APPROVED
by the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

October 17, 1994

To: Board of Directors (Spec. Committee on Energy & Desalination--Action) (Engineering & Operations Committee--Action)

From: General Manager

Subject: Authorize the General Manager to Execute the Boulder Canyon Project Implementation Agreement

Report

In 1987, Metropolitan executed a 30-year Electric Service Contract for the Boulder Canyon Project (Contract) with the Federal Government which provides Metropolitan with an entitlement to 247.5 megawatts of contingent capacity and 1,292 kilowatt-hours (kWh) per year of firm energy from the Hoover Power Plant (Hoover). Generation from Hoover, when combined with Metropolitan's Parker Power Plant entitlement, is sufficient to sustain the annual peak power requirements of the Colorado River Aqueduct and import approximately 760,000 acre-feet (AF) of water at an equivalent unit cost of approximately $23 per AF. The average fiscal year base cost for Hoover is projected to be approximately $61 million of which Metropolitan pays 20.6% or approximately $13 million annually. In addition, there is a 2.5 mills/kWh surcharge on Hoover energy which is used for specific purposes including Colorado River Salinity Control. Collectively Metropolitan pays approximately $16 million annually for Hoover power resulting in an equivalent rate of approximately 13 mills/kWh.

Over the past seven years, administrative problems regarding the Contract have resulted in disagreements among the Western Area Power Administration (Western), the United States Bureau of Reclamation (Reclamation) and the fifteen Hoover Contractors (collectively referred to as Parties and individually as Party). Western is responsible for power marketing and administration of the Contract, and Reclamation is responsible for the operation and maintenance of Hoover. In February 1993, a group was formed to resolve the identified administrative issues. The group consisted of a representative from each Party and the ensuing twenty-one months of negotiations have resulted in the

Boulder Canyon Project Implementation Agreement (Agreement). Shown in the attachment is a brief summary of the issues, the resolution of each issue, and the identified economic impact, if any.

Metropolitan benefits from the resolution of these issues both from an economic standpoint and from an operating standpoint. The terms of the Agreement regarding replacements, increased user fees at the Visitor Facilities, modifications to the working capital calculation and the capacity and energy imbalance produce an estimated net present worth savings to Metropolitan of $8 million. Operational benefits include increased communication between the Federal Government and the Contractors regarding Hoover operation and maintenance, Contractor involvement in the government's planning process for Hoover, and the establishment of a forum to address and resolve any subsequently identified issues. The negotiators for each Party concur with the Agreement and are recommending its execution by their respective governing boards. It is anticipated that all Parties will execute the Agreement as soon as possible.

Recommendation

It is recommended that the General Manager be authorized to execute the Boulder Canyon Project Implementation Agreement substantially in accordance with the terms outlined in this letter and in a form approved by the General Counsel.

John R. Wodraska
General Manager

Submitted by:

Debra C. Man

Debra C. Man
Chief of Planning and Resources

Concur:

Timothy

for John R. Wodraska
General Manager

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Boulder Canyon Project
Implementation Agreement Summary

The Boulder Canyon Project Implementation Agreement (Agreement) is intended to establish and resolve administrative issues arising out of the Electric Service Contracts (Contracts) executed in 1987. A brief discussion of the issues and the major points in the Agreement follows:

a. Replacements: The Contractors understood that all Hoover capital costs would be financed by appropriations from the United States Treasury when the Contracts were executed. However, due to budget constraints and some ambiguity in existing regulations, Reclamation has been expensing the items on an annual basis. The Agreement provides that:

- An accounting record of the amount expensed will be kept and 96% of such amount will be reimbursed in 2017, based on the amount of principal then outstanding.
- The expensed replacement amount will be amortized over 50 years based upon an interest rate established by the Secretary of the Treasury. The interest rate will be the average yield during the previous fiscal year on interest-bearing marketable securities of the United States which have terms of 15 years or more remaining to maturity.
- Western will establish ''enforceable obligations'' to pay the Contractors back in 2017. Such payment will be made over a five year period with interest at prime less 1% calculated on the balance until final payment is received.
- The estimated amount of reimbursement in 2017 is $84 million. Metropolitan's share is approximately $17 million. The present worth value of this amount is estimated at $2.8 million.

b. Visitor Facilities: In testimony to Congress prior to its enactment of the Hoover Power Plant Act of 1984 (Act), Reclamation stated that $32 million (1983 dollars) would be spent on the Hoover Visitor Facilities. This equates to $54 million today including indexing and interest on construction work in progress. The Act authorized $77 million for the Visitor Facilities and the uprating program, which expanded the amount of Hoover generation. Since the Contractors financed the uprating program, Reclamation has interpreted the Act as authorizing the expenditure of $77 million on the Visitor Facilities alone. When indexed to Fiscal Year 1996, this equals $106.4 million. Reclamation's interpretation was unsuccessfully challenged by a power customer in Nevada District Court. Currently the projected cost for the Visitor Facilities is $86 million, plus interest during construction for a total of $118 million. In addition, the Contractor for the facilities has filed a claim against Reclamation for an additional $23 million, which could increase the total cost to a maximum of $141 million. The facilities are expected to be completed by December 1995. Resolution of this issue consists of:

- Reclamation will use best efforts to increase user fees to cover operation, maintenance, replacements, and principal and interest costs.
- Reclamation currently estimates that $6 to $8 million in annual revenue could be collected from the new facilities. The operation and maintenance costs of the Visitor Facilities are projected to be $4 million, resulting in $2 to 4 million annual revenue to partially offset the increased construction costs. The present worth value of this amount to Metropolitan is approximately $5.8 million.

c. Multi-Project Benefits and Costs: The Contract requires Western to integrate the projects on the Colorado River. In such integration, costs and benefits will be incurred, although Western has never established a procedure to allocate such costs. The Agreement provides that, within 10 days of its execution, Western shall provide detailed project cost allocation and benefit procedures to the Contractors.

d. Coordinating Committee: A management committee to oversee the Boulder Canyon Project (Project) will be established. This committee is intended to facilitate the resolution of disputes among the Parties. The committee will:

- Instruct the Engineering and Operating Committee (see below) and provide a mechanism for decision makers to meet annually.
- Review and attempt agreement on criteria, policies and procedures for Project operation, maintenance, marketing and repair.
- Allow for dispute resolution among the Parties prior to invoking the dispute procedure established in the Contract.

e. Engineering and Operating Committee: The Agreement will establish a technical committee to advise Reclamation and Western on operation, maintenance, replacements, financial issues and planning. The committee will:

- Provide liaison among the Parties to review and comment on all aspects of the Project prior to decisions being made.

- Provide recommendations on criteria, policies and procedures for the Project.
- Establish a Ten-Year Operating Plan and the planning process associated with it.

f. Billing and Payment: Billing and payment will be revised to pay annual costs regardless of deliveries. Currently, there is a mismatch of capacity costs and energy costs mainly due to Reclamation's inaccurate projection of energy deliveries. Additionally, Reclamation has been revenue deficient which has required postponement of various programs. Under the new process, Reclamation would be guaranteed an annual revenue stream and the Contractors will have a greater voice in Project expenditures. Resolution of this issue consists of:

- Allowing for annual adjustment of rates based on actual revenue requirements.
- Allowing for shaping of the energy payment based on the projected monthly requests of energy.
- Due to incorrect forecasts of energy since the Contract began, energy and capacity have not each paid fifty percent of the annual revenue requirement. The correction of the prior imbalance for capacity and energy payments is currently estimated to be $14 million. Metropolitan's share results in payment of approximately $1 million over a seven year period, which has an estimated present worth cost to Metropolitan of $0.8 million.

g. Operating Amount and Working Capital: The Parties are establishing an Operating Amount to bridge the time delay between billing and receipt of revenue and to assure sufficiency of funds during the fiscal year. The Operating Amount will include a Working Capital fund. The Agreement provides that:

- The combined for the Operating Amount and Working Capital will be decreased by $2.5 million as a result of the billing changes discussed above. Metropolitan's share of the reduction is $0.5 million which will be returned in fiscal year 1996.
- All amounts in this fund will be returned to the Contractors in fiscal year 2018.

h. Audits: The Contractors wanted the ability to conduct joint audits and perform an initial check of Reclamation's and Western's records to date. Resolution of this issue consists of:

- An initial audit which will be conducted by an independent auditor and completed within nine months of execution of the Agreement. Metropolitan's costs are estimated at $0.2 million. An annual audit will be conducted with an audit scope determined by the Engineering and Operating Committee.

- A joint audit may be conducted by two or more Contractors at their sole expense.

i. Principal Payments: Currently, the Project has $174 million outstanding debt which needs to be repaid to the United States Treasury. Such debt is a combination of original debt from construction of the Project and debt associated with new additions to the Project. The majority of the debt is amortized over 50 years and does not need to be repaid until 2037, 20 years after Metropolitan's Contract terminates. Western was paying the highest interest debt first which resulted in the current Contractors paying debt that ''belongs'' to the future contractors. Consequently, the negotiated resolution provides that principal will be repaid to the Treasury based on a level ''house mortgage'' amortization schedule. Additionally, monthly payments may be made to the Treasury if sufficient funds are available, which will result in the accrual of a lesser amount of interest for the Project.

j. Uprating Credits: The Act authorized construction of the Hoover uprating program and allowed for non-Federal financing of the program. Consequently, the Contractors benefiting from the uprating program (Schedule B Contractors) financed the program through tax-exempt bonds and cash payments, which were made directly to Reclamation. The Contract allows for the Schedule B Contractors to receive credits on their power bills equal to the amount of annual debt service associated with their financing payments. Western is responsible for administration of the uprating credits and just about all Contractors have disagreements with Western's administration. This has been an outstanding issue since execution of the Contract. The Agreement provides that:

- Within 180 days of its execution, detailed procedures and practices will be developed for administering uprating credits.
- A determination will be made regarding the issue of interest on credits which have not been paid due to lack of revenue from insufficient generation at the Project.

Overall, the Agreement provides closure to most of the disputed issues at Hoover. The negotiated terms provide

Metropolitan with a better resolution of the disputed issues than that which could reasonably be anticipated in an administrative or judicial process. This is due to the significant discretion accorded Western and Reclamation in applicable statutes and regulations. The term of the Agreement is until 2022 or as soon as all replacement sums have been reimbursed.