

Foreword

Background: This Foreword provides a summary of significant changes from prior years in amounts and/or procedures, including new legislative requirements and impacts; as well as, input received from contractors, associated water authorities, and the Central Valley Project Water Association on the 2004 preliminary water rates and the fiscal year 2002 draft contractor accountings.

The fiscal year 2002 contractor accountings are provided in final form. Please note that Reclamation has a site on the Internet where the 2004 water rate schedules are posted for reference. This site can be accessed at www.usbr.gov/mp/cvpwaterrates. If there are any problems in accessing the site or viewing the schedules, please contact Ms. Catherine Crawford at 916-978-5350.

Chief Financial Officers Audit Adjustment

The CFO adjustment rate component calculation is revised beginning with the 2004 rates for contractors that chose option 2 which distributes the expenses over a 5-year period. The objective is to allow for a minimum of 20% of the contract maximum deliveries to be considered in the rate calculation to reasonably recover the costs annually through 2007.

Provision for Replacement (PFR) Adjustment

Reclamation completed a reconciliation process of the irrigation PFR interest adjustment amounts included in the fiscal year 2002 accounting. Should discrepancies be found due to this process, the applicable contractors will be notified individually of any changes.

East Bay Municipal Utility District Projected Deliveries

Reclamation, with considerations of the dry year provisions of the amendatory contract, interprets the contract maximum entitlement for EBMUD to be the 3-year average of 165,000 a/f, or 55,000 a/f per year. Please note that this was an **interim** solution, which by agreement between the parties, has been carried over to the 2004 water rates. Reclamation will be collaborating with the contractors in developing a long-term solution.

Central Valley Project Improvement Act (CVPIA)

The Central Valley Project Improvement Act (CVPIA), enacted in 1992, established a Restoration Fund (Fund) into which contractors make annual payments through water rates. In 2003 Reclamation adopted Business Practice Guidelines for the CVPIA Program Accounting and Cost Recovery that spell out the method Reclamation will use to credit/offset contractor payments into Fund against their share of reimbursable CVPIA costs. Using the guidelines, Reclamation reconciled contractor accounts through fiscal year 2002 to determine if any reimbursable CVPIA costs should have been included in contractor water rates. The reconciliation identified no CVPIA costs that should have been recovered through contractor water rates. CVPIA expenditures will be reviewed each year to determine if any amounts should be included in contractor water rates.

Impact of Legislation

I. Title Transfer of Sly Park Dam and Reservoir and Sugar Pine Dam and Reservoir

Public Law 106-377, Section 212, directed Reclamation to transfer all right, title and interest in and to the Sly Park Unit to the El Dorado Irrigation District. Public Law 106-566, Section 501, directed Reclamation to transfer all right, title and interest in and to the Foresthill Divide Subunit (including Sugar Pine Dam and Reservoir) to the Foresthill Public Utility District. Due to the timing of the completion of the transfers, the removal of these specific facility costs and their associated financial impacts will be adjusted in the fiscal year 2003 accountings and the 2005 water rates.

II. City of Roseville Pumping Plant Facilities

Per Public Law 106-566, Section 301, Reclamation shall credit the City of Roseville for the purchase and funding for the installation of additional pumping plant facilities in accordance with a letter of agreement with Reclamation. Although the credit should have taken effect last year, the City requested that the credit be withheld until this year. Adjustment has been made to the 2004 water rates.

III. Trinity Public Utilities Assessment

Public Law 106-377, Section 203 directs the Bureau to collect from water service contractors the assessed amount of \$162,000 annually (indexed annually) and pays the amount to the Trinity Public Utility District. The assessed amount for 2004 has been included in the rates.

Project Use Energy

For the 2004 ratesetting year, the historical true-up that was included in the period 1998 through 2002 was overstated in 1998, 2001 and 2002. Adjustments were made during the rate review period to reflect actual costs. As a result, the 2004 PUE costs for irrigation and M&I were reduced \$1,313,933 and \$248,836, respectively.

San Luis Drain

The Irrigation estimated Operation and Maintenance costs for the San Luis Drain in the amount of \$339,000 have been removed from the 2004 water rates. This activity funds the shortfall for O&M costs which the San Luis & Delta-Mendota Authority is unable to collect from applicable water contractors in the San Luis Unit due to their fixed rate contract provision.

Water Marketing

In coordination with the CVPWA, a work team was established to determine whether or not projected Water Marketing costs reasonably represented what was expected for actual costs. It was concluded that overall the base costs seemed reasonable, but that the general expense costs needed to be reviewed.

As a result of the analysis performed by Reclamation, it was determined that the irrigation and M&I estimated general expense would be based on 18.5 percent of the budgeted costs. The 2004 total budgeted costs for CVP are not being adjusted for ratesetting, as these expenditures are still planned. However, for 2004 irrigation and M&I estimated general expense has been revised to \$601,000 (18.5% times \$3,250,000) resulting in a reduction of \$1,253,449 for irrigation and M&I contractors.

Land & Water Management costs associated with the San Luis Unit included non-reimbursable costs totaling \$344,000 for Water Conservation Activities – grants and Conservation Plans. These costs have been removed from water marketing based on irrigation and M&I's respective cost allocation percentage factors. As a result, the 2004 water rates reflect a reduction in water marketing for irrigation and M&I by \$172,585 and \$23,702, respectively.

Storage O&M

The temperature control device study costs associated with the East Side Division of the Central Valley Project are applicable to the New Melones Dam and Reservoir on the Stanislaus River. Since these are study costs and there are no devices in service at this time, they are considered non-reimbursable. However if and when construction begins these costs will be included in the construction costs and part of these costs could end up as being reimbursable. The 2004 irrigation water rates have been adjusted to reflect a reduction in storage by \$34,470.

Reclamation appreciates the interest and involvement received from all water entities in the process of reviewing and finalizing the 2004 CVP water rates. Reclamation plans on making a coordinated effort with these water entities to assure the costs and delivery data is representative of what is expected to be allocated and charged to contractors in future years.

Questions on the 2004 CVP water rates should be addressed to Ms. Bonnie Hood at 916-978-5371 (TDD-916-978-5608).