



Financial Affairs Committee
October 25, 2002

1. Participants

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| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, WWD | --Kathy Kitchell, City of Roseville |
| --Mike Hagman, TCCA | --Cheryl Detro, SCVWD |
| --Dennis Michum, GCID (Call-in) | --Alan Thompson, EBMUD |
| --Anthea Hansen, Del Puerto WD | --Jerry Toenyas, NCPA |
| --Jeff Phipps, NCPA | --Mike Finnegan, BOR |
| --Larry Bauman, BOR | |

2. Opening Business

The October meeting was held in the ACWA Office Conference Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded around 12:15 p.m. The agenda was reviewed and approved. One discussion item was added—Battle Creek Restoration. The next meeting will be held on November 19 from 1-3:00 p.m. in Anaheim as part of the 2002 ACWA Fall Conference. The following meeting will be held in the ACWA Conference Room on December 13 at 9:30 a.m.

Other Business: It was agreed that because of the increasing number of workgroup meetings that many members of the FAC are participating in each month, the FAC would begin holding bi-monthly rather than monthly full-committee meetings starting in February 2003.

3. FAC Issues Matrix Status.

- A. Capital Rate-setting and Cost-Recovery.** Larry reported that Jesus Reynoso, of his staff, had not been available to work on this effort since our last FAC meeting and that he would get back to working on the capital ratesetting issue in the next week or so. He will focus on finalizing the water-delivery numbers and will work closely with Lynn Hurley to start running these numbers through the agreed upon hydrology model.
- B. PUE Issues--Post 2004 O&M Sub-allocation.** Ron reported that the PUE Issues team met on October 7 and completed the formula development phase of the project. Ron commented that Martin Bauer, the Reclamation lead person on this effort, has done an excellent job of providing answers to our many questions and keeping the team focused. Ron explained that the PUE Issues formula development sub-team developed several

potential cost allocation formulas for each of the various types of BOR and Western PUE related O&M costs that would need to be allocated when the load-balancing contract with PG&E expires at the end of 2004. The formulas were presented to the full PUE Issues team, and after considerable discussion, members voted and selected the formulas that met the majority of their interests. Many formulas were eliminated during the process but in some cases more than one formula was retained for the same cost allocation element. A model is being developed by a consultant (Navigant) to run the formulas under different hydrologic conditions and power generation scenarios, i.e., load following and maximum peaking. The modeling exercise will allow us to analyze how differing hydrologic conditions and project operations will impact the allocation of power O&M costs between Project Use Energy and Preference Power. The next meeting will be held in Visalia on November 13-14.

C. **Cost Recovery for CVPIA Programs and Activities.** Mike reported that he has been working on a couple of options relating to the CVPIA offset provision. He said that he needs another week to complete his work and then he will convene the next CVPIA cost recovery team meeting—sometime in early November. He thinks that after the team is brought back up to date and goes through the potential options we should be thinking toward recommendations.

D. **Reclamation Water Accounting Program Development.** Larry reported that all Area Offices are now inputting data into both the old and the new water accounting systems. The plan is to run these systems parallel at least through the end of the year. Preliminary results as of 9/30/02 indicate that the water accounting results from the new system balanced with the results of the old system. We currently have two in house programmers working on report-related problems and fine-tuning the new system. Reclamation hopes to have the water contractors on-line via the Internet by March 2003. Larry said that he intends to work with the FAC on ideas as to how to expand the water accounting program training to all end users.

4. **CFO Audit Impacts.** Mike reported that the MPR is still waiting for a response from Reclamation's Deputy Chief Financial Officer in Denver to the Tehama-Colusa Canal Authority (TCCA) letter regarding the recent CFO audit adjustment. He said that the MPR letter requested the Denver Office to review the determination to reclassify Suisun Marsh capital costs as O&M expenses. Ron commented that while in Washington, DC last week with members of the Family Farm Alliance, he met with members of the Administration, including the Commissioner of Reclamation, and learned that no other Reclamation region contractors had as of yet felt an impact as a result of the changes.
5. **Fall Budget Workshop.** George reported that he had attended each of the fall budget workshops, the Regional Office on October 9, the N. CA Area Office on October 15, the S. Central CA Area Office on October 16, and the Central CA Area Office on October 22. He said that the workshops were very informative and the activity managers/area managers were able to respond to all of our questions. The activity managers still do not have a good handle on whether their activities are reimbursable or the extent to which they are reimbursable. Some activity plans indicated that an activity was non-reimbursable but the Projected O&M

cost allocation, from which the O&M rates are set, indicated that the activity was reimbursable. Roger Pollack, Regional Budget Officer agreed to work with the activity managers to bring the activity plans into agreement with the projected O&M cost allocation data. Mike commented that he has been working with project managers to increase their awareness of reimbursability issues. Ron said that the water and power contractor representatives should sit down with Reclamation to discuss our concerns with the Budget review process as it has progressed over the past three years. He said that he would like to see a process developed that would enable us to follow the annual budget through the ratesetting process and into the final accountings. Ron would like to see the reimbursable portion of the budget remain fairly constant from year so that the rates can be more predictable. Mike agreed that such a meeting would be beneficial.

6. GAO Audit Report

A. Reclamation Position. Mike reported that Reclamation has broad discretion in how it handles Bureau-wide programs and will continue to treat Bureau-wide program costs as non-reimbursable.

B. Site Security Costs (post 9/11). Mike reported that added security costs that were necessitated by the events following the 9/11 terrorist attacks would be non-reimbursable.

- 7. Water Transfer Issues.** George reported that he was tasked with preparing a paper that would describe the historical and current CVP water transfer water rate policy/practices in the Mid-Pacific Region. It was felt that this information was needed before the water contractor members of Financial Issues Team (FIT) could provide input toward developing a long-term water transfer policy. He met with Larry and Gale Heffler-Scott, Water Transfer Programs, to obtain information relative to historical water transfer water rate policy. Heffler-Scott agreed to provide copies of water transfer approval letters from each of the Area Offices for transfers that have occurred during each of the past six years. These letters specify the rates applicable to the transfers and who is responsible for their payment. Because there has been no written water transfer water rate policy guidance issued other than the interim policy on water rates for water transfers prepared by Mike Finnegan on March 28, 2002 and the water transfer language contained in the recently renewed Friant contracts, it was felt that the approval letters would provide a basis for determining historically what rates were required to be paid and from whom. Mike said a permanent long term water transfer policy needs to be developed as soon as possible if it is to be ready for the 2003 water year. Ron didn't see the need to reconvene the FIT as it is currently constituted, but agreed that a group of water contractors, which would include some members from the current FIT, and Bureau representatives should get together to hammer out a water transfer policy that works for everyone. It was agreed that the FIT would be notified and that George would complete the water transfer water rate paper. Mike said we should move quickly as the 2002 Interim policy expires in March 2003.

7. Reports on Ongoing FAC Interest Issues.

A. Direct Funding Agreements. Final versions of the revised Transfer Agreements are now being reviewed and it is anticipated they will be signed within the next thirty days.

8. **Warren Act Revenue Application** Ron reported that during his trip to Washington, DC, with Bob Stackhouse, CVPWA and members of the Family Farm Alliance, Reclamation seemed supportive of the water contractor desires that Warren Act Revenues should be credited toward project repayment rather than be transferred directly to the Treasury. It was suggested that Bob Stackhouse follow up with a letter to Mark Limbaugh, Director of the Family Farm Alliance, to see what has transpired since the Washington, DC visit.

9. **Battle Creek.** Jeff Phipps reported that CAL-FED is providing the funding to compensate PG&E for the foregone generation revenues associated with providing water for fish flows on Battle Creek. CAL-FED will provide funding for 4 years. Although PG&E is being made whole by CAL-FED, it looks as if the lost revenues are also being recovered through its rate structure—in other words it appears as if PG&E is being compensated twice for the forgone revenues.