

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 water contractors, associated water authorities, and the Central Valley Project Water Association (CVPWA) on the 2006 Central Valley Project (CVP) water rates and the fiscal year 2004 water contractor accountings.

The fiscal year 2004 contractor accountings are provided in final form. Please note that Reclamation has a site on the Internet where the 2006 CVP water rate schedules are posted for reference. This site can be accessed at 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 was revised beginning with the 2004 rates for water 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).

East Bay Municipal Utility District (EMUD) 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 2006 water rates. Reclamation will be collaborating with EMUD and other CVP water contractors in developing a long-term solution.

Central Valley Project Improvement Act (CVPIA)

CVPIA enacted in 1992, established a Restoration Fund (Fund) into which water 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 water contractor payments into the Fund against their share of reimbursable CVPIA costs. Using these guidelines, Reclamation has reconciled water contractor accounts through fiscal year 2004 to determine if any reimbursable CVPIA costs should have been included in contractor water rates. This reconciliation identified

no CVPIA costs that should have been recovered through contractor water rates for that period.

Trinity Public Utilities Assessment

Public Law 106-377, Section 203 directs the Bureau to collect from water contractors the assessed amount of \$162,000 (indexed) annually and remit the amount to the Trinity Public Utility District. This indexed amount has been included in the water rates through 2004. For 2005 these costs will be included in the annual accountings. For 2006 and forward, these amounts may be direct billed. A final decision is still pending.

Projected Water Deliveries

Capital and deficit rates are based on a change in the business practices for determining projected water deliveries. This refinement uses the California Simulation Model (CALSIM) used for CVP operations, criteria, and plan purposes as the basis for: (a) allocating capital costs between municipal and industrial (M&I) and irrigation; and (b) prorating capital costs to individual water contractors within each function. CALSIM percentages for M&I are 87% north of delta and 86% south of delta; irrigation is 68% and 59% respectively. **Note:** Since Friant-Kern Canal and Madera Canal contractors were not included as part of the CALSIM model, Class 1 water for these service areas will be 94.5% based on average actual deliveries for the period 1989 to 2003. Class 2 (irrigation only) will be 39.3%, based on delivered water during the same time period as the CALSIM Model. Also, Cross Valley Canal (CVC) water contractor deliveries vary considerably from year to year. Contractor supplies can be restricted due to demands placed on higher priority water pumped through the Harvey O'Banks pumping plant, as a result, the water available to CVC contractors is limited to less than the CALSIM percentages. Based on CVC water deliveries for the period, 1994 through 2004, a fixed 29.2% will be used for CVC contractors.

However, for certain water contractors, historical deliveries would not provide a reasonable basis for setting a water rate. For these water contractors, projected deliveries are being developed as follows:

- Long-term contractors taking no or very little water annually: The lowest recorded annual delivery percentage by water type (irrigation or M&I) will be used. To date, the lowest recorded percentages of delivered water (as

compared to contract entitlement) were 31.6% for irrigation and 37.6% for M&I.

- Sacramento River Settlement Contractors: Annual projections will be based on 75% of contract entitlement to correspond with language in the renewal contracts for these water contractors.

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 2006, the Irrigation and M&I estimated general expense is \$624,000 (18.5% times \$3,373,000).

Security Costs

Security O&M costs will be included in the 2006 water rates. The estimated costs for FY 2006 are \$1,337,000 for Irrigation and \$210,000 for M&I.

Assignments of Historical Capital Costs and Revenue

For the FY 2006 water rates, historical water deliveries are identified separately 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.

Municipal and Industrial (M&I) Settlement

As a result of the M&I settlement litigation, appropriate adjustments were made to the unpaid operation and maintenance (O&M) deficit and unpaid capital interest deficit for all CVP M&I water contractors. The CVP M&I water contractors were given an opportunity in August 2005 to pay off all or a portion of their O&M deficit and unpaid capital interest deficit, as separate accumulated deficits, before the two deficits are combined in fiscal year 2005 (reference letter dated August 15, 2005, subject: Option to Pay Central Valley Project (CVP) Accumulated Deficits for Municipal and Industrial (M&I) Water Contractors). For those M&I water

contractors which still have any deficit balances starting in the fiscal year 2005 accountings, Reclamation will combine unpaid capital interest expenses with unpaid O&M expenses into a single account for recordkeeping and purposes of computing interest. Interest will be computed annually at the applicable M&I water contractor's composite deficit interest rate.

In accordance with the M&I litigation settlement, Reclamation recalculated the M&I deficits for fiscal year 1949 through fiscal year 2003 for all M&I water contractors. Interest on unpaid capital interest was recalculated at the applicable composite capital interest rates used previously. Any adjustments resulting from the recalculations are reflected on the adjusted capital repayment and deficit balances as of September 30, 2003. Beginning October 1, 2004, all M&I deficits inclusive of the unpaid deficits calculated under the agreement and future interest on unpaid capital interest will be compounded at each contractor's composite deficit interest rates. Also the deferred interest amount has been updated in the 2006 water rates as a result of the interest recalculations.

Rescheduled Water

Rescheduled water revenues (irrigation or M&I) have been applied to storage capital beginning in fiscal year 2004 (refer to schedule A-4) in accordance with a prior Reclamation management decision.

New Schedules

As a result of the change in business practice used to calculate CVP capital and deficit water rates the following new schedules have been developed:

- Schedule A-13 shows projected water deliveries for each water contractor based on a cumulative average. For 2006 the cumulative average covers 1995 thru 2004 and includes delivered, as well as rescheduled water for each contractor. A minimum percentage, 31.6% for irrigation and 37.6% for M&I will be used for long-term contractors taking no or very little water annually. This schedule is used to calculate both the capital and deficit rates for irrigation and only the capital rate for M&I.
- Schedule A-14 shows historical and projected water deliveries for each water contractor. Projections are based on a percentage of each water contractor's entitlement. This schedule is used for calculation of individual water contractor prorated capital costs and the 50 year capital rates.

- Schedule A-15 is used for M&I only for calculation of the deficit rates. The projections are similar to Schedule A-13 for M&I

Questions on the 2006 CVP water rates should be addressed to Ms. Maureen Reynoso at 916-978-5374, Ms. Masako Altman at 916-978-5365, or Mr. John Pelley at 916-978-5385, or by fax at 916-978-5392..