Financial Affairs Committee
March 23, 2001

1. **Participants**

--Brice Bledsoe, CCWD
--Mike Hagman, TCCA
--Anthea Hansen, Del Puerto WD
--Russell Harrington, WWD
--Chase Hurley, Panoche WD (Call-in)
--Lynn Hurley, SCVWD
--Ron Jacobsma, FWUA
--Tona Mederios, SLDMWA
--Mark Oosterman, SMUD
--Jesus Reynoso, BOR
--George Senn, CVPWA
--Robert Stackhouse, CVPWA
--Alan Thompson, EBMUD
--Larry Bauman, BOR
--Jesus Reynoso, BOR

2. **Opening Business**

The March meeting was held in the ACWA Office Boardroom, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded at 12:20.

The next Financial Affairs Committee meeting will be held on **April 20 at 9:30 a.m. in the ACWA Office upstairs conference room, 910 K Street, Sacramento.**

3. **FAC Structure**. Ron Jacobsma reported that the CVPWA Board of Directors approved the recent FAC proposal to restructure. The board unanimously approved the selection of Ron as the Chairperson, and Alan Thompson, Chase Hurley, and Ed Roman as the three Vice-Chairpersons.

4. **FAC Issues Matrix Development**. Ron reported that he, Brice Bledsoe, and Mike Finnegan met in February to discuss the significant issues that the FAC is facing and to develop a process through which the FAC and the Bureau can obtain solutions collaboratively. At that meeting it was agreed that we would try an interest-driven, issue-based approach to the issues confronting us. Because many of us have not previously used this technique it was suggested that we seek needed training in this process. It was agreed that this approach to problem solving had merits and that attending such a course would be beneficial.

During the February FAC meeting we decided to focus our efforts on the most significant issues—Capital Rate Setting, PUE Developments (PG&E, Post 2004 CVP Operations), Restoration Fund Capital Cost Accounting, Escalating CVP Water Marketing Costs, and Reclamation Water Accounting Program Development. It was

subsequently agreed to add a sixth issue--CALFED/CVPIA Repayment to this list. It was agreed that George Senn would develop a matrix that would include a concise description of each of the issues, problem statements, and names of the FAC members working on each of the issues. This matrix would be further refined at the next FAC meeting--time lines and other important target dates would be established.

Capital Rate Setting. Ron reported that the first Capital Rate-setting meeting is scheduled for March 27 at 9:30 at the BOR Offices at 2800 Cottage Way, Sacramento. It will be our first attempt at using the interest-driven, issue based problem solving techniques. The Capital Rate Setting team is composed of Ron (point), Alan Thompson, Brice Bledsoe, Tona Mederios, Lynn Hurley, Russell Harrington, and George Senn. The Bureau representatives are Mike Finnegan (point), Larry Bauman, Jesus Reynoso, and Donna Tegelman. Al Candlish, of the Bureau will be at the meeting to discuss the various models that are available for projecting future CVP water deliveries.

Brice commented that we should be aware of the conflicts that could arise by potential changes to the A-12 water delivery schedules, i.e., shifting of costs in the sub-allocation of water supply costs between Irrigation and M&I, repayment shifts between irrigation water contractors, interest impacts on M&I function, etc. Ron stressed that we need to have an accurate representation of what needs to be fixed—a problem statement—so that we limit our solutions to the problems. Larry pointed out that whatever we do will have impacts on CVP water contractors who are not members of the CVPWA and that they will have to be part of any solution. He said that the Bureau is on a fast track on this issue—June 15 is the date that this exercise has to be completed. Larry was also concerned that we limit the Capital Rate Setting meeting to a fairly small number of participants.

Restoration Fund Capital Cost Accounting. Ron reported that there has been no action on this issue.

PUE Issues. Ron reported that Chase Hurley is leading the PUE issues effort and is currently following the expected (March 30) filing by PG&E with FERC under Section 205 of the Federal Power Act to amend, adjust, or terminate its current contract with WAPA. If PG&E is successful in getting a rate increase, WAPA will have to pass on the costs to the CVP water and power users. If PG&E is successful in terminating its contract, WAPA will have to find another source of power, which could cause CVP water and power user rates to increase. Chase has briefed the CVPWA Board of Directors on the situation and recommended that the CVPWA obtain a consultant to assist us in dealing with the issue. Stuart Robertson, a private consultant, is currently actively engaged in this issue on behalf of some CVP water contractors and has been retained by CVPWA on a limited basis. We will continue to watch this issue and will become more active when PG&E actually files and we can better identify what responses are needed.

Escalating Water Marketing Costs. Ron commented that we would continue monitoring this issue as we have in the past and will revisit the 10-year analysis we recently completed as part of our 2001 CVP Irrigation and M&I water rate review. Bob Stackhouse asked Larry whether the Bureau anticipated responding to our November and December comment letters on the 2001 water rates. Larry reported that the Bureau had been waiting for the GAO to issue its report on the Bureau's Water Marketing activities before it responded to our letters. George was asked to follow-up with Larry to keep abreast of this issue.

Reclamation Water Accounting Program Development. Larry reported that the next meeting with JAVIS, the contractor developing the Bureau's water accounting program, would be on April 19 at the JAVIS offices on Watt Ave. Water contractor participation is critical, but the group needs to be kept small, no more than four contractor representatives. The JAVIS people will be displaying what the accounting program will do and will be asking the contractor representatives for their input to ensure that the final program will provide the water contractors with the types of reports and query flexibility they need. The Bureau technical and rate setting staffs are currently testing the program--a limited number of test disks (CDs) will be made available to the water contractor representatives for testing seven working days before the meeting on April 19. Brice, Lynn, Mike, and Russell asked that they be provided copies when they become available. George will coordinate that effort.

Ron asked if the Bureau would be rolling all the historical water accounting data into the program. Larry said that JAVIS is currently questioning whether that task is covered under the original contract. Larry agreed to provide an update on this at the April 20 FAC meeting.

5. **CVPWA FAC Executive Session**.

--Contractor Comment Letters re: CVP Cost Allocation Study. Ron reported that the CVPWA has written a letter to the Bureau commenting on the Bureau's proposed preferred alternative resulting from the Bureau's January 2001 CVP Cost Allocation Study. Other comment letters were written by SMUD, Santa Clara Valley Water District, and Westlands Water District. These letters expressed similar concerns as the CVPWA letter, but differed somewhat in tone and content. After some discussion as to how to coordinate the submission of separate letters it was agreed that language would be included in the CVPWA letter to recognize the existence of the other letters.

--**Direct Funding Agreements**. Tona reported that the a meeting would be held immediately following the FAC meeting to work on a marked-up version of the direct funding agreement. The water contractors only want to modify Articles 11 and 12, but the Bureau has indicated a desire to also change other parts of the agreements. Tona will report back on the results of the meeting at the next FAC.

--**Arroyo Pasajero**. Alan Thompson reported that he was not thrilled with the DWR proposed Arroyo Pasajero solution. He commented that the proposal could result in the depositing of large amounts of sediment into the San Luis Canal and this would

have an adverse impact on water quality. Russell wondered whether DWR could undertake the project independently of the Bureau and then present the Bureau with a bill for a portion of the cost. Bob Stackhouse commented that DWR had attempted such an action in 1995 but the courts ruled in favor of the Bureau. DWR subsequently appealed the ruling and is awaiting an appellate ruling. Russell said that Craig Stroh, Bureau cost allocation expert, guessed that the Arroyo Pasajero Project (with full COE and State participation) would cost about $0.10 per acre-foot per year. Russell added that if the GAP Dam proposal (which the FWS has declared immitigable) could be resurrected there is a possibility there would be other participants such as Chevron, PG&E, etc to absorb some of the costs.

--EBMUD Amendatory Contract. Alan Thompson discussed EBMUD's progress in negotiating its Amendatory Contract with the Bureau and explained the district's need for a dry year water supply. He talked at length about the Freeport Regional Diversion Project that would divert water from the Sacramento River near Freeport and pump that water eastward to the Folsom South Canal where it eventually would be conveyed by gravity to the end of the canal and them pumped through a yet-to-be-constructed conveyance system to the District's Mokelumne Aqueduct for conveyance to the Bay Area.