

## **Foreword**

**Background:** This Foreword provides a summary of significant changes from prior years in amounts and/or procedures, including new legislative requirements and impacts; as well as, input received from contractors, associated water authorities, and the Central Valley Project Water Association on the 2005 preliminary water rates and the fiscal year 2003 draft contractor accountings.

The fiscal year 2003 contractor accountings are provided in final form. Please note that Reclamation has a site on the Internet where the 2005 water rate schedules are posted for reference. This site can be accessed at [www.usbr.gov/mp/cvpwaterrates](http://www.usbr.gov/mp/cvpwaterrates). If there are any problems in accessing the site or viewing the schedules, please contact Ms. Cathy Crawford at 916-978-5350.

### **Chief Financial Officers (CFO) Audit Adjustment**

The CFO adjustment rate component calculation is revised beginning with the 2004 rates for contractors that chose option 2 which distributes the expenses over a 5-year period. The objective is to allow Reclamation to reasonably recover the costs annually (2003 through 2007).

### **Provision for Replacement (PFR) Principal & Interest Adjustment**

In the FY 2001 Irrigation accounting, the PFR conveyance pumping cost adjustment for the Tracy Pumping Plant was allocated without consideration of the Delta-Mendota Exchange contractor water deliveries. The adjustment has been included in the FY 2003 accounting by reallocating the costs between the Friant-Kern Canal/Madera Canal contractors and irrigation contractors receiving services through the Tracy Pumping Plant.

Reclamation completed a reconciliation process of the Irrigation PFR interest adjustments that were included in the fiscal year 2002 accounting. Discrepancies were identified and correcting adjustments have been included in the FY 2003 accounting.

### **East Bay Municipal Utility District Projected Deliveries**

Reclamation, with considerations of the dry year provisions of the amendatory contract, interprets the contract maximum entitlement for EBMUD to be the 3-year average of 165,000 a/f, or 55,000 a/f per year. Please note that this was an interim solution that has been carried over to the 2005 water rates. Reclamation will be collaborating with the contractors in developing a long-term solution.

## **Central Valley Project Improvement Act (CVPIA)**

The Central Valley Project Improvement Act (CVPIA), enacted in 1992, established a Restoration Fund (Fund) into which contractors make annual payments through water charges. In 2003 Reclamation adopted Business Practice Guidelines for the CVPIA Program Accounting and Cost Recovery that spell out the method Reclamation will use to credit/offset contractor payments into the Fund against their share of reimbursable CVPIA costs. Using the guidelines, Reclamation reconciled contractor accounts through fiscal year 2002 to determine if any reimbursable CVPIA costs should have been included in contractor water rates. The reconciliation identified no CVPIA costs that should have been recovered through contractor water rates for that period. CVPIA expenditures will be reviewed each year to determine if any amounts should be included in contractor water rates.

### **Impact of Legislation**

#### **I. Title Transfer of Sly Park Dam and Reservoir and Sugar Pine Dam and Reservoir**

Public Law 106-377, Section 212, directed Reclamation to transfer all right, title and interest of the Sly Park Unit to the El Dorado Irrigation District (ID). Public Law 106-566, Section 501, directed Reclamation to transfer all right, title and interest of the Foresthill Divide Subunit of the Auburn-Folsom South Unit (including Sugar Pine Dam and Reservoir) to the Foresthill Public Utility District (PUD). The title transfers for these facilities were completed in 2003. As a result of these transfers, Reclamation recalculated the M&I contractor net results of operations by year through the fiscal year 2002 and made a retroactive adjustment to the contractors' capital repayment and deficit balances as of September 30, 2002. Capital costs associated with these facilities have been removed from the 2005 Irrigation and M&I water rates and El Dorado ID (Sly Park D&R Service Area) and Foresthill PUD are no longer included in the ratesetting process.

## **II. Trinity Public Utilities Assessment**

Public Law 106-377, Section 203 directs the Bureau to collect from water service contractors the assessed amount of \$162,000 (indexed) annually and remit the amount to the Trinity Public Utility District. In previous years this indexed amount has been included in the water rates. Collection of the annual assessed amount is still under review.

### **Project Use Energy (PUE)**

From 1997 to 2003, Contra Costa WD's PUE Operation and Maintenance (O&M) costs were overstated. Their meters, used for allocation of these costs, included commercial energy. In the final 2005 rates, adjustments were made to exclude the 2005 meter readings for commercial energy. The estimated 2005 PUE was properly reallocated. Prior-year adjustments will be included in the fiscal year 2004 accounting and the 2006 water rates.

The total estimated PUE O&M costs increased 75% from \$10,770,000 in FY 2004 to 18,900,000 in FY 2005. This increase was due to the expiration of the 2948A Pacific Gas & Electric contract. In addition, there was an 8% increase in the total amount of energy used in the FY 2005 PUE estimate when compared to the FY 2004 estimate.

### **Projected Deliveries**

Reclamation will base water rate year deliveries at no less than 50 percent of the contract maximum when the last 5-year historical average is less than zero due to adjustments. This process will be effective beginning with the 2005 Water Rates.

### **San Luis Drain**

The Irrigation estimated O&M costs for the San Luis Drain in the amount of \$1,379,000 have been removed from the 2005 water rates. This cost is a result of a shortfall for O&M costs which the San Luis & Delta-Mendota Authority is unable to collect from applicable water contractors in the San Luis Unit due to their fixed rate contract provision.

## **Water Marketing**

In coordination with the CVPWA, a work team was established to determine whether or not projected Water Marketing costs reasonably represented what was expected for actual costs. It was concluded that overall the base costs seemed reasonable, but that the general expense costs needed to be reviewed.

As a result of the analysis performed by Reclamation, it was determined that the irrigation and M&I estimated general expense would be based on 18.5 percent of the budgeted costs. For 2005, the Irrigation and M&I estimated general expense is \$604,000 (18.5% times \$3,267,000).

## **Security Costs**

2005 Security costs are not included in the 2005 water rates. However, they may be included in the fiscal year 2005 accounting if they are considered reimbursable by the forthcoming Conference Report review.

## **Assignments of Historical Capital Costs and Revenue**

For the FY 2005 water rates, historical water is identified separate for assignments of water when the assignor has fewer or more services than the assignee. The assigned water is based on the assignor's services. Historical capital costs and revenue have been adjusted and assigned to the assignee.

## **Rounding for Water Rates**

In prior-year rate books, component water rates differed by a few cents when compared to the total water rates. This was due to rounding. This has been adjusted for Irrigation and M&I water rates so that component rates add up to the total water rates.

Questions on the 2005 CVP water rates should be addressed to Ms. Maureen Reynoso at 916-978-5374 or Ms. Masako Altman at 916-978-5365 (TDD-916-978-5608).