



June 16, 2006
Meeting Summary of the
Financial Affairs Committee

Participants

Larry Bauman – Bureau of Reclamation
David Bird – Tehama Colusa Canal Authority (telephone)
Charlotte Dahl – Westlands Water District (telephone)
Lee Emrick – Colusa County WD (telephone)
Mike Hagman – Friant Water Authority
Garth Hall – East Bay MUD
Anthea Hansen – Del Puerto WD
Russ Harrington – CVP Water Association
Liz Partridge – Bureau of Reclamation
Paul Olmstead – Sacramento MUD
John Pelley – Bureau of Reclamation
Jesus Reynoso – Bureau of Reclamation
Katherine Thompson – Bureau of Reclamation
Jerry Toenyes – Northern California Power Association

1. Opening Business

The June 16, 2006 Financial Affairs Committee Meeting was held at the Tracy Field Office in Byron, California. Following this meeting, the FAC was taken on a tour of both the Tracy Pumping Plant and the Tracy Fish Mitigation facilities that are included in the CVPIA 3406(b)4 requirements. Jesus Reynoso requested a few amendments to the May FAC meeting notes, which Russ Harrington said would be appended to the notes for this June FAC meeting. Jesus said that he would e-mail these requested amendments to Russ for inclusion. Three items were added to the Draft Agenda: Historical Advance Payment Accountings, Succession Planning to account for the departure of Susan Ramos, and the disposition of payments on Battle Creek. Anthea Hansen confirmed that Del Puerto will be ready to have the September FAC meeting at their facility. Garth Hall suggested that the Pardee reservoir may be available for an upcoming FAC meeting, and Garth was asked to check the availability of this facility for the August FAC Meeting.

2. 2006 FAC Issues Matrix

A. **PUE Issues.** Russ stated that he has spoken with the Western Area Power Administration regarding the status of the 2005 PUE Accountings, and that these accountings are not expected to be ready until at least July. The 2005 Accountings are taking longer than usual due to the requirement to process the first three months under the 2948A Contract specifications and the last nine months under the post 2948A agreement. Jerry Toenyes suggested that it would be a good idea for the Water and Power Contractors to get together and review the data from these accountings. Jerry said that some of the costs that were expected to fall into one category are being pushed into other categories, and that the water and power contractors need to get together to resolve these items. Jerry suggested that a half day or full day meeting could be scheduled by the water and power contractors to review these issues. Russ indicated that he will be pursuing this issue with the Western Area Power Administration once the 2005 PUE accountings are available, and will look into setting the meeting date for the meeting requested by Jerry.

B. **Security Cost Reimbursability.** Reclamation stated that the allocation of Security Costs within the CVP is based on the allocations of the four complexes where these costs were implemented: the Shasta Dam & Reservoir (which includes the Shasta Powerplant), the Folsom complex, Keswick, and the Tracy Pumping Plant. Reclamation indicated that most of these costs are included in Storage O&M, per the Schedule A-9. CVPWA staff stated that they were concerned with the original allocation of \$6.3 million of the \$10 million Reclamation-wide costs to the CVP, but noted that the amount allocated to the CVP appeared to have been adjusted to \$2.7 million for the CVP. However, Reclamation staff stated that their understanding was that \$6.3 million is still to be allocated to the CVP. The costs included in the A-9 Schedule show that \$1.337 million was allocated to Security Costs through the Irrigation water rates and \$210 thousand was allocated through the M&I water rates. CVPWA staff will follow-up to get more information on the proportion of these Security costs that were allocated to Reclamation. Reclamation staff agreed to provide Contractors with the amounts of security costs that were built into each of the water rate components.

Russ Harrington stated that he will be testifying before the House Water Power Subcommittee regarding Reclamation Site Security on June 22nd. Russ said that his testimony will concentrate on the financial and cost allocation aspects of these Security Costs. Russ said that his testimony would convey concern over the currently-recommended cost allocation by Reclamation, which is to allocate all O&M costs for Guards and Patrols to Reclamation along with the O&M and replacement of the capital items. Russ suggested that this represents a strategy by Reclamation to phase-in a situation where the majority of these costs would be reimbursable. He will suggest three alternatives to this methodology:

1. Full non-reimbursability: These costs are for national defense, which is a Federal Government responsibility and because Reclamation Law has always clearly distinguished between public benefits such as Flood Control and costs for the benefits of private parties such as Power and Water.
2. The CREDA Proposal: This methodology fixes the reimbursable cost share at \$10 million (adjusted for inflation), which was the amount determined by Congress in 2006 to be equitable.

3. Allocation through Safety of Dams precedent: There are a number of parallels between the purposes of the Safety of Dams program and the Site Security programs. Both activities are for the purpose of preserving the structural integrity of CVP facilities. Neither activity is authorized to create any additional project benefits. The suggestion will be made not to incorporate Security costs into the Safety of Dams program, but simply to use the Safety of Dams reimbursability criteria as an appropriate precedent for allocating Safety of Dams costs.

Reclamation cautioned against using the Safety of Dams as a precedent on the basis that the MP Region is having problems with the SOD allocation. Specifically, Reclamation mentioned the annual repayment issue that they have determined. This issue has been sent to Denver for review, which is expected to be followed by a review in Washington DC.

Russ was asked to provide a list of any questions that he received regarding his testimony as well as his responses, which he agreed to provide.

C. Budget Workshops – Refining Customer Participation. Russ asked that this item be tabled until the July FAC meeting, due to competing priorities that have postponed progress on this issue.

D. BOR-WORKS Water Accounting Program Development. Reclamation was asked about the workload priority for implementing this system, and when it would be released to Contractors. This workload priority schedule is still pending. Reclamation will be hiring a full-time project manager to specifically supervise the implementation of the WORKS program. At this time, the focus on implementation has shifted to review security measures for this system to protect against unauthorized data access. Reclamation stated that the auditors are always eager to review customized systems such as the WORKS program that interface with the Federal system. Reclamation indicated that this will consume most of Reclamation's time over the next few weeks, but after this is finished then Reclamation will be able to prepare a schedule for WORKS completion.

The final draft accountings for the WORKS program are substantially different from the Contractors' data. Reclamation asked whether comments were submitted during the initial response period at the end of the year. Several Contractors responded that they have reconciled successfully with the Area Offices, but that the Area Offices seem to have different data than the Regional Office. Contractors stated that they shouldn't be required to reconcile their water deliveries and payments twice, and asked why it was appropriate for Reclamation to determine that additional Contractor payments would be necessary after the fact. For Fiscal Year 2005, Contractors also noted that they weren't receiving monthly water statements for several months. One problem that was identified was that the annual water and delivery reports contain prior year adjustments and other corrections that are not included in the monthly water statements. Reclamation indicated that the cost allocations in the final accountings are based on the annual report instead of the monthly reports. Contractors suggested that it would be very helpful if the monthly water statements included year-to-date data. Contractors stated that one of the core causes of this problem continues to be the inconsistency of data between the Regional Office and the Area Offices.

Another problem that was identified with the final accountings is that many Contractors do not reconcile their monthly water statements or annual reports. CVPWA staff suggested that Reclamation hold workshops to inform Contractors of their need to review the monthly and annual water and payment records to make sure that they accurately reflect Contractors' actual deliveries and payments. The suggestion was made that these workshops be promoted by Reclamation and Contractors at the annual Water Users Conference in January to gain awareness and buy-in at the policy-makers level of the Contractor community. Following this Water Users Conference discussion, workshops may be arranged where the Contractors' policy-makers could facilitate the attendance of their appropriate staff. Fresno Area Office staff said that they have offered to hold this type of workshop, but haven't received interest from Contractors. The Fresno Area Office said that they will wait six months for revisiting this idea due to an impending format change in the reports. Contractors said that the problems include the process as well as the reports themselves, and the Contractors may not understand the logistics of these reports.

E. Water Transfer Rate Policy Development. Reclamation said that the implementation of this methodology still needs to be clarified. Each of the Area Offices was implementing transfer rate calculations in a different manner during 2005. Reclamation wants to go with the individual Area Office decisions in 2005, and stated that it would be difficult to review two year old transfers with inaccurately calculated rates to try to make them conform to the current policy. Contractors who have been overcharged maintain that they still should be entitled to having the overpayment due to rate miscalculation refunded. Reclamation stated that Contractors signed the agreements containing these rates, and Contractors responded that they had no choice because the water users who ultimately pay for the water transfers are in a position where they would lose crops without immediate delivery of this transfer water supply. As a result, these Contractors do not have a choice but to sign the transfer even if Reclamation does not appropriately calculate the water rate. Reclamation was asked whether the Inspector General's Office or another auditor may eventually ask Reclamation to retroactively correct these rates. Reclamation responded that they do not expect this to happen.

Reclamation staff has spent approximately 80 to 100 hours on this policy, and expect to hold at least one more internal meeting on this topic. This meeting is currently in the process of being scheduled. Within the Regional Office, Katherine Thompson is in charge of this project with assistance from Donna Tegelman's contracts group; however, Reclamation stated that the contracts group has the final word on the transfer approvals. The Reclamation revision of the transfer rate policy guide is approximately 75% completed, but due to competing priorities probably will not be provided to Contractors for review until July. Contractors noted that there are still transfers today where the acknowledgment letter includes a different rate than the rate to which the parties in the transfer agreed. Contractors do not have a specific person that they can call to have transfer rate issues efficiently resolved. Reclamation Area Office staff stated that the typical contact person for Reclamation on a given transfer is the repayment specialist who approved the transfer, who is usually with the office of the transferor. Contractors suggested that a separate meeting on this topic is needed, which needs to include the contracts group.

F. Folsom Dam Costs. CVPWA staff stated that they have distributed comments on two public notification documents pertaining to the Corps of Engineers' (COE) proposed Folsom Dam modifications activities. These COE documents are the Draft SEIS / EIR and the PADD (Project Authorization Decision Document). The comment deadline for providing input on these documents to the COE has been reconfirmed to be June 28th. Anyone who wants to have their input included in the CVPWA comments needs to have their comments to Russ by Monday, June 19. Anyone who needs the address to which to send their comments needs to contact Russ Harrington.

David Bird stated that the Tehama Colusa Canal Authority is still emphatically opposed to granting the necessary easements on the Folsom Bridge until Contractors have explicit written acknowledgment that none of the Bridge costs will be charged to Contractors. Sacramento MUD also still has issues with the easements. Mike Hagman suggested that the COE may have disputed Reclamation's stance that the COE needed Contractors' permission to grant the easements, and Reclamation may have acquiesced by dropping this issue. CVPWA staff noted that there is substantial pressure to complete the Bridge at an expedited pace from local Congressmen. However, there are still groups within the Contractor community who are firmly opposed to the Bridge until these costs have been determined to be non-reimbursable.

G. Direct Billings. Contractors asked Reclamation about the timing of the Direct Billings, and when Contractors might be receiving these bills from Reclamation. Reclamation indicated that the Federal Register Notice period for these payments has just been completed, and that they anticipate sending bills for the 2006 and 2007 payment requirements. Reclamation asked whether it would be OK for the bills to only include those Contractors who are still taking water, which would omit bills for numerous former water users who still have contracts, but no longer take water. CVPWA staff asked about the dollar difference that is caused by omitting these former water users, and Reclamation's response was that it would be only a couple of thousand dollars. Given the relatively small differential, Contractors didn't object to removing the former water users.

Reclamation noted that they will not be able to incorporate the Trinity PUD payments into the ratesetting process until the WORKS system has been reconfigured to allow for processing of these payments. Reclamation implied that this may cause incorporation of the Trinity PUD payments into the water rates to be delayed beyond the 2008 water rates.

CVPWA staff suggested that as opposed to sending bills for the 2006 and 2007 Trinity PUD payment requirements, that there will be sufficient excess O&M payment collected in the current water year to fund the Trinity PUD payment requirements for 2006 and 2007. CVPWA staff also stated that individual Contractors have suggested that they might refuse to pay these bills on the grounds that the authorizing legislation for these payments specifically requires that these payments be collected through the O&M Ratesetting process. Reclamation responded that any unpaid bills would be submitted by Reclamation to the Department of Treasury for collection, and that there would be serious consequences for any Contractors who do not pay these bills.

As had been noted earlier during this meeting, the Safety of Dams direct billing issue is currently under review in the Denver Office. Reclamation has determined that there is an annual

repayment requirement for the Safety of Dams expenses, and is working to accommodate these into the water ratesetting process. After review in the Denver Office, this issue will be reviewed again in Washington DC.

Regarding the PUE direct billings issue, Reclamation indicated that the Inspector General's Office requirement to have power revenues recorded will be handled with journal entries. There are no direct billings planned for the PUE revenues.

H. Historical Advance Payment Accountings. Contractors asked Reclamation to provide the current status of the Historical Advance Payments Accounting project. Reclamation said that the future of this project is currently under review. At this time, there is one full time Reclamation staff member and three independent consultants working on this project. At the end of this Fiscal Year, there may not be funding for this project due to competing funding needs for the WORKS system. Because of this, Reclamation is shifting its focus to some of the larger Contractors. Reclamation stated that it would have specific statistics regarding the progress of the Historical Advance Payment Accountings at the July FAC meeting.

Contractors who receive copies of their completed accountings will still have 30 days within which to verify results against their internal records. Contractors asked that the reconciliations for the larger contractors be sent in parts as they are completed, because it may be difficult for the larger Contractors to review 10 to 20 years of data within the 30 day limit.

I. Succession Planning in Mid-Pacific Region Front Office. Reclamation was asked to provide information regarding the future hierarchy in the Reclamation front office. More specifically, Contractors were interested in knowing whether a replacement would be found for Susan Ramos, or whether her position would be subdivided among several lower-level staff. Reclamation stated that there was a change in priorities at the Washington DC level, and that the Regional Director is looking at reconfiguring his front office accordingly. Reclamation is transitioning to more project-type work, and the Regional Director is considering shifts to accommodate this.

J. Battle Creek Funding and Reimbursability. Regarding the Battle Creek Payments, Katherine stated that the payments have been occurring for approximately ten years, and that payments are now coming from the CalFed Ecosystem Restoration Program. Russ stated that this was also his understanding, and that the funding source was originally the Restoration fund but that CalFed has funded this program since 2001 or 2002.

3. 2006 Water Rates

- **Rate Recalculation Request.** Russ stated that the CVPWA Board has formally requested Reclamation to revise the O&M water rates of four San Luis Unit Contractors (Panoche WD, Pacheco WD, San Luis WD, and Westlands WD) to reflect a higher projected delivery base. The reasons for recalculating the rates for these four Contractors are that they have no refund provision in their contracts, and they are required to pay for all of their allocated water regardless of whether they take delivery. Russ said that he has

spoken with Reclamation staff twice regarding this issue during the last week, and that Contractors will want to work with Reclamation to address this issue in the near future.

- **75% Cap on O&M Rate Delivery Base of Certain Contractors.** Russ asked about the reason for this cap for certain Contractors. Deliveries over the 2005 and 2006 water years provide proof that Contractors are physically capable of exceeding the cap. Reclamation was asked to define the need for this cap and what would be necessary to have this cap removed from the water rates. Reclamation was asked to respond at the July FAC meeting.
- **Cost split between M&I and Irrigation for O&M ratesetting purposes.** Contractors asked Reclamation to provide the detailed methodology through which O&M cost projections are divided between M&I and Irrigation. The methodology for this split was requested for both the initial cost projections used in ratesetting and the final accountings. Reclamation suggested that the methodology for deriving this O&M split was similar to the methodology used for capital. This was done to avoid wild swings in O&M costs from year to year between M&I and Irrigation. Reclamation suggested that Regional Economist Craig Stroh would be able to put some information together for presentation at the July FAC meeting.

Requested Adjustment to May FAC Meeting Notes by Larry Hobbs

In the notes below, Jesus Reynoso's requested omissions are noted with the strike-through feature. His other comment is listed in parenthesis, and the text on which his comment is based is underlined.

E. **Water Transfer Rate Policy Development.** The Region is preparing a transmittal letter explaining the new transfer guidelines. The letter will be sent out once the Region has completed reviewing and finalizing the water transfer Users Guide jointly developed by the Region and the Contractors. ~~The Region noted that water year 2005 transfers will be completed under the existing guidelines of using the higher of the two contractor rates.~~ Reclamation also noted that they are still working through the Ability to Pay pricing.

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.

The Region noted that the Trinity PUD will be direct billed this year, but will be included in the rate thereafter. (At this time, Reclamation was still exploring whether a direct billing was the appropriate method of recovery)