

Testimony of Jim Shetler
Assistant General Manager, Energy Supply

Sacramento Municipal Utility District
House Resources Water and Power Subcommittee

Hearing on H.R. 5796

July 27, 2006

Good Morning, Mr. Chairman and Members of the Subcommittee. I would like to express my appreciation to you for holding this hearing, as well as to Congressman Dan Lungren for his leadership in introducing this legislation. My name is Jim Shetler and I am the Assistant General Manager, Energy Supply, for the Sacramento Municipal Utility District, or SMUD. My resume is attached to this testimony as Exhibit A. SMUD is the sixth largest publicly-owned utility in the United States. We have proudly served the energy needs of 1.3 million residents of California's Sacramento County, as well as a portion of Placer County, for more than 60 years.

I am pleased to testify today in support of H.R. 5796, a bill to direct the Secretary of the Interior to exclude and defer from the pooled reimbursable costs of the Central Valley Project (CVP) the reimbursable capital costs of the unused capacity of the Folsom South Canal.

In 1970, SMUD was one of two CVP contractors to sign contracts with the Bureau of Reclamation to take water from the then-to-be-constructed Folsom South Canal. The Canal diverts water out of Lake Natomas, a regulating reservoir immediately downstream of Reclamation's Folsom Reservoir, to areas in southern Sacramento County. Once the initial reach of the Canal was constructed around 1973, SMUD began diverting water from the Canal to support its Rancho Seco Nuclear Power Plant. When Rancho Seco was shut down in 1989, SMUD continued to divert water from the Canal to support the shuttered plant. SMUD recently constructed and put into operation a new 500 MW natural gas-fired, combined cycle generator at the site that also uses water diverted from the Canal. Over the years, SMUD has diverted approximately 15-20,000 acre-feet of water per year through the Canal. With the exception of one or two drought years, SMUD's diversions constituted the only diversion of water through the Folsom South Canal.

The limited diversion of water from the Canal contrasts with the available capacity of the Canal. As designed, the Canal has the capacity to deliver approximately 2.5 million acre-feet of water per year. This extensive capacity had been designed into the project to accommodate additional contractors anticipated by Reclamation, and the planned, but never constructed, East Side Division of the CVP. In short, a significantly oversized canal has been used for the limited purpose of delivering small quantities of water to SMUD's facilities at Rancho Seco.

Under Reclamation's cost allocation and rate setting methodologies, the agency continues to allocate the capital costs of the Canal to the pool of all municipal and industrial water users who take water from any canal within the CVP. H.R. 5796 would direct the Secretary of the Interior to exclude and defer from those pooled reimbursable costs of the CVP, those capital costs that are associated with the unused capacity of the Folsom South Canal.

While the final calculations on deferral will be performed by Reclamation as directed by this bill, we estimate this bill will result in a deferral of approximately \$35 million in capital costs associated with the excess capacity. SMUD and Sacramento County Water Agency (SCWA), by virtue of a recently completed partial water assignment from SMUD to the County, will share in approximately 12% of that deferral. Based on current contract projections, the deferral will result in a capital and interest savings to SMUD and the County of approximately \$6 million or \$230,000 per year.

SMUD strongly believes this deferral is the correct approach to this issue. Reclamation made the decision in the late 1960s and early 1970s to oversize this Canal based on future planned expansions, and SMUD does not believe it is appropriate for Reclamation to seek to collect costs associated with that decision from SMUD and the others in the small customer base. Indeed, had SMUD known that it would have essentially been the only contractor to take water from the Canal, a significantly smaller pipeline from Lake Natomas to Rancho Seco could have been constructed for a fraction of the cost.

For almost ten years, SMUD has engaged in a good faith effort to negotiate a CVP renewal contract as required under the *Central Valley Project Improvement Act* (CVPIA). This issue, determining whether SMUD and other contractors should have to pay for the decision made in the late 1960s and early 1970s, continues to vex our negotiations and make SMUD's commitment to early renewal under the CVPIA extremely difficult.

Again, Mr. Chairman, thank you for considering this legislation. And profound thanks to Congressman Lungren for his

leadership on this issue and concern for assisting SMUD's effort to continue offering reliable and affordable energy rates to the region. I am available for any questions you and the Subcommittee have regarding this legislation.