

# 2010 Financial Report

Kansas Programs  
**Water Marketing**  
**Water Assurance**



Operated by the Kansas Water Office

June 20, 2011



## 2010 Financial Report

### Introduction

The *Kansas Water Marketing and Water Assurance Programs 2010 Financial Report* provides a review of the programs' revenues and expenditures for calendar year 2010. This report is prepared for the benefit of the customers of the programs.

This report includes an overview of revenue and expenditures for the Water Marketing Program. No applications were received in 2010 for long term contracts from the Water Marketing Program for municipal and industrial use. Two surplus water applications were received in 2010 for irrigation use; both were approved by the Director resulting in contracts.

During 2010, weather and river conditions continued to be wet; however, releases were made during the month of November from John Redmond Reservoir on behalf of Westar Energy's Wolf Creek Power Plant to maintain the water level in their cooling lake. Customer demand increased for the first time in four years, and revenue increased as well.

This report also includes an overview of revenue and expenditures for the Water Assurance Program. The water assurance districts assess their members an amount such that the full annual amortized cost to the State of acquisition, operation and maintenance of assurance storage and administration and enforcement is covered.

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### *Background*

# Water Marketing Program

The Water Marketing Program provides water under contract to municipal and industrial customers from federal reservoirs in which the state owns storage. The program provides contracts with terms up to 40 years for the quantity that is projected to be available in a reservoir during a 1950's severity drought with an expected 40 years of sediment.

The State Water Plan Storage Act (K.S.A. 82a-1301 et seq.) enacted in 1974 and amended since, established the basic framework of the current Water Marketing Program. The basic principles of the Program are:

- The State retains physical and fiscal control of the water stored in the reservoirs covered by agreements with the federal government.
- The entire system of reservoirs is treated as one large reservoir for pricing purposes, so that no particular user or region of the State receives preferential treatment in the pricing of water.
- The State only sells raw (untreated) water to users at the reservoir; the State is not responsible for the delivery or treatment of water.
- Contract holders must pay 50 percent of their contracted quantity up front each year.
- Purchasers must have a State approved water conservation plan.

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### *Customers' Water Bills*

## Water Marketing Program

Water purchased through the Water Marketing Program is paid for at either a capped (fixed) rate or variable rate per 1,000 gallons. Contracts executed before March 17, 1983 carry a fixed rate of 10 cents per 1,000 gallons of raw water. Approximately 66 percent of the Water Marketing Program's revenue was generated from capped contracts in 2010.

Contracts executed after March 17, 1983 have a variable rate charge. The variable rate of \$0.25527 per 1,000 gallons paid by Water Marketing customers in 2010 was computed based on the following five components:

1. Principal and interest payments on the outstanding debt on reservoir storage;
2. Interest on money advanced from the State General Fund for the Water Marketing Program to initially acquire storage space;
3. Administration and enforcement expenses incurred by the Kansas Water Office and the Division of Water Resources;
4. Operation, maintenance and repair costs to be paid to the U.S. Army Corps of Engineers in 2010 for costs incurred during 2008;
5. A Depreciation Reserve cost which is the amount necessary to meet the needs of the *Water Marketing Program Capital Development and Storage Maintenance Plan* as approved by the Kansas Water Authority.

The quantity of water that generates revenue for the Water Marketing Program is not necessarily the same as the water used. All contracts require payment for half of the contracted quantity at the beginning of the year, even if half of the contract is not used. If the amount of water used exceeds half of the contracted quantity, revenue is collected for the actual water used.

Additionally, some contracts require payment for water diverted under a water right up to the maximum contract quantity, if the contract holder's water right was obtained after the date of the Kansas Water Office's water reservation right associated with the water marketing reservoir from which the customer receives service.

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### *2010 Financial Summary*

# Water Marketing Program

**Revenue.** The Kansas Water Marketing Program revenues increased from 2009 to 2010 due to an increase in the water use by both capped rate and variable rate customers and the increase in the variable rate from \$0.18516 per 1,000 gallons of water in 2009 to \$0.25527 in 2010.

In 2010, customers with capped contracts bought 16,255 million gallons of water; 3,894 million gallons more than in 2009. The higher usage in 2010 was due to Westar Energy's Jeffrey Energy Center running all three cooling towers at full capacity throughout most of the year. A construction project in which Westar Energy upgraded the scrubber technology at the Jeffrey Energy Center prevented them from operating at full capacity for the three previous years, resulting in significantly lower water use for each of those three years.

Customers with variable rate contracts paid for 3,215 million gallons of water; 39 million gallons more in 2010 than in 2009. This increase was primarily due to an increase in the minimum quantity for five customers. The increase in minimum quantity for these five customers resulted in a total increase of 95 million gallons. The remaining variable rate customers paid for 56 million gallons less in 2010 than in 2009.

The increased usage by capped rate contract holders increased revenue in 2010 by \$389,357.17 while variable rate revenue increased \$226,085.79. The total revenue increased \$615,442.96.

**Expenditures.** The Water Marketing Program expenses include the principal and interest (P&I) capital costs to buy storage from the U.S. Army Corps of Engineers (COE), operation and maintenance costs (O&M) incurred by the COE on the storage owned by the State and administration and enforcement costs incurred by the State of Kansas.

As can be seen in the table on the following page, the 2010 P&I expenses were \$334,212 less than the 2009 P&I expenses. This decrease is primarily due to an increment of Hillsdale Lake being called into service during 2009, which resulted in increased expenditures during 2009. The first payment was due at the time of the call and the second was due in October. O&M expenses increased \$240,552 due to additional maintenance work at John Redmond; and A&E expenses increased \$41,202 due to an increase in salaries and benefits.

<b>Water Marketing Program Revenue and Expenditures January 1 to December 31, 2010</b>		
<b>Revenue</b>		
	<b>2009</b>	<b>2010</b>
Capped Contracts (10 cents/1,000 gallons)	\$1,236,170.73	\$1,625,527.90
Variable Rate Contracts (25.527 cents/1,000 gallons)	610,771.49	836,857.28
Administration and Enforcement from Water Assurance Program	69,417.53	72,194.24
<b>TOTAL REVENUE</b>	<b>\$1,916,359.75</b>	<b>\$2,534,579.42</b>
<b>Expenditures</b>		
Payment of Capital Costs (P&I) to the COE	\$1,687,849.59	\$1,353,637.01
Payment of Operation and Maintenance (O&M) to the COE	566,523.77	807,075.31
Administration and Enforcement for the Kansas Water Office and Division of Water Resources	382,432.03	423,633.59
<b>TOTAL EXPENDITURES</b>	<b>\$2,636,805.39<sup>1</sup></b>	<b>\$2,584,345.91<sup>2</sup></b>
<p>1. The program was able to meet the expenditures, even though expenses exceeded revenues, due to the planned use of the Conservation Storage Water Supply Fund to make the first payment on an increment of storage in Hillsdale, as well as some program reimbursements and carryover from previous years.</p> <p>2. The Program was able to meet the expenditures, even though expenses exceeded revenues, by the planned use of the O&amp;M Set-Aside Fund.</p>		

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### *Background*

# Water Assurance Program

The Water Assurance Program Act (K.S.A. 82a-1330 et seq.) was enacted in 1986. The program provides members (municipal and industrial water right holders on mainstem rivers below federal reservoirs) with an assurance of a water supply during times of low natural flow. The reservoirs in a river basin are operated as a system for increased efficiency in water delivery.

Releases are made by the U.S. Army Corps of Engineers as prescribed in operations agreements with the Kansas Water Office and each assurance district. The releases are protected from diversion for other uses by the Kansas Department of Agriculture's Division of Water Resources.

The key difference between the Water Assurance Program and the Water Marketing Program is that the water assurance districts have an ownership interest in a percentage of the storage in the reservoirs in the particular basin and pay the corresponding costs associated with the principal and interest and operation and maintenance for just those reservoirs, as well as costs of administration and enforcement dedicated to the program. The districts levy an annual charge against their members to cover these costs.

Three water assurance districts are operational. They are the Kansas River Water Assurance District No. 1, the Marais des Cygnes River Water Assurance District No. 2, and the Cottonwood/Neosho River Basins Water Assurance District No. 3.

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### 2010 Financial Summary

# Water Assurance Program

**Revenue.** The amount collected in 2010 to pay the costs associated with the Water Assurance Program storage was \$714,677 less than the revenue received in 2009. This is primarily due to additional storage purchased in 2009 by the Marais des Cygnes River Water Assurance District No. 2 in Melvern and Pomona reservoirs. (Note the Capital Costs decrease in the expenditures section of the table below). The interest rates remained low in 2010, which provided the interest-earning accounts with about one-fourth of the amount generated in 2009.

**Expenditures.** Operation and maintenance costs for the Water Assurance Districts' share of the storage space in the reservoirs increased from \$216,590 in 2009 to \$257,616 in 2010, due in part to the increased share of ownership purchased in Pomona and Melvern, as noted above.

The administration and enforcement costs increased for the Assurance Districts in 2010 compared to 2009. Each of the Districts has signed agreements for a flat fee administration and enforcement cost with a four percent increase each succeeding year. The Kansas River Water Assurance District No. 1 and the Cottonwood/Neosho River Basins Water Assurance District No. 3 agreements took effect July 1, 2002. The Marais des Cygnes River Water Assurance District No. 2's agreement took effect on July 1, 2004.

<b>Water Assurance District Program Revenue and Expenditures January 1 to December 31, 2010</b>		
<b>Revenue</b>		
	<b>2009</b>	<b>2010</b>
Customer Revenue	\$1,251,590.94	\$536,913.79
Interest	8,205.91	2,305.75
<b>TOTAL REVENUE</b>	<b>\$1,259,796.85</b>	<b>\$539,219.54</b>
<b>Expenditures</b>		
Capital Costs (P&I)	\$965,583.01	\$207,103.76
Operation and Maintenance (O&M)	216,590.40	257,615.79
Administration and Enforcement (A&E)	69,417.53	72,194.24
<b>TOTAL EXPENDITURES</b>	<b>\$1,251,590.94</b>	<b>\$536,913.79</b>

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### *Water Marketing and Water Assurance Programs*

## Looking Ahead

### **Calling Hillsdale and Clinton into Service**

In June 2006, the Kansas Water Authority approved the calendar year 2007 variable rate, using the Capital Development and Storage Maintenance Plan for the first time to establish the depreciation reserve component of the variable Water Marketing Rate. In that year, the basic schedule was established for calling increments of the future use storage in Hillsdale and Clinton lakes into service. Each year since 2007, the depreciation reserve component has been set in accordance with that call-in schedule. Each year the call-in schedule is evaluated for its continued viability in conjunction with the development of the Water Marketing Capital Development Plan. The 2010 Plan continues the same call-in schedule, as does the 2011.

It is likely that this trend of an increasing depreciation reserve component will continue. From 2009 until 2024, there will likely be a balance inequity due to the costs projected for calling additional storage in Hillsdale and Clinton reservoirs into service and the increase in operation and maintenance costs, while most of the larger customer contracts remain capped.

The full Capital Development and Storage Maintenance Plan can be found on the Kansas Water Office website at [www.kwo.org](http://www.kwo.org).

### **Operation and Maintenance Costs**

The American Recovery and Reinvestment Act of 2008 provided funding to the Corps of Engineers to initiate maintenance and rehabilitation projects that had been delayed due to lack of funding. The Water Marketing and Assurance programs will both be responsible for some portion of the projects, which vary according to the percentage of the reservoir committed to each program. The first of the ARRA projects completed by the Kansas City District as well as annual O&M costs were used in setting the 2011 and 2012 variable rates for marketing, and the August 2010 and 2011 billings for the assurance districts. Since the Agency is billed when the projects are completed, there is some uncertainty about when the impact of the remaining projects will be felt, but indications are it will occur over the next couple years.

In addition to the ARRA projects, the Corps also received additional funding for ongoing operation, maintenance and rehabilitation projects. The costs to both the Marketing and Assurance programs for operation and maintenance continue to increase, exerting an impact on the variable rate for Marketing customers as well as the assurance districts. Rebuilding the balance in the Operation and Maintenance Set-Aside account will continue to be a priority when possible, to help offset unusually high spikes in costs.

## **Administration and Enforcement of the Marketing Program**

In 2009, the Governor and Kansas Legislature shifted funding for three additional Kansas Water Office employees' salaries and wages from the State General Fund to the Water Marketing Fund beginning in FY 2010. This is in addition to the three positions already committed to and paid by the Marketing and Assurance programs.

While the Office has requested the three positions be restored to State General Fund, until overall SGF recovery is experienced, it is unlikely that this restoration will occur.

## **Contract Negotiations**

Currently the Program has applications on file that have been approved for negotiations for more than 12 billion gallons of water. While it is highly unlikely that all of that quantity will be approved, it demonstrates that interest in the Program remains high.

### Hillsdale Lake

In September 2008, the stakeholders in the Hillsdale Lake area began working with the assistance of the Kansas Water Office to form an interlocal cooperation agreement to more efficiently utilize the water that is available. The agreement that established the Hillsdale Area Water Cooperative (HAWC) was finalized in December 2010 and approved by the Attorney General in March 2011. An application from the HAWC was received by the Kansas Water Office on April 25, 2011. A request to negotiate a contract was taken to the Kansas Water Authority in May, and permission was granted. HAWC's desire is to have a contract in place by the end of 2011.

Based on current growth projections, it is anticipated that water supply needs for all current public water supply customers in the area for the next 40 years will be able to be met with the projected reservoir yield.

### Kanopolis Lake

In November 2006, the Kansas Water Authority approved a request to negotiate with Post Rock for additional water from Kanopolis contingent upon additional studies and planning efforts. The KWA previously approved negotiations with McPherson Board of Public Utilities for water from Kanopolis. During the 2011 Legislative session, a law was enacted to allow the formation of a Special Access district for the purpose of purchasing storage in Kanopolis to meet downstream needs, including municipal, industrial and irrigation. Any storage purchased by the Access District will reduce the amount of storage committed to the Marketing Program.