



MEMORANDUM

TO: SLDMWA Finance & Administration Committee Members, Alternates
SLDMWA Board of Directors, Alternates
SLDMWA Water Resources Committee Members, Alternates

FROM: Ray Tarka, Director of Finance
Pablo Arroyave, Chief Operating Officer
Rebecca Akroyd, General Counsel

DATE: March 13, 2023

RE: SLDMWA OM&R Rate Calculation Methodology

BACKGROUND

The San Luis & Delta-Mendota Water Authority (SLDMWA) allocates and recovers operation, maintenance, and replacement costs (OM&R Costs) for enumerated Project Facilities pursuant to the SLDMWA OM&R Cost Recovery Plan (Cost Recovery Plan). The Cost Recovery Plan is Exhibit B to the First Amended and Restated Memorandum of Understanding Between the Friant Water Authority and SLDMWA Relating to Allocation, Collection, and Payment of OM&R Costs for Water Delivered Through Certain CVP Project Facilities (MOU). The cost recovery methodology documented in the Cost Recovery Plan has been approved by the Contracting Officer of Reclamation.

The SLDMWA Board of Directors (Board) adopts OM&R Rates on an annual basis. In recent Finance & Administration Committee meetings, committee members discussed the process used to calculate the rates, and questioned how Minimum Participation amounts are treated in the ratesetting process. This memorandum is intended to help guide discussions in a planned Finance & Administration Committee workshop regarding the ratesetting process.

SLDMWA OM&R COST RECOVERY PLAN – RELEVANT PROVISIONS / CURRENT APPLICATION

Section VII of the Cost Recovery Plan governs Rate Component Calculations. Section VII states:

Rate components shall be established for each cost pool listed in Section III on a per acre foot basis. Rate components shall be calculated in accordance with the Cost Allocation to SLDM Contractors in Section IV using budgeted amounts for the Year for each cost pool divided by projected water deliveries utilizing the Project Facilities and/or energy associated with the applicable cost pool for the Year. The Reserve rate component shall be computed by dividing each SLDM Contractor's

annual contribution, in accordance with Section VI.A., by projected water deliveries to that SLDM Contractor for the Year. (Emphasis added.)

SLDMWA staff calculates rate components consistent with the plain language of Section VII: staff uses “budgeted amounts for the Year for each cost pool divided by projected water deliveries utilizing the Project Facilities and/or energy associated with the applicable cost pool for the Year.” (Emphasis added.)

Staff looks to Section IV of the Cost Recovery Plan to guide assignment of OM&R Costs each year to the six cost pools: Upper Cost Pool, Lower Cost Pool, DWR Cost Pool, Tracy Power Cost Pool, O’Neill Cost Pool, and San Luis Drain. For the Upper and Lower Cost Pools, Section IV.A provides:

Costs accumulated in the Upper and Lower Cost Pools will be allocated to each SLDM Contractor based upon the SLDM Contractor’s cost allocation percentage. The cost allocation percentage for the Upper and Lower Cost Pools shall be determined by dividing a SLDM Contractor’s “delivery base” by the total delivery base for all SLDM Contractors sharing in each cost pool. The delivery base for each SLDM Contractor shall be computed for the Upper Cost Pool and the Lower Cost Pool as the greater of the actual water delivered to the SLDM Contractor utilizing that cost pool’s facilities during the Year, or the amount established under the Minimum Participation requirements described in Section V.A. hereof.

Section IV of the Cost Recovery Plan refers to what SLDMWA staff calls the “minimums test.” Following the end of each Water Year, during the “true up” process, staff calculates final OM&R Rates. If Minimum Participation requirements are not triggered, the delivery base for a given contractor is based on that contractor’s actual deliveries, including water transfers and the quantity of non-CVP water conveyed through Project Facilities. If Minimum Participation requirements *are* triggered, the delivery base will be the contractor’s Minimum Participation amount. The delivery bases are then used to calculate the final OM&R Rates, along with actual expenditures.

Staff evaluates whether Minimum Participation amounts apply once there is a final accounting of deliveries. Section V.A of the Cost Recovery Plan states: “In recognition of the value of providing OM&R even in Years when an individual SLDM Contractor’s pro rata share of costs based upon that Year’s water deliveries is very low or non-existent, there will be created Minimum Participation amounts of assumed minimum water deliveries, for purposes of cost allocation only, as follows . . .”

First, for irrigation water contractors, staff compares each contractor’s actual total deliveries with 25% of that contractor’s maximum contractual entitlement. Section V.A.2 of the Cost Recovery Plan states:

In Years when a SLDM Irrigation Water Contractor’s total deliveries (i.e. deliveries under its contract with the USBR plus other deliveries made available through Tracy PP and the DMC) are below 25 percent of its maximum contractual entitlement, the delivery base for purposes of allocating the Upper Cost Pool and Lower Cost Pool shall be 25 percent of that SLDM Irrigation Water Contractor’s maximum contractual entitlement.

If actual deliveries for a given contractor exceed the 25% minimum, Minimum Participation amounts are not applied for that contractor. If actual deliveries are less than the 25% minimum, staff includes that 25% amount as the delivery base (for Upper and Lower Cost Pool) for that contractor. Staff repeats this process for each irrigation water contractor. For example:

	Actual Deliveries, incl. Transfers/Other Water	25% of Max. Contract Entitlement	Do Min. Participation requirements apply?
Contractor A	10,000 af	12,000 af	Yes
Contractor B	20,000 af	6,000 af	No
Contractor C	40,000 af	53,000 af	Yes
Contractor D	5,000 af	2,000 af	No

Second, a different type of minimums test is performed in years when San Joaquin River flood flows partially or fully meet the Settlement Water delivery demands of any of the Settlement contractors. In those years, “the Settlement Contractors’ allocation of the Upper Cost Pool shall be based on the actual deliveries of Settlement Water to the Settlement Contractors utilizing the Upper Cost Pool facilities or 60 percent of the aggregate of all Settlement Contractors’ maximum contractual Settlement Water entitlement, whichever is larger.” The 60% Minimum Participation amount (when it applies) is reduced by the amount of Settlement Water transferred from the Settlement Contractors to other SLDM Contractors.”

As explained above, the delivery base for each contractor is included in the Final Accountings and is captured on the Final Contractor Records in the Adjusted Delivery Base amounts, which then results in the calculation of “Final” OM&R rates.

EVALUATION OF CURRENT APPLICATION

As explained above, there are two inputs that go into the initial ratesetting process: (1) estimated deliveries, and (2) approved OM&R budget amounts.

Additional inputs affect the “true up” process following the end of the Water Year: (1) actual deliveries (including transfers and deliveries of non-CVP water), (2) Minimum Participation amounts, and (3) actual “spend” relative to the approved budget. Each of these three components has the potential to affect the size of the “true up” for ratepayers.

During OM&R ratesetting workshops, staff hopes to help explain how these inputs affect cash flow and the size of “true ups,” including by addressing:

- Estimated / Actual Deliveries
 - How the over- or under-estimation of deliveries affects the true up
 - The frequency that estimated deliveries have been under- and over-stated
 - The degree to which estimated deliveries have been under- and over-stated
- Minimum Participation Amounts
 - The frequency that Minimum Participation amounts have applied for (a) irrigation water contractors and (b) Settlement Contractors
 - In the years that Minimum Participation amounts have applied, the degree to which the inclusion of Minimum Participation amounts affected the total delivery amount / adjusted Delivery Bases for each contractor
- Actual “Spend” Relative to the Approved Budget
 - The frequency that the actual spend was less than or more than the approved budget, and the size of the difference
 - In under-spend years, how the difference affected the true up/to what degree