



*August 25, 2006
Meeting Summary of the
Financial Affairs Committee*

Participants

David Bird – Tehama Colusa Canal Authority (telephone)
Lee Emrick – Colusa County WD
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 (telephone)
Kathryn Kitchell – City of Roseville
Paul Olmstead – Sacramento MUD
John Pelley – Bureau of Reclamation
Ed Roman – Sacramento MUD
Judi Tapia – Bureau of Reclamation (telephone)
Katherine Thompson – Bureau of Reclamation

1. Opening Business

The August 25, 2006 Financial Affairs Committee (FAC) Meeting was held at the Mid-Pacific Regional Office of the Bureau of Reclamation in Sacramento, California. The August 2006 FAC meeting notes were approved without any requested amendments. Garth Hall from East Bay MUD asked that an agenda item be added for the Lungren Bill regarding the deferral of the Folsom South Canal capital costs. This item was added to the end of the Agenda. Anthea Hansen said that she will provide Russ Harrington with directions to the September FAC meeting site at Del Puerto WD in Patterson, California. She confirmed that lunch will be provided by one of Del Puerto's water users, and that a tour of one of the almond grower facilities would follow this FAC meeting. The October FAC meeting will be held at the Red Bluff Area Office, and will be followed by a meeting with the Tehama Colusa Canal Authority Board Chairman and a tour of the Red Bluff Diversion Dam. Kathryn Kitchell stated that she would need to leave at 10:30 and asked that the Trinity PUD issue be moved to the front of the agenda. The FAC started with the Direct Billing item on the agenda, and proceeded up the Agenda from item F through item A before starting down with item H. However, the San Luis Unit Rate Recalculation item was addressed by Katherine Thompson before she had to leave to attend an off-site meeting.

2. 2006 FAC Issues Matrix

A. **PUE Issues.** On August 18th, Western Area Power Administration and Reclamation Power staff presented the PUE True-up data for Fiscal Year 2005. WAPA staff indicated that the data was delayed this year due to the need to incorporate two separate methodologies that were required by the expiration of transmission Contract 2948A with PG&E on December 31, 2004. CVP Water Association staff has distributed notes for this meeting to the FAC along with copies of the financial data that was provided. Overall, the costs were in line with expectations. WAPA and Reclamation staff covered a great deal of information in a relatively short timeframe, and it is anticipated that Contractors will have follow-up questions.

Contractors expressed an interest in the quarterly PUE review meetings that have been proposed by the CVP Water Association. CVPWA staff suggested that the first review session might not be until October due to the year-end availability issues of Federal employees.

B. **Security Cost Reimbursability.** CVP Water Association staff noted that Congress has scheduled another hearing regarding Site Security costs on September 7th to consider Site Security legislation that Contractor representatives have drafted. It is the understanding of the CVPWA that this is standard operating procedure for legislation that has been introduced. The language that has been drafted incorporates the Site Security costs into the Safety of Dams program, which would set reimbursability at 15% of total costs. At this point, all indications are that the legislation is proceeding as smoothly as possible. Subcommittee Chairman Radanovich and Ranking Minority Member Napolitano are co-sponsoring this bill. Lynn Hurley will testify at this hearing on behalf of the CVP Water Association.

C. **Budget Workshops – Refining Customer Participation.** On August 23rd, the Mid-Pacific Regional Office hosted a customer interview regarding financial reporting based on Reclamation's Managing for Excellence Program. Several of the sample reports that were prepared looked that they could be used to improve the budget review process. CVP Water Association staff will re-engage Mid-Pacific Region budgeting staff to review these reports and revise the budget review process. Reclamation staff noted that the Managing for Excellence initiative is not solely targeted toward the budget process. A large part of the initiative is directed to a fuller and more accurate picture of project costs and repayments. These additional reports could be available as soon as fiscal 2007.

The annual Activity Plan reviews for the 2009 Fiscal Year unconstrained budgets have been scheduled as follows:

October 4	CVO / Miscellaneous / RAX Activity Plans	Mid-Pacific Regional Office
October 11	Northern California Area Office	Redding
October 12	Central California Area Office	Folsom
October 18	South Central California Area Office	Fresno

These meetings usually start at 9:00 and run until approximately noon. Reclamation staff have also informed the CVP Water Association that the activity plans and 5-year budget summaries upon which these meetings will be based should be on the website by September 5th. Contractors

indicated that they would like to be able to check their activity plan priorities against the budgeted activities that ultimately emerge after the embargo process.

D. BOR-WORKS Water Accounting Program Development. Reclamation stated that the Project Manager will start on September 5th.

The Friant Water Authority has met with several of its member districts and Fresno Area Office staff, and has developed a greater appreciation of the problems that are faced by the Fresno Area Office. Contractors stated that the Area Offices should have more control over the allocation assignments for the water deliveries.

Reclamation stated that it needs to complete a Business Decision Document before any design changes can be made to the WORKS program. Reclamation requested that Contractors assemble a work-team to provide input on changes needed to the monthly water statement. Reclamation requested that this group be available fairly soon with its recommendations. CVP Water Association staff will contact the members of the FAC to see which members might be interested in participating in this group.

Colusa County WD stated that they had received a document that detailed monthly deliveries that was very useful, and asked whether this document could be made available to Contractors for on-going reporting purposes. CVP Water Association staff asked to be provided a copy of this document for distribution to the rest of the FAC.

Contractors were told that Reclamation accounting staff is required to go through the Information Technology department for programming if they need to make a correction to the accountings in BOR WORKS. Reclamation stated that this is not always the case. The need to go through the Information Technology department would depend on the type of error made and whether or not the error pertained to a current year or current contract. Not all corrections must go through the Information Technology department. Reclamation noted that some problems might be alleviated when the Oracle software is upgraded to version 10i. At the current time, some data adjustments require adjustments by a programmer. Reclamation stated that certain fixes to the system have to take precedent, and that retroactive adjustments continue to be a problem issue. Another factor impacting accuracy are Contractor changes in delivery data.

Reclamation has provided responses to the CVP Water Association's comments on the 2005 Accountings from June 28th. These comments will be distributed to Contractors for review.

E. Water Transfer Rate Policy Development. Reclamation stated that the Implementation Guide for the transfer ratesetting policy has been drafted, and that the internal comment period ended on the day of this FAC meeting. Several of the necessary participants in Reclamation's internal review process (including ratesetting staff) have been unable to review the guide because they are working on litigation. Reclamation also indicated that this document has already been sent to the Area Offices for comment. Contractors did not report any new issues pertaining to transfer rate discrepancies.

F. Folsom Dam Costs. Contractors mentioned that Reclamation Safety of Dams staff has indicated that financial data regarding the proposed Folsom modifications will be made available during October. Reclamation staff at the FAC meeting said that they will need to consult with the Contracts office regarding possible limitations on the data that may be disclosed.

CVP Water Association staff mentioned the possibility that the November 2002 Chief's Report (upon which the original authorizing legislation allocating costs of the various Folsom Dam modifications was based) may need to be re-written. Contractors reiterated Reclamation's position that the Contractors should not be allocated costs because it is not a CVP facility and does not benefit CVP Contractors. Contractors stated that they remained hopeful that Congressional involvement may result in an equitable solution. Sacramento MUD has resolved issues pertaining to the relocation of some of its facilities to accommodate the Folsom Bridge, and SMUD staff also indicated that they would be able to supply a map that shows the location of the new facilities superimposed on a map of the Folsom region.

G. Direct Billings. The CVP Water Association sent a comment letter regarding the Federal Register Notice for the Trinity PUD Direct Billing on August 16th in which the CVPWA's various concerns regarding the Trinity PUD Direct Billing were stated for the record. Reclamation responded to this comment letter on August 22nd. CVPWA staff indicated that they were concerned about a number of comments and positions attributed to the FAC that were inaccurate, and the suggestion by Reclamation that they may disengage from the FAC. Contractors stated that the FAC has been very helpful over a long period of time in resolving issues for the benefit of both Reclamation and the Contractors, and that this process should not be abandoned. Contractors stated that disagreements regarding the Trinity PUD should not be a deal-breaker for on-going interaction between the FAC and Reclamation staff, and that it is an issue that can be resolved.

Reclamation staff stated that they were also frustrated with this process. Reclamation stated that it waited for 10 months to send the bill due to Contractor concerns; Contractors do not concur that they were the reason that Reclamation waited for 10 months. Reclamation added that it was not required to post the Federal Register Notice. Reclamation staff was unhappy with the tone of the CVPWA letter dated August 16th, and stated that it was a cause of concern. However, Reclamation said that it had not decided to disengage from the FAC process. The Chair and Vice-Chairs of the FAC (along with the CVPWA Finance Director) will meet with Reclamation business resources group staff on Wednesday, August 30th to discuss collaborative issues that have emerged relative to the Trinity PUD Direct Billing and other issues. SMUD suggested that the model of interaction between Preference Customers and the Western Area Power Administration might be useful in improving the working relationship between the FAC and Reclamation. In response, Reclamation has indicated that it is interested in an amicable solution and that input is appreciated. However, Reclamation noted that it is important for both parties to understand the magnitude of the issues that must be addressed.

Some Contractors have received their bill for the Trinity PUD Direct Billing, while others are still waiting for their bill. Reclamation indicated that the bills were mailed on Tuesday, August 22nd. The letter, which includes language provided at the suggestion of Contractors, explains some of the background for the Trinity PUD Direct Billing. However, none of the calculations

used to determine the billing amount applied to each Contractor are provided in the documentation which accompanies each bill. Jesus Reynoso was listed as Reclamation's contact person for any questions regarding the bill. Reclamation stated that there was no bill for 100 of the 230 Contractors. Of the remaining 130 Contractors, about ½ of this group had a bill of less than \$1,000. Contractors indicated that they were concerned that some of the verbal assurances from Reclamation regarding the Trinity PUD, including the promise of a one-time Direct Billing, were not reflected in Reclamation's Federal Register Notice.

Regarding the Safety of Dams Direct Billing / Annual Repayment issue, Reclamation noted that they are currently reviewing four alternative solutions. One of the solutions was to include these costs as a part of the capital allocation, as is the case with the current costs. Reclamation stated that the Safety of Dams act is oriented toward repayment contracts and that it provides the Secretary with the authority to negotiate repayment contracts. Contractors feel that the language, which states that "The Secretary is authorized to negotiate appropriate contracts with project beneficiaries providing for the return of reimbursable costs ...", does not prohibit these contracts from providing repayment through the ratesetting policies.

The CVP Water Association was asked whether it has a position paper on this issue, which it does not yet have. Reclamation asked that a copy of this paper be prepared by Contractors.

CVPWA staff requested that Reclamation list the legislation, policies, and/or accounting guidelines that govern Safety of Dams repayment. CVPWA staff stated that the Association will also attempt to find this information on authorizations through alternative routes.

Contractors asked whether Reclamation could provide information regarding each of the four alternative solutions to the Safety of Dams issue that it has defined, but Reclamation stated that it still internally developing these options.

H. Historical Advance Payment Accountings. Reclamation staff indicated that they had nothing new to report on the reconciliation of the advance payment accountings that are still outstanding. Contractors reiterated their concern that projected cut-backs in funding for this program for Fiscal Year 2007 would further delay the completion of this project. Contractors noted that they had once received a copy of a spreadsheet file that listed the completion status of the Historical Advance Payment Accounting reconciliation for each CVP Contractors. Contractors would like to see an updated copy of this list.

3. 2006 Water Rates

- **Rate Recalculation Request.** Contractors asked Reclamation about the status of this rate recalculation request, which was sent to Reclamation on June 9th. Reclamation indicated that a response has been drafted, but is still awaiting comments and had not yet been sent to the front office for approval. Contractors noted that this response was said to be in the front office last month, and wanted to know when the response would be submitted.

- **75% Cap on O&M Rate Delivery Base of Certain Contractors.** Reclamation staff confirmed that this cap has been discarded. However, the 75% floor for the standard form Sacramento River Contractors will be maintained due to contractual obligations with these Contractors.

Colusa County WD stated that it would like to maintain the 75% cap for its water rates, and said that this may become a topic of discussion at the Tehama Colusa Canal Authority. CVP Water Association staff will ask Reclamation staff whether this cap can be reinstated for certain Contractors on a voluntary basis.

4. Restoration Fund Rate and Projected Collections

Reclamation staff stated that the Restoration Fund financial staff was unavailable, and requested that this item be tabled until the September meeting. Note that the Fiscal Year 2007 Restoration Fund Rate notice has been distributed by Reclamation staff.

5. Lungren Legislative Bill (Folsom South Canal Capital Deferral)

East Bay MUD noted that most of the FAC is already aware of this bill. EBMUD wanted to remind the FAC that this legislation would decrease the total conveyance capital obligation to M&I Contractors by approximately two-thirds, and suggested that all M&I Contractors who share in this cost pool should support this legislation. Sacramento MUD also noted that there are no parties who are adversely affected by this proposed legislation. The Friant Water Authority asked about the dollar effects of this legislation, and whether it would justify the use of valuable political capital. CVP Water Association staff noted that this matter was discussed before the CVPWA Board, and that the Board did not reach the unanimous vote required to support this legislation as SMUD had requested. East Bay MUD noted that this bill is HR 5796, and has been given an OK by subcommittee Chairman Radanovich and full committee Chairman Pombo. It was noted that Reclamation did have concerns with this bill, which possibly related to the precedent that might be set for Contractors in other regions who might want to defer repayment of capital costs.