MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 1, 1992

To: Board of Directors (Finance and Insurance Committee--Action)
(Engineering and Operations Committee--Action)

From: General Manager

Subject: Authorization for the General Manager to Execute a Contract for Sale of Power from Etiwanda Power Plant

Report

Metropolitan is in the process of constructing the Etiwanda Power Plant located in the City of Rancho Cucamonga, California. The Plant will have an installed capacity of 23.9 megawatts and is estimated to generate approximately 158 million kilowatt-hours per year. The plant will be interconnected with the Southern California Edison Company (Edison) system and is scheduled for initial operation in 1994. In order to assure timely availability of the interconnection facilities and determine the purchasing utility, Metropolitan solicited marketing proposals from 16 publicly and investor-owned utilities in California.

Proposals were received from the cities of Glendale, Riverside, and Vernon; the Department of Water Resources (DWR), the Sacramento Municipal Utility District, Edison, the Pacific Gas and Electric Company (PG&E), and the Big Three Industrial Gas Company. Detailed analyses were performed by staff and Metropolitan's consultant on these proposals with respect to energy payment rates as well as terms and conditions of each offer.

Based on the result of the analysis, Riverside, Vernon, Edison, and PG&E submitted the most competitive offers. Staff met with representatives of each of these four entities to further discuss the respective proposals and the details concerning the Metropolitan's proposed operation of the Etiwanda Power Plant. Concurrently, Edison reevaluated its future electrical capacity requirements and withdrew its original proposal. Among the remaining proposals, PG&E's proposal offers the most favorable terms and conditions to Metropolitan.

Under PG&E's proposal, PG&E would purchase all power generated at the Etiwanda Power Plant from the date of initial operation and would continue this obligation for 20 years. Metropolitan would be responsible for the cost of the facilities required to interconnect the plant to Edison's power system. Our requirements for water deliveries would have priority over power generation in the operation of the plant.

With respect to capacity and energy payment rates, PG&E would pay Metropolitan monthly, using a payment formula which takes into account net energy delivered during the month, contractually specified heat rates whose values are keyed to the delivery of capacity and energy from the Etiwanda Power Plant during the on-peak and off-peak periods for both the spring and non-spring seasons, projected rates for natural gas, capacity generated at the Etiwanda Power Plant, power plant performance, transmission wheeling and scheduling charges, and transmission line losses. The formula is reflective of PG&E's marginal cost of production from gas-fired generation. Based on estimated costs for 1994, the estimated effective melded rate, which reflects transmission wheeling charges and transmission losses as well as scheduling costs, would be approximately 31.1 mills per kilowatt-hour. Assuming annual generation of 158.1 million kilowatt-hours per year, this equates to approximately $4,900,000 per year in revenues.

According to PG&E, it would be necessary for PG&E to enter into an exchange arrangement with DWR in order to use the Etiwanda Power Plant's generation because of existing transmission limitations within both PG&E's and Edison's systems. DWR has confirmed with the Metropolitan that it would receive the Etiwanda power at Edison's Vincent substation and schedule an equivalent amount to PG&E from its northern California resources. Metropolitan would sell its power at the 66 kilovolt bus bar of the Etiwanda Power Plant to PG&E. PG&E and/or DWR would make appropriate arrangements with Edison for the transmission of Etiwanda power from the bus bar to Vincent.

In addition, beginning on the fifth year after entering into the contract, Metropolitan or PG&E could initiate renegotiation of the contract if either party experiences a price or value fluctuation greater than 130 percent against a verifiable alternative. The contract would terminate if renegotiation of the contract does not result in a mutually agreeable successor arrangement within one year after renegotiations begin.

At its June 1988 Board meeting, your Board reviewed and considered the information in the Final Supplemental Environmental Impact Report that was prepared for the Etiwanda facilities projects, including the Etiwanda Power Plant, and certified that the document had been completed in compliance with the California Environmental Quality Act and State guidelines. No further environmental review or documentation is necessary for your Board to act on this request.

Board Committee Assignments

This letter is referred for action to:

The Finance and Insurance Committee because of its authority to study and advise and make recommendations relating to the use of revenues obtained from the sale of power from the Metropolitan's hydroelectric power plants as it pertains the preparation of budgets pursuant to Administrative Code Section 2441 (a); and

The Engineering and Operations Committee because of its authority to study and advise and make recommendations with regard to energy matters in general pursuant to Administrative Code Section 2431 (i).

Recommendation

FINANCE AND INSURANCE COMMITTEE AND ENGINEERING AND OPERATIONS COMMITTEE FOR ACTION.

That the General Manager be authorized to execute a contract with Pacific Gas and Electric Company for the sale of power generated by the Etiwanda Power Plant substantially in accord with the terms outlined in this letter, subject to approval as to form by the General Counsel.

Carl Boronkay

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