Financial Affairs Committee
September 27, 2002

1. **Participants**

--Ron Jacobsma, FWUA
--Russell Harrington, WWD
--Mike Hagman, TCCA
--Dennis Michum, GCID
--Cheryl Detro, SCVWD
--Anthea Hansen, Del Puerto WD (Call-in)
--Mike Finnegan, BOR
--George Senn, CVPWA
--Frances Mizuno, SLDMWA
--Lynn Hurley, SCVWD
--Alan Thompson, EBMUD
--Jun Jamosmos, Stockton East WD
--Lee Emrick, Colusa Co WD (Call-in)
--Larry Bauman, BOR

2. **Opening Business**

The September meeting was held in the ACWA Office Conference Room, 910 K Street, Sacramento. The meeting began at 10:00 a.m. and concluded around 12:15 p.m. The agenda was reviewed and approved. One discussion item was added—the GAO Audit. The next meeting will be held in the ACWA Conference Room on October 25 at 9:30 a.m.

3. **FAC Issues Matrix Status.**

A. **Capital Rate-setting and Cost-Recovery**. Mike reported that his staff has been focusing on completing and publishing the 2003 water rates during the last month or so and has not had time to work on the capital rate-setting issue. His staff will get back on the project in the next few weeks and will start putting the numbers together. It was agreed that whatever delivery projection numbers are used in lieu of the current delivery projections in the BOR Rate Book Schedule A-12, they should by based on the appropriate starting projections and should be straight-lined where build-up is not realistic or probable. It was further agreed that the rate-setting process should be flexible enough to allow for changing conditions. Russell Harrington cautioned that while the water contractors are participating and collaborating with BOR in developing an alternate capital rate-setting process, the contractors have not agreed to any changes in the way the BOR currently recovers CVP capital costs. Mike agreed that any changes coming out of the Capital Rate-setting subgroup would have to be presented to and accepted by the full FAC, then be presented to and accepted by BOR management, and then be subjected to the public review process. The process is far from complete.

B. **PUE Issues--Post 2004 O&M Sub-allocation**. Ron reported that the PUE Issues team met on September 19-20. He said that the PUE Issues formula development sub-team has met several times in the past few months to develop potential cost allocation formulas for use in allocating post 2004 BOR and Western PUE-related O&M expenses (the load balancing contract with PG&E expires at the end of 2004). The formulas were presented to the full PUE Issues team for discussion and possible acceptance. After considerable discussion, the members of the PUE issues team were asked to rank each of the potential formulas on a scale of 1-5, 1 being the formula meets less than a majority of the interests defined at the outset of the PUE issues team work and 5 the formula definitely meets all interests. Some formulas were eliminated during the process and in some cases more than one formula still exists for the same cost allocation elements. Meetings are scheduled for October 7-8 to complete the ranking process so that modeling can begin. A model will be developed by a consultant and the formulas will be run against different hydrology conditions and power generation scenarios, i.e., load following and maximum peaking. The goal is to come up with a cost allocation strategy that will be acceptable to all parties who use CVP PUE and preference power.

C. **Cost Recovery for CVPIA Programs and Activities.** Mike reported that the team has made good progress and is getting close to dealing with the central issue—how to interpret the CVPIA offsetting provision. The water and power contractors were asked to research the Congressional record and any other available background information relating to the offset provision to come up with an interpretation as to what Congress intended when it penned the offset provision language. Mike said that all water and power contractors would have the opportunity to make their case. Mike said that he is in the process of looking into another possible interpretation but has not yet completed his research. He wants to reconvene the group sometime around the end of October or early November to compare notes on where we are in interpretation process.

D. **Reclamation Water Accounting Program Development**. Mike reported that staff at each of the Reclamation Area Offices has been trained in BOR-Works, the new Reclamation water accounting program. Reclamation is currently running the old WORKS and the BOR-WORKS side-by-side and is comparing the August water accounting results from the old WORKS program with the results from the new BOR-WORKS program for consistency and accuracy. Reclamation hopes to have the water contractors on-line via the Internet by March 2003—training will be provided sometime in January. Mike reported that Reclamation is working on a list of items associated with the new water accounting program, such as year-end carry over water, etc. Historical data will not be accessible on the new system, but it is being archived and will be available if required.

4. **CFO Audit Impacts.** Mike reported that Reclamation has responded to the Tehama-Colusa Canal Authority (TCCA) letter regarding the recent CFO audit adjustment. He said that Reclamation has written a letter to the Deputy Chief Financial Officer in Denver requesting a review and opinion of 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 felt that they were supportive of the notion that costs associated with assets not owned by Reclamation that have a life longer than one year should be amortized over the life of the asset rather than be charged to the water and power contractors as O&M costs. He said that the water and power contractors are not asking that Reclamation change how it presents such costs in its Financial Statements, but merely to recognize they have a longer life and handle them accordingly through the ratesetting (cost recovery as a construction cost) process. Mike said that response by Reclamation to the TCCA letter would be a good indication as to how Reclamation intends to handle such costs.

5. **Fall Budget Workshop**. The fall budget workshops are scheduled as follows:
   Regional Office – October 9
   N. CA Area Office, Redding – October 15
   S. Central CA Area Office, Fresno – October 16
   Central CA Area Office, Folsom – October 22

   All CVP water and power contractors are invited to attend the budget workshops. Reclamation has sent out Activity Plans for each of the O&M budget line items and has asked the water and power contractor representatives to review them and provide recommended priority rankings for each of the proposed 2005 O&M Budget items.

6. **Water Transfer Issues**. Ron reported that the water contractor representatives who are members of the Financial Issues Team (FIT) met last month to discuss what was needed to develop a permanent CVP water transfer policy. George Senn was tasked with preparing a white paper that would describe the historical CVP water transfer practices that have been implemented through interim water transfer policies. It was felt that this information was needed before the FIT could provide input toward developing a long-term water transfer policy. Because of Reclamation's fiscal year-end workload, the appropriate staffs have not been available to provide the required information. Larry Bauman has agreed to meet with George during the next week or so to provide Reclamation input.

7. **Reports on Ongoing FAC Interest Issues**.

   A. **Direct Funding Agreements**. The service contracts that will provide the funding by Reclamation for certain Authority water contractors are being executed. The final drafts of the amendments to the Direct Funding Agreements are being circulated for review.

8. **GAO Audit.** George reported that the GAO issued an audit report on September 20, 2002 that seeks to recover Bureau-wide program costs that had been previously considered non-reimbursable by Reclamation. Bureau-wide programs are administered by the Commissioner's Office and/or the regional offices and are intended to be Bureau-wide in scope and benefit the overall Reclamation mission, thus they are considered to be non-reimbursable. The GAO report concludes that many of the Bureau-wide programs directly or indirectly benefit Reclamation's projects and thus the costs associated with these programs should be allocated to the project beneficiaries. The GAO report identified 18 Bureau-wide programs (amounting to about $93.7 million in the 2002 Appropriation) that heretofore have not been reimbursable but directly or indirectly benefit Reclamation projects. The Bureau-wide programs identified by the GAO Reports include such programs as Department of

Interior Dam Safety, Safety Evaluation of Existing Dams, Examination of Existing Structures, Land Resources Management, Reclamation Law Administration, etc. The GAO report recommended that Reclamation review the Bureau-wide Programs and recover the costs of those that either directly or indirectly benefit a project, unless recovery is prohibited under current law. Reclamation concurred in the recommendation. Ron said that the FAC would keep a close eye on this issue.

George R. Senn
Finance Director
CVPWA