



Financial Affairs Committee
August 17, 2001

1. Participants

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| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, WWD | --Alan Thompson, EBMUD |
| --Jim Bjornsen, BOR (Call-in) | --Lee Emrick, Colusa Co WD |
| --Lynn Hurley, SCVWD | --Patti Anders, PCWA |
| --Mark Oosterman, SMUD | --Anthea Hansen, Del Puerto WD |
| --Ara Azhederian, SLWD (Call-in) | --Gloria Starkovich, FWUA |
| --Tona Mederios, SLDMWA | --Chase Hurley, Panoche WD |
| --Kathryn Kitchell, City of Roseville | --Henry McLaughlin, City of Fresno |
| --Dennis Michum, Glenn-Colusa ID | --Donna Doherty, BOR (Call-in) |
| --Bob Stackhouse, CVPWA | |

2. Opening Business

The August meeting was held in the ACWA Office Boardroom, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded at 11:30 a.m. The agenda was reviewed and approved as submitted.

The next Financial Affairs Committee meeting will be held on **September 21 at 9:30am at the Nimbus Fish Hatchery, if arrangements can be made. If not, the meeting will be held in the ACWA Office Boardroom, 910 K Street, Sacramento.** The October 19 meeting is tentatively scheduled to be held at the Tracy Pumping Plant if arrangements can be made.

3. FAC Issues Matrix Status.

A. Capital Rate-setting Methodology. Jim Bjornsen reported that there has been no change in the status of the capital rate setting methodology since the last FAC meeting. He added that it is too late in the year for any capital rate-setting methodology changes to affect the 2002 water rates.

B. PUE Issues (current and post-2004). Chase Hurley reported that an Administrative Law Judge (ALJ) in Washington, D.C., is currently hearing arguments from PG&E and BOR/Western regarding PG&E's filing with FERC to effect rate increases in its load-balancing contract with BOR/Western. If the BOR/Western prevails in this hearing, it is anticipated that PG&E would attempt to get out from

under the contract through its bankruptcy proceedings. In any event, PG&E will be allowed to increase the rates under its load-balancing contract on October 28, 2001, subject to refunds. BOR/Western will be scheduling workshops in early September to inform all CVP water and power contractors how the rate increases will affect them. Regardless of how the FERC filing or the PG&E bankruptcy proceedings play out, the load-balancing contract terminates on its own in December 2004. To ready itself for the eventual termination of the contract, BOR/Western has analyzed two CVP operating alternatives (maximum peaking and load following) that would maximize power production while meeting water user needs. The results of its analysis showed an increased benefit under the maximum peaking alternative. Under this scenario, Western would purchase all the energy requirements for project-use needs while requesting that Reclamation operate the CVP to maximize the power output value of the CVP.

C. Cost Recovery for CVPIA Programs and Activities. Jim Bjornsen reported there was nothing new to report.

D. Water Marketing Rate Review and Analysis. Jim Bjornsen reported that the team met on August 16 and has essentially completed its work. The team agreed that the five year rolling average used for water delivery projections was working as intended and that the cost projections used to compute storage O&M and water marketing rates were relatively close to the actual costs incurred. The team found that Reclamation's practice of setting water marketing rates based on water marketing O&M cost projections and then later reducing actual water marketing costs by the amount of revenues received from the sale of temporary water supplies to non-permanent contractors resulted in collecting more water marketing revenues than necessary to cover actual water marketing costs. Reclamation is also reviewing the adequacy and accuracy of the G&A costs projections that are included in the water marketing costs. Based on the team's work, Reclamation has agreed to calculate the amount of non-permanent contractor revenues on a five-year rolling average basis and reduce the water marketing O&M cost projections accordingly before they are used to set the water marketing rates. This should result in a reduction in water marketing costs of about \$1.7 million in the 2002 irrigation water rates and \$1.0 million in the M&I water rates. Jim said that Reclamation would describe the changes that will be made to the water-marketing rate setting methodology in its response to the CVPWA letter that initiated the water marketing and storage O&M rate review and analysis.

E. Reclamation Water Accounting Program and JAD Session. Jim Bjornsen reported that JAVIS/Reclamation conducted a half-day workshop for a select number of FAC members to demonstrate the various features of the BOR-WORKS water accounting program. Ron Jacobsma reported that presentation was very informative and that Reclamation readily answered any questions posed by the water contractor representatives. He said that the program has a lot of potential but noted that the payment side of the program still has not been completed. Jim said that JAVIS/Reclamation is putting on another workshop on August 24 from 9:00 to 1:00

to demonstrate the web-enabled version of the program. He said that this should be the true test to see how the water contractors like it. Jim said that the new program will be run parallel with the old water accounting program during the month of October, and if no bugs are detected, the new program will take over in November. Chase Hurley asked when and how Reclamation would provide training to the CVP water contractors. Jim said that the Area Office staff would receive training starting next week. He will work with the Area Offices to schedule training for the water contractors.

5. **Forbearance Agreement Financial Issues.** Ron asked Jim Bjornsen to check with Mike Finnegan on the status of Reclamation's response to the Friant letter regarding the forbearance agreement providing Sacramento River water to the Westlands WD.
6. **Reclamation Transfer Policy Change.** Ron reported that Reclamation is proposing to implement changes to the CVP water rate-setting policies relative to water transfers. He said the proposed revisions have been developed without input from the water contractors or other interested parties. He went on to say that the Area Offices are being instructed to implement the changes even though the details of the revisions are generally unknown. He asked Jim Bjornsen to check with Mike Finnegan on the status of Reclamation's response to the recent CVPWA letter regarding proposed water transfer policy changes.
7. **Interest-Based Problem Solving Training – Granlibakken.** Jim reported that the training session would begin at 1:00pm on Monday August 27 and end at 12:00 on August 30. Ron asked for a more definitive training agenda. Jim agreed to talk to Mike Finnegan about the agenda.

8. **Reports on Ongoing FAC Interest Issues:**

A. **Direct Funding Agreements.** Ron reported that the Friant Water Users Authority and the San Luis-Delta Mendota Canal Authority have received new service contracts from Reclamation but the contracts were not in the form anticipated by the two Authorities. He said that the Authorities and Reclamation are still far apart on the new service contract provisions and to compound the matter, the contracts need to be finalized by September 7 to get funding for this fiscal year.

B. **Folsom South Canal Capital Cost Deferral.** Alan Thompson reported that Reclamation held a workshop on the deferral of capital costs of the Folsom South Canal on August 8. He passed out a slide presentation and maps depicting the Folsom South Canal as it is constructed to date and its once-planned role in the since-abandoned East Side Division of the CVP. The presentation showed how Reclamation computed the costs included in reaches 1 and 2 of the Folsom South Canal that rightfully should be allocated (and deferred) to the defunct East Side Division. Alan commented that the rationale Reclamation used to allocate the deferred costs was appropriate and consistent with Reclamation law.

C. CVPWA Web Site and Monthly New Letter. Bob reported that the CVPWA is looking into the development of a Web site to keep CVPWA members as well as the public informed of the myriad of things that concern CVP water and power users. He also said that he would be publishing a monthly newsletter—CVPWA Happenings--that will highlight the important issues the Association has been working on during the period.