



July 21, 2006
Meeting Summary of the
Financial Affairs Committee

Participants

Ara Azhderian – San Luis Delta Mendota Water Authority (telephone)
David Bird – Tehama Colusa Canal Authority
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
Lynn Hurley – Santa Clara Valley WD
Kathryn Kitchell – City of Roseville
Carol Margitech – City of Roseville
John Pelley – Bureau of Reclamation
Jesus Reynoso – Bureau of Reclamation
Craig Stroh – Bureau of Reclamation
Judi Tapia – Bureau of Reclamation (telephone)
Katherine Thompson – Bureau of Reclamation

1. Opening Business

The July 21, 2006 Financial Affairs Committee (FAC) Meeting was held at the Mid-Pacific Regional Office of the Bureau of Reclamation in Sacramento, California. The June 2006 FAC meeting notes were approved without any requested amendments. One item was added to the end of the agenda at the request of Katherine Thompson, which pertains to the Managing for Excellence item regarding financial reporting practices. Anthea Hansen confirmed that Del Puerto will be ready to have the September FAC meeting at their facility on September 15th. The possibility of having the October 20th FAC meeting in Northern California, followed by a tour of the Red Bluff Diversion Dam, was also discussed. This meeting would probably include a meeting with the Board President of the Tehama Colusa Canal Authority. The tour might be led by Serge Birk, who is the CVPWA Environmental Director. There is also still the possibility that a FAC meeting may be held at a date to be determined at East Bay MUD's Pardee facility.

2. 2006 FAC Issues Matrix

A. **PUE Issues.** Reclamation stated that there is a tentative agreement between Western/Reclamation and PG&E to include the New Melones facility into the Western Sub-Control Area through a pseudo-tie. The California ISO has also approved the pseudo-tie, and the parties are currently working on a contract. Effectively, this means that the New Melones facility power costs will be included in the Power O&M Cost suballocation agreement between the PUE and Preference customers. The reason that the California ISO approved the New Melones facility was that in exchange, a Calpine facility that has been in the Western Subcontrol Area was placed into the California ISO control area through another pseudo-tie. Essentially, this represented a trade-off of one facility for another between the California ISO and Western. Legal counsel for South of Delta Contractors contacted Reclamation to determine whether there would be a negative cost impact of the New Melones pseudo-tie on the South of Delta Contractors. The questions of the legal counsel and Reclamation's responses are attached.

Reclamation indicated that the California ISO would probably not be interested in a pseudo-tie for the San Luis Unit Contractors. California ISO wouldn't get any offsetting benefit for this pseudo-tie, and would be concerned that other entities (especially the State Water Project and various municipalities) would also want to exit the California ISO.

The Tehama Colusa Canal Authority has received a demand from the Environmental Working Group demanding information regarding power supplies, and they are in the process of determining how to address this demand. The San Luis Delta Mendota Water Authority has received a similar demand, and is currently in the process of developing a response.

CVPWA staff is still waiting for power accounting information from Western regarding the power cost suballocation and are waiting for an update from Western regarding the status of these accountings. Once this data is provided by Western, a meeting will be scheduled between the Preference and PUE Users to review the cost information and any costs that may not have been accurately addressed through this agreement.

B. **Security Cost Reimbursability.** On June 22nd, Russ Harrington was one of seven Contractor representatives from throughout Reclamation that testified before the House subcommittee on Water and Power regarding Site Security. By all accounts, the testimony went well and was well-received by the subcommittee. The outcome of the testimony was that the organizations that had sent representatives to testify were requested to draft legislation to address the site security cost issues, which include reimbursability and oversight issues. This legislation was drafted through several revisions, and subcommittee Chairman Radanovich and ranking minority subcommittee member Napolitano have agreed to co-sponsor the bill. These representatives will try to introduce this legislative language during the first week of August.

There were several conference calls between the participants as this language was drafted. Over the course of these conference calls, the \$10 million cap originally proposed by the Colorado River Energy Distributors' Association was abandoned in favor of amending the Safety of Dams legislation to include the Site Security. The reason for abandoning the \$10 million cap was that it was not believed to be politically viable, while the Safety of Dams amendment was believed to provide the simple, straight-forward solution that several Congressional subcommittee members

wanted to be provided. The primary risk that was identified in incorporating the Site Security costs into the Safety of Dams legislation was that Congress may decide to raise the reimbursability beyond 15%. This risk was brought to the attention of the lobbyists who were drafting the legislative language, as well as the Republican subcommittee staffmember. These people stated that the likelihood of an increase to the reimbursability percentage was low, and that if this possibility started to materialize, then the water and power users are in a good position to “pull the plug” on this language.

C. Budget Workshops – Refining Customer Participation. Due to competing priorities, Russ asked that this item be tabled until the August FAC meeting. Russ stated that the next budget review would probably be the Activity Plans that are expected to be released in late August or early September.

D. BOR-WORKS Water Accounting Program Development. Contractors continue to note their inability to match Reclamation’s monthly and annual delivery and revenue records to Contractor records, and suggest that much of the problem is in prior year adjustments. Reclamation has identified data entry as the sole cause of this problem, while Contractors suggested that there are still problems with the misapplication of revenues. Contractors stated that there appeared to be adjustments made from the data in the 2005 draft accountings to the final net results of operations, but that no information was provided regarding these changes. Contractors also asked about the methodology through which the incremental revenues received through transferred water payments under the April 28, 2005 final policy on water transfers are credited against the capital for the facilities to which the payment should apply. Information regarding the methodology for crediting Rescheduled water payments was also requested. Reclamation has identified data entry as the sole cause of these problems, while Contractors suggested that there are still problems with the misapplication of revenues.

Reclamation stated that they have instituted a Change Management Board pertaining to the completion of the WORKS system. This Board has been described as the platform for a rigorous set of changes, and the details pertaining to decision documents for these changes are now being completed. Contractors stated that they want to see a “road-map” with specific remaining milestones needed for completion. Contractors were open to the possibility that the “road-map” would need to be changed as Reclamation was given new requirements by the Administration and/or Congress. However, Contractors wanted to see an accurate picture of the necessary items remaining for completion at a given point in time. Reclamation is interviewing for a WORKS project manager, who will be exclusively working to complete the WORKS program. Limited availability of developer resources was also seen to be a problem. Reclamation stated that it is important to test a given component of the WORKS system prior to release, and that this is a necessary part of the development process that can delay the completion of different WORKS components.

Contractors asked whether they would still be provided with Internet access to the WORKS system. The response was that this access is still viable, but competing priorities will not allow this to be completed in the near term.

E. Water Transfer Rate Policy Development. Reclamation indicated that they will have another internal meeting on August 1st regarding the transfer policy. Reclamation wants to have the guide completed, but there is still an issue with the incremental pricing for Ability to Pay Contractors. Reclamation indicated that this is a question that the front office must still address. Once the front office has approved the distribution of this document, it will be distributed to Contractors for comment. The Area Offices and the Mid-Pacific Resources group have provided significant input into Reclamation's revised document, which Reclamation said would be very detailed.

Westlands Water District noted that there have been outstanding transfer rate disputes that appear to have recently been resolved. Contractors asked about the process through which errors in the implementation of transfer rates will be corrected, and are still waiting for a response. There may be a change from Reclamation's original position that transfer rate errors will not be allowed, and that the question of the materiality of a given transfer rate error may be considered.

F. Folsom Dam Costs. Contractors asked CVPWA staff whether the CVPWA Board would be asked whether to press for responses to the questions and comments sent to the Corps of Engineers regarding their PADD and SEIR/EIS documents regarding the Folsom Bridge and other Folsom Dam Modifications. The comment was made that Contractor representatives may need to sit down with Jason Larrabee and Congressman Doolittle at some point in the future. Regarding the Reclamation Safety of Dams modifications, it was noted that there would be a 1:30 meeting following the FAC meeting with Larry Hobbs, who is Reclamation's Folsom Safety of Dams manager.

G. Direct Billings. Reclamation staff stated that it would be more costly to insert the Trinity PUD costs into the Water Marketing Rate than it would be to issue a separate Direct Billing for these costs. Contractors asked whether they couldn't just take the total Trinity PUD payment (approximately \$200 thousand) and pay in one sum at the beginning of each water year. Reclamation stated that they must remit payment to the Trinity PUD as they collect it through a Trinity PUD assessment.

Contractors asked about the status of the billing for the 2006 and 2007 Trinity PUD costs, and noted that the required payment deadline at the end of the fiscal year is only about 70 days away. Reclamation responded that the Federal Notice process still needs to be completed, and that this notice is sitting in Washington DC. Reclamation has agreed to provide more data regarding the Trinity PUD Direct Billing.

Regarding the Safety of Dams Direct Billing issue, Reclamation is still in the process of establishing a separate payment component within the water rates for the Safety of Dams projects. Reclamation is still in the process of developing a detailed technical solution. Reclamation stated that it is only looking at Direct Billings for future Safety of Dams projects, and that the payment method for pre-existing Safety of Dams projects will not change. Reclamation states that separate interest rates are required by law.

CVPWA staff mentioned the possibility that language may be presented in Congress to require costs to be collected through the O&M or capital rates, and to prohibit a separate allocation of

the Safety of Dams costs. Reclamation responded that the Safety of Dams direct billing represents a repayment issue and not an allocation issue.

The PUE Direct Billing issue has been resolved and will not be included on the August FAC agenda. Reclamation has indicated that it will record power revenues for the PUE component of water rate payments through manual journal entries instead of a direct billing.

3. 2006 Water Rates

- **Rate Recalculation Request.** Reclamation has drafted a response letter to the CVP Water Association's rate recalculation request for the San Luis Unit Contractors. The response to this request still needs to be reviewed with the front office before it is presented to the CVP Water Association. Reclamation declined to discuss the contents and decision contained in the response letter prior to review with the front office.
- **75% Cap on O&M Rate Delivery Base of Certain Contractors.** Contractors stated that they had asked for clarification regarding the need and purpose of the 75% cap. The problem is that the 75% cap has been proven not to be reflective of any real capacity constraints, as evidenced by the 100% water allocations for the current year. A Contractor noted concern with the possibility that rates might be understated, but it was also stated that Contractors are free to collect internal rates to cover any O&M deficits that may be anticipated. Reclamation agreed that the 75% cap should be removed.
- **Cost split between M&I and Irrigation for O&M ratesetting purposes.** Mid-Pacific Regional Economist Craig Stroh indicated that the O&M split is done on the same basis as the capital suballocation. For the facility costs, such as Storage, Conveyance, or Conveyance Pumping, the O&M split is along the same facility-by-facility basis, but with a five-year rolling average instead of the cumulative historical deliveries that are used for suballocating capital. For the O&M that cannot be assigned to specific facilities, these costs are typically split between Irrigation and M&I on the same basis that the in-basin capital for the CVP is allocated.

Craig stated that the O&M split is based on the average of the five most recent years of deliveries. The purpose of this is to avoid large year-over-year swings in the split. Craig said that this is the case for both the final accountings and the financial statements. Because the cost estimates used in the water rates are derived from the financial statements, the split for ratesetting purposes is also based on the five most recent years of deliveries.

4. Managing for Excellence

Of more than 40 teams that have been formed by Reclamation to implement the Managing for Excellence program, one of the teams pertains to financial reporting. This is item number 25 in the Managing for Excellence program. Katherine Thompson is one of the members of this team. This team is reviewing a set of alternative financial reporting models, and wants to gather

Contractor input regarding these models. Within the Mid-Pacific Regions, the following organizations have been identified for participation in the interview process:

Central Valley Project Water Association (Financial Affairs Committee)
Friant Water Authority
Klamath Irrigation District
Orland-Artois Water District
Westlands Water District

Reclamation wants to have the interviews completed by September 1st. The interview process is expected to last approximately one hour, and will comprise review of different financial reporting ideas. The interviews for each of the respective participants will be conducted by Katherine Thompson and possibly the respective Area Office managers.

Contractors who are interested in participating in this interview need to inform Russ Harrington of their desire to participate as soon as possible.