



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-3

December 28, 1993

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

From: General Manager

Subject: Five-Year Agreement for Reduction of State Water Project
Variable OMP&R Invoice Unit Rates

Report

In accordance with our State Water Service Contract (Contract), the Department of Water Resources (DWR), on July 1 of each year, provides Metropolitan with a Statement of Charges (Statement) for the following year. The Statement contains estimated unit charges for the Variable Operation, Maintenance, Power, and Replacement (Variable OMP&R) component of the Transportation Charge.

The Contract provides for a single annual Statement and expressly authorizes DWR to collect any increases in actual Variable OMP&R charges only in the years following the increase. In order to protect itself financially, it has become common practice for DWR to estimate the Variable OMP&R charges using assumptions which result in significant overpayments that are adjusted as credits to the contractors in following years. One such assumption is that all contractors will receive delivery of their full entitlement. This assumption results in a significant overestimate of the Variable OMP&R charge.

An agreement has been reached between the DWR and the contractors under which for the next five years DWR will base the unit charges in the Variable OMP&R invoices on a more likely criteria, such as delivery of 75 percent of the contractor entitlement water requests. The agreement provides that DWR after reviewing the actual expenditures at midyear, may if necessary, adjust the estimate upward and modify the remaining invoices accordingly. The total of all invoices for the year, including adjustments, may not exceed the amount DWR would have billed without this agreement. Under this agreement, revised unit rates could reduce the overcharges and subsequent credits by as much as 50 percent and would allow Metropolitan to improve its revenue requirement estimates.

To participate in this Variable OMP&R invoice reduction, Metropolitan must execute an agreement with DWR by January 31, 1994. In January 1993, your Board authorized the execution of a similar agreement to cover only the 1993 Variable OMP&R and that has proved satisfactory. It would appear to be in Metropolitan's best interest to execute this five-year agreement.

Board Committee Assignments

This letter is referred for action to:

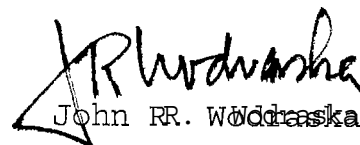
The Finance and Insurance Committee because of its jurisdiction to study and advise in matters concerning the disposition of funds, pursuant to Administrative Code Section 2441(c); and

The Executive Committee because of its jurisdiction to study, advise, and make recommendations with regard to costs and accounting procedures relating to the District's and other State water service contracts, pursuant to Administrative Code Section 2417(i).

Recommendation

THE FINANCE AND INSURANCE AND EXECUTIVE COMMITTEES FOR ACTION

That the General Manager be authorized to execute an agreement, in a form approved by the General Counsel, with the Department of Water Resources for the reduction of State Water Project Variable OMP&R invoice unit rates for the next five **years.**


John R. Wodaska

CRA:cl