

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 2007 Central Valley Project (CVP) water rates and the fiscal year 2005 water contractor accountings.

The fiscal year 2005 contractor accountings are provided in final form. Please note that Reclamation has a site on the Internet where the 2007 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 2005 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 is an **interim** solution that has been carried over to the 2007 water rates. Reclamation will be collaborating in the near future 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 offset Restoration Fund charges made into the Fund against their share of reimbursable CVPIA costs. Using these guidelines, Reclamation has reconciled reimbursable CVPIA activities and Restoration Fund charges expended to determine if any reimbursable CVPIA

costs should have been included in contractor water rates. This reconciliation identified no CVPIA costs that require recovering in the 2007 CVP water rates.

Trinity Public Utilities (PUD) 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 applicable water rates through 2004. For 2005 the amount was excluded from the water rates, but was included in the 2005 annual accountings. For 2006, these amounts were direct billed. In 2007, the assessment will again be handled outside of the water ratesetting calculations. This assessment along with the restoration charges and surcharges per acre-foot will be shown in Schedule A-1 of the Irrigation and M&I water rate books under “Assessments and Charges”.

Projected Water Deliveries

Capital and deficit rates are based on the FY 2006 change in business practice 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. Although the percentages identified under this “**Note**” didn’t change this year, they will be adjusted for the 2008 water rate calculations.

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 percentage of delivered water (as compared to the current contract entitlement) is 31.8% 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 standard form 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 2007, the Irrigation and M&I estimated general expense is \$651,000 (18.5% x \$3,520,000).

Security Costs

Security/guards and patrol costs are included in the 2007 water rates. The estimated costs for FY 2007 are \$2,573,998 for Irrigation and \$406,529 for M&I.

Assignments of Historical Capital Costs and Revenue

For the FY 2007 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 in accordance with the assignment agreement.

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.

Projected Water Deliveries for Schedule A-12

The projected water deliveries on Schedule A-12 are based on a five year rolling average which is less than or equal to the contract maximum, and will include the following water types:

- Delivered
- Rescheduled – starting FY 2005 (phasing in)
- Unused – up thru FY 2004 only for long term contractors (phasing out)
- Historical assigned
- Exception, Sacramento River contractors (standard form only) use the five year average or 75% of contract maximum, whichever is greater
- Exception, Corning and Tehama Colusa Canal contractors use the five year average or 75% of contract maximum, whichever is less

New Schedules

As a result of the FY 2006 change in business practice used to calculate CVP capital and deficit water rates the following new schedules were developed:

- Schedule A-13 shows projected water deliveries for each water contractor based on a cumulative average. For 2007 the cumulative average covers 1995 thru 2005 and includes delivered, rescheduled, and historical assigned water for each contractor. A minimum percentage, 31.8% 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

Project Use Energy (PUE) Costs for FY 2005 Accountings

The procedures used by Reclamation to obtain actual PUE costs by component/facility have been changed for the FY 2005 water contractor accountings.

Prior to FY 2005, CVP Financial Statement Schedule No. 25, Allocation of Multipurpose Expense – Consolidated showed actual PUE costs which were used in the contractor accountings. A change was required in Schedule No. 25, as a result PUE costs will no longer be shown on this schedule. The total PUE expenses for FY 2005 are shown on CVP Financial Statement Schedule No. 16, but only as a footnote. The actual FY 2005 PUE costs by component/facility will be based on the Schedule of Estimated PUE Costs (Schedule A-11) from the 2005 Ratebook plus a True-up adjustment for FY 2004. These totals will then be reconciled back to the total PUE expenses reported on Schedule No. 16.

Here is a breakdown of the actual FY 2005 PUE expenses:

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| • FY 2005 Estimated PUE Costs from Schedule A-11 | \$18,900,000 |
| • FY 2004 PUE True-up adjustment | (282,836) |
| ○ Total PUE Expenses Recorded in FY 2005 | \$18,617,164 |
| • Adjustments for Non-reimbursable expenses | <u>(107,825)</u> |
| ○ Total Irrigation and M&I PUE Expenses in FY 2005 | \$18,509,339 |

Folsom Safety of Dam (SOD) Work

Questions on the 2007 CVP water rates should be addressed to Ms. Maureen Reynoso at 916-978-5374 or mreynoso@mp.usbr.gov, Ms. Masako Altman at 916-978-5365 or maltman@mp.usbr.gov, or either by fax at 916-978-5392.