



Financial Affairs Committee
January 17, 2003

1. Participants

- | | |
|---------------------------------------|--|
| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, Westlands WD | --Robert Stackhouse, CVPWA |
| --Lynn Hurley, SCVWD | --Chase Hurley, Panoche WD |
| --Kathryn Kitchell, City of Roseville | --Frances Mizuno, SLDMWA (Call-in) |
| --Dennis Michum, GCID (Call-in) | --Alan Thompson, EBMUD |
| --Mike Hagman, TCCA (Call-in) | --Anthea Hansen, Del Puerto WD (Call-in) |
| --Ed Roman, SMUD | --Jeff Phipps, NCPA |
| --Larry Bauman, BOR | --Jesus Reynoso, BOR |
| --Bonnie Hood, BOR | --Sandra Gibson, BOR |
| --Chet Bowling, BOR | --Martin Bauer, BOR |
| --Tom Boyko, WAPA | |

2. Opening Business

The January 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 12:45 p.m. The agenda was reviewed and approved. Two discussion items were added—Water Delivery Reconciliation and 2003 Water Rate Status. The next meeting will be held on March 21 in the ACWA upstairs Conference Room.

Other Business. Larry Bauman noted that in the future, call-in participants could call his office at 916-978-5364 in advance of upcoming FAC meetings so that BOR materials that will be used during the FAC meetings may be sent to them.

Ron Jacobsma began a discussion regarding terms for the FAC Chair and Vice-Chairs. The FAC positions are for two-year terms with no term limits. Ron and each of the Vice-Chairs said that they were willing to serve another term but if anyone else were interested in assuming any of the positions they would be understanding of that desire. It was agreed that we would formally fill the positions at the next meeting. If any member agency representative is interested in filling the Chair position or Vice-Chair positions for Irrigation, M&I, or Power issues, please contact George Senn at 916-448-1638.

3. **FAC Issues Matrix Status.**

- A. **Capital Ratesetting and Cost Recovery.** Larry reported that the Capital ratesetting work has been on hold since the last meeting and will start again in February, once the CVPIA cost recovery work is completed.
- B. **PUE Issues--Post 2004 O&M Sub-allocation.** Ron reported that the PUE Issues team has developed potential cost allocation formulas for most of the various types of Reclamation and Western power-related O&M costs that will be encountered when the load-balancing contract with PG&E expires at the end of 2004. We will be meeting on January 28 and 29 at the Western Office in Folsom to discuss the allocation of costs associated with post-2004 power purchases made to cover power shortfalls when CVP generation is less than that required to meet project loads. Martin Bauer Emailed out a spreadsheet to the PUE Issues team members that shows how much additional energy will be needed post 2004 to support CVP loads under load-following and maximum-peaking operating scenarios under dry, medium, and wet year conditions. He agreed to schedule a conference call for those interested prior to the upcoming meeting on the 28th and 29th to discuss the nuances of the spreadsheets.

Tom Boyko of Western addressed the group regarding Western's recent request for proposal (RFP) to forward-purchase 270 GWH of power for a five-year period starting in 2005 to cover project loads when CVP generation is insufficient. He said the purchase has been put on hold because of water and power contractor concerns and because the costs for this block of power were excessive. The original RFP has been cancelled and Western would have to go out with new one if and when it decides to purchase the needed power. Tom said that the water and power contractors could expect the costs to increase the longer Western waits to purchase the power. Ron said that the water contractors had just recently learned of this proposal and were concerned that Western was moving on this issue while the PUE sub-allocation process is not yet complete. He said that the water contractors would appreciate being notified in advance when Western plans to go out and spend millions of dollars that may directly affect the water contractors' water rates.

- C. **Cost Recovery for CVPIA Programs and Activities.** Larry reported that Mike Finnegan, Craig Stroh, Jesus and himself had participated in a briefing of Regional Management (except Kirk Rodgers, who was unavailable) on the proposal that had been jointly prepared by members of the FAC and Reclamation. Mike would be briefing Kirk later today and Larry wanted to know if the members of the committee and their respective management and/or board were still agreeable to this proposal. The committee members agreed that they were still in favor of this joint proposal.
- D. **Reclamation Water Accounting Program Development.** Larry reported that the new system (BOR WORKS) is working well and that Reclamation continues to run BOR WORKS parallel with the old system (WORKS). He said that they would be scheduling training for those water contractor, Authority or Association representatives who worked on the BOR WORKS system development during the week of February 17. It will be a

one-day session (probably 2-3 hours). The session will concentrate on the web-enabled portion of the BOR-WORKS water accounting program. 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.** Larry reported that the Region is still waiting for a response from: (1) Reclamation's Denver Office to the Tehama-Colusa Canal Authority (TCCA) letter regarding the recent CFO audit adjustment; and (2) a Washington Office response relative to handling of costs (capital versus expense) associated with construction of facilities on non-federal land. He said that the Region's letter requested the Denver Office to review the determination to reclassify Suisun Marsh capital costs as O&M expenses and that a draft of Denver's response is ready and the letter should be sent out within the next two weeks. He didn't have a time frame for the Washington Office response. Russell Harrington asked whether Reclamation had looked at CFO reclassified capital cost adjustments, as he was concerned about the interest implications associated with the reclassifications. Larry agreed to look into such reclassifications to ensure that interest was accounted for properly.
5. **Fall Budget Workshop.** Larry reported Reclamation has drafted a Reclamation-wide Budget Process Policy document and has sent it to each of the Regions for comment. Larry said that Regional comments are due back in a week or ten days and that if we could get a list of our concerns in by January 27, they would be included in the Region's comments. Ron was not sure that a Reclamation-wide Budget policy would be applicable to the Mid-Pacific Region and the CVP. He said that the water contractors want a transparent budget process that can be tracked through the ratesetting process and into the final accountings. He said that currently the water and power contractors are provided activity plans that, if funded, would be at least three times larger than the amount Reclamation hopes to get. He said that the water and power contractors appreciate the opportunity to provide a priority listing of the activities to Reclamation for use in developing its annual budget, however, we can't confirm how those priorities affect the outcome of the budget, especially when we are commenting on a budget that is three years in the future. We also are unable to target what the ultimate reimbursable portion of the budget will be and the effect on the water rates.
6. **Water Transfer Issues.** Larry reported that the water transfer policy for 2003 would be the same as the one issued for the 2002 water year. A letter outlining the policy will be sent by MP-400 (Donna Tegelman) to all water contractors and the three water Authorities. Donna will convene a group of water contractors in the near future to develop a final water transfer policy. Frances Mizuno said that the final water transfer policy should be tied to the long-term contract renewals. Bob Stackhouse said that a final policy would be needed by September 30, 2003.
7. **Reports on Ongoing FAC Interest Issues.**
 - A. **Direct Funding Agreements.** The Friant Water Users Authority and the San Luis and Delta-Mendota Water Authority have approved the revised memorandum of understanding between the Authorities as well as the amendment to the Transfer Agreements.

B. Funding the Sumner Peck Lawsuit Settlement. Larry said that the United States is required to find a funding source. He did not know what the source would be if the Department of Justice fund is not used. Bob Stackhouse said that he would talk to John Davis, Reclamation to find out more regarding the settlement and the funding sources.

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. **Caucus with Reclamation at WUC in Fresno.** Ron said that members of the FAC would be meeting with Mike Finnegan during the WUC in Fresno to discuss and prioritize the issues we will work during 2003. Anyone who is interested is invited to attend.
10. **Water Delivery Reconciliation.** Larry was requested to consider developing a procedure for Reclamation to respond to water contractors who have submitted discrepancies in their fiscal year water deliveries to Reclamation so as to aid in the reconciliation process.
11. **2003 Water Rate Status.** Larry reported that the rate books will be on the Web next week and hard copies will be available shortly thereafter. Larry passed out spreadsheets that showed the rate change between the draft rates and the final rates and the rate change between the 2002 final rates and the 2003 final rates. Irrigation Water Marketing increased from \$5.66/AF in 2002 to \$6.28/AF in 2003 while Irrigation Storage increased from \$4.87/AF in 2002 to \$5.57/AF in 2003. Irrigation Water Marketing rates increased in 2003 primarily because deliveries were down by about 340,000 AF (costs actually decreased). Irrigation Storage rates increased because the costs went up 10% and deliveries went down 4%. M&I Water Marketing decreased from \$3.73/AF in 2002 to \$3.68/AF in 2003 while M&I Storage O&M increased from \$5.09/AF in 2002 to \$5.78/AF in 2003. M&I Water Marketing rates decreased as a result of lower costs. M&I Storage rates increased because the costs went up 10% and deliveries went down by 3%.