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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Revised
8-7**

November 24, 1992

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

From: General Manager

Subject: Payment of 1993 Invoices Under State Water Service Contract

Report

The State Department of Water Resources (DWR) has submitted its Statement of Charges (Invoices) dated June 30, 1992, for payments due during the 1993 calendar year in keeping with provisions of Metropolitan's State Water Service Contract (Contract). The Invoices have been reviewed by Metropolitan and audited by Richardson & Company, Metropolitan's State Water Project auditors.

The Invoices, totaling \$410.4 million (see attached Table 1), are for payments due during calendar year 1993 under State Water Service and Devil Canyon-Castaic contracts. The 1993 Invoices are \$4.6 million more than originally estimated in 1991 and \$19.7 million more than Metropolitan's 1992 Invoices. Factors contributing to this increase between the 1992 and 1993 Invoices are shown on the attached Table 2.

Richardson & Company has issued a detailed report of its audit, entitled "Report on the Audit of the 1993 Statement of Charges." Copies of this report are available for your review in the office of the Executive Secretary.

Metropolitan is contractually required to pay the Invoices but may seek to recover any inappropriate costs. In this regard, certain of the cost allocations and estimates are under active discussion. In particular, a portion of \$14 million in costs for several years of Kern Water Bank design, construction, and operation have been included in Metropolitan's repayment calculations. The repayment of these costs allocated to Metropolitan, is about \$374,000 per year through 2035. It is the opinion of General Counsel that an amendment to the Contract is necessary for valid billing for any costs other than planning and the acquisition of lands approved by your Board in 1987. If, after further discussion with DWR, this charge remains in the Invoice, this item will be protested as an inappropriate cost.

The contractors have disputed certain procedures and assumptions utilized by DWR in calculating past Invoices. DWR has promised that it will issue an extension of time letter, as it has in prior years, which will preserve all the contractors' opportunity to contest the calculations and the charges included in this billing should there be a future dispute over DWR's cost allocation methodology.

Except as previously described, it is the General Manager's opinion that the amounts set forth in the Invoices are fair. Adequate remedies exist for adjustment of the previously described matters, as well as of accounting errors and necessary adjustments of cost allocations. Sufficient funds are available in the 1992-93 budget to cover that portion of the Invoices payable during the 1992-93 fiscal year.

In recommending approval of payments, the Special Committee on Charges and Payments under the State Water Contract, meeting on November 24, 1992, unanimously voted to direct the General Manager to protest the 1993 billing because of the continued inability of the State to deliver contracted entitlements and the failure to make timely acquisition of additional water supplies for the State Water Project. A similar protest was made with regard to the 1992 billing.

Board Committee Assignment

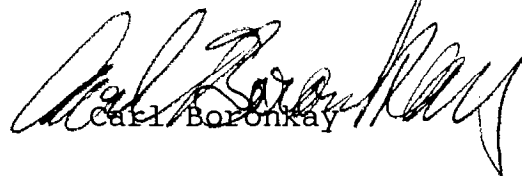
This letter is referred for action to the Finance and Insurance Committee because of its jurisdiction to study and advise in matters concerning the disposition of funds, pursuant to Administrative Code Section 2441(c).

Recommendations

FINANCE AND INSURANCE COMMITTEE FOR ACTION.

It is recommended that the General Manager be authorized to formally protest disputed costs, as appropriate, and to approve and make all payments that he determines to be due and payable under the terms of the State Water Service and Devil Canyon-Castaic contracts for the 1993 calendar year.

It is recommended that for the reasons expressed in this letter, the General Manager be directed to make all such payments under protest.



Carl Boronkay

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Attachments (2)

TABLE 1

STATE WATER SERVICE AND DEVIL CANYON-CASTAIC CONTRACTS
SUMMARY OF INVOICES FOR PAYMENTS DUE DURING CALENDAR YEAR 1993

Delta Water Charge* (Invoice 93-014-T)

Capital Component	\$24,383,168
Minimum OMP&R Component	16,950,411

Transportation Charges (Invoice 93-014-T)

Water System Revenue Bond Surcharge	14,476,079
Capital Component	59,526,423
Minimum OMP&R Component	57,969,624
Variable OMP&R Component **	
West Branch - 1,032,900 AF	48,882,369
East Branch - 978,600 AF	64,372,112
Arvin-Edison - 0 AF	0
Adjustment for pre-1993 charges	(17,125,770)

Off-Aqueduct Power Facilities Charges

(Invoice 93-013-0)	105,108,588
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East Branch Enlargement Charges

(Invoice 93-004-E)

Capital Cost Component	26,197,753
Minimum OMP&R Component	(68,950)

Devil Canyon-Castaic Contract Charges

(Invoice 93-002-DCC)

Debt Service	5,190,778
Operation & Maintenance	4,522,185

Total	<u>\$410,384,770</u>
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* Based on Metropolitan's 1993 Table A entitlement of 2,011,500 acre-feet of water.

** Subject to change depending on actual water deliveries. Amounts shown represent the maximum amount given delivery of full 1993 Table A entitlement. Reduced deliveries will result in lower charges.

TABLE 2

SUMMARY OF FACTORS CONTRIBUTING TO
INCREASES IN BILLINGS FROM 1992 TO 1993

1. Variable Component of the Transportation Charge - an increase of \$7.5 million due to increased scheduled water, an increase of \$38.5 million in costs, a decrease of \$10.2 million for power sales and recovery generation credits, and a decrease of \$17.1 million due to past cost adjustments for a total increase of \$18.7 million

 2. Off-Aqueduct Facilities Charge - \$3.1 million increase in costs, an increase of \$5.0 million due to greater scheduled water deliveries, and a decrease of \$2.8 million due to bond refunding for a total increase of \$5.3 million

 3. East Branch Enlargement costs decreased, because of the effect of the one-time added interest cost of \$5.5 million for 1992 which is not applicable to 1993, an increase of \$2.5 million in debt service due to the issuance of WSRB Series K, and a decrease of \$.4 million in operating costs for a total decrease of . . (\$3.4 million)

 4. Other Increases: Water System Revenue Bond Surcharge - increased by \$3.2 million due to a bond sale and the Delta Water Charge Capital Component - added costs of \$3.6 million combined with a decrease of \$1.2 million due to a reduction in the Project Interest Rate for a total increase of \$5.6 million

 5. Other Decreases: Capital and Minimum Components of the Transportation Charge have decreased by \$1.8 and \$2.1 million respectively. The Minimum Component of the Delta Water Charge decreased by \$1.8 million and the Operations and Maintenance for Devil Canyon-Castaic decreased by \$.8 million. These decreases are a result of a combination of lower costs such as salaries and a decrease in the Project Interest Rate for a total decrease of (\$6.5 million)
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- A total increase of . . . \$19.7 million