

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

October 20, 1993

To: Board of Directors (Finance and Insurance Committee--Information)
From: General Manager
Subject: Preliminary Analysis of the 1994 Statement of Charges

Report

The 1994 Statement of Charges (Statement) under Metropolitan's Water Service Contract with the California Department of Water Resources (DWR) has been received and a preliminary analysis has been completed. A detailed examination is in progress and a summary report will be presented to your Board at your December 1993 meeting.

The 1994 Statement total is \$413,786,060, an increase of \$3.5 million over the 1993 Statement and a decrease of \$40.9 million as compared to an estimate of the 1994 Statement prepared by DWR in 1992 (1994 Estimate).

The Statement is made up of a number of components which, for the purpose of this report, have been summarized into two basic groups: fixed charges, which are not dependent upon the amount of water stored, transported, or delivered during the year; and delivery charges, which are directly affected by the above factors.

Table 1 (attached) compares the fixed and delivery charges for the 1994 and 1993 Statements. The most significant item in this comparison is a \$10.2 million increase in the Transportation Minimum component for 1994. This increase resulted from: (1) a larger-than-normal past costs adjustment in Metropolitan's favor in the 1993 total; and (2) the additional costs resulting from the encasement of Santa Ana Pipeline sections in areas where pipe pre-stressing wire corrosion had been detected.

Table 2 (attached) compares the 1994 Statement with the 1994 Estimate. The most significant item in this comparison is the \$33.8 million decrease in the Variable Operation, Maintenance, Power, & Replacement component of

the Transportation charge. This decrease is primarily due to lowered rates DWR expects to pay for power purchases and an expected increase in quantities and rates for system power sales.

Metropolitan is contractually obligated to pay all valid charges reflected in the Statement and can, and does, later seek adjustment for inaccuracies. However, these amounts can vary significantly with the amounts Metropolitan will actually pay after adjustments and credits, particularly with regard to delivery charges. Projected Transportation Variable charges have been consistently overstated by DWR on the rationale the State water supply contract does not allow DWR to increase the annual Statement once it has been established. To be conservative, DWR has billed for power purchases sufficient to deliver 100 percent of contractors' entitlement water requests even when there is a low probability all such requests can be honored. Overpayments have been returned to Metropolitan within two years of occurrence.

Your Board, on January 12, 1993, approved the execution of a one-year agreement between Metropolitan and DWR under which DWR reduced the variable charges in the 1993 Statement by using less conservative and more probable assumptions and Metropolitan agreed to pay all appropriate costs in excess of the revised amount. This eliminated a potential overcharge of \$48.4 million. The 1994 Statement is again based on the assumption that water deliveries will be 100 percent of entitlement requests. Metropolitan staff is currently working with DWR to secure a five-year Variable Reduction Agreement based on provisions similar to the 1993 agreement.

Metropolitan staff and our State water contract auditors, Richardson & Company, are performing a detailed examination of the data and accounting procedures used by DWR in arriving at the 1994 Statement. The results of this audit will be presented to your Board at your December meeting. At that time, we will be requesting Board approval for the payment of the 1994 Invoices.

Board Committee Assignment

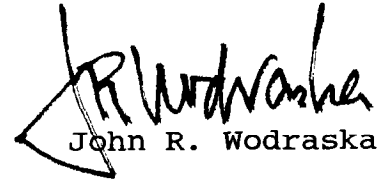
This letter is referred to the Finance and Insurance Committee because of its jurisdiction to study and advise in matters concerning the disposition of funds, pursuant to Administrative Code Section 2441(c).

Recommendation

For information only.

MSV:cl

Attachments



John R. Wodraska

TABLE 1**COMPARISON OF 1993 & 1994 STATEMENTS**
(in millions of dollars)

	1993	1994	DIFFERENCE
	Statement	Statement	increase/(decrease)
FIXED CHARGES			
Delta Water Charge	41.3	40.1	(1.2)
Transportation Capital	79.2	80.1	.9
Transportation Minimum	62.5	72.7	10.2
East Branch Enlargement	26.1	24.1	(2.0)
TOTAL FIXED CHARGES	209.1	217.0	7.9
DELIVERY CHARGES			
Transportation Variable	96.1	92.3	(3.8)
Off-Aqueduct Power Facilities	105.1	104.5	(.6)
TOTAL DELIVERY CHARGES	201.2	196.8	(4.4)
TOTAL SWP CHARGES	\$ 410.3	413.8	3.5

TABLE 2**Comparison of 1994 Estimated vs. Billed SWP Charges
(in millions of dollars)**

	1994 ESTIMATED	1994 BILLED	DIFFERENCE increase/(decrease)
FIXED CHARGES			
Delta Water Charge	42.8	40.1	(2.7)
Transportation Capital	80.7	80.1	(.6)
Transportation Minimum	71.6	72.7	1.1
East Branch Enlargement	26.5	24.1	(2.4)
TOTAL FIXED CHARGES	221.6	217.0	(4.6)
DELIVERY CHARGES			
Transportation Variable	126.1	92.3	(33.8)
Off-Aqueduct Power Facilities	107.0	104.5	(2.5)
TOTAL DELIVERY CHARGES	233.1	196.8	(36.3)
TOTAL SWP CHARGES	\$ 454.7	413.8	(40.9)