

Chapter II

SUMMARY OF CVP COST ALLOCATION STUDIES

The allocation of CVP costs is used to establish repayment requirements for various project functions. Annual updates adjust the allocation as changes in the uses of project-supplied water and power occur and as new investments in facilities are completed. These updates are required each year to provide input to the CVP water ratesetting process performed by Reclamation and the power ratesetting process performed by Western. An allocation for the fully “authorized CVP,” which includes facilities that have been authorized by Congress and may be constructed in the future, also accompanies annual appropriations requests that are submitted to Congress with the Reclamation’s budget. Cost allocations are also used to establish bases for financial feasibility studies when proposals are made for new additions to the project.

ANNUAL COST ALLOCATION UPDATES

As noted in Chapter I, Reclamation updates several types of cost allocations each year to support a variety of administrative requirements.

The plant-in-service cost allocation is updated to reflect changes in the total capital investment for in-service facilities during the most recent fiscal year and changes resulting from legislation or policy determinations. A similar update is made for the O&M cost allocation to reflect changes in the annual costs to operate and maintain the CVP. Calculations of repayment responsibilities for allocated plant-in-service and O&M costs are based on periodic updates of historic and projected water deliveries and power generation and use for each water use function. Shifts in repayment responsibilities can change gradually in response to long-term trends in water supply uses. For example, if the total of historic and projected M&I water use increases as irrigation use decreases, the repayment responsibilities for reimbursable water supply costs

would tend to shift from irrigation customers to M&I customers. Upon completion of the repayment analysis, changes in the repayment responsibilities of M&I water, irrigation water, and commercial power customers are used in the water and power ratesetting processes performed by Reclamation and Western.

The construction work-in-progress cost allocation provides information on the allocation of costs associated with facilities under construction. Repayment of these costs does not occur until the facilities have been put into service and the costs are recorded on the plant-in-service allocation. The cost allocation of the authorized CVP reflects the allocation of all costs for the entire project as authorized. Costs for facilities on which construction has not been started or completed are shown as estimates that are subject to revision.

As noted in Chapter I, this study addresses only the plant-in-service allocation for the CVP. The recommended allocation method, however, will also be used to complete the construction work-in-progress cost allocation. The allocation of the authorized CVP uses percentages derived from the plant-in-service allocation so that it too will be based on the recommended allocation method. The O&M allocation deals with the annual costs of operating the project and includes categories of costs that are not directly associated with project facilities, such as the hazardous materials management program. Annual costs directly associated with project facilities are allocated in the same proportion as the plant-in-service costs so that the allocation of these costs will also be based on the recommended allocation method.

PREVIOUS CVP COST ALLOCATION STUDIES

Significant allocation studies prepared for the CVP since its inception are summarized in the following sections.

Initial Central Valley Project Studies

During the early to mid-1940s, Reclamation employed many specialists from other Federal, State, and local agencies, the private sector, and academia to address 24 specific problems relating to the CVP. Problem 8 addressed the allocation of project costs to power and irrigation while Problem 9 addressed allocations to navigation, flood control, salinity repulsion, and national security.

Problems 8 and 9 were assigned to a group of investigators drawn from a broad cross-section of Federal and State agencies, the University of California, local planning agencies, and agricultural water users. The committee first applied four different allocation methods – the benefit method, proportionate use method, the vendibility theory, and the alternative justifiable expenditure (AJE) method – and combined the result to produce an allocation of CVP costs that it submitted to Dr. Harlan H. Barrows, Director of Central Valley Project Studies, by letter of June 10, 1946. (The AJE allocation method is discussed in Chapter IV.) Not all members of the group concurred with the recommendation and some issued minority statements. The cost allocation results presented in that report received no official sanction and were never used in project repayment analyses, but they undoubtedly set the stage for subsequent studies.

1946 Cost Allocation Study

Reclamation prepared its own report in 1946 on the allocation of costs and financial feasibility of the CVP. The study was prepared pursuant to section 7(b) of the Reclamation Project Act of 1939, which authorized the Secretary of the Interior to make allocations of costs in accordance with provisions of section 9 thereof.

In the 1946 cost allocation study, Reclamation utilized two methods – AJE and use of facilities – and averaged the results. According to *Document No. 146, 80th Congress, 1st Session*, in which the

allocation was published, the AJE and use of facilities were the two methods for which a reasonable claim to validity existed for application to the CVP. That the two methods produced results with few differences was accepted as proof of the approximate validity of each. Since it was thought that there was no sure way to choose between them, the final result was taken as an average of the two.

1956 Reallocation Study

At the national level, the issue of the appropriate allocation method for use in Federal water resources projects was the subject of several investigations in the early 1950s. The Federal Inter-Agency River Basin Committee represented the COE, the Departments of the Interior, Agriculture, and Commerce, and the Federal Power Commission. In May 1950 its Subcommittee on Benefits and Costs submitted a report entitled *Proposed Practices for Economic Analysis of River Basin Projects*, commonly known as the *Green Book*, in which it recommended the SCRB method for general use in allocating costs on Federal multi-purpose river basin projects. This recommendation, however, was not immediately adopted by the participating agencies.

The Subcommittee on Civil Works of the House Committee on Public Works investigated cost allocations for Federal water projects and in December 1952 issued its report entitled the *Allocation of Costs of Federal Water Resource Development Projects* which was published as *House Committee Print No. 23, 82nd Congress, 2nd Session*. The report did not recommend use of a specific method by all agencies but did state that the Subcommittee was “favorably impressed” by the SCRB method. The subcommittee did recommend that the Bureau of the Budget be designated as the agency to approve cost allocations made for Federal water projects, but the recommendation was not adopted.

On April 6, 1954, the COE, the Federal Power Commission, and the Department of the Interior announced that they would all consistently employ the same approach for cost allocations. The SCRB was considered preferable, but the AJE and use of facilities methods would also be permitted under special circumstances. The Commissioner

subsequently issued implementing instructions stating that SCRIB was the preferred method and that other methods would be permitted only in exceptional cases. This policy was restated in Reclamation Instructions and remains in effect today through the Reclamation Manual. The Mid-Pacific Region of Reclamation completed its first reallocation of CVP costs by this method in 1956, but some questions regarding its application remained.

Although the same allocation method had been adopted by Federal water resources agencies, differences emerged in its application. For example, the COE allocated costs to a water conservation purpose (i.e., water supply) as part of the SCRIB study, then sub-allocated that amount between the end functions of irrigation and M&I service. Reclamation at that time allocated directly to the purposes without the sub-allocation process. Also, a question lingered as to whether power should first be allocated as a total amount and then sub-allocated between project use power (i.e., that used for pumping M&I, irrigation, and wildlife refuge water) and commercial power – as was the practice in some Reclamation regions – or be allocated directly to the end functions. Little guidance was available within Reclamation and no coordination of such matters existed among Federal departments.

1960 Reallocation Study

Between 1956 and 1959, CVP cost allocation changes were limited to annual adjustments to project cost estimates. Although project costs did not change significantly, several updates to input data were available, making a new reallocation study necessary. Most notably, a recently completed hydrologic study by Reclamation provided updated estimates of water supply and power accomplishments of the project. In addition, the COE had provided updated estimates of flood damage reduction and navigation benefits of the CVP. These revised estimates resulted in changes in project benefits that could not be reflected without a reallocation of the costs of the entire project.

San Luis Unit costs were not included in the 1960 reallocation because the study was nearly completed at the time San Luis was authorized. It was decided that costs for the San Luis Unit should

be allocated separately and treated as an addition.

1970 Reallocation Study

During the 1960s, many changes occurred which showed that some of the accomplishments of the project were not in accord with the 1960 estimates. Various adjustments were made in the interim to account for the changes, but by 1968 the effect of the adjustments had reached a level of significance that the need to re-evaluate the cost allocation in its entirety was evident. In response a proposal from the Regional Director, the Commissioner instructed the Mid-Pacific Region to proceed with a cost reallocation within the framework of existing authorizations.

The 1970 reallocation study was completed in six steps applying to different parts of the project and shown in Table II-1, each of which was completed separately and summed to derive the allocation for the total project. This approach was adopted in recognition of the effects that various authorizations had on the construction and operation of the overall project. The 1970 allocation addressed the authorized CVP and so included costs estimates for facilities that had been authorized by Congress but not yet constructed. Costs for many of the facilities were allocated using the SCRIB method. However, with the exception of the Los Banos Creek Detention Dam, which was allocated using the SCRIB method, the San Luis Unit was allocated using the proportionate use method for the delivery of water for irrigation and M&I uses. Costs for COE facilities that had been transferred to and/or financially integrated into the CVP were allocated by the COE. The six steps used in the 1970 reallocation study are summarized in Table II-1.

Within the framework of the 1970 reallocation study, several issues emerged that were resolved at a meeting in Washington, DC, during the week of October 21, 1968. The specific issues considered in the 1970 reallocation study and their resolutions are summarized in Table II-2.

ASSUMPTIONS AND CRITERIA EMPLOYED IN THE 1960 COST REALLOCATION STUDY

NEW DATA USED IN THE STUDY

- A recently completed hydrologic operation study provided the basis for the estimated water and power accomplishments.
- Flood control and navigation benefits were based on revised estimates provided by the COE that reflected recent information on flood frequencies and magnitudes, and river traffic and freight rates.

ANALYTICAL ASSUMPTIONS

- The SCRB method was used.
- Project costs were allocated in total rather than feature by feature.
- Construction and O&M costs were combined and allocated concurrently.
- The period of analysis was extended to 100 years from the 50-year period commonly used in previous studies.
- Direct benefits were used for all project purposes except irrigation, which was credited with both direct and indirect benefits.
- Specific costs incurred for either minimum basic recreational facilities or mitigation of fish and wildlife damages were assigned directly to the functions involved.
- All costs were indexed to July 1959 price levels and the cost allocation was performed on the indexed amount. Costs assigned to project purposes were then adjusted downward proportionate to the relationship between the actual project cost and the indexed July 1959 level. This approach was necessary because actual project costs had been incurred over a long period of time at many price bases while all single-purpose and remaining project alternative costs were at the July 1959 level. Indexing of actual costs to the same base as the alternatives was necessary to maintain comparability. The downward adjustment after completion of the allocation returned the indexed costs to their actual amounts.
- All future project benefits and costs were converted to present-worth values over a 100-year period, with an annual interest rate of 2-1/2 percent.
- The single-purpose commercial power alternative assumed privately financed steam-electric construction.
- Commercial power and M&I water benefits were measured as equivalent to their alternative costs.

TABLE II-1
SUMMARY OF 1970 REALLOCATION STUDY

STEP	FACILITIES	ALLOCATION METHOD	DISCUSSION
Base I	CVP features through the Trinity River Division	SCRB	Recorded costs were indexed to the then-current levels to be comparable with estimates for various alternatives, which were used in the SCR method. Upon completion of the initial allocation, indexed costs were converted back to their actual levels.
Base II	San Luis Unit	Proportional Use SCRB	With the exception of the Los Banos Detention Dam, the costs of the San Luis Unit were allocated by the proportionate use method, based on prior direction from the Commissioner. The proportionate use method had been used in the studies that supported authorization of the San Luis Unit. Los Banos Detention Dam was allocated separately using the SCR method because a flood control purpose is included with this facility and no common use denominator was available for the proportionate use method.
Base III	Auburn-Folsom South Unit	SCRB	Allocation of costs for the Auburn-Folsom South Unit was completed in three parts. Auburn Dam and Folsom South Canal were allocated together using the SCR method. This combination was considered to be essential because much of the water supply for Folsom South Canal would be supplied from Auburn Reservoir. The Foresthill Divide and Folsom-Malby sub-units were allocated separately because of their independence from the remainder of the Auburn-Folsom South Unit. The SCR method was used in allocating the cost of each of these sub-units. The results from the three parts were combined.
Base IV	COE Projects	Unknown	Used allocated costs provided by COE.
Base V	San Felipe Division	SCRB	All facilities allocated using SCR method.
Base VI	Black Butte Dam and Reservoir	Unknown	Used allocated costs provided by COE.

TABLE II-2

SIGNIFICANT ISSUES ADDRESSED IN THE 1970 REALLOCATION STUDY

ISSUE	RESOLUTION
Water supply allocation with sub-allocation to irrigation, M&I, and waterfowl conservation functions	In previous CVP cost allocations, water supply costs had been directly allocated to end-use functions. The 1970 reallocation adopted an allocation to water supply with sub-allocations to water use functions based on proportionate water deliveries to each function. This approach was adopted so that adjustments for future changes in project accomplishments could be more readily accommodated.
Power total allocation with sub-allocation to commercial power and the project use functions of irrigation, M&I, and waterfowl conservation	Similar to the decision on water supply sub-allocation, it was determined that a total power allocation with costs sub-allocated to commercial and project use functions was preferable. It was decided that total power costs should be sub-allocated in proportion to costs of separate alternative projects for both commercial and project use that would provide power equivalent to that of the multipurpose project. The project use share was further sub-allocated among irrigation, M&I, and waterfowl in proportion to the amounts of energy used by each.
Allocations to recreation and fish and wildlife purposes	After consideration of the difficulties in directly allocating costs to these two purposes, it was decided to combine recreation and fish and wildlife into a single purpose. After allocation to the combined purpose, sub-allocations were made to the separate purposes proportionate to benefits accruing to each.
Flood Control and Navigation	The COE re-evaluated flood control and navigation accomplishments of the CVP and provided revised benefits by letter of April 25, 1969.
Use of COE allocation studies for project units authorized for construction by the COE	The New Melones, Hidden, Buchanan, and Marysville projects were authorized for construction by the COE, but with differing provisions for their integration with the CVP upon completion. It was decided that the cost estimates and allocations made by the COE should be incorporated in the CVP cost allocation.
Interest Rate	The then-current interest rate of 3-1/4 percent was used in the allocation. It was recognized that many of the features of the CVP were built when other interest rates prevailed, but attempts to use a series of rates would unduly complicate the study and probably add little to its accuracy.
Allocation of joint costs for the San Luis Unit to the recreation purpose	<p>The 1955 feasibility report for the San Luis Unit included minimal recreational development estimated at about \$90,000. This amount was indexed upward to \$100,000 during 1960 congressional hearings for authorization. The San Luis authorization provided for joint development with the State. A joint project was developed, and recreation facilities were greatly expanded. Reclamation participated to the extent of approximately \$3 million in sharing specific costs of these facilities.</p> <p>A question emerged regarding the propriety of allocating a share of the joint costs for the San Luis Unit to recreation. It was agreed that the authorization did not provide for allocation of joint costs on a non-reimbursable basis. The Mid-Pacific Region was directed to allocate only specific costs to recreation in the San Luis Unit.</p>
Use of Federally financed single-purpose alternatives in the cost allocation	It was reaffirmed that the single-purpose alternative for all purposes should be based on the same period of analysis and financed in the same manner as the multi-purpose project.

1975 Reallocation Study

A “short form” reallocation of CVP costs was prepared in 1975. It too was an allocation of the authorized CVP. The shortcut approach utilized some information prepared for the 1970 study, adjusted and updated other information, and developed completely new information for still other purposes. The 1975 study did utilize revised benefits, including those for power, navigation, and fish and wildlife, which were provided by other Federal agencies. All other benefits were re-evaluated by the Mid-Pacific Regional Office. The 1975 study did not include re-evaluation of hydrologic operations or resizing and re-costing of alternatives.

Water supply benefits were not re-evaluated since it was assumed they would exceed the cost of a single-purpose alternative. Power benefits were re-evaluated based on energy and capacity dollar values for nuclear powerplants as provided by the Federal Power Commission. Fish and wildlife benefits were re-evaluated by the Fish and Wildlife Service (Service), and the COE provided a new evaluation of navigation benefits but recommended using the flood control benefit values it supplied for the 1970 reallocation study. The present worth of the stream of annual flood control benefits did increase somewhat because of a decline in the interest rate used by Reclamation to perform the present worth computations. Recreation benefits were not re-evaluated, and at that time water quality was not considered a project purpose to which costs were allocated.

Prior to commencing the 1975 study, representatives from the regional and Washington offices met to discuss and agree on the criteria to be used. The meeting was held in Washington on February 13-14, 1975, and culminated in re-confirmation of most of the decisions reached at a similar meeting preceding the 1970 reallocation study and described in Table II-2 pertaining to special problems and techniques to be used in application of the SCRB method. No major departures from the previous approaches were recommended.

These early decisions were important since they set the stage for several decades of Reclamation

practice, including decisions to allocate to water supply first, then sub-allocate to M&I, irrigation, and fish and wildlife water supply and a precedent that different cost allocation methods could be applied to different groups of facilities in such a large project, with different facilities built at different periods of time.

CONGRESSIONAL ACTIONS THAT AFFECT ALLOCATIONS AND REPAYMENT

Historical relationships between project authorizations and expenditures have linked cost allocations and repayment with Congressional actions since passage of the Reclamation Act of 1902. When the primary features of the CVP were authorized and constructed in the 1940s through the 1960s, the focus of Congressional actions was on authorization of project features. During the past two decades, however, the focus of Congress has shifted toward corrective actions to address environmental problems associated with the CVP.

For several of the corrective actions, Congress specified repayment obligations. With the exception of the Fish and Wildlife Coordination Act, all of the following Congressional actions that affect CVP cost allocations and repayment have occurred since 1975.

Fish and Wildlife Coordination Act Requirements

The Fish and Wildlife Coordination Act (Coordination Act), enacted in 1934 and amended in 1946, 1958, and 1965, directs Federal agencies to coordinate their activities with the Service in the development of projects that may affect biological resources. The act recognizes that the construction and operation of water resources projects affect environmental resources, with the potential to create harm or to enhance existing conditions. The act contains provisions for the repayment of costs associated with environmental mitigation and enhancement. While costs for environmental enhancement are considered non-reimbursable Federal expenditures, repayment obligations for mitigation costs have changed over time.

In the 1934 act, mitigation costs were considered reimbursable and were included in the project repayment obligations for water and power users. The 1946 amendment to the act, passed shortly before major construction of the CVP was undertaken, stated that mitigation costs were henceforth considered non-reimbursable Federal expenditures. However, the 1965 amendment, enacted prior to construction of the San Luis Unit and San Felipe Division of the CVP, repealed the non-reimbursability provision for fish and wildlife mitigation costs. In the allocation of CVP costs, the construction date of features that require fish and wildlife mitigation is used to determine whether such costs are reimbursable or non-reimbursable in accordance with the various amendments to the act.

Congressional Approval of Cost Allocations

The Department of Energy Organization Act, dated August 4, 1977, authorized establishment of the Department of Energy (DOE) and transferred all power marketing functions from Reclamation to that agency. Section 302(a)(3) of that Act provided that no “changes in any cost allocation or project evaluation standards shall be deemed to authorize the reallocation of joint costs of multipurpose facilities theretofore allocated unless and to the extent that such change is hereafter approved by Congress.”

By letter of March 13, 1978, the Regional Solicitor advised the Regional Director that allocation revisions made pursuant to the Mid-Pacific Region Supplement to Reclamation Instructions dated March 10, 1975, would not be effective unless they were approved by Congress. The Solicitor also advised by a second letter dated April 13, 1978, that the allocation adjustments prepared annually for budget appropriation hearings were not affected by the provisions of the act. Since a detailed reallocation of CVP costs completed after 1977 could significantly affect the allocation of joint costs, it is likely that Congressional approval of some form would be necessary.

Trinity River Mitigation and Restoration Activities

The Trinity River Division was authorized by Public Law 84-386, dated August 12, 1955. Section 2 of that act authorized and directed the Secretary to

adopt appropriate measures to insure the preservation and propagation of fish and wildlife. Costs incurred for fish and wildlife purposes pursuant to this act were considered non-reimbursable Federal expenditures in accordance with the Coordination Act of 1946.

Following completion of original project elements in the Trinity River Division, additional features were authorized as part of the Trinity River Restoration Program. Work was performed under the authority of Public Law 96-335, dated September 4, 1980, and Public Law 98-541, dated October 24, 1984, for the purposes of stream rectification and fish and wildlife restoration in the Trinity River Basin.

Stream rectification costs incurred in accordance with the 1980 act were subject to a 50-50 cost sharing requirement between the State and Federal governments, with Federal construction costs limited to \$3.5 million subject to indexing as appropriate. Fish and wildlife restoration costs incurred in accordance with the 1984 act were allocated 50 percent as reimbursable expenditures, 35 percent as non-reimbursable Federal expenditures, and 15 percent to the State and Humboldt and Trinity Counties.

Therefore, for the Trinity River Division, the authorization governing expenditures on fish and wildlife mitigation costs determines the reimbursement and cost-share requirements among water and power users, and Federal, State, and local governments.

Coordinated Operations Agreement and Suisun Marsh Preservation Agreement

In 1986, Reclamation and the State entered into a Coordinated Operations Agreement (COA) that described how the CVP and the California State Water Project (SWP) are to be operated in a coordinated manner to jointly meet Delta salinity control and water quality standards as defined by SWRCB. The COA included many provisions concerning the joint operations of CVP and SWP, including methods to ensure that water demands in specific areas north of the Delta and in the Delta are met prior to exporting water to areas south of the Delta. In addition, COA provisions defined how

much water the CVP and the SWP can export when the Delta conditions allow exports.

Title I of P.L. 99-546 directed the Secretary to operate the CVP in conformity with State water quality standards for the Delta. The act specified that costs associated with providing CVP water supplies for salinity control and to comply with State water quality standards be allocated among project purposes and reimbursed in accordance with existing Reclamation law and policy. Title I also authorized and directed the Secretary to undertake a cost allocation study of the CVP and to implement such allocations no later than January 1, 1988.

Title II of the act, The Suisun Marsh Preservation Agreement, authorized Reclamation to execute and implement that agreement including construction of a number of Suisun Marsh preservation facilities and set a cost ceiling on the Federal contribution. The act also required Reclamation to allocate these costs among the reimbursable and non-reimbursable purposes served by the project. Suisun Marsh preservation facilities have been constructed and their costs allocated as directed by Title II.

As noted in Chapter I, Reclamation undertook and completed a draft cost allocation study of the CVP in 1988 to comply with the requirements of Title I, but the draft allocation was never implemented.

General Accounting Office Report

As discussed in Chapter I, the GAO in 1992 submitted a report to Congress on the CVP cost allocation, together with its finding that the draft CVP cost allocation study prepared in 1988 included inappropriate costs, was based on highly questionable data, and required data that were unavailable or difficult to obtain. It suggested two alternative approaches to cost allocation intended to simplify the process and provide a more representative allocation of costs among current project beneficiaries.

One method would allocate joint costs in proportion to specific costs. Under this method, joint costs would be allocated in direct proportion to the specific costs assigned to each project purpose.

For example, if specific costs associated with irrigation were 80 percent of all specific project costs, then irrigation would receive 80 percent of the joint costs. In concept, this method is similar to an allocation of overhead costs among multiple products within a business.

The second method suggested in the GAO report would allocate joint costs on the basis of use. For example, if 20 percent of the water in a reservoir is used for M&I purposes while 80 percent is used for irrigation, then 20 percent of the costs of the dam and reservoir would be allocated to M&I purposes and 80 percent to irrigation. To apply this method, a uniform unit of measurement, such as acre-feet of water supply, is needed. Because CVP dams and reservoirs provide flood control, power generation, navigation, fish and wildlife, recreation and water quality benefits in addition to water supply benefits, it is not possible to develop a common unit of measurement. Therefore, this method is not considered applicable for the allocation of CVP costs.

Central Valley Project Improvement Act

On October 30, 1992, the President signed into law the Reclamation Projects Authorization and Adjustment Act of 1992 (Public Law 102-575) that included Title XXXIV, the CVPIA. The CVPIA amended the Act of August 26, 1937, the basic authorizing legislation for the CVP, to include fish and wildlife protection, restoration, and mitigation as project purposes having equal priority with irrigation and domestic uses and fish and wildlife enhancement as a project purpose equal to power generation.

The CVPIA identified a number of specific measures to meet these new purposes. It also directed the Secretary to operate the CVP consistent with these purposes, to meet the Federal trust responsibilities to protect the fishery resources of affected Federally-recognized Indian tribes, to meet all requirements of Federal and State law, and to achieve a reasonable balance among competing demands for CVP water.

Many of the provisions included in the CVPIA identified specific measures intended to improve fishery conditions in Central Valley rivers and the

Delta. In many cases, the provisions also provided specific cost sharing and allocation criteria. As a result, the allocation of costs for CVPIA-mandated actions was directed by Congress, with Congress specifying the percentage of costs to be allocated to water and power users, the Federal government, and the State. Relevant examples are the actions specified in section 3406(b)(4)-(23) and refuge water supplies addressed in section 3406(d).

On the other hand, the CVPIA contained requirements that could affect CVP water availability and use without directing that a new cost allocation be undertaken or providing a cost allocation formula. Section 3406(b)(2) of the CVPIA directed the Secretary to dedicate and manage 800,000 acre-feet of CVP yield for the primary purpose of implementing the fish, wildlife, and restoration purposes of the act, to assist the State in its efforts to protect Bay/Delta waters, and to help meet other legally imposed obligations on the CVP, including but not limited to additional obligations under the Federal Endangered Species Act. The dedication of this water would be expected to reduce the capability of the CVP to deliver contracted for amounts of water to M&I and irrigation contractors. Congress neither

directed that a new cost allocation study be undertaken as a result of likely reductions in water contract deliveries nor provided a cost allocation formula related to the dedicated water.

In summary, throughout the life of the CVP, the allocation of its costs has been affected directly or indirectly by Federal legislation, continuing up to the recent specific allocation of costs of certain actions and facilities mandated by the CVPIA. This has meant that different rules may apply to different groups of CVP facilities or facilities built during different periods of time.

Once the SCRB allocation method was adopted by Reclamation in 1954, it has been applied to most project facilities in the recurring allocation studies of the CVP. Exceptions for certain groups of facilities, such as the San Luis Unit, have been made where the facilities in question are single-purpose in nature and an allocation using the SCRB method is unnecessary.

The current CVP cost allocation study must be understood in the context of these changing mandates and application of different procedures to different sets of CVP facilities. It is also important to note that the existing CVP water ratesetting process, dependent as it is on the allocation of CVP costs, has relied on this amalgamation of practices.