



*September 15, 2006
Meeting Summary of the
Financial Affairs Committee*

Participants

Larry Bauman – Bureau of Reclamation
Brice Bledsoe – Contra Costa WD
Dave Coxey – Bella Vista WD (telephone)
Charlotte Dahl – Westlands 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
John Pelley – Bureau of Reclamation
Jesus Reynoso – Bureau of Reclamation
Les Ross – Bureau of Reclamation (telephone)
Katherine Thompson – Bureau of Reclamation

1. Opening Business

The September 15, 2006 Financial Affairs Committee (FAC) Meeting was held at the office of the Del Puerto Water District in Patterson, California. The August 2006 FAC meeting notes were approved without any requested amendments. These notes were identified as technical topic discussions as opposed to formal minutes of the meeting, and subject to revision based on the understandings of different parties. Requested adjustments to each month's notes can be provided prior to the end of each calendar month in which the FAC meeting was held, and these adjustments can be incorporated into the meeting notes as is. After this time, the notes must be finalized for distribution to the Board of Directors of the CVP Water Association. However, edits can still be offered after the end of the month for addition as an appendix to future monthly meeting notes.

The October 2006 FAC meeting will be at the Northern California Area Office, and will include a tour of the Red Bluff Diversion Dam. The chairman of the Tehama Colusa Canal Authority has requested to address the FAC regarding the issues that are currently faced by the Authority. Detailed maps to the meeting location and itinerary will be provided prior to this meeting, which is on October 20th.

Refining the FAC Structure

A detailed discussion was held regarding the optimum organizational structure of the FAC. Contractors acknowledged that Reclamation has limited resources and numerous stakeholders, and that there are circumstances when Reclamation has legal priorities that take precedence over Contractor issues. It was noted that there is also a time requirement to adjust to the management style of each successive Regional Business Resources Manager.

During the 2003 calendar year, the FAC attempted to develop subcommittees to address FAC issues that had been the topics of the monthly FAC meetings. The goal was to avoid meetings where the status of various issues were reported, but no progress was made toward resolving these issues due at least in part to the time requirements to prepare for the monthly meetings. However, these subgroups became too large to operate effectively, and subcommittee leaders from both Reclamation and Contractors were not identified in too many instances.

The currently proposed effort will focus upon identifying specific issues and assigning a lead participant from both Reclamation and the FAC. With the understanding that Reclamation can't devote significant resources to all of the issues simultaneously, a priority list needs to be identified. By focusing on a few key items, the goal is to make significant progress and get these items completed. The comment was made that the issues and priorities need to be segregated into meaningful segments. Contractors suggested that a timeline and barriers to completion should be identified for each FAC agenda issue. The development of milestones to completion was also proposed.

The progress of each workgroup will be reported to the rest of the FAC by Russ Harrington. As decision points are reached for different issues, the FAC will be contact for input and feedback. This communication will be a key to successful implementation of these workgroups. Another key for the success of this subcommittee structure will be meaningful commitment by both Reclamation and Contractors.

The comment was made that some of the specific issues are very suitable for this subcommittee approach, while others might not be as well-suited. The Water Transfer Policy Implementation Guide was listed an example of an issue that is not well-suited to the subcommittee structure, because Contractors are waiting to receive Reclamation's cut of the draft Implementation Guide that Contractors prepared. It was suggested that each issue should be reviewed individually to determine whether it was appropriate for solution by the subcommittee structure. The idea was put forth that a toolbox needs to be developed, and that the right tool needs to be determined for each issue within the FAC. Contractors also suggested that a couple of the FAC agenda items could be resolved permanently once the current workscope is completed.

Reclamation noted that litigation issues are taking precedence at this time. This is particularly true with the ratesetting staff, because they are required to analyze the ratesetting impacts of various alternative scenarios. Regarding the subcommittee concept, Reclamation wants more detail on the implementation of the subteams. Reclamation stated that the current reporting

format leads to frustration. Reclamation said that several of the current issues are recurring and/or long-term in nature, which precludes a quick, final solution. The WORKS issue was described as a multi-year effort. Contractors stated that there will always be a certain level of special project activities, and asked whether the ratesetting group needs more staff. Reclamation responded that there is a budget ceiling for Water Marketing expenses that may restrict the ability to add staff.

The suggestion was made that the FAC agenda should be divided into action items and tracking items. The action items would be defined as items that require discussion at the current FAC meeting, and the tracking items would be those items that do not require immediate attention or are otherwise not ready for immediate discussion. This format will be incorporated into the October FAC Agenda and thereafter.

Contractors asked Reclamation for input regarding the proper protocol for issues that need a quick response and/or decision from Reclamation. The San Luis Unit Rate Recalculation request was identified as this type of issue. Reclamation stated that the priorities are determined by the Regional Director. Contractors stated that policy-makers from the Contractors may be needed to ask the Regional Director to provide top-down direction to prioritize specific issues where the FAC and Reclamation need help with resolution.

Contractors commented that there are times when Reclamation's position regarding a specific topic is unclear. Part of the reason for this is that Contractors sometimes do not receive updates pertaining to input that they have provided. Because of this, Contractors have no information regarding either the timeline to a decision or the obstacles to reaching this decision. Contractors stated that this is a specific problem with the San Luis Unit Rate Recalculation request, where the letter has apparently gone back and forth from the ratesetting staff to the front office without any information to Contractors on when a decision can be expected.

With regard to the San Luis Unit Rate Recalculation request, Reclamation stated that the response isn't finalized. The comment was made that this request only affects a few Contractors, and that these Contractors should be the ones who are focused on pushing this request. Westlands Water District indicated that it has decided to wait for Reclamation to complete its internal review process, but Westlands would also like Reclamation to commit to a deadline when this review will be completed.

CVPWA staff offered to provide assistance when necessary regarding necessary calculations for Contractor requests. CVPWA staff noted that the San Luis Unit Rate Recalculation request was one issue where Reclamation was able to receive assistance from the CVPWA in the form of data calculations that CVPWA staff had performed.

Some of the Contractors expressed concerns with the possibility that meetings would only be held once every two months. The biggest concern is that it can take too long to receive updates on existing issues or the emergence of new issues. CVPWA staff suggested that during the month between FAC meetings a conference call could be held to keep the FAC abreast of current and new events.

FAC Leadership

Brice Bledsoe announced that due to an increasing workload at Contra Costa Water District, he will need to surrender his position as Chairman of the FAC. He indicated that the Chairman position needs to be actively engaged in the FAC issues, but that he doesn't have the necessary time to devote to the position. He suggested that the floor be opened for nominations.

The question was raised of whether the FAC Chair responsibilities (and Vice-Chair responsibilities) have ever been formally defined. A formal, written job description for this position has never been developed. The suggestion was made to formalize the responsibilities of the FAC Chair and Vice-Chair positions. However, some of the Chairman's duties are as follows:

- Lead the FAC Meetings
- Participate in the development of the Agenda
- Spokesperson for the FAC

Brice commented that the Chairman needs to become more involved on a day-to-day basis. He added that the tools in the toolbox for addressing different issues need to be specifically identified, and that the Chairman needs to take the lead in implementing the toolbox.

The decision was made to get feedback from the entire FAC regarding the Chair and Vice-Chair positions through an e-mail message to the entire group. The FAC Chair and Vice-Chair positions are elected for two year terms. The current two year terms expire at the end of Calendar 2007.

2. 2006 FAC Issues Matrix

A. PUE Issues. CVPWA staff asked the FAC to provide any specific topics that they would like to have included for the November 8th PUE meeting. This is a request that had been forwarded from Reclamation staff. An agenda for this November 8th meeting will be developed in October.

B. Security Cost Reimbursability. Reclamation noted that the total Security Costs allocated to the CVP in 2007 are \$6.4 million. Of this amount, \$200 thousand was allocated to M&I Contractors, about \$2.6 million was allocated to Irrigation, and the remainder was allocated to Preference Power Users. For 2007, the only three facilities that received an allocation are the Shasta complex, the Folsom complex, and Keswick. There were no 2007 allocations to the San Luis Dam or the Tracy Pumping Plant. Reclamation indicated that the Guards and Patrols costs were fully allocated as reimbursable in 2007. Reclamation indicated that the O&M and Replacement costs of Facility Fortifications would be reimbursable, but that there were no O&M / Replacement costs for these "hardening costs" to be recovered in the current year.

C. Budget Workshops – Refining Customer Participation. CVPWA staff noted that the 2009 activity plan reviews will be conducted along the following schedule:

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. Printed copies of the 2009 activity plans are available at <http://www.usbr.gov/mp/BAP/reports/2009/index.html>. CVPWA staff noted that Reclamation has been requested to spend the last half hour to 45 minutes of each meeting to discuss the budget for the upcoming 2007 water year, which begins in October.

D. BOR-WORKS Water Accounting Program Development. Several Contractors participated in a conference call on September 8th to develop feedback for Reclamation regarding the WORKS system in general and the Monthly Water Statements in particular. Reclamation requested that this feedback be provided as soon as possible and no later than Thursday, September 21st. Contractors indicated that they would try to provide this information by the beginning of next week, and the comments were submitted on the afternoon of Monday, September 18th. Reclamation noted that Natalie Mulder in the Willows Office was acting as the point of contact for Monthly Water Statement issues, and asked that Contractors copy her on any comments that they provide.

Regarding the CVPWA comments on the 2005 accountings, Contractors noted that Reclamation had concerns about trend analyses over the last 3-4 years with certain expenses. Contractors felt that these trend analyses represented a valid method for examining cost variations, and didn't want to have this tool taken away from CVPWA staff in the future. Reclamation stated that they didn't understand the purpose of the question, and had no objection to CVPWA staff incorporating trend analyses in the future.

Contractors stated that the review of the 2005 accountings was a very difficult process. Contractors requested a discussion of the date when the final expense information may be obtained, and asked about the deadline in which internal data can be corrected. The concern was raised of whether the 2005 accountings data that are published with the 2007 water rates would match the Contractors' 2005 Results of Operations letters, and noted that there is a significant problem if this is not the case. Reclamation agreed that there were problems with the 2005 accountings, and that the 2006 accountings need to run more smoothly. Contractors added that Reclamation needs to communicate any prior-year or post-year adjustments to Contractors.

E. Water Transfer Rate Policy Development. Reclamation has stated that the Implementation Guide is still under review, but will be distributed shortly. Contractors are waiting to see a copy of Reclamation's draft of this guide before providing further comments.

F. Folsom Dam Costs. Reclamation will be hosting a meeting on Friday, September 29th from 9:00 to 3:00 to review the latest progress on the Folsom Dam modifications. A general agenda for this meeting is as follows:

1. Review of Folsom Re-Operation issues
2. Review of the current status of the COE projects
3. Review of the technical proxy issues
4. Review of the financial data (if available for distribution)

The Corps of Engineers has distributed its final EIR/EIS pertaining to the Folsom Bridge and the other Folsom projects in which it is engaged. The only place that the CVP Contractors are listed in the main document is on page 2-3, where the CVP is listed as a financial participant as part of the Folsom Dam Raise / Folsom Bridge Project (along with Reclamation, the Corps of Engineers, the State of California, SAFCA, and the City of Folsom) and as a part of Folsom Dam Safety (along with Reclamation). Other than that, there is no reference to the CVP Contractors in the main EIR/EIS, although collaboration with other stakeholders is referenced in several sections.

There are eleven appendices to the final EIR/EIS. Appendices A through J are not of particular interest to the CVP Contractors, but Appendix K contains the answers by the Corps of Engineers to all comments, including the comments submitted by the CVPWA. The Corps responses did nothing to alleviate CVPWA concerns that the Corps actually intends to allocate costs to the Bridge. In addition, answers by the Corps indicate that the Corps may try to assess costs for the LL Anderson project and the Folsom Outlet Modifications project (now the Auxiliary Spillway) to the CVP as well. The CVPWA has received a letter from the Corps of Engineers along with a CD containing the Final EIR/EIS document. This information is also available on line at ftp://ftp.ch2m.com/pub/Folsom_Final_EIS-EIR/, where Appendix K is also available.

G. Direct Billings. The Trinity PUD Direct Billings to cover the 2006 and 2007 Fiscal Years were mailed during late August. At least one Contractor noted that the bill was sent to the prior address before their prior address, but the bill was forwarded to the appropriate location. CVPWA staff notified Reclamation of this problem, and the possibility that some other Contractors may not get their bills if they were sent to old addresses.

Regarding the Safety of Dams Direct Billing / Annual Repayment issue, CVPWA staff has prepared an Issue Paper to apprise Denver Office staff of the CVPWA position on this issue. This paper has been reviewed by both Sacramento Office staff and the FAC, and is tentatively finalized pending the resolution of one item in the document.

H. Historical Advance Payment Accountings. There was nothing new to report on this topic.

3. 2006 Water Rates

- **Rate Recalculation Request.** Reclamation stated that they wanted to have the response finalized by the day of this FAC meeting. Per the statements that are recorded earlier in

these notes, Contractors are interested in receiving a decision from Reclamation as soon as possible.

75% Cap on O&M Rate Delivery Base of Certain Contractors. This item was not discussed during the FAC meeting. However, the Tehama Colusa Canal Authority Contractors have requested that this 75% cap be continued for their Contractors due to the volatility of deliveries in their service area.

4. Restoration Fund Rate and Projected Collections

- **Inflation Component Used in Deriving FY07 Restoration Fund Rate.** The rates per AF track closely to the nation-wide CPI Urban percentage that is developed by the OMB each year. Note that the CPI Urban measure is based on a measure that is developed in December and used for the coming year that starts approximately nine months later. Also, note that this CPI Urban measure isn't seasonally adjusted. Historically, the rate of increase through 2005 has been 2-3%, but the increase over the last two years has been 4%.
- **Impact of Two Wet Years and Resulting Higher Revenues on 3-Year Rolling Average Cap.** The three year rolling average impacts the power users instead of the water users, because it is the power users that pay any remaining balance of the \$30 million requirement that the Restoration Fund rate doesn't cover. The upcoming trough year is 2007, where the three year rolling average cap impacts the maximum that Reclamation can collect. Because 2005 and 2006 were both wet years, Power Users benefit. However, if 2005 and 2006 were drought years then the Power Users could face a much larger payment.

Power Users have paid about 24% of the total Restoration Fund charges, which is approximately equivalent to the target allocation. There is some dispute on which the cost share basis in 3407(d) between Water and Power should be calculated. Power Users believe that the calculation should only include the \$30 million in Restoration Funds collected through the Restoration Fund rate, while the Water Contractors believe that items like the Friant Surcharge should also be included.

- **Reconciliation Process for Restoration Fund Revenues and Payments.** Contractors want the ability to verify that their Restoration Fund payments match their charges. Contractors want to have the ability to reconcile all of their payments against Reclamation's records. Contractors need a current version of the charges and revenues against which to check their outstanding balances.

Reclamation wants to transition the Restoration Fund revenues and charges to the WORKS system. Reclamation no longer tracks the charges, although revenues from the Restoration Fund are still recorded outside the WORKS system. Contractors want a report that shows the current balances, which would require both revenues and charges data.