



NOTICE TO

STATE WATER PROJECT CONTRACTORS

NUMBER: 09-03

DATE: MAR - 3 2009

SUBJECT: Criteria for Bulletin 132-09

FROM: 
DEPUTY DIRECTOR, DEPARTMENT OF WATER RESOURCES

Attached for your information are copies of "Criteria for Bulletin 132-2009 State Water Project Operations Studies" and "Interest Cost and Escalation Rates for Preparing Bulletin 132-2009."

These criteria are being used by the Department of Water Resources to prepare information for Bulletin 132-2009, "Management of the California State Water Project" and to determine Water Contractors' Statements of Charges for the year 2010.

If you have any questions or need additional information, please contact Robert Cooke, Chief of the State Water Project Analysis Office at (916) 653-4313, or you may call Susan Lee of his staff at (916) 653-1894.

Attachments

TABLE 1

INTEREST RATES TO BE USED IN PREPARING DATA AND
 INFORMATION FOR BULLETIN 132-2009
 WATER CONTRACTORS' STATEMENTS OF CHARGES FOR 2010, AND
 DEPARTMENT FINANCIAL ANALYSIS STUDIES

<u>Item</u>	<u>Interest Rate¹ Per Year</u>
1. Interest rates on future general obligation "Offset" bonds (If assumed sold) ²	5.0% (5.0%)
2. Interest Rate for future Water System Revenue Bonds ²	4.5% (4.5%)
3. Project Interest Rate for determining Statements of Charges for 2010	4.608% (4.608%)
4. Interest rate on future short-term investment of project funds ³	3.0% (5.0%)

¹For the purposes of Department studies, these rates are to be used as the effective rates of interest. Figures in parentheses are Bulletin 132-08 assumptions.

²Future 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.

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

TABLE 2
BULLETIN 132-2009
COST ESCALATION RATES
FOR SWP FACILITIES
TO BE USED FOR FINANCIAL ANALYSIS STUDIES

<u>Item</u>	<u>Percent Increase</u> <u>Per Year¹</u>			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-2035</u>
<u>Capital Costs</u>				
State Operations (Salaries and Benefits)	4 (5)	2.5 (5)	2.5 (5)	2.5 (5)
Construction, Direct Pay	5 (5)	5 (5)	5 (5)	5 (5)
Relocation, Direct Pay	4 (4)	4 (4)	4 (4)	4 (4)
Land and Rights, Direct Pay	4 (4)	4 (4)	4 (4)	4 (4)
<u>Operations and Maintenance Cost²</u>				
State Operations (Salaries and Benefits)	4 (5)	2.5 (5)	2.5 (5)	2.5 (5)

¹ All figures in parentheses were Bulletin 132-08 assumptions.

² Operation and Maintenance costs in the Statements of Charges for the year 2010 and in Bulletin 132-09 are to be escalated through 2011 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 2012-2035.

**CRITERIA FOR BULLETIN 132-09
STATE WATER PROJECT OPERATIONS STUDIES**

This criteria provides a summary of the basic operations assumptions to be used in developing the 2010 Statement of Charges. Actual SWP operations may ultimately be different and contractor billings will be adjusted as appropriate.

1. **Water Deliveries:** Water demands for the water operations studies will be based on the short-range, five-year (2009-2013) requests submitted by the SWP Contractors (Contractors) in October 2008 and the long-range (2014-2035) requests submitted by the Contractors in October 2008.

2. **Water Supply:** The water and power operations studies will reflect compliance with the long-term NMFS Winter Run Biological Opinion issued October 22, 2004; the long-term USFWS Delta Smelt Biological Opinion to be issued December 15, 2008; the Amended 2084 Measures for the Emergency Regulation to Authorize take of Longfin Smelt issued November 14, 2008; and the March 15, 2000 revision of the December 1999 Water Right Decision 1641. The water supply assumed for water and power operation studies will be as follows:
 - (a) 2009 – The initial operations study for 2009 will assume hydrology sufficient to deliver 1.966 MAF. 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 2009 water deliveries and water and power operations studies will be reviewed and finalized in March 2009 when the water supply forecast based on March 1, 2009 snow surveys becomes available.
 - (b) 2010 – SWP operations projected for 2010 are the basis for the 2010 Statements of Charges. The study will assume hydrology sufficient to deliver 3.705 MAF (Contractors' projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
 - (c) 2011 – The 2011 studies will assume hydrology sufficient to deliver 3.713 MAF (Contractors' projected Table A requests). Lower quartile inflow will be assumed for Pine Flat generating facilities.
 - (d) 2012 – Assume hydrology sufficient to deliver Contractors' projected Table A requests of 3.717 MAF.
 - (e) 2013 – Assume hydrology sufficient to deliver Contractors' projected Table A requests of 3.726 MAF.
 - (f) 2014 and thereafter – Assume hydrology sufficient to deliver contractors' projected Table A requests of 3.748 MAF.

3. **Future Project Facilities:** The schedule for initial operation of future project facilities to be used when preparing information for Bulletin 132-09 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 (SDIP).** 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 indefinitely in view of the pelagic organism decline in the Delta. Facilities in the SDIP 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).

(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 (KCWA) and Dudley Ridge Water District through the Kern Water Bank Authority (KWBA) as part of the Monterey Amendment. Fifty percent of any SWP 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 20,065 acre-feet currently stored in Semitropic Water Storage District. The SWP recovered 10,033 acre-feet of previously stored water in Semitropic Water Storage District during 2008, and is projected to recover 10,033 acre-feet in 2009:

(d) Other Project Yield. For purposes of preparing water and power studies for future years, it will be assumed that the SWP 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 north of the Delta.

5. **Power Operations:** Energy prices in the western states' power market have historically been highest during the on-peak hours and summer months. To minimize power costs, aqueduct operation will be optimized by minimizing on-peak pumping within operating criteria constraints.

For Bulletin 132-09, 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 132-08	Bulletin 132-09
CALIFORNIA AQUEDUCT - EAST BRANCH		
East Branch Enlargement - Stage 2 Pearblossom Pumping Plant – Units 10 & 11 (375 cfs) Alamo Power Plant – Unit 2 (1,506 cfs)	June 2017	July 2017
East Branch Extension - Phase I Improvements	March 2007	April 2011
East Branch Extension – Phase II	September 2012	April 2013
SOUTH BAY AQUEDUCT		
Improvement and Enlargement	September 2009	December 2010
DELTA FACILITIES		
South Delta Improvement Program Facilities Permanent Operable Barriers	April 2011	April 2012
Delta Habitat Conservation and Conveyance Program	-	January 2016
Sherman and Twitchell Island Fishscreens	-	December 2009
NORTH BAY AQUEDUCT		
Alternative Intake	-	July 2016

Memorandum

Date: JAN 15 2009

To: 1. Raphael A. Torres
2. Susan Sims
3. Lester A. Snow

From: Robert B. Cooke, Chief
State Water Project Analysis Office
Department of Water Resources

Subject: Criteria for State Water Project Operations Studies for Use in Preparing 2010
Statement of Charges and Bulletin 132-09

Attached is a summary of basic assumptions that we recommend for use in the State Water Project (SWP) operations studies for Bulletin 132-09 and the SWP Contractor's Statements of Charges for the year 2010. These assumptions reflect the Department of Water Resources' (DWR) current planning for future facilities as well as future water management plans.

The criteria for SWP operations studies have been coordinated with the Division of Operations and Maintenance, Bay-Delta Office, and Division of Engineering.

The water delivery estimates are based on the Table A requests submitted by the SWP contractors, on SWP reservoir storage, and on hydrology estimates for the rest of the water year. The water delivery for 2009 will be finalized when the March 1, 2009 snow survey becomes available.

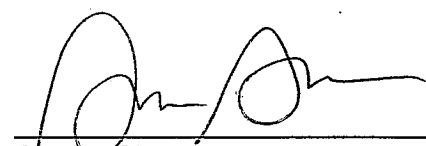
Assumptions on financing and repayment criteria are addressed in a separate memorandum. If you have any questions or need additional information, please contact Susan Lee of my staff at (916) 653-1894.

APPROVAL RECOMMENDED:

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Raphael A. Torres
Deputy Director

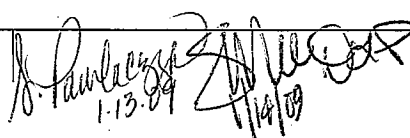


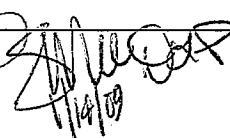
Susan Sims
Chief, Deputy Director

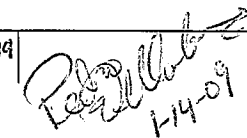
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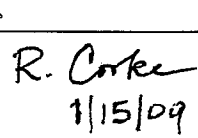
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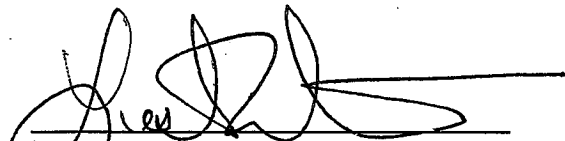
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1. Raphael A. Torres, et al

JAN 15 2009

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APPROVED:



Lester A. Snow

Director

Date

2/25/09

Attachment

MemorandumDate: **JAN 15 2009**To: 1. Raphael A. Torres
2. Susan Sims
3. Lester A. SnowFrom: Robert B. Cooke, Chief
State Water Project Analysis Office
Department of Water ResourcesSubject: Interest and Escalation Rates for Preparing 2010 Statements of Charges and
Bulletin 132-09

The State Water Project Analysis Office recommends that the Department of Water Resources uses the interest and cost escalation rates shown in Tables 1 and 2, attached, for preparing:

1. Statements of Charges for the year 2010 to the State Water Project (SWP) contractors.
2. Bulletin 132-09:
 - a. Capital and operating cost projections;
 - b. Financial analysis studies;
 - c. Projections of SWP bond costs; and
 - d. Projections of revenues from short-term investments of project funds.

The information presented in Tables 1 and 2 has been coordinated with the Divisions of Fiscal Services and Engineering. Tables 1 and 2 show the recommended interest rates and cost escalation rates, respectively, for the forecast period (i.e., 2009 through 2035). The rates that were assumed for Bulletin 132-08 are shown in parentheses.

The interest rates are based on current market trends and future financial outlook. The projected interest rate on future short-term investment decreased for Bulletin 132-09 because of the current downturn in the economy. The other interest rates remain unchanged.

The escalation rates for State Operations are developed from past and future salary and benefits adjustments, which are leveled out to provide a constant rate over the forecast period. The projected escalation rates for State Operations have declined for Bulletin 132-09 due to the current State fiscal situation and merit salary adjustments. The escalation rate for construction is developed from estimating past and current projects as well as the rates used by federal agencies (i.e. U.S. Department of the

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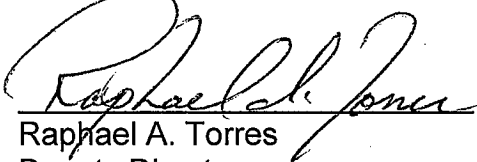
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Interior's Bureau of Reclamation and U.S. Army Corps of Engineers). Escalation rates for construction, relocation, and land and rights activities remain the same. The publication "Trends in Agricultural Land and Lease Values" is utilized in determining the escalation rates for relocation and land and rights. The vast majority of the lands acquired for project purposes are agricultural lands, which have remained stable with slight increases over the last several years.

If you have any questions or need additional information, please contact Susan Lee of my staff at (916) 653-1894.


APPROVAL RECOMMENDED:



Raphael A. Torres
Deputy Director

Date 02.11.2009

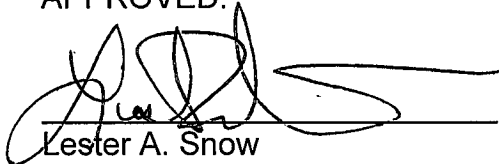
APPROVAL RECOMMENDED:



Susan Sims
Chief Deputy Director

Date 2/23/09

APPROVED:



Lester A. Snow
Director

Date 2/25/09

Attachments