

APR 12 1994



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Larry E. Duff
EXECUTIVE SECRETARY

March 23, 1994

To: Board of Directors (Engineering & Operations Committee--Information)
Board of Directors (Finance & Insurance Committee--Information)
From: General Manager
Subject: Hoover Negotiations

Report

In 1987, Metropolitan executed a 30-year Hoover contract (Contract) with the Federal Government providing for Metropolitan's entitlement to 247.5 megawatts of contingent capacity and 1,292 million kilowatt hours (kWh) per year of firm energy. Generation received from the Hoover Power Plant (Hoover), in addition to Metropolitan's Parker Power Plant entitlement, are sufficient to sustain the peak requirements of the Colorado River Aqueduct and import approximately 760,000 acre-feet of water at an equivalent unit cost of approximately \$23 per acre-foot. The balance of the energy required for the system is obtained from the Southern California Edison Company and economy energy purchases.

As reported to your Board by letter dated June 29, 1993, Metropolitan's staff has been working with the other Boulder Canyon Project Contractors (Contractors), Western Area Power Administration (Western), and the United States Bureau of Reclamation (Reclamation) to resolve a number of outstanding administrative problems that impact the rate and operation of Hoover power. These issues and their resolution were incorporated into a draft Boulder Canyon Project Implementation Agreement (Agreement). Due to the litigation discussed below and an investigation by the Inspector General (primarily into the Visitor Facilities cost), active participation in the negotiations were suspended by Reclamation and the Colorado River Commission of Nevada (CRC).

CRC, an approximate 20 percent participant in Hoover, terminated its active participation in the negotiations because two of its subcontractors, which filed a lawsuit against the Department of Energy in the U.S. District Court of Nevada, indicated they would not support the Agreement. The lawsuit challenged the Federal Energy Regulatory Commission's (FERC) approval of the then-current Hoover power rate based upon many of the issues which are resolved in the proposed Agreement. The District Court

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awarded judgment to the Federal Government on all issues except the issue of audit, which was remanded to FERC. The Nevada subcontractors have appealed the District Court decision to the Ninth Circuit Court of Appeals, which appeal is currently pending oral argument.

The Agreement, which contains essentially the same negotiated resolution of issues as appeared in its first draft, is being pursued by the Arizona and California Contractors because they believe negotiation is more likely to yield a favorable resolution of the Hoover issues than litigation. The lack of favorable results achieved to date by the Nevada subcontractors at FERC and in the District Court reinforces this belief. However, the Federal Government has been unwilling to negotiate and execute the Agreement unless all Contractors are signatory. The Arizona and California Contractors have consequently worked with the CRC to resolve differences and develop a mutually agreeable resolution of all issues.

Because of the uncertainty of obtaining a negotiated Agreement, staff and the other Hoover Contractors have continued to urge Reclamation and Western to administratively implement resolution of many of the outstanding issues. Significant progress has been made in this regard as evidenced by the recent February 1, 1994 Hoover rate reduction for Metropolitan of 1.45 mills/kWh, or an equivalent annual savings of approximately \$1.9 million.

Board Committee Assignments

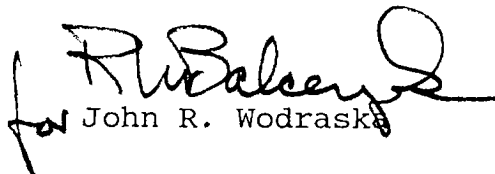
This letter is referred for information to:

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

The Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to disposition of funds pursuant to Administrative Code Section 2441 (c).

Recommendation

For information only.


for John R. Wodraska