (d) 2010 – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.170 MAF.
  - (e) 2011 – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.175 MAF.
  - (f) 2012 and thereafter – Assume hydrology sufficient to deliver contractors’ projected Table A requests of 4.152 MAF.

3. **Future Project Facilities.** The schedule for initial operation of future project facilities to be used when preparing information for Bulletin 132-07 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. Construction of the Permanent Operable Gates and the channel dredging proposed to be implemented now under Stage 1 of the SDIP. Stage 2, which would include increasing diversions, has been deferred until more is known about the Pelagic Organism Decline in the 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 (SDIP Stage 1).
  - ◆ 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 (SDIP Stage 1).
  - ◆ 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 (SDIP Stage 2).
- (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. This pattern is assumed to continue under the anticipated California energy market redesign. To minimize power costs, aqueduct operation will be optimized by minimizing on-peak pumping within operating criteria constraints.

For Bulletin 132-07, forecasted SWP power resources for the study period will be based on existing SWP generation and long-term power purchase and exchange contracts. 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 132-06	Bulletin 132-07
<b>CALIFORNIA AQUEDUCT - EAST BRANCH</b>		
East Branch Enlargement - Stage 2 Pearblossom Pumping Plant Units 10 & 11 (375 cfs)	Not Scheduled *	February 2017
Alamo Power Plant - Unit 2 (1,506 cfs)	Not Scheduled *	February 2017
East Branch Extension - Phase II	2010	2012
Tehachapi East Afterbay	February 2007	February 2007
<b>CALIFORNIA AQUEDUCT - WEST BRANCH</b>		
West Branch Enlargement	No Longer Planned	No Longer Planned
Warne Power Plant - Additional units	Not Scheduled**	Not Scheduled**
Gorman Creek Channel Modification	Deferred***	Deferred***
<b>SOUTH BAY AQUEDUCT</b> Improvement and Enlargement	November 2007	June 2008
<b>DELTA FACILITIES</b> South Delta Improvement Program Facilities Permanent Operable Barriers	December 2008	December 2009
<b>OTHER</b> 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 was not 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 132-2007  
WATER CONTRACTORS' STATEMENTS OF CHARGES FOR 2008, AND  
DEPARTMENT FINANCIAL ANALYSIS STUDIES**

<u>Item</u>	<u>Interest Rate<sup>1</sup> Per Year</u>	
1. Interest rates on future general obligation "Offset" bonds (If assumed sold) <sup>2</sup>	5.0%	(5.5%)
2. Interest Rate for future Water System Revenue Bonds <sup>2</sup>	4.5%	(5.5%)
3. Project Interest Rate for determining Statements of Charges for 2007	4.608%	(4.608%)
4. Interest rate on future short-term investment of project funds <sup>3</sup>	5.0%	(3.5%)

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<sup>1</sup>For the purposes of Department studies, these rates are to be used as the effective rates of interest. Figures in parentheses are Bulletin 132-06 assumptions.

<sup>2</sup>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.

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

**TABLE 2**  
**BULLETIN 132-2007**  
**COST ESCALATION RATES**  
**FOR SWP FACILITIES**  
**TO BE USED FOR FINANCIAL ANALYSIS STUDIES**

<u>Item</u>	<u>Percent Increase</u> <u>Per Year<sup>1, 2</sup></u>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2035</u>
<u>Capital Costs</u>				
State Operations				
(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<sup>3</sup></u>				
State Operations				
(Salaries and Benefits)	5 (5)	5 (5)	5 (5)	5

<sup>1</sup> Statements of Charges for the year 2008 and Bulletin 132-07 will be based on unescalated January 1, 2007 capital costs.

<sup>2</sup> All figures in parentheses were Bulletin 132-06 assumptions.

<sup>3</sup> Operation and Maintenance costs in the Statements of Charges for the year 2008 and in Bulletin 132-07 are to be escalated through 2009 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 2010-2035.