



## MEMORANDUM

TO: SLDMWA Finance & Administration Committee Members, Alternates

FROM: Raymond Tarka, Director of Finance

DATE: July 8, 2024

RE: Update on Pending Fiscal Year 2023 Power Costs

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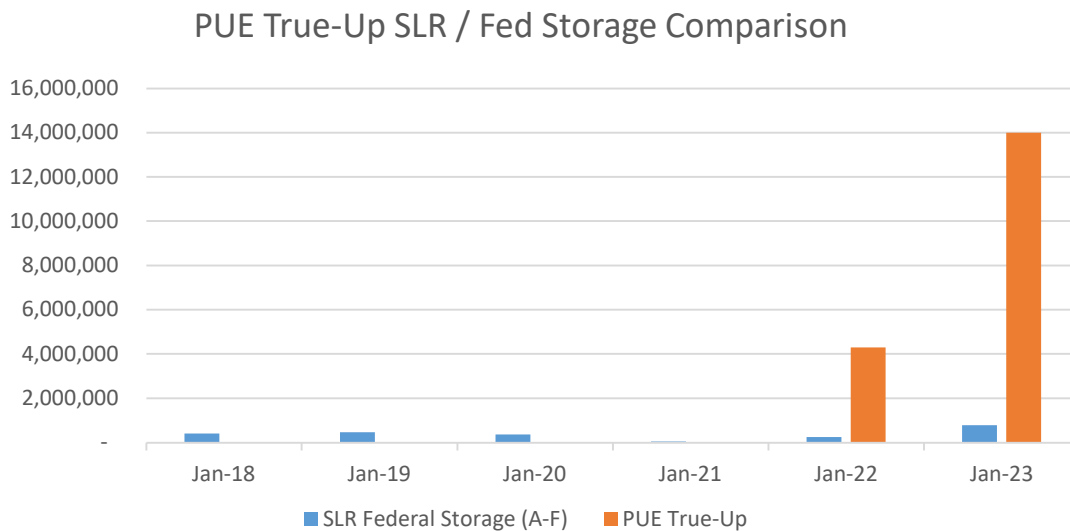
On June 10, 2024, SLDMWA staff received an email from Reclamation conveying the monthly bill for power (Project Use Energy (PUE)) costs, which also contained an advance notice that the U.S. Bureau of Reclamation (BOR) FY23 PUE true-up was in process, and though not yet complete, BOR was expecting a significant variance to be due to the Western Area Power Administration (WAPA). In July 2022, Reclamation estimated a total PUE of \$34.1 million for their fiscal year FY23, and the actual appears to be closer to \$51 million. Reclamation expects SLDMWA's share of this variance could exceed \$14 million. Reclamation has indicated that the wet year PUE use coming in higher than expected has caused the large variance. A similar variance of over \$4.3 million was billed in July 2023, as a true-up to SLDMWA for BOR's prior fiscal year.

Reclamation expects this final true-up to be completed sometime after mid-July, and will provide more information to SLDMWA staff as it becomes available. Once the actual true-up amount is known and communicated, SLDMWA will have thirty days to pay the entire amount due. For purposes of funding this true-up obligation, the amount of the true-up will be included in the cost base in determining the revised water rates to be considered by the Finance & Administration Committee and Board of Directors in August 2024. Staff expects this additional cost to increase the revised rates for each delivery area by between 15% and 28%. Staff will ensure the true-up amounts are included in the costs for the affected years in those year's final accountings for water users.

Staff reviewed the federal storage in the San Luis Reservoir over the last six years to observe any correlation to the True-ups and hydrology. Over the last six years, as California was nearing the end of an extended period of drought and transitioning into a wetter hydrology, the federal share of water in the San Luis Reservoir declined from 400,000 acre-feet in September 2018 to a low of just 43,000 acre-feet in September 2021, increasing over the next two years to 788,000 acre-feet in September 2023. The PUE true-up of \$4.3 million correlates to an increase in federal storage of 202,000 acre-feet from September 2021 to September 2022. The expected true-up of \$14 million correlates to an increase in federal storage of 543,000 acre-feet from September 2022 to September 2023. This could be thought of as an additional storage cost of \$19.80/AF for the 21-22 increase in storage, and \$25.78/AF for the 22-23 increase. However, these costs are for energy

used across the transferred works and more energy is used when more water is moved. While this is limited data to draw any decisive conclusion, a general observation can be made that a wetter year will have a higher volume of pumping for all of the transferred works under SLDMWA's management, and therefore a higher use of electrical power.

The following graph depicts the history the federal storage in San Luis Reservoir and the actual and expected true-up charges:



The estimation of that PUE usage should be revised in a timely manner as the change in hydrology becomes apparent. In May 2024, Reclamation held initial discussions with CVP water users to present ideas to improve the method of energy bill true-ups. One such improvement would be to set a limit on the true-up payable in any year to \$3 million. Staff believes setting such a cap could work if PUE usage costs vary in different years where the true-up is positive and negative over time. If the trend is toward a constant underestimation of the energy costs, the excess could become problematic. Our discussions with Reclamation on this subject will continue and SLDMWA staff is open to suggestions for improving this situation.