December 16, 2005
Meeting Summary of the
Financial Affairs Committee

Participants

David Bird – Tehama Colusa Canal Authority (telephone)
Brice Bledsoe – Contra Costa WD
Bob Cheskey – Western Area Power Administration
Kristy Dickhaut – Westlands WD
Melinda Grow – Western Area Power Administration
Mike Hagman – Friant Water Authority
Russ Harrington – CVP Water Association
Lynn Hurley – Santa Clara Valley WD
Paul Landry – Bureau of Reclamation (CVO)
Barry Mortimeyer – Bureau of Reclamation
John Pelley – Bureau of Reclamation
Jesus Reynoso – Bureau of Reclamation
Ed Roman – Sacramento Municipal Utility District
Bob Stackhouse – CVP Water Association
Dick Stevenson – Bureau of Reclamation
Judi Tapia – Bureau of Reclamation (telephone)
Katherine Thompson – Bureau of Reclamation
Jerry Toenyes – Northern California Power Agency

1. Opening Business

The December 16th FAC meeting was held at Mid-Pacific Regional Office of the Bureau of Reclamation in Sacramento. The meeting notes from the November FAC meeting were approved without change. One item was added to the end of the agenda pertaining to ESA costs. The next FAC meeting will be at the Water Users Conference in Reno. The meeting will start at 2:00 on Tuesday, January 17th. A conference line will be available for anyone who cannot attend in person. The dial-in number for the conference line will be the same as for other FAC meetings, and will be listed on the January FAC Agenda. After the FAC meeting has finished, a subsequent meeting will start immediately afterward to discuss the Transfer Rate Policy Implementation Guide.

2. Review of PUE Issues. At the request of Reclamation Power and Western staff, the PUE Issues were moved to the front of the Agenda.

A. **2207A Status**. Regarding PG&E's attempt to pass through the Scheduling Coordination costs to Contractors, Barry said that there could be an advantage to this, but that there are also some risks. The advantage is that the New Melones pseudo-tie could be incorporated into the WAPA Control Area, but that the downside risk is that the canal-side pumps served by this contract could be converted to wholesale distribution costs if WAPA and Reclamation are found to be in breach of Contract 2207A. Monthly data for the spinning reserves credit that might be realized from the New Melones pseudo-tie is attached, along with two documents titled "Background New Melones Pseudo-Tie Issue"; the first document was prepared by Barry Mortimeyer, and the second is an edit of Barry's document by Ed Roman from SMUD. The statement was made that the change will occur in 2016 regardless of the Pseudo-Tie issue, because this is when Contract 2207A will expire. When this occurs, the Power Cost for the canal-side loads is expected to increase five-fold. Barry said that the deviation costs must be closely controlled, because this is expected to be the predominant source of this five-fold cost increase. Conveyance Pumping deviation costs are very controllable, while the Direct Pumping costs may be more problematic. Barry said that there are positive deviations at this time, and that these deviations need to be brought to zero by the end of the calendar year. Barry said that if under-scheduling exceeds 3% of the total, then severe financial penalties are assessed. Regarding the attachment for the monthly spinning reserves, Bob Cheskey said that he looked at the three cost categories and confirmed that each categories is currently running a credit balance. At this time, PG&E is holding these credits pending the litigation regarding the ability to pass-through the Scheduling Coordinator costs; however, PG&E has acknowledged that they don't believe that they should keep this credit for themselves. The comment was made that 2207A is a prepaid contract; however, PG&E is claiming that the Scheduling Coordination wasn't included in the prepaid costs. FERC has initially sided with PG&E, although this case is still being heard. The Department of Justice doesn't have a lot of interest in pursuing this matter with PG&E. The risk is that PG&E may claim breach of Contract if Contractors don't pay the Scheduling Coordinator costs. Regarding the New Melones Pseudo-Tie and the credit for the spinning reserves, Barry Mortimeyer said that Reclamation is not yet in position to get the benefits from this credit. He added that 8 months would be necessary to implement the change to the Pseudo-Tie. Barry said that the strategy at this time is to handle the New Melones Pseudo-Tie and Scheduling Coordinator issue first, then deal with the issue of post-2207A when this contract expires in 2016. He said that there is a possibility that Reclamation and WAPA may move to have this line condemned so that they can take control of this line. CVPWA staff has asked Barry to review the cost of installing Reclamation-owned lines, such that Contractors will no longer be subject to duress from PG&E.

B. **Post-2948A Cost Review**. WAPA staff indicated that FY 2005 accountings will be completed during the June/July 2006 timeframe. FY 2005 will be a complex and difficult year to complete. The first three months of FY 2005 will be based on the methodology utilized for 2948A, because contract 2948A didn't expire until these first three months had ended. There will be a need to go through the formulae that were jointly developed during the Power O&M Cost Allocation agreement, and assemble the data into these formulae. WAPA staff indicated that some of the formulae that made sense then may not make sense now. The majority of the

FY 2005 PUE allocation will be completed by WAPA, and will include gathering the data systems and processes. Preliminary data is not expected to be available until this May or June. WAPA staff needs to be sure that the data sources will provide all necessary information. WAPA staff will need to reach a consensus with Reclamation. Barry Mortimeyer made the comment that the formulae won't change, and that these formulae were meant to be robust. Schedule 16 may present some issues because some costs may be included in the wrong categories. Also, cost data may not be readily available for extraction from Schedules 9 and 16. These schedules are derived from WAPA marketing plans that were created after the Power O&M Cost Allocation had been completed; as a result, the Power O&M Cost Allocation didn't incorporate these schedules. Western staff said that the primary unanticipated change from the Cost Allocation projections to actual results pertained to the Control Area. CAISO costs have been fairly reasonable. PG&E has used APX (a private contractor) to perform the Scheduling Coordination function at a cost of about $25 thousand per month. There are approximately 80 cost categories in the APX cost data, but the bottom line appears to look fairly reasonable. In general, some costs were over-estimated while others were under-estimated. Reclamation CVO staff indicated that they will be performing their year-end close in January or February. Western provided

C. **Availability of PUE Sample Data for Audit Purposes**. Contra Costa WD issues with prior-year true-up data will create revised true-up data for each year. Reclamation staff indicated that the adjustments will be made retroactively, and stated that the revisions are sufficiently significant to warrant a revision. The problem was that the meter readings for both non-CVP and CVP water deliveries were included in the PUE cost allocations to Contra Costa WD. The FY 2004 data already incorporates this adjustment. However, data for FY 1999 through FY 2003 still needs to be corrected. Russ mentioned to Katherine Thompson that SLDMWA staff are still need to have an on-site data inspection as a part of their annual cost allocation, and also confirmed that he'd received final FY 2003 PUE cost data from Tom Ruthford.

3. 2005 FAC Issues Matrix

A. **Budget Workshops – Refining Customer Participation**. Reclamation staff noted that program managers for the Mid-Pacific Region are reviewing their records of actual expenditures in comparison to obligated funds for the past five years. The goal of this project is to identify and correct any obligated funds that are not expected to be utilized. Regarding the Budget Process Review, Katherine Thompson stated that they are waiting for contact from Russ Harrington, who will contact Craig Muehlberg to discuss an initial scoping meeting for the Budget Review Process.

B. **BOR-WORKS Water Accounting Program Development**. Reclamation staff indicated that the transfer rate and tiered pricing modules will be completed by the end of January. The WAPA OMB decision to book water and power revenues separately will need to be completed for the 2005 Final Accountings. This will require a major adjustment to the system, and will require that the power transmissions costs be segregated into a specific line-item. The issue of Direct Billing PUE was raised again by Reclamation staff along with the need to conduct a study to determine in what cases was the O&M covered by the power revenue collections. The prior assumption was that the power portion was always being collected, but this may not have been the case. The cost side of the WAPA / Reclamation has always been resolved by the NAT (Non-Appropriated Transfer); however, this may not have been the case on the revenue side. WAPA has assumed that all revenues have always been collected, but this may not have always been the case. As a result, an annual deficit may have been created. Reclamation needs to have power revenues booked separately by next year, and is currently reviewing implementation options. Completing this requirement may delay the resolution of other WORKS issues.

C. **Water Transfer Rate Policy Development**. Regarding the distribution of the Revenue Crediting Notification letter to Contractors, Jesus Reynoso was asked to follow-up on the status of this letter. Donna Tegelman currently has this letter, and the next step is to get this letter to Larry Bauman. Regarding the Procedures Guide, Reclamation's goal is to have an edited version of this guide returned to Contractors by the first week in January. After the conclusion of the January FAC meeting in Reno, another meeting will be started to review the Reclamation edits to the Procedures Guide.

D. **Historical Advance Payment Reconciliations**. Reclamation staff stated that they are starting to make more substantial progress in terms of completing these reconciliations. There are currently two independent contractors working on these reconciliations, and one more may be added. Two Reclamation staff members are working on the current year data. Reclamation staff alluded to IGO follow-up, and that the reconciliations back to 1986 may be lawsuit driven. Reclamation has a goal of finishing all Historical Advance Payment Accountings by the end of the year.

E. **Security Cost Reimbursability**. Reclamation will be completing a report in January to review the cost allocations for both 2005 and 2006. Attached is projected data for FY 2006, which allocates costs based on plant-in-service. The cost allocation is expected to cover the time period from 2006 forward. The 2006 rates will be completed in mid-January, and as a result the 2006 costs may be applied directly to the final accountings. Jesus Reynoso mentioned the possibility that the 2005 costs may also be included in the final accountings, but said that the January report is for 2006 costs and not for 2005. There was some conflicting information regarding the cost data, and Katherine Thompson was requested to follow-up on this. The possibility was also raised that advanced funding might be required to cover these costs, and that these costs would be paid straight to the Treasury. CVPWA staff commented that this could be another Direct Billings issue. Reclamation staff indicated that a portion of these costs may have already been paid through advance funding payments by Power Contractors. The capital hardening costs are still to be non-reimbursable. The request was reiterated for Reclamation to provide clarification on what the costs are expected to be. Contractors made the comment that they are wary of the possibility of advanced funding. The comment was made that for 6-7 years, Power has advanced the Reclamation share of the O&M requirements, and that Power Users would like to see Water Users start to pay their share.

F. **Draft 2006 Water Rates.** Reclamation staff indicated that the rates will be finalized in January, and may or may not include the Security Costs. Reclamation hopes to have responses to the Contractor comments on the 2006 draft rates by the end of the calendar year. CVPWA staff thanked Reclamation for their willingness to respond to Contractor comments.

G. **Direct Billings**. Reclamation staff indicated that the real difficulty pertained to the method for inserting Safety of Dams costs into the water rates. Costs for Safety of Dams projects have been seen as costs to be repaid separately, although these costs can be scaled. Ratesetting is based on water deliveries, which means that if no water is delivered then there are no payments. In turn, there would be no payment for Safety of Dams costs. Reclamation staff indicated that they are open to suggestions, and that Larry Bauman, Laura Close, and the Denver Office would be discussing this issue. Reclamation is considering separate, 3-page letter agreement contracts as opposed to a multi-page agreement for each Contractor. Reclamation was requested to identify the statutes that require annual repayment. Contractors stated that they information that they've seen only requires a 50-year repayment period, and that they have found nothing that requires annual installment payments. Reclamation staff responded that they see both a repayment and an accounting issue, based on interpretation from the Solicitor's Office. Reclamation's accounting issue is based on receivables. This issue is still review, and the Denver Office may need to get approval from the Assistant Secretary before proceeding with any changes. The possibility was raised that a suballocation within the capital may be created for the Safety of Dams capital obligation. The Solicitor in Washington DC has concerns about cost confirmation, while the other issues of the Solicitor are apparently resolved. However, Reclamation staff also raised the question of how to work prior Safety of Dams costs into a repayment schedule. The possibility was also raised that Reclamation may require a separate repayment contract for each Contractor for each project. Reclamation staff stated that they do not want to make this an audit issue. The accounting treatment for the Safety of Dams costs is seen as a compliance issue. Brice Bledsoe and Russ Harrington are to meet with Larry Bauman and Laura Close to discuss this matter. Russ will assemble a technical group that will include representatives from the Power Contractors, although the Water costs may not impact the Power side. The suggestion was made that the feasibility studies for specific Safety of Dams projects may include information pertaining to repayment. Regarding the PUE Direct Billings, this may pertain only to transmission expenses or to all PUE costs. It was reiterated that the PUE issue is based on power revenue recovery from water users. Reclamation staff said that this is still one of the things that they need to resolve. Regarding the Trinity PUD, the annual amounts have varied from $150 thousand to $400 thousand per year. Reclamation staff stated that all amounts of less than $50 will be rolled into the final accountings. The Trinity PUD costs are recovered separately through legislation, and Reclamation staff indicated that they should be recovered through entitlement and assignment. Reclamation has stated that they want to work with the CVPWA to send a letter to Contractors. Contractors said that the Trinity PUD may represent a situation where legislation actually does require a separate billing, but they do not want to set a precedent where Contractors believe that Direct Billings are appropriate in other situations. In particular, Contractors do not want to see Trinity PUD used as an unwarranted precedent for allowing Direct Billings in other areas. Reclamation staff have stated that the Trinity PUD costs will be added to Contractors' final accountings in 2005, and will be billed to Contractors in 2006.

4. CVPIA / AFRP Status Update. There was nothing substantially new to report. This item was tabled until the next meeting.

5. Folsom Safety of Dams Costs. Regarding the Corps of Engineers projects, the common understanding is that Congressman Doolittle's legislation that mandated the 51.1% / 48.9% cost allocation did not survive the House Conference Committee. Regarding the individual projects, all except the Folsom Bridge are on hold pending further cost review. The Folsom Bridge is still on a fast track to completion. However, the Corps of Engineers needs Reclamation – and apparently Contractors as well – to agree to provide a right of way for the bridge to be completed. Reclamation has suggested that Contractors only agree to grant this right of way on the condition that the Bridge is 100% non-reimbursable. Another new development is that the Corps of Engineers and Reclamation may start to work jointly on the Folsom Dam Modifications. Previously, the only direct Reclamation involvement in the Folsom Safety of Dams work was on the Mormon Island and other Dike projects, which are scheduled to start soon (as far as the planning phase). Now, it appears that the projects that have been Corps of Engineers projects may become joint Reclamation / Corps of Engineers projects.

Regarding the Reclamation Safety of Dams work that will commence on the Mormon Island levee (and possibly other levees as well), during the October FAC meeting Reclamation staff had requested that the FAC identify 3 representatives to represent the CVP on the financial issues for this project and 3 representatives to represent the CVP on the engineering/technical issues. On the financial side, Russ Harrington, Mike Hagman, and Kristy Dickhaut volunteered. On the technical side, Ed Roman, Jim Snow (with Westlands WD), and Bob Martin (with the San Luis Delta Mendota Water Authority) volunteered.

6. Capital Ratesetting. Reclamation was asked about the discrepancy between the 1995-2004 deliveries in the A-14 Schedule and annual data the A-13 Schedule, and was asked to revise the A-13 data to reflect the deliveries in the A-14 Schedule. Reclamation's response was that not all of the discrepancy was due to Rescheduled water, and that Reclamation will not include unused water in the A-13 calculation. More information pertaining to this discrepancy will be provided in Reclamation's responses to the Contractor comments on the 2006 water rates.

7. Issues Matrix. Discussion of this issue was postponed until the January FAC meeting.

8. ESA Costs. Mike Hagman said that this issue pertains to segregating the Environmental cost components, and ESA costs in particular, from the water rates. This is a request that has been made by Congressional staff of Congressmen Pombo, Radanovich, and Nunes, as forwarded by Ron Jacobsma. Mike said that he would be speaking with Congressional staff to get more information, and suggested that we may want Reclamation to assist in providing this information.