



Financial Affairs Committee
June 21, 2002

1. Participants

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| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, WWD | --Anthea Hansen, Del Puerto WD (Call-in) |
| --Lynn Hurley, SCVWD | --Chase Hurley, Panoche WD |
| --Dennis Michum, GCID | --Mike Hagman, TCCA |
| --Jerry Toenyss, NCPA | --Cheryl Detro, SCVWD |
| --Kathy Kitchell, Roseville | --Robert Stackhouse, CVPWA |
| --Lee Emrick, Colusa Co WD | --Mike Finnegan, BOR |
| --Jesus Reynoso, BOR | |

2. Opening Business

The June meeting was held in the ACWA Office upstairs conference room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded around 11:30 a.m. The agenda was reviewed and approved as submitted. The next meeting will be held in the ACWA Boardroom on July 19 at 9:30 a.m.

3. FAC Issues Matrix Status.

A. Capital Rate-setting and Cost-Recovery. Mike Finnegan reported that limited staff resources have severely impacted the progress of the team since the last FAC reporting. As a consequence the issue will not be completed in time for inclusion in the 2003 rates as had been hoped.

B. PUE Issues--Post 2004 O&M Sub-allocation. Chase Hurley reported that the PUE Issues team met several times and is continuing to raise questions relative to Reclamation's and Western's financial reporting. The team is continuing to go over the formulas that are being used to allocate current PUE costs and is starting to fine-tune formulas that were developed by the team to allocate costs that are expected to be incurred post 2004. The team hopes to be able to run numbers through the formulas in the next few weeks. Although Reclamation seems to be leaning toward operating the CVP power system in a max-peaking mode, it is anticipated that the actual operating mode will be somewhere between maximum peaking and load-following. SMUD recently got out from under the California ISO—the team will be watching how that plays out as Western plans to opt out from under the ISO post 2004, as well. Supposedly SMUD (and Western) can operate as an ISO at less cost to

the water and power contractors than under the current Cal ISO operating mode. SMUD has agreed to brief the FAC on its progress during our July 19 meeting.

C. Cost Recovery for CVPIA Programs and Activities. Ron reported that the CVPIA Cost Recovery team met on June 20 and continued to discuss some of the larger CVPIA activities such as AFRP. Some team members will be meeting with representatives of the Fish and Wildlife Service (F&WS) to get additional information relative to AFRP. Reclamation is working to come up with more detailed cost authorities to make it easier to track costs. Mike Finnegan is hopeful that the team will get its questions satisfactorily answered so that we can progress to the funding side of the issue, i.e. the source of funds used to complete the various restoration activities. He also wants to get into the CVPIA offset provision to show us how it affects expenditures from the Restoration Fund and ultimately how it affects cost recovery from the CVP water and power contractors. Ruth Johnson (Reclamation) is continuing to research how Reclamation should handle certain capital costs related to conservation easements and construction costs associated with non-federal assets.

Bob Stackhouse mentioned that the team might be interested in obtaining a copy of the joint Reclamation/F&WS 10 year CVPIA restoration accomplishment report that is currently being put together. He said that Jeff Phipps is trying to get an addendum included in the report that shows the real benefits, i.e., fish increases, recoveries, etc. Bob said that CVPWA will be getting more involved in the various CVPIA programmatic issues—he will be looking for program results measured in restoration accomplishments not in dollars spent or to be spent. He said that he is putting together a list of issues that will be monitored. Mike agreed that a contractor assessment of CVPIA accomplishments is a good exercise.

D. Reclamation Water Accounting Program Development. Mike reported that Reclamation's new BOR WORKS water accounting program is on schedule—it is about 99.5 percent ready to go. Reclamation is continuing to run its existing water accounting program parallel with the new program. He expects the program to be completely on line sometime this summer.

4. **CFO Audit Impacts.** Ron reported that Reclamation sent out letters to the CVP water contractors on June 7 that showed each contractors share of the CFO audit adjustment and provided them with options to either have their CFO audit adjustment costs applied against their 2001 and 2002 final accountings or have the adjustment billed to them in 5 equal annual installments over the 2003 to 2007 time period. Ron also reported that the CVPWA had sent out a letter to all CVP water contractors that provided more detailed information to help the water contractors better understand what was required by Reclamation's letter and to help them select the option that would be best for them. He also mentioned that the Tehama Colusa Canal Authority had sent a letter to Reclamation questioning the legitimacy of increasing charges to CVP water contractors whose repayment capacity is limited by Reclamation Law ability to pay provisions. Mike Hagman agreed to draft a CVPWA-signed letter to Reclamation that questions Reclamation's interpretation of how it should handle CVP capital expenditures that are either spent on non-federally owned assets or are spent on federally-owned assets that are not owned by Reclamation.

5. **Spring Budget Workshop.** Mike reported that there was not a Spring Budget Workshop because of staffing problems. There will be a Fall Budget Workshop as scheduled. He said that the area offices would be sending out activity plans and other budget documents for our review and comment prior to the next workshop.

6. **Water Transfer Issues.**
 - A. **Reclamation Water Transfer Policy.** Mike reported that the Financial Issues Team would be meeting on June 28 at 9:00 a.m. to clarify the intent of water transfers and to develop a long-term water transfer policy.

7. **Firming Power Plant Proposal.** Mike reported that there was nothing new to report.

8. **Reports on Ongoing FAC Interest Issues.**
 - A. **Direct Funding Agreements.** Reclamation has provided Transfer Agreement amendments to the SLDMWA and FWUA for their consideration. Reclamation will also be sending a Service Contract as a means to provide funding in lieu of the current offset provisions. Reclamation proposes that the Authorities cease their fiscal agency responsibilities and discontinue offsets against the fiscal agency account for delinquent contractor payments. Reclamation is also proposing that water contractors remit their payments directly to the “lock box” along with the appropriate paper work. The Authorities are currently analyzing the proposals.

George R. Senn
Finance Director