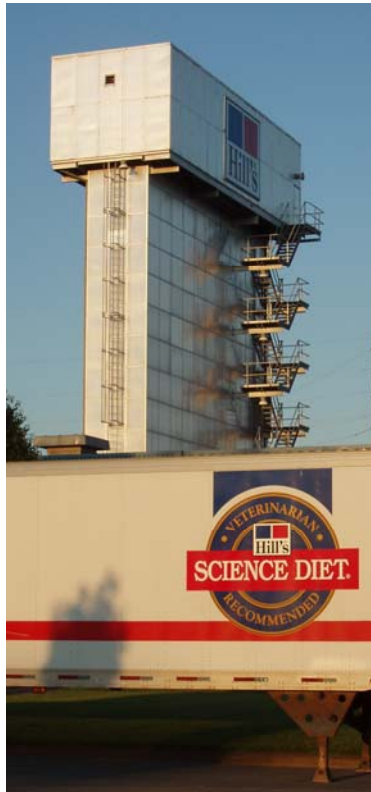


2006 Financial Report



Kansas Programs

Water Marketing Water Assurance

Operated by the Kansas Water Office

Introduction



The *Kansas Water Marketing and Water Assurance Programs 2006 Financial Report* provides a review of the programs' revenues and expenditures for calendar year 2006. This report is prepared for the benefit of the customers of the programs.

The 2006 calendar year Water Marketing Program receipts were able to cover program expenses. This report includes an accounting of receipts and expenditures for the Water Marketing Program.

Thirteen applications were received for Water Marketing program contracts – seven of which were for surplus contracts for irrigation purposes, three were for a combination of municipal and industrial uses, and one was for industrial purposes alone. All surplus water applications were approved and contracts issued; five for 2006; two for 2007.

The Water Assurance Districts assess their members an amount such that the full annual amortized cost to the state of acquisition, operation and maintenance, and administration and enforcement is covered. This report includes an accounting of receipts and expenditures for the Water Assurance Program.

Due to dry conditions throughout the state, releases were made for marketing and assurance purposes in all basins with marketing and assurance lakes. Demand of water marketing customers increased overall, resulting in increased revenues, likely due to dry conditions. The reservoirs proved their worth during the dry conditions of 2006.

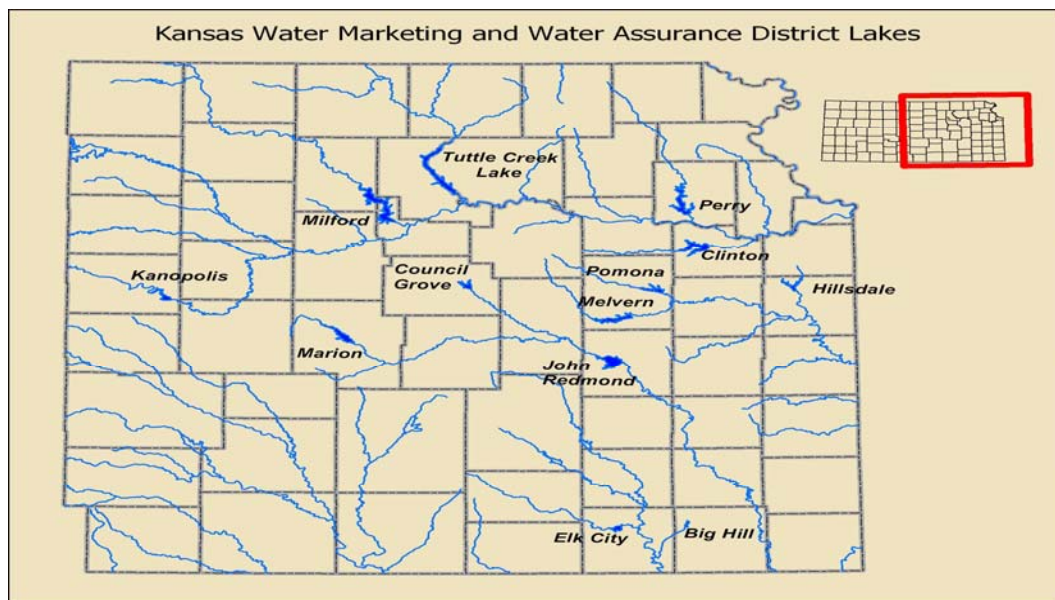
Background

Water Marketing Program



The Water Marketing Program provides water under contract from federal reservoirs to municipal and industrial customers. The program provides up to 40-year contracts for the quantity that is projected to be available in a reservoir during a 1950s' severity drought, with an expected 40 years of sediment. The State Water Plan Storage Act (K.S.A. 82a-1301 et seq.) enacted in 1974 and amended since, establishes the basic framework of the current Water Marketing Program. The basic principles of the Program are:

- ◆ The entire system of reservoirs is treated as one large reservoir for pricing purposes, so that no particular user or region of the state receives preferential treatment in the pricing of water.
- ◆ The State requires payment of water storage costs by the municipal and industrial entities benefiting from that storage.
- ◆ The State retains material and fiscal control of the waters stored in the



reservoirs covered by agreements with the federal government.

- ◆ The State only sells raw (untreated) water to users at the reservoir; the State is not responsible for the delivery or treatment of water.
- ◆ Contract holders must pay a 50% minimum annual payment, but a purchaser may negotiate a graduated minimum “take or pay” schedule.
- ◆ Purchasers must have a state approved water conservation plan prior to approval of a water purchase contract.



Jeffrey Energy Center, St. Mary, Kansas, is an industrial customer of the Kansas Water Marketing Program and a member of the Kansas River Water Assurance District No. 1.



Emporia, population 85,000, buys water through the State of Kansas Water Marketing Program and is a member of the Cottonwood-Neosho River Water Basins Water Assurance District No. 3.

Customers' Water Bills

Water Marketing Program



Water purchased through the Water Marketing Program is paid for at either a capped (fixed) rate or variable rate per 1,000 gallons. Contracts executed before July 1, 1983, carry a fixed rate of 10 cents per 1,000 gallons of raw water. About 85 percent of the Water Marketing Program's revenue is generated from capped contracts.

Contracts executed after July 1, 1983 have a variable rate charge. The variable rate paid by Water Marketing customers in 2006 was computed based on five components:

Components Affecting Variable Rate Contracts
Principal and interest payment on outstanding debt on reservoir storage
Interest on money advanced from the State General Fund for the Water Marketing Program to initially acquire storage space
Administration and enforcement expenses incurred by the Kansas Water Office and the Division of Water Resources
Operation, maintenance, and repair costs to be billed by the U.S. Army Corps of Engineers for costs incurred during 2004
Depreciation Reserve and Conservation Storage Development Fund credited 2.5 cents per 1,000 gallons sold to buy future use water supply storage as needed

Revenue is based on contracted quantities which may not be equal to the water used each calendar year. All contracts require payment for half of the contracted quantity at the beginning of the year. If the amount of water used exceeds half of the contracted quantity, revenue is collected for the actual water used. Thus, the quantity of water that generates revenue for the Water Marketing Program is not necessarily the same as the water used through the Water Marketing Program.

Additionally, some contracts require payment for water diverted under a water right if the contract holder's water right was obtained after the date of the Kansas Water Office's water reservation right associated with the water marketing reservoir, but for no more than the maximum quantity in their contract.

2006 Financial Summary

Water Marketing Program



Revenue. The Kansas Water Marketing Program revenues increased from 2005 to 2006 due to increased demand which was likely due to the drought conditions throughout most of the state. In 2006, customers with capped contracts bought 46.4 million more gallons of water and those with variable rate contracts bought 230.4 million more gallons than in 2005. The increased usage by capped rate contract holders added \$4,600 in revenue while variable rate revenue increased by \$47,000.

The increase in all customers' usage as well as the increase in the rate per 1,000 gallons from \$0.11667 in 2005 to \$0.12289 in 2006 increased the total revenue for the Water Marketing Program.

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

Water Marketing Program Revenue and Expenditures		
Jan. 1 to Dec. 31, 2006		
Revenue		
Capped Contracts (10 cents/1,000 gallons)	\$1,682,794.29	
Variable Rate Contracts (12.289 cents/1,000 gallons)	366,650.87	
Administration and Enforcement from Water Assurance Program	61,711.94	
Repayment of Capital Costs (Marion/Council Grove) from Water Assurance Program	31,122.69	
Total Revenue		\$2,142,279.79
Expenditures		
Payment of Capital Costs	\$1,087,697.66	
Operation and Maintenance (O&M) due (COE)	677,876.01	
Administration and Enforcement (A&E) for the Kansas Water Office and Division of Water Resources	163,176.10	
Total Expenditures		\$1,928,749.77

Background

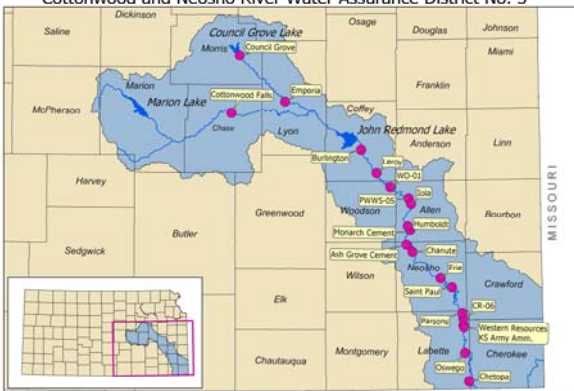
Water Assurance Program



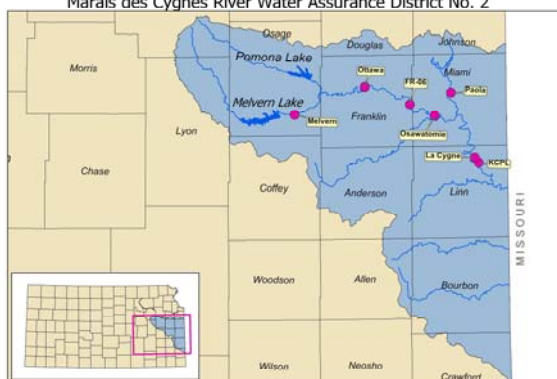
Kansas River Water Assurance District No. 1



Cottonwood and Neosho River Water Assurance District No. 3



Marais des Cygnes River Water Assurance District No. 2



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

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

The key difference between the Water Assurance Program and the Water Marketing Program is that the water assurance districts own the storage in the reservoirs in the particular basin and pay only the costs associated with the principal and interest, operation and maintenance, for those reservoirs, as well as costs of an administration and enforcement dedicated to the program.

Three water assurance districts are operational. They are the Kansas River Water Assurance District No. 1, Marais des Cygnes River Water Assurance District No. 2, and Cottonwood/Neosho River Basins Water Assurance District No. 3. The assurance districts levy an annual charge against district members to cover costs of acquiring, operating and maintaining water supply storage needed to meet the district’s needs.

2006 Financial Summary

Water Assurance Program



Revenue: The amount of revenue collected in 2006 to pay the costs associated with the Water Assurance Program storage, almost \$599,600, exceeded by about \$6,000 the revenue received in 2005. An increase in the interest rates occurred in 2006, providing the interest-earning accounts with slightly more income. Interest earned was \$7,995.39 in 2005 and \$14,036.62 in 2006.

Expenditures: Operation and maintenance costs for the Water Assurance Districts' share of the storage space in the reservoirs increased from \$274,425 in 2005 to \$323,596.78 in 2006.

Administration and enforcement costs also increased for the Assurance Districts in 2006 compared to 2005. Costs were \$61,712 and \$59,338, respectively. The Assurance Districts have signed agreements for a flat fee administration and enforcement cost with a four percent increase each succeeding year.

The Kansas River Assurance District No. 1 and the Cottonwood/Neosho River Basins Water Assurance District No. 3 signed their agreements to take effect July 1, 2002. The Marais des Cygnes River Water Assurance District No. 2 signed their agreement to take effect on July 1, 2004.

Water Assurance District Program Revenue and Expenditures		
Jan. 1 to Dec. 31, 2006		
Revenue		
Customer Revenue	\$585,562.00	
Interest	14,036.62	
Total Revenue		\$599,598.62
Expenditures		
Capital Costs (Principal/Interest)	\$200,253.28	
Operation and Maintenance	323,596.78	
Administration and Enforcement	61,711.94	
Total Expenditures		\$585,562.00

Water Marketing and Water Assurance Programs Looking Ahead



Some significant activities in 2007 will impact both the Marketing and Assurance Programs.

Water Marketing Program: Capital Development and Storage Maintenance Plan

Beginning in 2007, Water Marketing Program expenses will exceed revenue. In 2007, this is due to operation and maintenance costs that are nearly double that of previous years. For 2008 through 2024, this balance inequity will be due to the costs projected for calling additional storage in Hillsdale and Clinton reservoirs into service. Principal and interest and operation and maintenance costs will rise significantly, while most of the contracts remain capped.

One of the components of the water marketing variable rate is known as a depreciation reserve cost. This component is to be used for the purpose of acquisition, development, or maintenance of conservation storage water supply in impoundments deemed necessary to implement the *State Water Plan* (KSA 82a-1315b). While this has been a fixed charge (\$.025), it will be set beginning in 2007 at an amount to meet the needs of the Water Marketing Program Capital Development and Storage Maintenance Plan approved by the Kansas Water Authority. The Plan tries to maintain a balance between having enough storage in service to meet customers' needs, and the time the fixed rate contracts begin to expire.

At its June 2006 meeting, the Kansas Water Authority approved the 2007 rate which included the conservation storage development fund component set at \$.03799. This amount was needed to meet program expenses and to call an increment of storage into service in Hillsdale Reservoir. This was one factor that resulted in the 2007 rate, set by the Kansas Water Authority in June 2006, increasing from \$.12289 to \$.18016 per 1000 gallons.

More variable rate customers would contain the costs for existing customers. It is estimated that variable contracts for just three billion gallons of water in 2008 would drop the variable rate back down to \$.146. Currently the program has applications on file that have been approved for negotiations for more than 10.4 billion gallons of water. While it is highly unlikely that all of that quantity will be approved, it demonstrates that demand on the program remains high. Controlling costs for current and future customers is a high priority of the Kansas Water Office and the Kansas Water Authority.

Water Assurance Program: Renegotiating Operations Agreements and Storage

The Marais des Cygnes River Water Assurance District operations agreement will be reviewed and updated during 2007. Discussions are underway regarding purchase of additional storage for the district, primarily due to a new member, the Marais des Cygnes Public Utility Authority (Louisburg and Paola) which has obtained a water right on the Marais des Cygnes River. Storage will be purchased in both Melvern and Pomona reservoirs from reserve storage owned by the State of Kansas.



Melvorn Reservoir, pictured, along with Pomona Reservoir provides the storage space for water made available to members of the Marais des Cygnes River Water Assurance District No. 2.