



*April 21, 2006*  
*Meeting Summary of the*  
*Financial Affairs Committee*

**Participants**

Larry Bauman – Bureau of Reclamation  
Brice Bledsoe – Contra Costa WD (telephone)  
Charlotte Dahl – Westlands WD (telephone)  
Lee Emrick – Colusa County WD  
Mike Hagman – Friant Water Authority  
Garth Hall – East Bay MUD  
Anthea Hansen – Del Puerto WD  
Lynn Hurley – Santa Clara Valley WD  
Kathryn Kitchell – City of Roseville  
Eric Limas – Lower Tule River ID (telephone)  
John Pelley – Bureau of Reclamation  
Jesus Reynoso – Bureau of Reclamation  
Ed Roman – Sacramento MUD  
Dick Stevenson – Bureau of Reclamation  
Alan Thompson – East Bay MUD  
Katherine Thompson – Bureau of Reclamation

**1. Opening Business**

This April 21<sup>st</sup> meeting was held during the morning at the Mid-Pacific Regional Office in Sacramento. The meeting notes from the March 24<sup>th</sup> Financial Affairs Committee meeting were approved without any requested adjustments. Ed Roman mentioned two items that were not included in the agenda for this meeting. The first item was the negotiation between Reclamation and PG&E for the reimbursement to PG&E for the PG&E expenses in increasing instream water flows through Battle Creek. This negotiation will be held at the Regional Office in C-1003 from 10:00 to 3:00 on Wednesday, May 3<sup>rd</sup>. The second item was a support letter that SMUD sent to the Colorado River Energy Distribution Association (CREDA) regarding the CREDA efforts to cap the reimbursable portion of the Post-9/11 Security costs. Ed asked if the CVPWA would be interested in sending a support letter to CREDA. A concern was raised that in supporting this cap that CREDA has proposed, then Contractors are accepting the position that a portion of these costs should be reimbursable. Contractors also suggested that any cap would need to be indexed against a transparent benchmark.

The possibility of an off-site FAC meeting at the Tracy Office on June 16<sup>th</sup> was raised. After the FAC meeting, preliminary arrangements were discussed for having the June FAC meeting at Tracy, and Reclamation's Tracy Field Office is the tentative location for this meeting. Contractor representatives who are planning to attend this June FAC meeting in Tracy need to provide Russ Harrington with their Driver's License number. Federal Government employees who plan to attend this meeting also need to RSVP with Russ Harrington. The September FAC meeting may be held at Del Puerto WD on September 15<sup>th</sup>. Anthea Hansen is working to finalize this meeting location.

## **2. 2006 FAC Issues Matrix**

**A. PUE Issues.** There were no new developments pertaining to PUE costs, and there were no representatives from Reclamation's CVO Office or the Western Area Power Administration to provide any comments. As a result, discussion of this item was tabled until the May FAC meeting. Note that the Western Area Power Administration expects to have Fiscal Year 2005 O&M Accountings done in May or June.

**B. Security Cost Reimbursability.** Reclamation indicated that a number of questions that had been raised by SMUD had received responses. The specific facilities that were designated for Security Costs were those that were identified as nationally critical or mission critical. Because the only facilities identified as critical were CVP facilities, all of the Mid-Pacific Region security costs were allocated to the CVP. The reimbursability determinations of the costs assigned to each of those facilities was derived from the O&M allocation to each facility, which included an allocation to all applicable reimbursable and non-reimbursable project purposes.

CVPWA staff noted that the FY 2007 budget might include all guards and patrols costs as reimbursable. This would cause the Bureau-wide reimbursable security costs to approximately double, from a \$10 million cap this year to approximately \$20 million next year. CVPWA staff has been informed that the Administration has been pushing to have all of this cost be reimbursable, and that this is currently under consideration by the House. It was also noted that while the "hardening" capital costs are expected to continue to be non-reimbursable, the O&M costs associated with these facilities are expected to be reimbursable. As a result, security costs could show large spikes in costs for certain years if large maintenance projects are needed for these "hardening" costs. In addition, replacement items for "hardening" facilities are expected to be reimbursable. Reclamation is still reviewing the reimbursability treatment of replacement items. The understanding of the Regional Office is that the replacement items will be non-reimbursable if they are capitalized, and reimbursable if they are determined to be O&M. However, a final decision regarding reimbursability of replacement items is still pending.

**C. Budget Workshops – Refining Customer Participation.** Russ Harrington met with Regional Budget Manager Craig Muehlberg and Regional Budget Analyst Sandra O'Roak to review the availability of data in the existing Reclamation information systems. At this time, it appears that much of the necessary information for having a mid-year budget review, which would incorporate prior 3 months of historical cost data, is already available. More information

may be needed to develop reviews that would cover the upcoming three months. It is likely that Area Office participation will be needed at some point during this process. Russ Harrington is to continue to work off-line on this project.

**D. BOR-WORKS Water Accounting Program Development.** Reclamation indicated that there will be an adjustment in the 2005 Accountings to incorporate the September 2003 transfers that were mistakenly included in the 2004 Accountings. Regional rate team lead John Pelley is the point of contact for this project, and is currently working with the Water Accounting Team to get a list of the affected Contractors. Reclamation's goal is to include these adjustments in the 2005 draft accountings.

Reclamation will be completing the draft accountings when specific financial statement data becomes available. Once this data is available, the expenses will be compiled. This process is expected to take several weeks after the necessary financial data is obtained.

Contractors asked about the availability of monthly water statements and noted that some Contractors haven't received these in several months. Reclamation indicated that they are looking into producing and sending these reports directly from the Regional Office. Staff from the Regional Office will check with Area Office staff to determine the reason that some Contractors have not been receiving monthly reports.

Contractors also asked about the process for resolving the acre-feet and revenue discrepancies in Reclamation's full-year water delivery / revenue report. Reclamation indicated that first the respective Area Offices will be consulted, and then the Contractors will be contacted. Contractors with significant discrepancies, as determined by Reclamation, will be given a written response along with the adjustments made to BOR-WORKS for their 2005 water delivery and revenue discrepancies. Reclamation indicated that these discrepancies should be resolved before the draft accountings are completed.

Regarding the BOR-WORKS upgrades, Reclamation noted that the priorities change because of changing requirements. At this time, the system is running on the Oracle 8i platform, but the Region is requesting that the system be upgraded to Oracle 10g. A positive aspect of this upgrade is that Oracle 10g allows for queries that Reclamation is currently forced to conduct through programmer modifications. The BOR-WORKS program will be audited by the Inspector General's Office, and will also need to maintain its status as an accredited system. Reclamation indicated that because the time for producing the annual statement is short, accurate quarterly statements are very important. Reclamation noted a problem with the need to roll prior-year corrections through ensuing financial statements to the current year. The CVP financial statement has not yet been finalized, although the Reclamation financial statement is completed.

**E. Water Transfer Rate Policy Development.** Reclamation confirmed that for those transfers that are based on Cost of Service and Incremental rates, the revenue from the incremental charges would be credited against the services that were utilized. Regarding the "higher of two contract rates", Reclamation hasn't yet determined how these revenues will be credited. The transferor's portion of the higher of the two rates will be applied to the transferor;

however, Reclamation may not credit the transferee's portion to the transferee because there are no costs identified to the transferee associated with this revenue. The transferee's portion of this revenue may be credited to Water Marketing. Reclamation noted that the "215" water payments are credited against Capital as a tail-end credit, and the Rescheduled water payments are credited against Storage Capital. Warren Act revenues are still sent straight to the Treasury without credit against any CVP obligations.

Reclamation stated that the recent flood releases have been treated as non-project releases through the Friant system and wouldn't be included in the BOR-WORKS system. These releases are flood water that is being moved through the Friant Kern Canal and Madera Canal to alleviate potential flooding issues down the San Joaquin River. There are no rights associated with this water, and there are also no Contractor responsibilities.

Reclamation is in the process of melding the draft Transfer Rate Procedures Guide and the process descriptions into a single document. This process is expected to require a couple months of additional work. Reclamation also noted that they are still working through the Ability to Pay pricing.

**F. Folsom Dam Costs.** CVPWA staff noted that there would be a technical meeting regarding the Folsom Safety of Dams modifications in the afternoon following this FAC meeting. Because of this, this agenda item was tabled.

**G. Direct Billings.** Reclamation indicated that it is working with Denver and the Solicitors to determine whether the PUE and Safety of Dams costs can be recovered through the rates under the existing rate policies (for Irrigation and M&I), or whether a supplement to the existing policies might be needed. The Direct Billings option isn't off the table, but it is not the preferred alternative of Reclamation.

Reclamation also commented that the Interim M&I ratesetting policy will be finalized by June 2007. The finalization of the M&I policy has been identified as a priority by the acting Secretary. Before the policy can be finalized, Reclamation will need public meetings and a review process. Depending on the outcome of long term renewal contract negotiations for the San Felipe Contractors, the Out of Basin costs will also need to be addressed before the policy can be finalized. Contractors asked to be involved in the M&I ratesetting policy finalization process, and asked whether preliminary meetings will be held to inform Contractors of the finalization process.

Reclamation will be meeting with the Solicitors during the last week in April to discuss Direct Billings / CVP Ratesetting policy issues. Reclamation reiterated that the Safety of Dams and PUE issues are still being reviewed, but that the PUE issue may be able to be addressed internally.

Regarding the Trinity PUD Direct Billing, Reclamation has not established a timeframe for the billing to cover the 2006/07 Water Contractors' payment obligation. Reclamation indicated that an official federal register notice would need to be published before this could occur.

Reclamation has until the end of September to complete this billing and remit payment to the Trinity PUD.

### **3. 2006 Water Rates**

Reclamation staff was asked about their findings regarding the 75% cap on the AF delivery base for some (but not all) Contractors. Reclamation stated that the cap was based on physical limitations and the need to remove unused water from the ratesetting calculations. Contractors responded that the physical limitations would preclude the need for an artificial 75% cap, and asked about removing the unused water from the calculations. Part of the issue is based on the Settlement Contracts, although the cap has also been applied to Contractors who are not settlement Contractors. Reclamation was asked whether this cap was also applied to the costs, but Reclamation didn't believe that this has been the case. Reclamation stated that from 1993 forward, the rate calculations have been based only on delivered water. Reclamation was asked to determine whether the ratesetting AF cap is needed if physical delivery restrictions are already in place.

Lee Emrick stated that he was concerned about the possibility of rates going too low if the cap were removed. However, the smoothing mechanism of the 5-year rolling average will still be in place to mitigate the effects of a single year's deliveries on the AF base.

Jesus Reynoso was asked to bring information to the next FAC meeting regarding the 75% cap and reason why it is applied to each Contractor that is subject to this cap. Reclamation also indicated that it would be phasing out the undelivered water from the AF base used in calculating the O&M rates.

### **4. SWRCB Fees**

CVPWA staff noted that the State Auditor has issued an audit report on the State Water Resources Control Board. Among other things, this audit reported that significant water rights were omitted from the fee process and that some Contractors were charged for much more water than they were actually allowed to take. The end result of both of these issues is that CVP Contractors were almost certainly charged a disproportionately high share of the SWRCB Fees.

### **5. Miscellaneous**

Contractors noted the potential effect of the Green Sturgeon listing on the ability to get the renewed Contracts signed. A consultation with the National Marine Fisheries Service may be required before signature. There are similar issues with the Chinook Salmon. Affected Contractors include the San Felipe Unit and San Luis Unit Contractors. The possibility was raised that even if signed, these Contracts could be subsequently invalidated. It was noted that signed Friant contracts were invalidated 18 years ago.