

# RECLAMATION

*Managing Water in the West*

## 2006 Annual Report



U.S. Department of the Interior  
Bureau of Reclamation

Main canal flowing from Pinto Dam toward the  
Soap Lake siphon and Ephrata, Columbia Basin Project, Washington.

# 2006 Annual Report



U.S. Department of the Interior  
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# Letter from the Commissioner



Bob Johnson, Commissioner,  
Bureau of Reclamation

It is my distinct pleasure to present the Bureau of Reclamation's 2006 Annual Report to the Congress and the American people.

In fiscal year 2006, Reclamation continued its role in developing and maintaining one of the most impressive water management infrastructures in the world, an infrastructure that is vital to bringing water and power to the people of the West and supporting the region's burgeoning economy.

Reclamation is the Nation's largest wholesale water supplier. The 348 reservoirs we administer have a total storage capacity of 245 million acre-feet of water. We bring water to more than 31 million people and provide 20 percent of Western farmers (140,000) with water to irrigate 10 million acres of farmland that produce 60 percent of the Nation's vegetables.

Reclamation is also the Nation's seventh largest power utility and second largest producer of hydroelectric power in the West. Our 58 powerplants provide more than 40 billion kilowatthours of energy each year equivalent to the energy provided by 80 million barrels of crude oil. These plants serve six million homes and generate nearly \$1 billion in power revenues for the U.S. Treasury.

Our core mission to deliver water and generate power in the 17 Western States has remained constant for a century. But the way we accomplish our mission has evolved considerably. At one time, our focus was on constructing facilities; today, it is primarily on managing and maintaining those facilities to ensure their continued effective performance.

As part of our efforts to remain ready to meet Western water management challenges and the associated needs of our customers and stakeholders, Reclamation funded an independent study of our organizational structure and work practices by the National Research Council of the National Academies. As a result of this study, Reclamation developed an action plan, *Managing for Excellence*, which outlines a process and timeframe to address the findings of the National Academies' report.

During fiscal year 2006, Reclamation made substantial progress on many initiatives to help the people of the West meet current and future water needs. For example, as the fiscal year ended, the Animas-La Plata Project in southwest Colorado was 41 percent complete, and it is on track to have construction completed within budget by 2012, with project closeout in 2013. In July, the Secretary of the Department of the Interior, Dirk Kempthorne, approved \$1.3 million in Water 2025 Challenge Grants to help fund 10 water conservation projects in 7 Western States. These funds, together with non-Federal contributions, represent a combined investment of more than \$5.6 million in infrastructure improvements that are intended to enhance water conservation and allow existing water supplies to be used more efficiently.

In fiscal year 2007, we plan to address a number of challenges: developing new Colorado River management strategies to address potential Lower Basin shortages and the operation of Lake Powell and Lake Mead under low reservoir conditions; ensuring guard and surveillance capabilities at our critical infrastructure facilities; and implementing a cooperative endangered species recovery program for the Platte River.

I have total confidence that the Bureau of Reclamation will, working with its partners, successfully meet future water management challenges. Reclamation has always been dedicated to getting the job done, and we continue our commitment to serving our customers and the public.







# Management's Discussion and Analysis

# Mission and History



The Bureau of Reclamation was created in 1902 to help settle the American West. Then called the “Reclamation Service,” Reclamation was authorized by the Congress to assist local communities in building water projects to “reclaim” the arid West.

In our first 60 years, Reclamation became a leader in engineering and constructing water storage and delivery projects. Our projects, including Hoover Dam on the Colorado River and Grand Coulee Dam on the Columbia River, provided irrigation water that allowed farmers to settle the West even during droughts. Our large hydropower facilities supplied power generation that allowed industries and large cities to flourish.

Today, as the largest wholesaler of water in the country, we furnish water to more than 31 million people. Reclamation is also the second largest producer of hydroelectric power in the Nation. Many of our projects have benefitted the West for 50 or 60 years—a few for more than 100 years. We have continued to provide water and hydropower during droughts and flood control during times of surplus water. Water from our projects has helped meet the needs of a growing Western population.

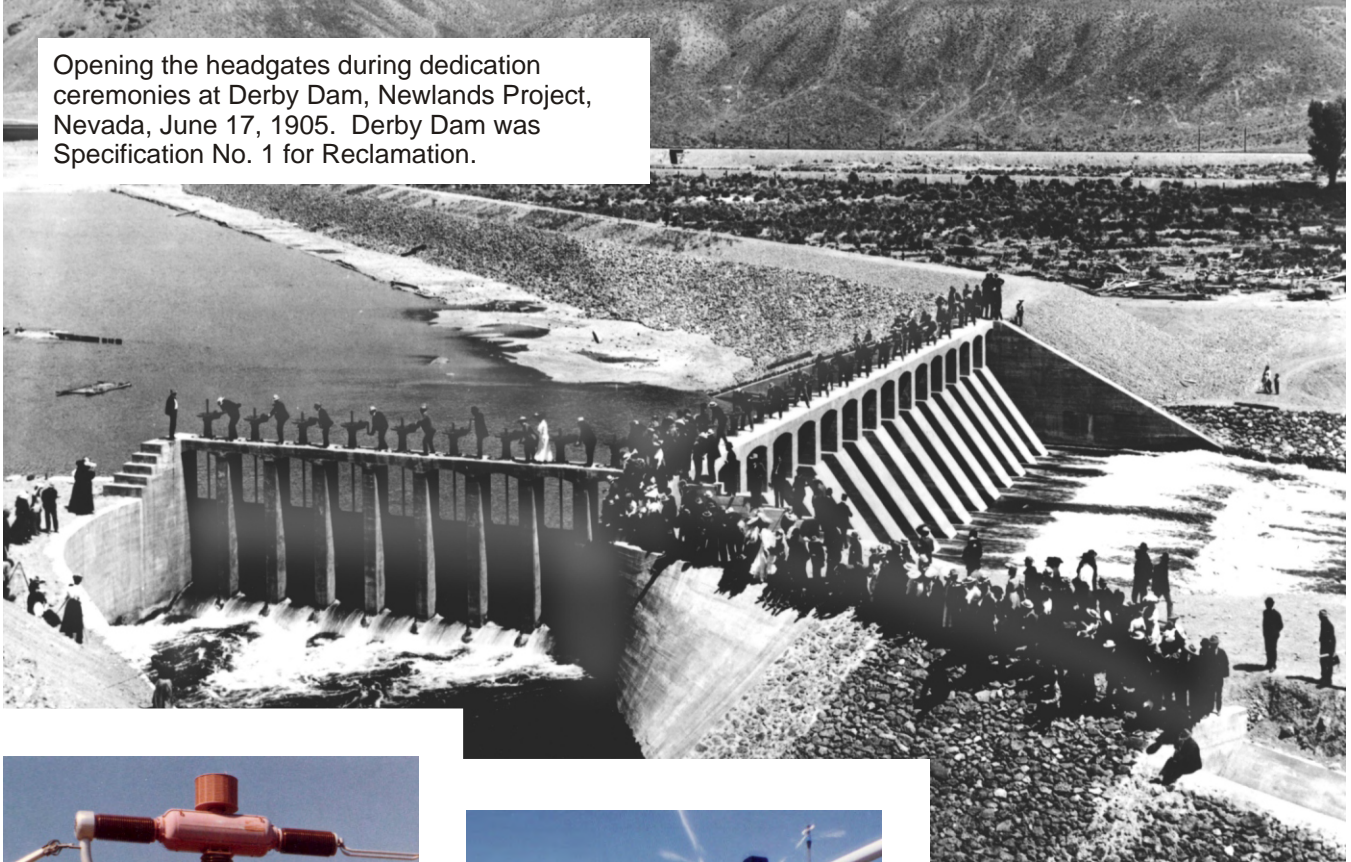
As new construction waned, our focus also changed to managing existing resources. Increased population demands for domestic water, recreational activities, and water to maintain ecosystems have resulted in increasing demands on existing water supplies. Our facilities play a major role in meeting these demands. Our expertise in managing water and researching new technologies helps us contribute to meeting these demands.

Water is still the most valuable and scarce resource in the West, and Reclamation continues to play a key role in making water available for the many demands placed on the West’s water systems.

## **Mission:**

*The mission of the Bureau of Reclamation is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.*

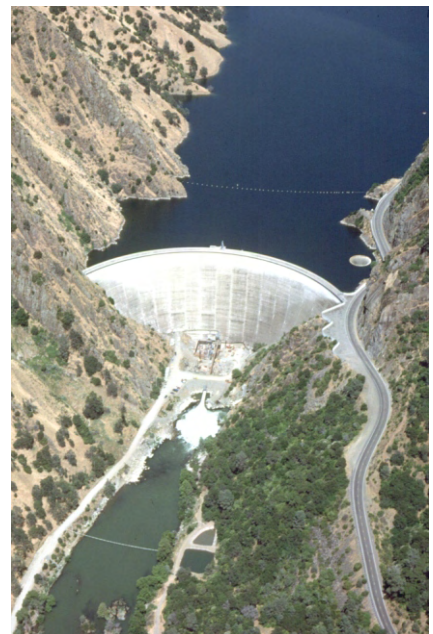
Opening the headgates during dedication ceremonies at Derby Dam, Newlands Project, Nevada, June 17, 1905. Derby Dam was Specification No. 1 for Reclamation.



Hydroelectric power generation



Center pivot irrigation



Monticello Dam

# Goals, Accomplishments, and Future Challenges



Timely inspections and maintenance help ensure that Reclamation continues to meet the needs of the American public.

Reclamation has outlined four overarching goals that emphasize our mission to deliver water and generate hydropower while addressing other water use requirements and planning for future water needs to avoid crisis and conflict:

- Ensure the reliable delivery of water and generation of hydropower under Reclamation contracts.
- Optimize hydropower generation consistent with project purposes.
- Incorporate other considerations, such as recreation, fish and wildlife, environment, and Native American trust responsibilities, into our water and power operations.
- Identify and plan for future consumptive and nonconsumptive water supply needs by identifying unmet needs in the next 25 years.

To meet these goals and priorities in fiscal year 2006, Reclamation:

- Delivered approximately 30.8 million acre-feet of water (1 acre-foot supplies enough water for a family of four for 1 year).
- Generated about 44 billion kilowatthours (kWh) of hydroelectric energy—enough to meet the annual needs of 9 million people.
- Awarded more than \$1.3 million in Water 2025 Challenge Grants to fund 10 water conservation or development projects in 7 States.

Reclamation's priorities are to:

- Complete security assessments for designated facilities and proceed with efforts to ensure the long-term security of all Reclamation facilities.
- Fund and complete critical activities on high profile projects (e.g., Water 2025, Animas-La Plata, and Middle Rio Grande) on schedule.

- Improve management of cost estimates on construction projects.
- Expand and enhance Reclamation's scientific expertise and coordination with other agencies, including desalination research, invasive species control and management, and Endangered Species Act (ESA) related activities.

## **Managing for Excellence**

Reclamation is preparing for the challenges of the 21st century by thoroughly examining our core capabilities in a number of key areas and our ability to respond in an innovative and timely manner to future needs. The *Managing for Excellence* Action Plan, published in February 2006, outlines a process and timeframe for identifying and addressing the specific 21st century challenges to fulfill our mission.

### **Managing for Excellence Action Plan**

An important catalyst for this evaluation effort is the recently published National Research Council (NRC) Report, "Managing Construction and Infrastructure in the 21st Century Bureau of Reclamation," which examines several facets of our organization, practices, and culture. Each of the NRC Report's recommendations is addressed in this *Managing for Excellence* Action Plan. The underlying principles and benchmarks that guide the *Managing for Excellence* Project are to:

- Improve the management and leadership processes, applications, responsibilities, and outcomes in Reclamation activities to effectively respond to future needs and challenges.
- Attain a synergistic balance of centralized policy development (Reclamation Manual) and decentralized operations.
- Determine the appropriate level and organizational structure to deliver Reclamation's core capability necessary for mission fulfillment.
- Define Reclamation's stewardship responsibility as the owner of Federal facilities.
- Ensure transparency and value of construction and operation and maintenance (O&M) costs.

The *Managing for Excellence* Action Plan outlines 41 specific action items based on these principles and benchmarks. These action items are organized under eight key functional areas to identify and implement needed changes or improvements. The table below outlines the functional areas and objectives we plan to achieve.

<b>Functional Areas and Objectives</b>
<p><u>Relationships with Customers and Other Stakeholders</u></p> <ul style="list-style-type: none"> <li>• Strengthen stakeholder relationships</li> <li>• Improve communication</li> <li>• Create transparent decisionmaking processes</li> </ul>
<p><u>Policies and Organization</u></p> <ul style="list-style-type: none"> <li>• Refine the balance between centralized policy and oversight with current, effective decentralized operational organization</li> <li>• Implement the most effective, efficient organizational structure</li> </ul>
<p><u>Engineering and Design Services</u></p> <ul style="list-style-type: none"> <li>• Define core capabilities to fulfill Reclamation's mission</li> <li>• Foster a Center of Excellence for our engineering and technical capabilities</li> <li>• Provide engineering standards and design services that meet Federal customer needs</li> </ul>
<p><u>Major Repair Challenges</u></p> <ul style="list-style-type: none"> <li>• Devise methods to help customers finance their allocated share of major repair projects</li> <li>• Develop processes or measuring tools to determine whether a major repair project is warranted</li> <li>• Use innovation to add value to major repair projects</li> </ul>
<p><u>Project Management</u></p> <ul style="list-style-type: none"> <li>• Develop policies and practices to provide an appropriate degree of continuity and project management oversight from project inception through the planning process to construction and into operations</li> </ul>
<p><u>Asset Sustainment</u></p> <ul style="list-style-type: none"> <li>• Better understand construction and O&amp;M costs</li> <li>• Increase value of construction and O&amp;M activities</li> <li>• Increase opportunities for:                             <ul style="list-style-type: none"> <li>○ O&amp;M outsourcing</li> <li>○ O&amp;M transfer</li> <li>○ Title transfer</li> </ul> </li> </ul>
<p><u>Research and Laboratory Services</u></p> <ul style="list-style-type: none"> <li>• Increase partnerships and technology transfers in research and development</li> </ul>
<p><u>Human Resources/Workforce</u></p> <ul style="list-style-type: none"> <li>• Enhance employee competencies in key skills such as project management, collaboration, decisionmaking, and leadership</li> </ul>

## FY 2006 Accomplishments

In February, Reclamation established several teams to address and implement these action items. As part of this effort, Reclamation is seeking feedback from within and outside Reclamation, where appropriate.

In April, Reclamation participated in a national stakeholder meeting hosted by the National Water Resources Association (NWRA). The Family Farm Alliance, Western States Water Council, and the American Public Power Association also participated. The meeting initiated a dialogue with stakeholders on *Managing for Excellence* action items and plans for future public involvement. In July, Reclamation held its first public meeting in Las Vegas, Nevada, where the public could participate in breakout sessions and comment on approaches and proposals. A second public meeting was held in Salt Lake City, Utah, in September 2006. A third meeting will be held in Sacramento, California, in November 2006.

During FY 2006, Reclamation completed Action Item 2 (Increase Availability of the Reclamation Manual) by highlighting the Reclamation Manual Directives and Standards on the Reclamation Web site; Action Item 3 (Incorporate Transparency and Value into Policy Development) by revising the policy development process and developing a process to waive the requirements of the Reclamation Manual; and Action Item 5 (Clarify Delegations of Authority) by updating the Reclamation Manual to include delegations of authority. Work was begun on an additional 26 action items.

In 2006, Reclamation launched internal and external Web sites to provide information to employees and the public on *Managing for Excellence*. Please visit <http://www.usbr.gov/excellence> for more information.

## Delivering Water

One of Reclamation's primary missions is delivering and storing water throughout the 17 Western States. In an average year, Reclamation projects deliver approximately 30.8 million acre-feet of water. Ongoing droughts and burgeoning Western populations continue to make this job ever more challenging. We continuously evaluate our management strategies and incorporate new technologies to develop new water supplies and use water more efficiently.

## **The Water 2025 Challenge Grant Program: Preventing Crises and Conflict in the West**

Water is the lifeblood and the foundation of the American West's economy. It is also the scarcest resource in some of the fastest growing areas of the country. Water 2025 focuses attention on the realities of major conflicts among competing uses of water, including the explosive population growth in Western urban areas, the emerging need for water for environmental and recreational uses, and the national importance of the domestic production of food and fiber from Western farms and ranches.

In some areas of the West, existing water supplies are, or will be, inadequate to meet competing demands for water even under normal water supply conditions. Water 2025 recognizes that States, tribes, and local governments should have a leading role in meeting these challenges and that the U.S. Department of the Interior should focus its attention and resources on areas where scarce Federal dollars can provide the greatest benefits to the West and the rest of the Nation.

The Water 2025 Challenge Grant Program provides a basis for public discussion of the realities that face the West so that decisions can be made at the appropriate level in advance of water supply crises. It also sets forth a framework to identify the problems, solutions, and a plan of action as Interior works with States, tribes, local governments, and the private sector to meet water supply challenges.

The Challenge Grant Program is an important aspect of Water 2025. Challenge Grant funding is provided on a minimum 50 percent, non-Federal cost-share basis to irrigation and water districts, Western States, and other entities with water delivery authority. These entities use the funding to implement projects that stretch existing water resources. Challenge Grant projects focus on modernizing aging water delivery infrastructure, improving water use efficiency and conservation, and marketing water. Projects are selected through a competitive process that emphasizes projects that will achieve demonstrated results within 24 months from the date of award.

Since its inception in 2004, the Water 2025 Challenge Grant Program has funded 78 projects that represent approximately \$64.1 million in water system and water management improvement across the West, including non-Federal cost-share contributions of approximately \$47.7 million and a Federal investment of approximately \$16.4 million.



***FY 2006 Highlights of Water 2025 Challenge Grants***

In FY 2006, for the third year in a row, Reclamation received more than 100 proposals for Challenge Grant funding. The proposals represent a combined request for more than \$19 million in Federal funding to complete more than \$63 million in water delivery system improvements across the West (costs include non-Federal cost-share amounts).

This year, Reclamation invited State governmental entities with water management authority (e.g., State Departments of Water Resources, State Engineers' Offices, etc.) in the 17 Western States, in addition to tribes, irrigation districts, water districts, and other organizations with water delivery authority, to submit applications for Challenge Grant cost-share funding.

In July 2006, 10 projects, totaling \$1.3 million in Water 2025 Challenge Grants for projects across the West, were selected for funding. Including the matching contributions of non-Federal partners, the selected projects represent a combined investment of more than \$5.4 million in water management improvements.

***FY 2006 Highlights for Other Water 2025 Activities***

The Water 2025 Program has also improved technologies used to stretch limited water supplies. In FY 2005, \$1.7 million in Water 2025 funds was awarded through Reclamation's Science and Technology Program. This program uses competitive grants. Agencies or organizations that receive these grants are required to share the costs.

Reclamation worked to improve technology through a number of partnerships to implement congressional earmarks (an earmark is a specific amount of spending for a specific project) in Water 2025's FY 2006 budget. For example, Reclamation worked with a consortium of universities in Ohio to develop advanced remote sensing technologies (\$1.0 million). All of these technologies help Reclamation manage water resources in areas where there are current or potential water conflicts.

Reclamation also worked with the Middle Rio Grande Conservancy District in New Mexico to modernize its water delivery facilities. Reclamation and the district have a cost-share partnership to implement water efficiency measures, including installing flow measurement devices, lining canals, and automating weather stations and diversion dams throughout the district (Reclamation funding was \$1.75 million in FY 2005 and \$1.0 million in FY 2006).

Reclamation worked with the Desert Research Institute in Nevada on projects such as an investigation of the human health and environmental safety of using polyacrylamide (PAM) to reduce canal seepage in unlined canals and development, testing, and implementation of tools to optimize the operations of the Truckee River (\$2.0 million in FY 2005 and \$2.0 million in FY 2006).

Reclamation also entered into an agreement with the New Mexico Interstate Stream Commission to improve water efficiency and supplement water supplies on the Pecos River. Pipelines will deliver water from wells in the Seven Rivers areas to augment Brantley Reservoir (\$1.0 million in FY 2006).

### **Using Alternative Sources of Usable Water—Desalination**

Desalting sea water and inland brackish waters offers new drought-proof water supplies that can help Reclamation manage water more effectively. Water quality and desalination projects and research helped provide clean water for Native Americans, rural areas, municipal and industrial water users, and other users. Reclamation's investments in desalination come through various budget line items and programs: the Desalination and Water Purification Research and Development Program, the Science and Technology Program, the Water Reuse Program—Title XVI, Water 2025, and the Yuma Desalting Plant Title I. All provide funding. In FY 2006, ongoing projects continued to show the value of innovative desalination techniques including:

- **Expeditionary Unit Water Purification (EUWP) Verification Testing:** Reclamation recently tested an EUWP at the new Groundwater National Desalination Research Facility, Alamogordo, New Mexico, research center, which verified that the EUWP produces water that meets the Environmental Protection Agency drinking water standards.
- **Dewvaporation:** Low-cost desalination, using evaporation, uses heated and cooled air to evaporate water from saline feeds and is currently being pilot tested.
- **Reverse Osmosis Treatment for San Joaquin Drainage Program:** A pilot study confirmed the technical feasibility of using reverse osmosis treatment to desalt agricultural drainage, separate selenium contamination, and recover 50 percent of the drainage as clean product water that can be reused for irrigation.

- **Vertical Tube Evaporator Thermal Desalination Pilot Test:** This test demonstrated the technical and economic feasibility of using geothermal energy to produce potable water where potable water is needed, steam heat is available, and there is a source of impaired water nearby (e.g., the Salton Sea).
- **Large Diameter Membrane Development:** Use of a new, larger membrane is expected to result in \$25 million in cost savings over 20 years for a 50 million-gallons-per-day seawater plant.
- **Improving Product Water Recovery at the Yuma Desalting Plant:** Using a demonstration-scale test unit located in its onsite research facility, the engineers perfected a new operating process to increase product water recoveries to 85 percent.

### **Current Scientific Findings on Saltcedar (Tamarisk) Water Salvage Potential**

Previous Reclamation Annual Reports discussed the potential water use of saltcedar based on limited available information, which suggested that saltcedar control might lead to significant water savings. However, recent scientific findings on saltcedar water use suggest that previous estimates of potential water savings may be overly optimistic. Much of the scientific evidence obtained recently does not support the assumption that saltcedar has unusually high rates of water use. It now appears that saltcedar may actually use water at a rate similar to other riparian vegetation. These findings mean that the potential benefit of saltcedar control or removal for water savings may be limited or undetectable. At this time, the evidence suggests that water-saving potential is likely to be much less than previously expected, difficult to maintain, and hard to realize as flow in a stream. The Research and Development Office is continuing to fund research and work with partners to help scientifically define the potential for water savings.

### **Construction**

Most of Reclamation's construction is to support the Dam Safety Program or is performed as part of other specific projects the Congress has authorized. Portions of this program and other authorized projects have been contracted to Indian tribes pursuant to the Indian Self-Determination and Education Assistance Act, Public Law (P.L.) 93-638.

*Animas-La Plata Project*

In FY 2006, Reclamation's major construction efforts were on the Animas-La Plata Project in southwestern Colorado. Since 2002, construction contracts of more than \$211 million have been awarded for the Animas-La Plata Project. Reclamation is constructing this water delivery project under the Colorado Ute Indian Water Rights Settlement Act of 1988, as amended in 2000. The project will provide water for the Ute Mountain Ute and Southern Ute Indian Tribes and the Navajo Nation, as well as benefit four other entities: the Animas-La Plata Water Conservancy District, Colorado; the State of Colorado; the San Juan Water Commission, New Mexico; and the La Plata Water Conservancy District, New Mexico.

Reclamation construction on Ridges Basin Dam and Durango Pumping Plant, two key components of the Animas-La Plata Project, continued in FY 2006. The dam will create Lake Nighthorse, which will provide the Four Corners area (meeting point of Utah, Colorado, New Mexico, and Arizona) with 120,000 acre-feet of long-term water storage. When the entire project is completed, municipal and industrial users within Colorado and New Mexico will also use this water.

At the end of FY 2006, Reclamation had completed more than 41 percent of the entire Animas-La Plata Project and:

- Placed embankment materials for Ridges Basin Dam and built the dam to a height of more than 100 feet from the foundation to the top.
- Worked on the outlet tunnel through the left abutment of the dam.
- Placed concrete for the Durango Pumping Plant.
- Completed the final design of components to the Navajo Nation Municipal Pipeline and the Ridges Basin Inlet Conduit.

The schedule for the Animas-La Plata Project is driven by the availability of funds. The project is currently scheduled to be completed in 2012, including filling of the reservoir. Estimated total cost is \$500 million, plus indexing for inflation.

### *Central Arizona Project*

Reclamation constructed the Central Arizona Project (CAP), a multipurpose water resource development and management project that delivers Colorado River water, either directly or indirectly, into central and southern Arizona. Reclamation's actions in FY 2006 included the following:

- Acquired a significant amount of the right-of-way for lands needed for the San Tan Lateral and sections of the San Tan Canal, Pima Lateral, and portions of the South Side Canal as part of the Gila River Indian Community's Pima-Maricopa Irrigation Project. Began construction on both the San Tan Laterals and on a portion of the South Side Canal.
- Continued project investigations with the San Carlos Apache Tribe to help develop a mutually agreeable project configuration. Reclamation hosted the San Carlos Apache Tribal Council in May 2006 at Hoover Dam to present the technical data developed to date. The work included agricultural consulting services and preparation of an estimate to address a Black River Diversion tunnel option.
- Completed 60 percent of the work under the contract for the San Xavier District's farm rehabilitation.
- Conducted a "turnover inspection" and awarded a contract for the remediation work in the Schuk Toak Farm and the Tohono O'odham Nation. When the work is completed and accepted, Reclamation will transfer O&M responsibilities to the Nation, and the Secretary of the Interior's obligations to the Tohono O'odham Nation for Schuk Toak Farm development will be considered, by both parties, as satisfied and complete.
- Initiated planning on the Tonto Apache Tribe's options for using its CAP water allocation.

### **Savage Rapids Dam**

Reclamation awarded a \$28 million contract for construction of the Savage Rapids pumping plant and subsequent removal of a major portion of Savage Rapids Dam, located on southwest Oregon's Rogue River. This work will permanently resolve fish passage and protective issues at the dam, as directed by a court order, while ensuring an uninterrupted water supply for patrons.

### **Flood Control**

Significant flood control operations during 2006 prevented serious flooding in the Pacific Northwest, where nearly every basin faced a flood threat at some point during the year that required close monitoring and appropriate actions. For example, flood control operations on the Boise River lasted nearly 5 months, with more than a month of flows at or near flood stage throughout the city of Boise.

### **Drought Response**

Reclamation's approach to addressing drought conditions begins with storing water for times of shortage. During the recent, prolonged drought in many areas of the West, our reservoirs performed well, meeting water requirements in most areas of the West despite precipitation shortages.

Reclamation also actively engages in drought planning by working with States, water users, and other entities to prepare in advance, so that when drought occurs, we have steps in place to manage it. Part of this advance planning involves interagency efforts such as the Drought Action Teams, working with the U.S. Department of Agriculture.

The Water 2025 Challenge Grant Program and our Water Conservation Field Services Program provide grants to help water users make more efficient use of water, particularly during times of drought.

In addition, Reclamation responds to emergencies by using our authority under Title I of the Reclamation States Emergency Drought Relief Act of 1991, as amended, and extended with P.L. 109-234 until 2010. This supplemental appropriations bill also included \$9 million for the drought program to minimize or mitigate drought damages or losses. Reclamation made funds available through letter contracts under the emergency operations provisions of the Federal Acquisitions Regulations to allow on-

the-ground work to begin immediately. Reclamation also initiated work on drilling municipal wells and designing, monitoring, and testing wells, along with water hauling projects. In FY 2006, we made available more than \$9.3 million in emergency drought relief to a number of entities:

- Five communities in New Mexico to drill municipal wells.
- Temporary supplies of water purchased in New Mexico to provide flows for endangered fish in the Pecos River and the Rio Grande.
- Water hauling services for an Indian tribe in Arizona.

### **Colorado River Management Strategies**

At the direction of the Secretary of the Interior, Reclamation started to develop Lower Basin shortage guidelines and coordinated management strategies for Lake Powell and Lake Mead under low-reservoir conditions in FY 2005. In 2006, Reclamation prepared a draft alternatives report and prepared a draft environmental impact statement (EIS) to address the proposed guidelines and strategies. Reclamation anticipates the draft to be available in February 2007, and the final EIS will be completed in December 2007.

A remnant Colorado River channel is excavated near Yuma, Arizona, to redirect flow away from direct impact to the river levee.



### **Collaborating to Meet Future Water Supply Needs**

In 2004, the State of Washington, Reclamation, and three irrigation districts agreed to cooperate to optimize water management of the Columbia River and Reclamation's Columbia Basin Project. State legislative action established a program to aggressively pursue development of water supplies to benefit both instream and out-of-stream uses through storage, conservation, and voluntary regional water management agreements. Numerous studies are ongoing under this partnership.

### **Generating Hydropower**

Reclamation's hydroelectric power facilities serve as some of the West's most important electrical resources, with 58 hydroelectric powerplants having an installed capacity of more than 14 million kilowatts.

Each year, Reclamation's powerplants generate about 44 billion kWh of hydroelectric energy, enough to meet the annual needs of 9 million people, or the energy equivalent of more than 80 million barrels of crude oil.

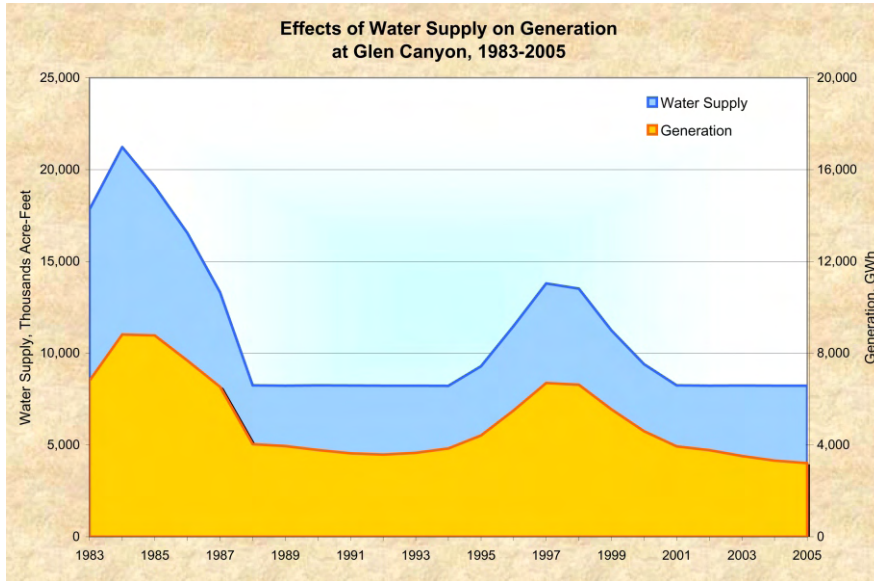
The Western Area Power Administration (Western) and Bonneville Power Administration (BPA) market the power generated by Reclamation facilities that is surplus to project needs.

In February 2005, Reclamation entered into a partnership agreement with the U.S. Army Corps of Engineers (USACE) to promote a long-term working relationship and collaborate on efforts to manage water and related land resources within their respective missions. In particular, the agreement encourages the two agencies to share needed technical expertise, improve resource management, and leverage each agency's limited resources to improve public services and make more efficient use of limited public funds.

### **Evaluating Drought Impacts on Hydropower Generation**

The ongoing drought in the Western United States has significantly impacted Reclamation's hydropower production and has negatively impacted customer power rates.





The Glen Canyon Powerplant can provide the electric power for about 1.8 million people across the marketing area (Arizona, Utah, Colorado, Wyoming, New Mexico, and Nevada). The Glen Canyon Powerplant accounts for approximately 70 percent of the power generation for the total Colorado River Storage Project.

The Upper Colorado River Basin experienced 5 consecutive years of extreme drought from September 1999 through September 2004. In the summer of 1999, Lake Powell was essentially full, with reservoir storage at 97 percent of capacity. Inflow volumes for 5 consecutive water years were significantly below average. Lake Powell storage decreased through this 5-year period, with reservoir storage reaching a low of 8.0 million acre-feet (33 percent of capacity) on April 8, 2005. During water year 2005, Lake Powell storage increased by 2.77 million acre-feet (31 feet in elevation) and was 105 percent of average. Unfortunately, in 2006, there was a return to drier conditions in the Colorado River Basin. Unregulated inflow to Lake Powell in water year 2006 was 73 percent of average, or 8.77 million acre-feet.

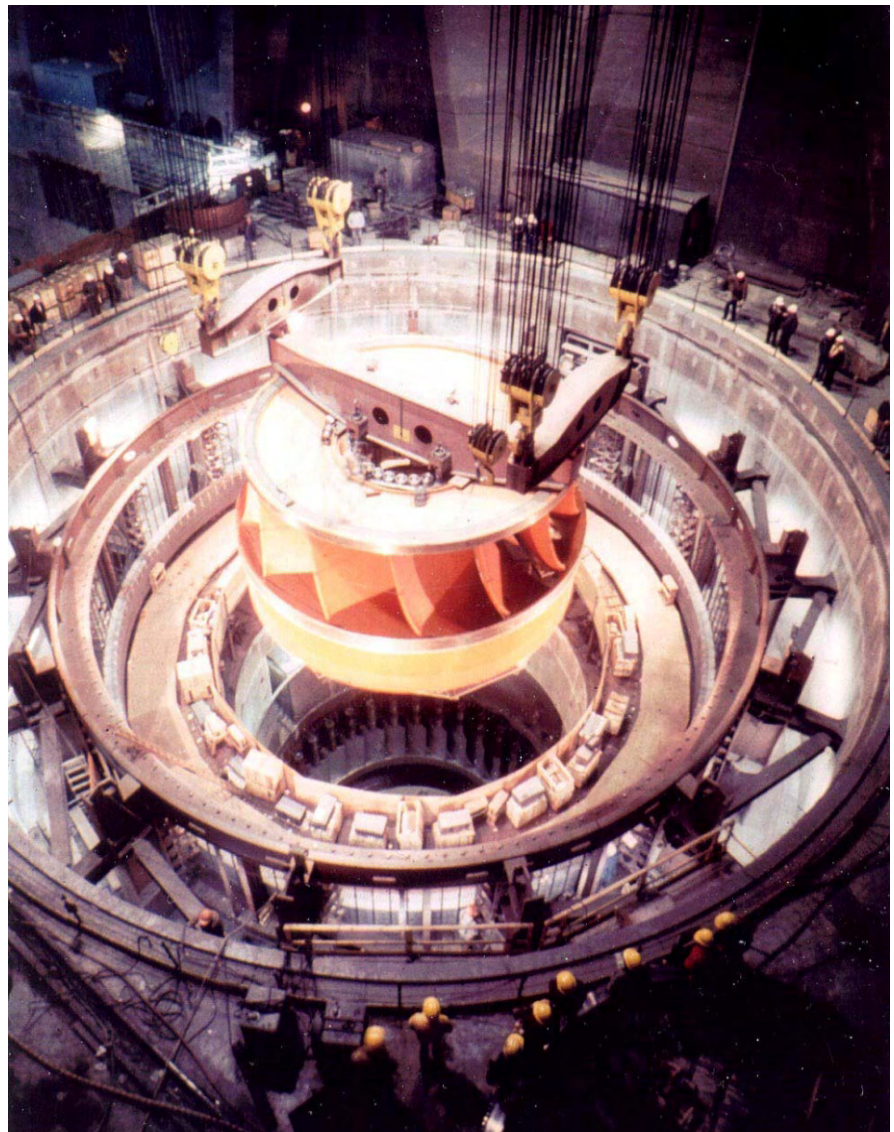
The effects of multiple years of drought and low inflow remain visible at Lake Powell. Lake Powell storage is currently 49 percent of capacity, with the water surface elevation nearly 100 feet below full pool. The declining lake level at Lake Powell has resulted in a reduction in Glen Canyon Powerplant's generation by approximately 25 percent, from an

average generation of 1,320 million kWh to about 990 million kWh. Consequently, Western has increased its composite firm power rate from 20.28 mills per kWh to 25.28 mills per kWh to accommodate increased purchase power expenses necessary to meet firm power contracts.

### **FY 2006 Highlights**

Reclamation leads the hydropower industry for low costs and high reliability. We also have an outstanding record for reliable power delivery. We strive to keep our generators at their peak by rehabilitating or replacing older models. We continue to improve operating equipment; for example, installing more efficient turbine runners at Grand Coulee Dam (FY 2000 through FY 2012), Flaming Gorge Dam (FY 2005 through FY 2007), and Glen Canyon Dam (FY 2004 through FY 2014). We keep

The turbine runner replacement program on generators 1-18 at Grand Coulee Dam is an example of major work to improve operating equipment.



costs in check by maintaining reliable facilities and efficiently using financial resources to extend the life of our facilities.

Our Research and Technology Program is a key part of our efforts to meet future power demands. We are developing the technology needed to enhance O&M activities, reduce costs, increase efficiency, and improve system reliability, stability, and safety.

Reclamation's power program scored a 92 percent on the Office of Management and Budget's Program Assessment Rating Tool (PART) review and was rated "effective." Producing significant achievements in 2006, Reclamation's programs:

- Implemented Hydropower Asset Management Planning risk-based condition assessment tool (developed with the largest hydropower producers in North America and BPA).
- Completed 2006 Comprehensive Facility Reviews (CFR) on all scheduled power facilities (Power Resources Office published all Reclamation CFR reports for 2006 by December 2006).
- Certified compliance procedures with applicable industry-wide reliability requirements.
- Continued to form strong partnerships with national and international hydropower organizations, including the USACE and the Tennessee Valley Authority (TVA), to work on areas of mutual interest related to power O&M, benchmarking, and best practices.
- Completed an inventory of every Reclamation study conducted since 1939 that did not result in construction authorization to comply with the Energy Policy Act, Section 1840.

### **Future Challenges and Goals**

While our forced outage rate is lower than the current industry average, our hydropower program must continue to improve performance and optimize generation, consistent with project purposes, to maintain this performance level. Reclamation conducts frequent assessments of O&M effectiveness at all of our powerplants and major pumping plants. We track recommendations to correct deficiencies or improve local programs to their completion.

The Energy Policy Act of 2005 introduced challenges and new opportunities. Mandatory reliability standards with financial penalties for noncompliance highlight our industry-leading, low forced outage rates and emphasize the importance of our O&M program. A report under the Energy Policy Act, Section 1834, will be completed by February 2007 and focuses on opportunities for increased hydropower at Federal facilities. The Energy Policy Act also expedites terms and conditions for hydropower license applications under the Federal Power Act and establishes procedures for hydropower license applicants to request “expedited trial-type hearings.”

## **Providing Other Programs and Benefits**

In addition to water delivery and power generation, Reclamation is also responsible for maintaining and safeguarding its facilities, as well as other projects authorized by the Congress that provide benefits for Native American trust responsibilities, recreation, fish and wildlife, and the environment.

## **Safety, Security, and Law Enforcement Programs**

The Safety, Security, and Law Enforcement (SSLE) Program's objective is to protect the public, Reclamation employees, and Reclamation's water and power delivery capability against terrorism and other illegal activity.

### ***FY 2006 Highlights***

Reclamation continued to implement security improvements at critical infrastructure facilities. We completed designs and began installing integrated security upgrades at three National Critical Infrastructure facilities: Folsom, Shasta, and Glen Canyon Dams. Security enhancements include barriers, video surveillance, intrusion detection, access control, communication systems, and guard forces.

In FY 2006, we completed the remaining initial security risk assessments for essential facilities. Decision documents have been completed for 120 of the 264 critical and project essential facilities, while the remaining 144 decision documents are nearing completion. A total of 2,321 recommendations have been approved through the security risk assessment process, and 1,391 of those recommendations have been completed.

Reclamation completed the following:

- New Directives and Standards for identifying and safeguarding information for Official Use Only and for certifying and procuring boat barriers.
- New Directives and Standards for uniforms.
- Interim Policy for purchasing firearms and explosives.

We implemented Personal Identity Verification-1 of the Homeland Security Presidential Directive-12 (HSPD-12), a Government-wide policy for common identification standards for Federal employees and contractors, and developed standard procedures for issuing and managing personal identity verification cards.

In April 2006, Reclamation promulgated the comprehensive Public Conduct Regulation required by P.L. 107-96. This rule enhances the security and safety of all Reclamation facilities by implementing legally enforceable public conduct standards and establishing Federal sanctions for violations. It also establishes procedures for closing, reopening, and creating special rules for individual facilities.

Reclamation collected, recorded, and investigated information for security and law enforcement related incidents, including suspicious activities. We shared information directly with dam and power transmission members and with appropriate intelligence agencies. Contract investigators and intelligence analysts also completed threat assessments and produced intelligence products to protect Reclamation and associated water and power transmission infrastructure.

We worked with other agencies to share information, including best practices, to protect critical infrastructure and to develop and refine risk assessment methodologies. We also worked with other Federal agencies and laboratories to enhance understanding of the effects of terrorist activities on dams and related resources.

We worked closely with the U.S. Department of Homeland Security and other agencies to develop the Federal Sector-Specific Critical Infrastructure Protection Plan for Dams as a key resource, which is part of the overall National Infrastructure Protection Plan developed by the U.S. Department of Homeland Security. This document will lead to

further interagency cooperation and coordination on all aspects of security for dams and related infrastructure.

In FY 2006, we established a Security Awareness Working Group to increase security awareness and education across Reclamation. This group is designing and implementing a comprehensive security awareness program to address all aspects of security, including operations.



Hoover Dam vehicle check site.

We developed an action plan to address the recommendations from the Office of Management and Budget's PART on the Security and Law Enforcement Program, and we implemented the five new performance measures established during the FY 2005 assessment.

For 2006, Reclamation received an appropriation of \$40 million for security, with congressional direction to collect another

\$10 million of project O&M costs for security guards and patrols from our project beneficiaries.

### ***Future Challenges and Goals***

In FY 2007, we will implement a reiterative Security Risk Assessment Program to periodically reassess Reclamation's 264 critical and project essential facilities. The program will provide a comprehensive security review every 6 years, a periodic security review every 3 years, and an annual security review. Reclamation will also continue to develop security-related policies, directives, and standards, including standards for training Reclamation guards and security professionals. Additionally, we will enhance the security of our facilities through implementing and enforcing our new public conduct regulations. We will continue to work closely with managing partners to implement effective security measures and will work with State, local, and tribal law enforcement entities to effectively promote law enforcement at our facilities.

## **Dam Safety**

Dam safety activities are directly related to Reclamation's core mission of water and power delivery. The objectives of our Dam Safety Program are:

- To ensure that Reclamation facilities do not cause unreasonable risks to people, property, and/or the environment.
- To take appropriate action to reduce and manage risks in an efficient and cost-effective manner.

Reclamation is responsible for 472 dams and dikes that form a significant part of the water resources infrastructure for the 17 Western States. As these structures age, concern increases about their continued satisfactory performance. The 361 structures that could cause loss of human life or other significant losses through failure or misoperation are included in the Dam Safety Program.

### ***FY 2006 Highlights***

This year, we completed 44 comprehensive facility reviews; completed risk reduction activities at Grassy Lake Dam in Idaho, Keechelus Dam in Washington, Prosser Creek Dam in California, and Pineview Dam in Utah; continued ongoing risk reduction actions at Deer Creek Dam in Utah, Deer Flat Dam in Idaho, and Lauro Dam in California; and began risk reduction actions at Stony Gorge Dam in California.

In FY 2006, the Dam Safety Program was reviewed under the Office of Management and Budget's PART. The program received an overall rating of "effective"—the highest qualitative rating possible under this program. (Please see the "Management Accountability" section of this report for more information.)

### ***Future Challenges and Goals***

Reclamation has many multiyear contracts in place for the Dam Safety Program. The dam safety construction contracts are a major part of our continuing efforts to ensure that our structures do not present a safety risk to the public.

The Safety of Dams corrective action at Folsom Dam, California is, and will continue to be, the Dam Safety Program's highest priority because of the large population at risk downstream of the dam. Reclamation will continue to work with the USACE to find a joint resolution to complex and significant dam safety and flood control issues.

Reclamation continues to improve its emergency management capability by planning and conducting exercises in conjunction with Emergency Action Plans, Continuity of Operation Plans, Occupant Emergency Plans, the Emergency Notification System, and the Emergency Operations Center.

### **Information Technology Security Program**

Reclamation uses Information Technology (IT) Security to maintain a reliable, high integrity, and appropriately confidential electronic information infrastructure. A strong IT Security Program is essential for conducting business efficiently and effectively in the 21st century. Reclamation's IT Security Program helps to ensure that our critical engineering, financial, personnel, and other mission-related information is accessible to those who need it, while remaining protected from unauthorized individuals and those with criminal intent.

Reclamation's IT Security Program is aligned with Department of the Interior (Interior's) program. The Federal Information Security Management Act (FISMA) principally governs the program.

#### ***FY 2006 Highlights***

In FY 2006, Reclamation's IT Security Program made strong contributions to improve Interior's FISMA scorecard performance, particularly in awareness and role-based training, certification and accreditation of systems, and protection of critical cyber infrastructure.

In FY 2006, Reclamation instituted an Internal IT Security Assessment process to review our IT Security Program and systems. The review process will help identify and remedy system and programmatic weaknesses. This new process has already shown its potential in early reviews and will further improve our effectiveness.

We also maintain our existing and foundational IT Security Program components, including an active IT security training effort; risk identification, management, and mitigation components; incident



reporting and response capabilities; contingency planning; and procurement practices. The IT Security Program coordinated with Reclamation's SSLE Office to develop information handling and protection requirements for sensitive Reclamation information. The IT Security Program also employed the SSLE Office's resources to help ensure that the personnel responsible for Reclamation's IT systems and IT security were properly screened.

Reclamation made significant strides in adopting the newly released National Institute of Standards and Technology standards for IT security planning, security testing, and security certification. This included adjusting elements of the Reclamation certification and accreditation program to accommodate the new standards.

Reclamation completed management level IT security reviews (Internal Control Reviews) of all IT systems, as well as its IT Security Program. We also successfully completed an IT Security Program review led by Interior. The completed reviews found no significant weaknesses in management level IT security controls within Reclamation.

### ***Future Challenges and Goals***

Reclamation continues to face increasing pressure to design, fund, develop, and implement common, Government-wide IT solutions and to apply mandated IT requirements that do not always align well with our mission goals and objectives. Balancing these demands with legislative mandates, mission requirements, and changing threats will continue to be our greatest IT security challenge. The IT Security Program continues to focus on implementing cost-effective IT security solutions that support and enhance our infrastructure, communications, information management, operational capabilities, and mission.

### **Disaster Relief**

Reclamation leads Interior's disaster recovery support to the USACE for ESF No. 3, Public Works and Engineering, under the National Response Plan. Reclamation coordinated the deployment of personnel from eight Interior bureaus and offices involved in the Katrina, Rita, and Wilma hurricane recovery operations.

From September 2005 through May 2006, Reclamation deployed, supported, and demobilized a total of 940 Interior employees in Louisiana, Mississippi, and Texas. Most of these personnel assisted the USACE as quality assurance inspectors in reviewing the installation of 195,000 temporary roofs and the removal of nearly 105 million cubic yards of debris. Interior employees constituted about 10 percent of the ESF-3 workforce during the Gulf Coast recovery.

Reclamation also provided technical assistance to the USACE for levee repair on Lake Pontchartrain and facilitated additional support from the

Reclamation employees were deployed to assist the USACE in quality assurance and overseeing temporary roofing, housing, and debris removal.



Thirteen days after Katrina made landfall, the emergency water purification unit sent from New Mexico converted seawater to potable water for the Biloxi Regional Medical Center. The 70,000 gallons per day was used to keep the hospital operational.



U.S. Geological Survey for light detection and ranging (LIDAR) imagery and flood stage monitoring.

The USACE has adopted the financial business practices, guidance materials, and spreadsheets Reclamation developed for the hurricane recovery operations as the standard for all other Federal agencies to use in compiling and submitting their billing packages to the USACE for reimbursement in future disaster operations.

Reclamation's Coordination Center continues to provide financial coordination, assistance, and guidance to other Reclamation employees who assemble billing packages, resolve reimbursement issues, and review and approve each billing package before sending it to USACE for payment. The USACE reimbursed all Reclamation Coordination Center costs associated with the operations and financial support of ESF-3.

Interior's ESF-3 has received approximately \$66.8 million in funding from the USACE for the 11 participating Interior bureau employee deployments during the 2005/2006 hurricane season. Of that amount, Reclamation will retain \$22.6 million; the remaining \$44.2 million will reimburse the other Interior bureaus.

Reclamation has also received approximately \$2.1 million in Federal Emergency Management Agency (FEMA) funding and approximately \$140,000 from the Office of Naval Research for water purification support.

### **Native American Program**

Reclamation's Native American Program mission is to help make the benefits of Reclamation programs available to Indian tribes and to assist in fulfilling Interior's Indian trust responsibilities. The Native American Affairs Office (NAAO) provides central coordination and policy leadership for all Native American issues throughout Reclamation.

### ***FY 2006 Highlights***

The Native American Program provides technical and financial assistance to Indian tribes, institutions of higher education, national Indian organizations, and tribal organizations to increase opportunities for Indian tribes to develop, manage, and protect their water-related resources. Program activities include assisting tribes to better understand their water-related needs and helping them to develop their water resources, including

rural water supplies on Indian reservations. In FY 2006, NAAO provided approximately \$6.5 million to support tribal project requests, including such items as needs assessments and water management, quality, and measurement studies. Tribes performed some of this work under Title I and Title IV of P.L. 93-638, Indian Self-Determination Act. More than 50 tribes benefited from this technical assistance program.



Innovative well materials used at the Northern Cheyenne Tribe's Tongue River Enhancement Project in Montana.

Reclamation also continued to participate in the Secretary of the Interior's Indian Water Rights Settlement activities, providing approximately \$1.5 million for 17 Indian water rights negotiation teams and 9 water rights settlement implementation teams.

### *Future Challenges and Goals*

Indian tribes continue to experience a tremendous need for adequate water supply infrastructure to ensure the health and safety of reservation populations and to provide a base for economic development. While Reclamation cannot solve the problem of inadequate tribal water supply infrastructure alone, we will continue to assist federally recognized tribes located within the 17 Western States.

### **Recreation**

Reclamation has more than 300 recreation sites that accommodate more than 90 million visits annually on more than 8 million acres of land and water. When possible, Reclamation enters into agreements with non-Federal managing partners to manage the recreation areas at our projects. In other instances, larger projects have been designated as National Recreation Areas by the Congress and are, in turn, managed by other Federal agencies with recreation expertise, such as the National Park Service. Some of the Reclamation project areas that are managed by other Federal agencies are Lake Powell (Glen Canyon National Recreation Area), Lake Mead National Recreation Area, Lake Roosevelt National Recreation Area, and Flaming Gorge National Recreation Area. Reclamation has 21 visitor centers on project lands.

***FY 2006 Highlights***

To determine how Reclamation can assist in the future success of our non-Federal recreation management partners, we completed comprehensive guidelines for estimating future recreation demand. Reclamation will use the results of studies using the guidelines to help direct future decisions on managing recreation.

During April 2006, new exhibits were installed at the Grand Coulee Dam Visitor Center that interpret Grand Coulee's role as one of the main irrigation, flood control, and hydroelectric dams in the Nation. Exhibits also address the effects the dam has had on various groups of people, including Native Americans and early settlers. Many of the exhibits are "hands-on," including a virtual tour of the dam and an interactive game on operating the dam. Exhibits are accessible and designed to appeal to all ages.

***Future Challenges and Goals***

Recreation and tourism is one of the largest industries in the Western United States and the second largest employer nationwide. Reclamation reservoirs and lands are primary recreation destinations for many Americans and foreign visitors. Recreation pursuits in and around reservoirs include hunting, camping, skiing, boating, fishing, and other water sports and activities. National surveys and statistics show that water-based recreation activities are among the most popular recreation experiences.

The steady increase in visitation is a challenge to public agencies that provide recreation facilities at Reclamation reservoirs. We are also concerned about providing accessible opportunities to all visitors. To ensure that Reclamation and our partners provide equal opportunities to participate, Reclamation initiated a 10-year plan in 2000 to monitor accomplishment toward providing facilities and programs that comply with accessibility laws. Reclamation and our non-Federal



Because Reclamation areas play host to many kinds of birds, including some that are endangered, "Birding" or bird watching often joins more traditional recreational activities at many Reclamation dams and reservoirs.



partners are cooperating to increase management efficiency; however, financing is limited for new services and recreation facilities.

Reclamation continues to pursue the goal of having all Reclamation-owned recreation sites managed by non-Federal partners, such as State and local agencies. Reclamation is focused on ensuring that all new contracts provide appropriate facilities and services necessary to meet the future public demand.

### **C.A.S.T. for Kids**

Catch a Special Thrill (C.A.S.T.) is a nonprofit foundation officially created in 1992 in support of an extraordinary, outdoor event that teams the sponsors with area youngsters for a day of fishing sportsmanship. Reclamation works with the C.A.S.T. for Kids Foundation; various State, city, county and Federal agencies; and several Bass Anglers Sportsman Society Federations to provide the pleasures of fishing to children with disabilities. For some kids, this is their first experience fishing, or even spending the day on the water. The young anglers are educated about boating safety, angler ethics, and the importance of natural resources such as fish and water. During C.A.S.T. for Kids events, the children learn a skill they can use for the rest of their lives, and the volunteers learn an important lesson about life and the fulfillment of giving back to their community.

Approximately 250 Reclamation volunteers from the Pacific Northwest Region participate in six different C.A.S.T. events and work closely with the C.A.S.T. for Kids Foundation and other public and private sponsors to ensure fun-filled events.



## **Fish and Wildlife**

Reclamation has responsibilities for fish and wildlife resources at its projects, based upon individual project authorizations and the mandates of other Federal statutes, such as the ESA. While delivering water and generating power is our primary mission, we also work to minimize impacts on fish and wildlife in cooperation with the U.S. Fish and Wildlife Service (FWS), National Oceanic and Atmospheric Administration National Marine Fisheries Service (NOAA-Fisheries), State fish and wildlife agencies, and others. Habitat provided or supported by Reclamation's projects can contribute significantly to fish and wildlife resources.

### ***FY 2006 Highlights***

Following are several examples of how Reclamation contributed to fish and wildlife resources in FY 2006:

- Implemented Reasonable and Prudent Alternatives for the Modified Roosevelt Dam Biological Opinion on impacts to the endangered Southwestern willow flycatcher and the requirements of the Gila River Basin Biological Opinion on impacts to imperiled native fishes.
- Complied with ESA responsibilities for several projects in the Upper Colorado Region, including the O&M of the Middle Rio Grande Project, Animas-La Plata Project, Pecos River Operations, and Glen Canyon Dam Adaptive Management Program.
- Led the multi-agency Lake Mohave Native Fish Work Group in the lower Colorado River basin, with the release of an estimated 10,000 fishes into Lake Mohave in 2006.
- Augmented flow from Reclamation's Snake River Project. We collaborated with the USACE and BPA to improve conditions for 12 anadromous fish species and 1 resident fish species in the Columbia and Snake River systems, as required by ESA biological opinions.

- Completed a final EIS for the Platte River Recovery Program with the FWS in May 2006 and a signed Record of Decision in September 2006. The Governance Committee Alternative is the preferred alternative. If implemented, this alternative would improve habitat conditions in the Central Platte Habitat Area by increasing target flows by an average of about 130,000 to 150,000 acre-feet a year and restoring habitat of wet meadow areas and areas of wide, unvegetated river channel.
- Implemented the Central Valley Project Improvement Act's requirements, making all reasonable efforts to double the natural production of six species of anadromous fish. Reclamation is also supplying water to Federal and State refuges and other migratory waterfowl habitats in the Central Valley and mitigating impacts of the Central Valley Project to other fish and wildlife.
- Improved juvenile and adult fish health through the California Trinity River Restoration Program activities. Increasing summer baseflows from 300 cubic feet per second to 450 cubic feet per second has improved temperature characteristics for juvenile steelhead, increasing overall health and reducing mortality.



Reclamation's stewardship of the West's water resources means we also have a major responsibility to the West's fish and wildlife.

### *Future Challenges and Goals*

Recent court decisions in the Pacific Northwest regarding the adequacy of biological opinions issued by the FWS and NOAA-Fisheries will create challenges for compliance with the ESA. Reclamation





seeks to comply with the requirements of the ESA, while protecting local economies and preserving natural resources and ecosystems through the effective use of water.

## **Management Accountability**

### **Managing to Perform Our Mission More Effectively**

At Reclamation, management accountability is an ongoing commitment to improve business processes and customer satisfaction. Reclamation is dedicated to achieving management excellence through increased accountability and is improving program management, performance reporting, and financial accountability through increased leadership, expanded technical expertise, efficient operations, and improved customer service.

For FY 2006, all senior executive service (SES) member performance agreements are tied to Interior's strategic goals, Reclamation's Government Performance and Results Act of 1993 (GPRA) goals, the Presidential Management Agenda (PMA), and building collaboration and partnerships. SES members are evaluated on accomplishing specific performance targets to clearly measure their contribution to organizational goals and mission accomplishment.

Reclamation also implemented a new multilevel performance system in calendar year 2005, in accordance with Interior's new non-SES Performance Management System. All performance plans include GPRA and/or strategic goals, which establish a recognizable link between the employees' plan and Reclamation's mission goals.

### **Getting to Green: President's Management Agenda Scorecards**

Office of Management and Budget (OMB) established an Executive Branch Management Scorecard, updated annually, to monitor department status and progress in attaining PMA goals. The objective of the scorecard is to strengthen agency accountability. Interior adapted this concept and developed its "Getting to Green" Scorecard to monitor the PMA progress of each bureau and office. Reclamation worked toward supporting PMA and mission goals, including improving internal control

*Reclamation's Getting to Green Scorecard Ratings, as of September 30, 2005*

Strategic Management of Human Capital	Green
Expanding E-Government	Green
Competitive Sourcing	Yellow
Budget and Performance Integration	Yellow
Improving Financial Performance	Yellow
Real Property	Green

*Reclamation's Getting to Green Scorecard Ratings, as of September 30, 2006*

Strategic Management of Human Capital	Green
Expanding E-Government	Green
Competitive Sourcing	Yellow
Budget and Performance Integration	Yellow
Improving Financial Performance	Yellow
Real Property	Red

processes by implementing revised OMB Circular A-123, Management's Responsibility for Internal Control. Reclamation ratings for the key areas are presented in the table above. Interior also added three additional scorecards in FY 2006: Transportation Management, Energy Management, and Environmental Stewardship.

***Managing Human Capital to Maintain a Quality Workforce***

As a world leader in developing and managing water resources, Reclamation requires a world-class workforce. Reclamation's highly competent and skilled staff of about 6,000 employees operate and maintain our vast water and power infrastructure; manage and support our technical programs; and address financial, acquisition, information technology, and business management challenges. Under the *Managing for Excellence* initiative, Reclamation is working on evaluating functional areas related to managing issues and challenges, existing infrastructure, and future construction. The outcome of these team initiatives and subsequent decisions by Reclamation management will be the focal point of our workforce and succession planning efforts in the future.

One of the *Managing for Excellence* teams is developing a workforce/succession plan and action plan for meeting the challenges we face in the future. This plan will update the previous versions of the Reclamation Workforce Plan, and Reclamation will update the plan

annually. We still face many of the same challenges we have encountered in managing our workforce and market competition, including:

- Retirement rates are increasing.
- Qualified engineers and scientists are difficult to attract.
- Candidates are less willing to relocate.
- A diverse labor force is difficult to recruit and retain.

Another team is identifying critical positions where we need competencies in collaboration. The team is refining position descriptions to include these competencies and will work with Reclamation's Human Resource offices to ensure that collaborative competencies are a part of each employee and manager's skill set.

Other initiatives to meet with workforce and succession challenges include a Reclamation-wide Outreach and Recruitment Team; Targeted Recruitment Plans for mission-critical occupations, as well as for people with disabilities; and the Student Educational Employment Program and the Federal Career Intern Program. Reclamation currently employs 254 students and 67 Federal career interns.

### ***Expanding E-Government to Facilitate Access to Information and Services***

Federal agencies are enhancing the delivery of IT services; modernizing IT and communications capabilities; and improving IT security, data safeguards, and capital planning results through the adoption and expansion of the electronic government (E-Government) principles and best practices under the PMA. Interior's E-Government "Getting to Green" Scorecard rating incorporates these goals and objectives for FY 2006, and Reclamation received "green" ratings from Interior for its E-Government programs and activities based on the progress made to date. Reclamation actively participated in several Government- and enterprise-wide initiatives to simplify, standardize, and improve infrastructure and communications capabilities (e.g., Enterprise Services Network, Enterprise Messaging System, and Active Directory). These initiatives are designed to improve system interoperability, knowledge sharing, and other operational efficiencies upon completion. Reclamation plans to build on these systems and create opportunities to operate efficiently through technology enhancements and streamlined business practices.

In FY 2006, Reclamation spearheaded and completed Interior's Water Resources Management Framework. Reclamation also initiated the first of several modernization blueprints for dam safety. These blueprints and the framework will continue to leverage existing IT capabilities to their maximum potential and to develop and deploy more efficient and customer-centered IT capabilities and services. Reclamation received high marks for leading in the water resources management area, with opportunities for collaboration and information sharing across Government. Other bureaus and offices within Interior, as well as non-Interior agencies and organizations, are expected to participate in and contribute to the water resources management initiative over the next few years.

Further, Reclamation received “green” scores from Interior for adopting and applying best practices in the areas of IT investment management and IT security. Reclamation continues to build upon these successes and is leading the way in complying with IT investment management practices and standards that the Government Accountability Office (GAO) prescribes. More importantly, Reclamation continues to manage IT investments effectively and has consistently kept cost variances for major IT investments below 10 percent, resulting in high marks from OMB. Reclamation also expects its IT Security Program to continue receiving high marks from Interior for complying with IT security guidance, investing in network and auditing security technologies, developing new techniques to monitor security activities, and supporting training programs to enhance skills of IT security personnel and general users.

### ***Using Competitive Sourcing to Obtain the Best Value***

Competitive sourcing is a tool for use in ensuring that citizens receive the best value from the Government. Competitive sourcing does not mean that functions will always be competitively sourced. Instead, competitive reviews provide a disciplined, periodic way to review and compare our current operations with alternatives: Are we the best we can be? Might a restructuring generate a more efficient organization? Might contracting with a provider free up resources that can be reallocated to other priorities? Some competitive reviews have produced substantial savings. Competitive sourcing involves conducting public-private competitions that compare the performance of a Government organization with that of a private sector or other non-Federal organization. Conducting a public-private competition is a highly structured process to ensure that both the

private and public sectors compete on a level playing field. For example, Reclamation initiated a formal competitive sourcing study of the Centennial Job Corps Center in Nampa, Idaho. We compared a proposed “most efficient organization” restructuring with private-sector options. Our approach produced savings of approximately \$400,000 per year. The “most efficient organization” was implemented, with its second performance year ending June 30, 2006.

Reclamation issued a formal notice announcing four streamlined (65 or fewer full-time equivalents) competitions for all operations at the Job Corp Civilian Conservation Centers (JCCCC) on September 29, 2005. The competitions were completed December 22, 2005. As determined by the cost comparison of the agency performance to the private sector, the most cost-effective source of the required services was continued performance by the Government employees in the most efficient organization. The performance period for these studies is 1 base year with 4 option years. The streamlined studies were conducted by the Competitive Sourcing Program Office, under the Denver Acquisition and Assistance Management Division. The most efficient organizations were implemented at all four centers, effective July 1, 2006.

### ***Integrating Budget and Performance***

Reclamation is building on its efforts to enhance budget and performance integration in line with Interior's initiative. During the quarterly review meeting with Interior, Reclamation's senior leadership provides an up-to-date forecast on meeting its published annual performance targets by the end of the fiscal year. When reaching a performance target may be in question, senior leadership identifies corrective actions that can be taken.

Reclamation also estimates the annual funding level against each end outcome goal during the quarterly reviews. Both Reclamation's budget and performance documents incorporate references to these outcome-oriented goals and measures and to the information used in quarterly reviews with senior leadership. Reclamation uses information compiled during our baseline analysis of several new measures to further develop and support our budget request. In addition to our budget documents, Reclamation publishes performance targets and goals in our operating plan.

Reclamation continues to refine its Activity Based Costing/Management (ABC/M) system. During the 2008 budget formulation's initial stages, Reclamation developed the costs of performance measures, based on project level activities.

Reclamation is reviewing and revising its "costing" capability to the measure level based on Interior's *Strategic Plan*. Specifically, Reclamation will tie program and projects costs to the *Strategic Plan* goals. This will be done by chartering a team that will focus directly on this effort: the Budget Performance Integration Improvement (BPII) Team. The BPII team will be comprised of a cross functional team of managers and program staff. The team will provide recommendations and refinements, goals, performance, and activity based costing measures including per unit costs at the project level for leadership review.

Currently, managers at all levels within Reclamation can extract reports on funding and performance data. Reclamation is improving its reporting capability to support using refined ABC/M data to better estimate marginal funding changes associated with changes in an end-outcome and intermediate performance measure target.

### ***Real Property Asset Management***

With over 77 percent of Interior's constructed assets, Reclamation is a capital-intensive organization which stores, delivers, and generates water and power products and services to a wide sector of the public and has a major stewardship role in managing its infrastructure and supporting assets. In any capital-intensive industry, effective asset maintenance is both a critical activity and a major source of cost for the organization. In addition, Reclamation is faced with a continual aging of its infrastructure, some of which is over 100 years old. The ultimate goal of asset maintenance is to ensure reliable delivery of products and services at the least life-cycle cost. Reclamation's policy is to allocate human, physical, and financial resources for the maintenance of its mission-critical assets to ensure sustained and reliable delivery of water and power to the public, and to serve other authorized project purposes, with emphasis on safety, cost effectiveness, and minimal environmental impact. Reclamation conducts reviews of its facility assets to assess their condition, identify and document problems, and establish corrective actions for any deficiencies.

In FY 2006, Reclamation received a rating of red in real property asset management from Interior due to the lack of accuracy and completeness of its inventory at fiscal year end and the failure to finalize and sign the asset

management plan. Reclamation has made significant progress in addressing Interior's issues with its inventory and anticipates completing the necessary actions by December 7, 2007, to improve its rating to yellow for FY2007. Reclamation will be reporting progress on its inventory activity to Interior on a quarterly basis. The financial records verification and validation project in relation to the asset inventory will be completed by April 30, 2008.

### **Using the Program Assessment Rating Tool**

The Office of Management and Budget's Program Assessment Rating Tool is a systematic process to develop program performance ratings and use that information to make budget decisions. PART is comprised of assessment criteria on program performance and management. Each year, programs comprising approximately 20 percent of an agency's budget must be reviewed using PART, with the goal of reviewing all programs within 5 years. Programs receive a score of up to 100.

#### ***Determining the Rating***

The answers to specific questions in the PART translate into section scores, which are weighted as follows to generate an overall score: program purpose/design, 20 percent; planning, 10 percent; management, 20 percent; and results accountability, 50 percent. PART scores are translated into qualitative ratings based on the ranges shown on page 39. Because overall scores could suggest a false degree of precision, only the overall ratings are made available to the public.

<b>Rating</b>	<b>Range</b>
Effective	85-100
Moderately effective	70-84
Adequate	50-69
Ineffective	0-49

Regardless of the overall score, a rating of "Results Not Demonstrated" is given when programs do not have acceptable long-term and annual performance measures. A program also receives a rating of Results Not Demonstrated when it lacks baselines and performance data to indicate how it has been performing. Program ratings are discussed on the following page.

In FY 2006, the Central Valley Project Improvement Act (CVPIA) and CALFED Bay-Delta programs underwent full PART assessments. Both programs developed performance metrics that will be used to report performance and support ongoing efficiency improvements in the programs. Final recommendations for program improvements will be finalized as part of the FY 2008 President's Budget.

***CVPIA—Adequate***

CVPIA seeks to achieve a reasonable balance among competing demands for use of Central Valley Project water, including the requirements of fish and wildlife and agricultural, municipal and industrial, and power contractors. The act also establishes the Restoration Fund, which is the primary funding resource to accomplish these purposes. Reclamation has primary responsibility for Restoration Fund management and the engineering, operational design, and construction related Program purposes. The FWS has primary responsibility for the biological purposes of the program. In the PART, the program scope is defined as those elements of CVPIA eligible for funding from the Restoration Fund.

***CALFED Bay-Delta—Adequate***

The purpose of the CALFED Bay-Delta Program is to develop and improve water management for beneficial uses of the Bay-Delta system. To achieve this purpose, CALFED comprehensively addresses problems of the Bay-Delta system within each of four resource categories: ecosystem quality, water quality, water supply reliability, and levee system integrity.

The CALFED Bay-Delta Program is a collaborative effort among Federal, State, and local agencies to coordinate and focus limited resources on addressing the four program objectives. The scope of this PART included only the work being accomplished by Reclamation.

Two components of the Water Supply/Management Program also completed work associated with the FY 2006 PART process but did not undergo full PART assessments. The Environmental Mitigation and Protection component of the program completed scoping requirements and draft performance measures, and the Planning and Construction component, originally assessed in FY 2004, continued its work to develop, refine, and populate performance measures in preparation for a reassessment in FY 2007.



In FY 2005, the planning and construction components of Reclamation's Dam Safety, Site Security, and the Water Management/Supply - O&M Programs were assessed by PART.

***Dam Safety—Effective***

The Dam Safety Program ensures that Reclamation water storage facilities do not present unreasonable safety risks to the public, property, and/or the environment. The program monitors and periodically evaluates the physical status of our facilities and, based on the results of those reviews, assesses the risk of any threat to loss of life, property damage, or loss of project benefits. The program then considers options of ameliorating that risk, weighs the cost and benefits, and acts accordingly.

***Site Security—Moderately Effective***

The Security and Anti-Terrorism Program protects Reclamation's dams and related facilities from terrorist attack and other plausible threats. The program's key objective is to reduce security-related risks through a combination of Preparedness, Prevention, Protection, and Response.

***Operations and Maintenance—Adequate***

The Water Management/Supply - O&M Program ensures the O&M of project features to deliver water to irrigators and municipal users and to provide storage to help mitigate flooding (hydropower operations, along with other purposes, but the Hydropower PART assessed that function). This program performs direct physical O&M and other related activities to ensure reliable project operations.

# FY 2006 Performance Measure Highlights



Delivering water for agriculture is one of the uses measured for the Water Delivery Performance Goal.

The Government Performance and Results Act of 1993 requires Federal bureaus to establish performance goals, set annual accomplishment targets, and report annual accomplishments. Reclamation's goals stem from Interior's FY 2003–2008 *Strategic Plan*. All of Reclamation's performance information is now incorporated into Interior's unified strategic and annual plans and reported in Reclamation's Annual Operating Plan. This is found on Reclamation's GPRA Web site at <http://www.usbr.gov/gpra/>. Eight of our goals that best reflect our mission and key accomplishments are highlighted in this annual report.

## Delivering Water

Reclamation has four key goals for delivering water: (1) the Water Delivery Performance Goal, (2) the Facility Reliability Performance Goal, (3) the Increase Water Availability Performance Goal, and (4) the Control Colorado River Salt Performance Goal.

The Water Delivery Performance Goal measures the amount of water releases or diversions from Reclamation-owned and -operated facilities. Water uses include agriculture, municipal and industrial uses, fish and wildlife, and other contracted and authorized purposes. This goal does not include water delivered from district operated works or facilities where Reclamation does not have substantial operational control. In FY 2006, Reclamation delivered approximately 30.8 million acre-feet of water to meet contract obligations and other water resource needs.

Goal:	Annual Target	Annual Accomplishment
Deliver Water		
Acre-feet of water delivered in million acre-feet (MAF)	28.0	30.8

The Facility Reliability Performance Goal measures reliable delivery of water from our facilities. We continue to monitor our dams and associated water facilities using a facility rating system. This system incorporates

operations, maintenance, dam safety, and management criteria to evaluate the facility's reliability. The FY 2006 ratings continue to show that nearly all of Reclamation's facilities are in the fair and good ranges.

<b>Goal:</b>	<b>Annual Target</b>	<b>Annual Accomplishment</b>
<b>Facility Reliability</b>		
Percent of dams with a good to fair reliability rating	94%	98%
Percent of associated features with a good to fair reliability rating	93%	97%

The Increase Water Availability Performance Goal measures the amount of water made available by Reclamation-funded projects with cost-sharing arrangements. Reclamation increased the amount of water available for use by 47,739 acre-feet through completing major phases of rural water distribution projects, water reuse and recycling, and aquifer ground water investigations. Projects were funded through grants, reimbursable agreements, direct pay contracts, and other financial arrangements.

This goal does not measure the actual acre-feet of water delivered by the project each year. Instead, it measures the potential acre-feet of water that could be delivered by the project based on estimated averages found in modeling and project construction agreements.

<b>Goal:</b>	<b>Annual Target</b>	<b>Annual Accomplishment</b>
<b>Increase Water Availability</b>		
Increase in acre-feet of water availability	34,349	47,739

The Control Colorado River Salt Performance Goal measures the tons of salt controlled or prevented from loading into the Colorado River each year. The Colorado River Salinity Control Program's goals are to maintain salinity below the water quality standards set for the Colorado River Basin and to reduce the economic damages of more than \$300 million that occur each year in the Lower Basin. This year, additional salinity control measures funded by Reclamation will prevent about 22,000 tons of salt from entering the Colorado River each year. Reducing the amount of water applied to saline soils is the single most cost-effective salinity

control measure. Reclamation has been able to reduce Colorado River salt control project costs from an average of \$70 per ton removed in the 1980s to an average of \$30 per ton today.

Goal:	Annual Target	Annual Accomplishment
Control Colorado River Salt		
Tons of salt loading eliminated	21,000	22,000

## Generating Hydropower

Reclamation has three key hydropower goals and specific accomplishment activities this year: (1) the Power Production Cost Performance Goal, (2) the Forced Outage Performance Goal, and (3) the Facility Reliability Performance Goal.



Reclamation is successfully meeting its Hydropower Program goals. Grand Coulee Dam and switchyard are part of the hydropower generating system.



<b>Goal:</b>	<b>Annual Target</b>	<b>Estimated Accomplishment</b>
<b>Power Production Cost</b>		
Cost-effective power production	7.15%	≤7.21%

<b>Goal:</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
<b>Forced Outage</b>		
Forced outage factor less than or equal to industry average	2.5%	1.20%

<b>Goal:</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
<b>Facility Reliability Rating—Power</b>		
Percent of hydropower facilities in fair to good condition	96%	100%

Reclamation's Hydropower Program is successfully meeting its benchmarking goals. We compare our forced outage factor against industry performance. This year, our forced outage factor was below the current industry average of 2.5 percent. For our cost measure, this year we started to measure power delivery cost in the present year against a 5-year rolling average. We estimate the accomplishment for this year to be 7.21 percent or below in the 5-year rolling average increase of powerplant production costs, which is in line with our target. In addition, we have also performed all of our scheduled comprehensive facility reviews and have completed an equipment condition assessment for major power train components at each of our hydropower facilities.

Reclamation has established an internal rating system of facility reliability. In 2003, the Hydropower Program established a baseline to determine what percentage of Reclamation facilities ranked in fair to good condition. Since that year, 100 percent of facilities have been rated fair to good.

### **Fiscal Year 2006 Annual Assurance Statement on Internal Control**

The Bureau of Reclamation is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Reclamation has conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The objectives of this assessment were to ensure that:

- Programs achieved their intended results;
- Resources were used consistently with agency mission;
- Resources were protected from waste, fraud, and mismanagement;
- Laws and regulations were followed; and
- Reliable and timely information was maintained, reported, and used for decision-making.

In performing this assessment, Reclamation relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, Office of Inspector General (OIG) and Government Accountability Office (GAO) audits, program evaluations and studies, audits of financial statements, and performance plans and reports.

Based on the results of the evaluation, Reclamation can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, Reclamation conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123, and the Chief Financial Officers Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific financial reports and the related financial statement line items identified by the Department as material to the consolidated Department of the Interior financial reports. Based on the results of this assessment, Reclamation can provide reasonable assurance that its internal control over the specific financial reports and related line items identified by the Department as material to the consolidated Department of the Interior financial reports were suitably designed and operating effectively as of June 30, 2006, and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2006, did not identify any reportable changes in key financial reporting internal controls.

Corrective actions for recommendations related to the material weakness on controls over the implementation of new accounting principle from the FY 2005 audited financial statement have been completed. The existence of the material weakness does not prevent Reclamation from providing reasonable assurance on the effectiveness of its internal control taken as a whole.

I also conclude that Reclamation's information technology systems generally comply with the requirements of the Federal Information Security Management Act (FISMA), and Appendix III of OMB Circular A-130, *Management of Federal Information Resources*.

Further, I conclude that Reclamation substantially complies with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

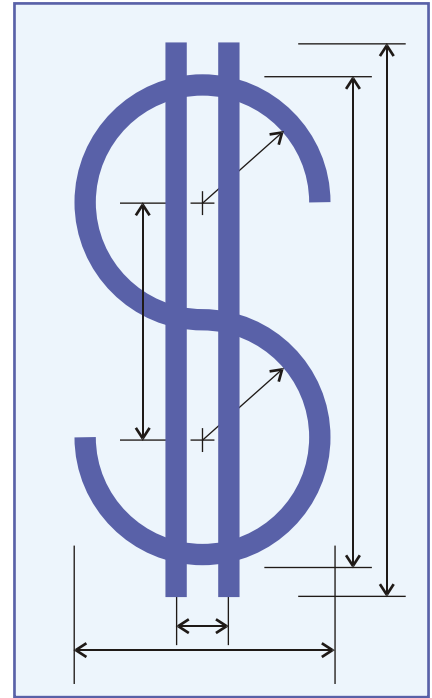
# Financial Analysis

This section provides additional information about the Financial Statements and Notes, including how we have improved financial accountability.

## Financial Statements

Reclamation's management is responsible for ensuring the integrity and objectivity of financial information in our financial statements. The financial statements and supplemental schedules in this year's annual report reflect the financial position and results of our operations and comply with the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994 (GMRA), and 31 U.S.C. 3515(b). The statements' requirements are for a component of the United States Government (OMB Circular A-136, p. 118, section 11.1J). The statements have been prepared from Reclamation's books and records in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the OMB-prescribed formats. Reclamation uses these statements not only for financial reports but also to monitor and control budgetary resources.

The integrity of these statements is supported by our audit results, which an independent, certified public accounting firm conducted under contract with Interior's Office of the Inspector General (OIG). Reclamation achieved an unqualified audit opinion again this year. Unqualified means financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. Since 1995, Reclamation has received unqualified audit opinions on all reports issued, which is a testament to our strong commitment to provide accurate and timely financial information. To ensure that future financial statements achieve unqualified audit opinions, we use internal control efforts, which comply with FFMIA and OMB Circular A-123, "Management's Responsibility for Internal Control." For example, we implemented improved internal controls over financial reporting and resolved an outstanding material weakness. Moreover, we have the discipline and staffing required to produce these audited financial statements, demonstrating that management is dedicated to improving



financial management and complying with applicable laws and regulations. These financial statements allow the Congress, external partners, and the general public to monitor how Reclamation uses the resources the Congress and our partners provide.

Reclamation is committed to improving financial performance to make certain that management receives accurate and timely financial information. We strive for innovation and further improvements to address future challenges and meet the Secretary of the Interior's key business principles of increasing accountability and advancing modernization/integration, as well as the public's increasing demand for better business management practices, improved efficiency, financial transparency, and mission accountability.

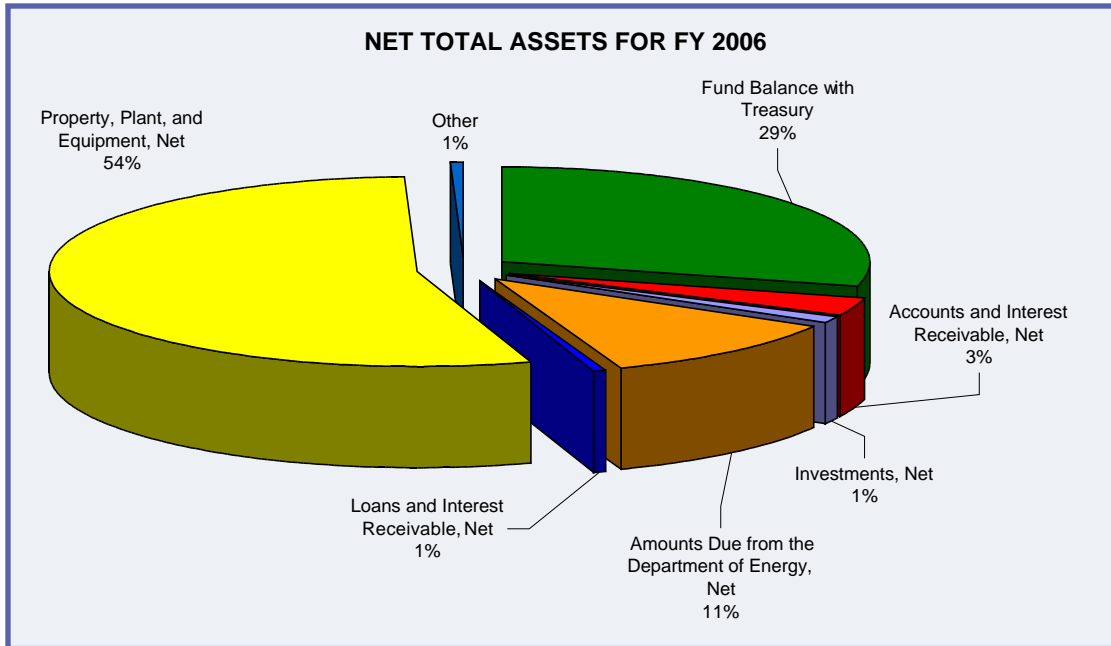
### Consolidated Balance Sheet

**Net Position:** The Balance Sheet displays Assets, Liabilities, and Net Position. Our Net Position increased by \$1.2 billion in FY 2006. This increase is \$605 million less than the Net Position increase in FY 2005.

**Total Assets FY 2006:** Total Asset value is \$24 billion, an increase of \$1.3 billion over the FY 2005 Total Asset value. The table below shows the change by asset type.

Net Change in Assets (In Thousands)			
Type of Asset	FY 2006	FY 2005	Net Change
Fund Balance with Treasury	7,030,401	6,090,731	939,670
Accounts and Interest Receivable, Net	693,325	857,433	(164,108)
Investments, Net	322,045	-	322,045
Amounts Due from the Department of Energy, Net	2,631,887	2,458,075	173,812
Loans and Interest Receivable, Net	157,286	146,468	10,818
Property, Plant, and Equipment, Net	13,071,874	13,015,525	56,349
Other	142,359	199,838	(57,479)
<b>Total</b>	<b>24,049,177</b>	<b>22,768,070</b>	<b>1,281,107</b>





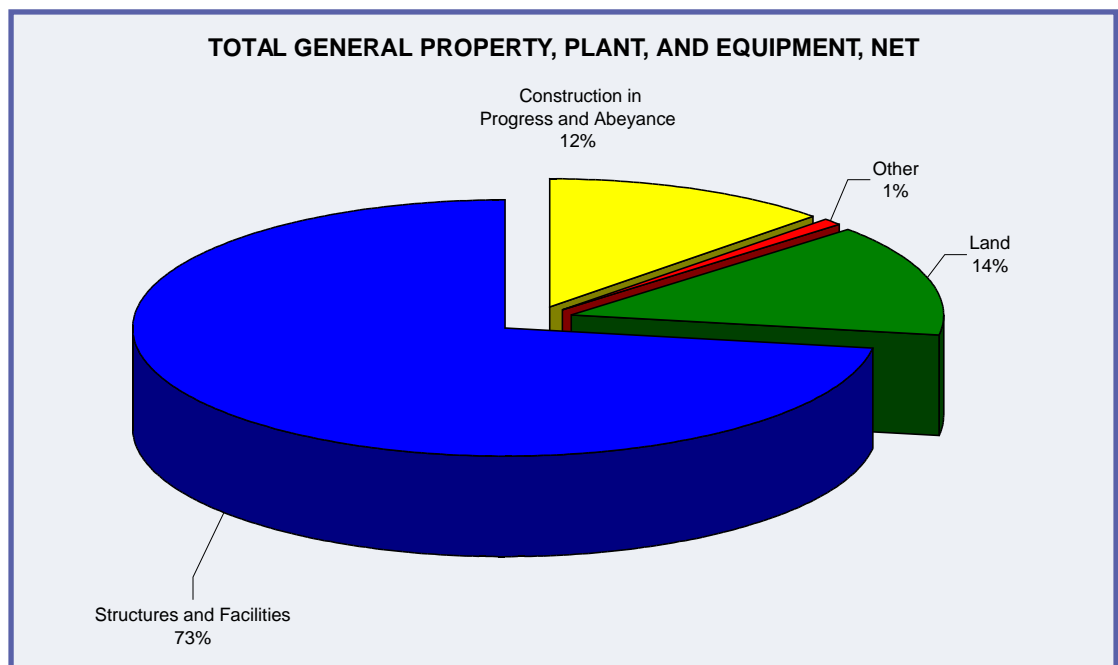
**Fund Balance with Treasury:** The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Fund Balance includes the Reclamation Fund (\$5.7 billion) and other unavailable (restricted) receipt fund balances. The Congress allocates most of our annual appropriations out of the Reclamation Fund. In accordance with Reclamation law, revenues received from our beneficiaries, including irrigation districts, municipalities, and power customers, for the reimbursable features of Reclamation's project costs are returned to the Reclamation Fund. Certain oil and gas and timber royalties are considered accretions to the Reclamation Fund. These funds are deposited into the Reclamation Fund due to legislative requirement and for which no matching costs were incurred by Reclamation.

The change in Fund Balance with Treasury is primarily the result of increased collections attributable to an increase in oil and gas production.

In FY 2006, Reclamation reported \$322 million in Investments for the Lower Colorado River Basin Fund and San Gabriel Restoration Fund. The Investments consist of nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. These securities are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Interest on investments is accrued as it is earned. In FY 2005, no balance for Investments was reported, as the Investments had been redeemed before the reporting date.

**General Property, Plant, and Equipment:** Reclamation’s property, plant, and equipment (PP&E) consists of an extensive infrastructure of dams, powerplants, pumping stations, canals, and other water delivery systems used in Reclamation's day-to-day operations. These assets are reported as General PP&E in accordance with Federal GAAP. Our major PP&E asset categories are: Structures and Facilities, Land, Construction-in-Progress and Abeyance, and Other (i.e., equipment, vehicles, buildings, and internal use software).

Reclamation's PP&E \$13.1 billion balance accounts for approximately 75 percent of Interior's PP&E total reported in its annual report.



**Total Liabilities:** FY 2006 Total Liabilities are \$2.9 billion, a \$99 million increase from FY 2005. Most of the \$99 million increase results from Reclamation recording a liability to the General Fund liability for appropriations Reclamation receives from the General Fund that are expended for reimbursable project purposes. Reclamation is a bureau of the executive branch of the United States Government, a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated until the Congress enacts an appropriation, and ongoing operations are subject to appropriate appropriations. Reclamation's funded liabilities are paid out of funds currently available to Reclamation. Unfunded liabilities consist primarily of environmental and

<b>Net Change in Liabilities (In Thousands)</b>			
<b>Type of Liability</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>Net Change</b>
Accounts Payable	242,877	226,193	16,684
Debt	95,141	96,811	(1,670)
Accrued Employee Benefits and Payroll	69,130	70,343	(1,213)
Advances, Deferred Revenue, and Deposit Funds	502,335	464,070	38,265
Judgment Fund Liability to Treasury	47,950	47,950	-
Resources Payable to Treasury	1,844,710	1,780,970	63,740
Federal Employee Benefits, Actuarial	88,353	88,702	(349)
Environmental and Disposal Liabilities	46,871	35,360	11,511
Contingent Liabilities	962	9,515	(8,553)
Other	3,835	23,130	(19,295)
<b>Total</b>	<b>2,942,164</b>	<b>2,843,044</b>	<b>99,120</b>

legal liabilities to be paid out of funds made available to Reclamation in future years. Funded and unfunded liabilities are discussed in Notes to the Financial Statements.

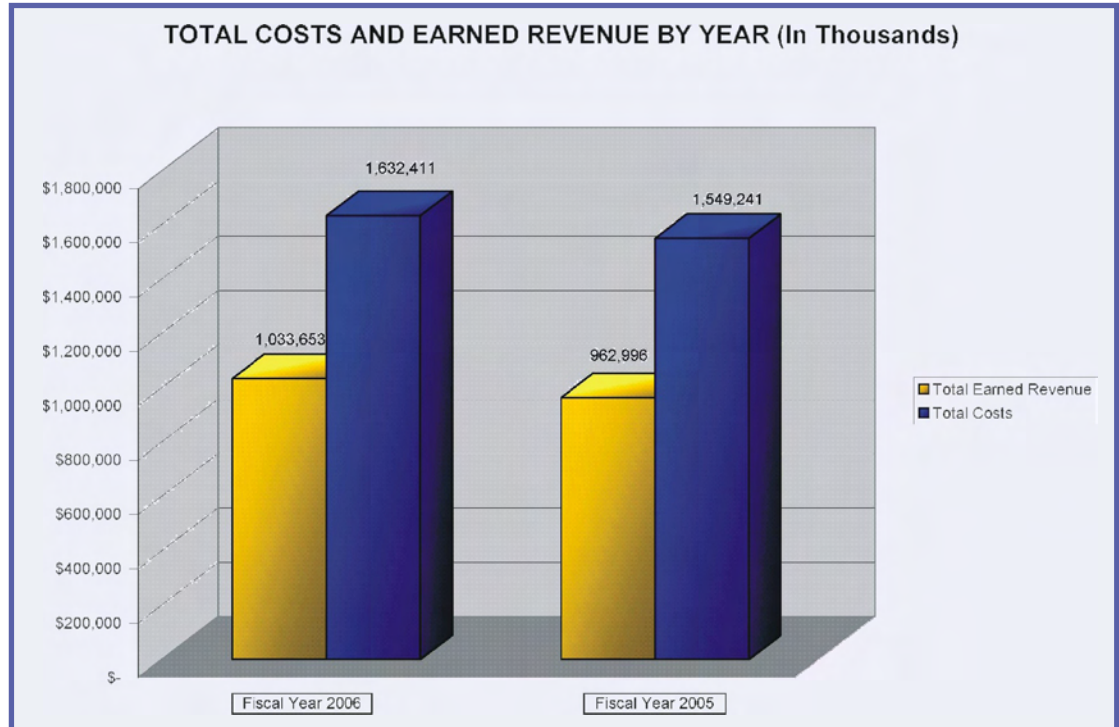
The increase in Advances, Deferred Revenue, and Deposit Funds is a result of increased advances from customers to construct irrigation facilities.

The increase of \$11.5 million in Environmental and Disposal Liabilities is primarily the result of recording additional sites where there is a probable outflow of resources.

### **Consolidated Statement of Net Costs**

**Net Cost of Operations:** Reporting segments in the Consolidated Statements of Net Cost align to Interior's Strategic Plan Mission Goals/End Outcome Goals. Reclamation reports expenses and revenues in three of the four Interior mission goals: Resource Use, Resource Protection, and Recreation. Reclamation does not report on the fourth goal, which is Serving Communities.

In FY 2006, Reclamation reported \$1.3 billion of cost and \$865 million of earned revenues under the Resource Use mission goal. Our key mission activities are reported under this mission goal. This goal includes the costs for providing water and generating hydropower for our customers. It also includes hydropower and water sales revenue, which recovers the Government's costs to produce and deliver water and generate hydropower for our customers.



Centralized Program Support and Other's cost and revenues reflect administrative costs, working capital, and other costs and revenues incurred and earned to support Reclamation's mission goals. The Consolidated Statement of Net Cost displays the net cost of operations, which is the difference between revenues and expenses. Reclamation's total FY 2006 net cost of operations was \$598.8 million, an increase of \$12.5 million from the FY 2005 net cost of operations. A more detailed report, the Consolidating Statement of Net Cost, is in the Notes to the Financial Statements.

**Revenues and Costs:** Reclamation's earned revenues from providing goods or services are reported in the Consolidated Statement of Net Cost. Total FY 2006 earned revenue was \$1 billion, which is \$71 million, or 7 percent greater than was reported in FY 2005. FY 2006 costs were \$1.63 billion compared to \$1.55 billion in FY 2005, a 5-percent increase from FY 2005.

**Combined Statement of Budgetary Resources**

**Budgetary Resources:** The Combined Statement of Budgetary Resources and related disclosures provide information about budgetary resources and their end-of-the-year status. Reclamation's FY 2006 Total Budgetary Resources were \$2.69 billion compared to \$2.49 billion in FY 2005, an increase of \$194.6 million. Reclamation's major budget accounts are

broken down into five categories. Our funding is derived predominantly from three of the five categories: Total Budgetary Authority, Unobligated Balances (i.e., prior year carryforward balances), and Offsetting Collections. Refer to the Combined Statement of Budgetary Resources and the detailed budgetary information in the Supplemental Section for more information.

### Financial Performance Measures

Financial performance measures are used to ensure the integrity of financial information needed for decisionmaking and to measure program

Measure/Indicator	What Does It Measure?	Goals (getting to green)	Reclamation Score (Sept. 2006)
<b>Fund Balance with Treasury</b> Agency fund balances should be equal to the balances recorded by Treasury, except for timing differences.	Identifies the difference between the fund balance reported in Treasury reports and the agency Fund Balance with Treasury.	2% or less of differences unreconciled	<b>0%</b> <b>(100% balanced—no differences)</b>
<b>Suspense Clearing</b> Suspense accounts are used for short-term holding of costs for which accounts cannot immediately be identified. To ensure costs are recorded to the proper accounts in a timely basis, suspense accounts are reviewed and cleared.	The timeliness of clearing and reconciling suspense accounts.	Zero dollars in unsupported transactions greater than 60 days	<b>\$0 in unsupported transactions &gt; 60 days</b>
<b>Delinquent Accounts Receivable from Public</b> The Debt Collection Improvement Act of 1996 requires that all eligible 180+ Days Delinquent Debt be referred to Treasury for cross-servicing.	The percentage of 180+ Days Delinquent Debt referred to Treasury, Financial Management Service over the total dollar amount eligible for referral.	10% or less of delinquent receivables over 180 days old referred	<b>Less than 1%</b>
<b>Electronic Funds Transfers/Payments</b> The Debt Collection Improvement Act of 1996 requires that all payments with few exceptions must be paid using electronic payment technologies.	The percentage of the number of vendor payments paid via electronic means over the total vendor payments made.	96% or more of payments paid via electronic means	<b>99.73%</b>
<b>Invoice Paid On Time</b> The Prompt Payment Act of 1982, as amended, requires interest to be automatically included with payments if paid late (generally 30 days after receipt of invoice) and the interest amount is greater than \$1.00.	The percentage of the number of payments not requiring interest over the total number of payments subject to the Prompt Payment Act of 1982, as amended.	98% or more of invoices paid on time	<b>98.74%</b>
<b>Travel Card Delinquency Rate</b> Charge cards are the personal responsibility of employees to pay on time. The volume of activity and timeliness of payments affect rebates paid to the agency.	The percentage of the dollar amount 61+ days delinquent over the total balance due.	2% or less of balances over 61 days	<b>Less than 1%</b>

and financial performance. Reclamation's scores for financial management metrics, both Government-wide and Interior-specific, consistently exceeded the established goals. The table on page 53 depicts Reclamation's performance on some of the key metrics instituted to measure the financial management health of the Federal Government and to guide financial management reforms and target resources to areas where better stewardship of Federal financial resources is needed.

## **Improper Payments**

Reclamation completed its FY 2006 Improper Payments risk assessment on the Water and Related Resources Program as required by the Improper Payments Information Act of 2002, P.L. 107-300. No major changes in policies, procedures, staffing, or systems implementation, which would pose a high risk of allowing improper payments to occur, were identified within the Acquisitions, Property, or Finance functions. Reclamation certified that there were no major operating changes from the risk assessment performed in FY 2005. Based on the information reviewed, the FY 2006 final risk assessment for the Water and Related Resources Program is low.

## **Internal Controls Over Financial Reporting**

The passage of the Sarbanes-Oxley Act of 2002 served as an impetus for the Federal Government to reevaluate its current policies relating to internal controls over financial reporting and management's related responsibilities. In December 2004, OMB revised Circular No. A-123, "Management's Responsibility for Internal Control," which implements the requirements of the FMFIA. The revised circular is effective for FY 2006 for Interior-level agencies.

Interior has taken a "top down" approach for implementing the requirements of revised OMB Circular No. A-123 requirements. To support Interior's implementation plan, Reclamation developed review plans based on Interior's significant transaction processes, financial statements, and accounts. To assist Interior in implementing revised OMB Circular A-123, Reclamation focused on enhancing internal controls over financial reporting in three main areas: documentation, monitoring, and reporting. Reclamation tested key controls over its financial reporting processes. As a result, Reclamation provided Interior reasonable assurance that internal controls over financial reporting as of June 30, 2006, were operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.