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MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Karen E. Deff
EXECUTIVE SECRETARY

November 25, 1994

To: Board of Directors (Water Problems Committee--Action)
(Finance and Insurance Committee--Action)
(Executive Committee--Action)
(Special Audit Committee--Information)

From: General Manager

Subject: Authorization to Pay 1995 Invoices Under State Water Service
and Devil Canyon-Castaic Contracts

Report

The State Department of Water Resources (DWR) has submitted its Statement of Charges (Invoices) dated June 30, 1994, for payments due during the 1995 calendar year in keeping with provisions of Metropolitan's State Water Service and Devil Canyon-Castaic Contracts (Contracts). The Invoices have been reviewed by Metropolitan and audited by Richardson & Company, Metropolitan's State Water Contract auditors. Although certain of the cost allocations are under active discussion, we are not aware of any charges that should be protested at this time. A summary of the charges is shown on the attached Table 1.

The invoices, totaling \$400.1 million, are \$47.6 million less than originally estimated by DWR in 1993 and \$13.7 million less than Metropolitan's 1994 Invoices. Factors contributing to the decrease between the 1994 and 1995 Invoices are shown on the attached Table 2. Table 3 provides a summary of settled audit findings affecting the 1995 Statement and Table 4 presents a summary of credits, refunds, and adjustments from settled audit findings that result in a net reduction in total payments made by Metropolitan during 1994 and 1995.

Included in the invoices are power costs in the Transportation Variable charges of \$92.8 million based on water deliveries of 100 percent of entitlement requests. As provided by the Five-Year Variable Reduction Agreement, DWR will adjust the variable unit rates contained in the 1995 Invoices to rates based on water deliveries of 75 percent of entitlement requests. The adjusted rates for 1995 will result in a decrease in the 1995 Invoices of approximately \$46 million assuming water deliveries of approximately 1.5 million acre-feet.

In completing its audit, Richardson & Company has issued three reports: (1) a comprehensive report entitled "Report on the Audit of the 1995 Statement of Charges"; (2) a "Summary Report on the Audit of the 1995 Statement of Charges";

and (3) a "Summary Report on Special Projects Related to Charges and Payments Under State Contract". Copies of the summary reports are enclosed and a copy of the comprehensive report will be available for your review in the office of the Executive Secretary.

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.

It is the General Manager's opinion that the amounts set forth in the Invoices are acceptable under the terms of the Contracts. Adequate remedies exist for adjustment of accounting errors as well as necessary adjustments of cost allocations. Sufficient funds are available in the 1994-95 budget to cover that portion of the Invoices payable during the 1994-95 fiscal year.

Recommendation

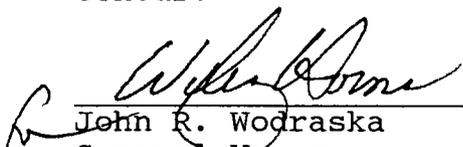
It is recommended that the General Manager be authorized to approve and make all payments he determines to be due and payable under the terms of the State Water Service and Devil Canyon-Castaic contracts for the 1995 calendar year.

John R. Wodraska
General Manager

Submitted by:


Debra C. Man
Chief of Planning and
Resources

Concur:


John R. Wodraska
General Manager

MSV:cl

Attachments

Table 1

**STATE WATER SERVICE AND DEVIL CANYON-CASTAIC CONTRACTS
SUMMARY OF INVOICES FOR PAYMENTS DUE DURING CALENDAR YEAR 1995**

Delta Water Charge* (Inv.#95-014-T)

Capital Component	\$ 22,311,998
Minimum OMP&R Component	22,242,723

Transportation Charge (Inv.#95-014-T)

Water System Revenue Bond Surcharge	17,260,440
Capital Component	62,136,149
Minimum OMP&R Component	57,384,447
Variable OMP&R Component **	
West Branch - 1,032,900 AF	39,796,830
East Branch - 978,600 AF	53,031,944
Arvin-Edison - 0 AF	0
Adjustment for pre-1995 charges	(4,517,204)

Off-Aqueduct Power Facilities Charge (Inv.#95-013-O) 93,718,539

East Branch Enlargement Charge (Inv.#95-004-E)

Capital Cost Component	23,564,389
Minimum OMP&R Component	2,839,696

Devil Canyon-Castaic Contract Charge (Inv.#95-002-DCC)

Debt Service	5,435,342
Operation & Maintenance	4,950,526

Total	\$ <u>400,155,819</u>
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* Based on Metropolitan's 1995 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 1995 Table A entitlement. Reduced deliveries will result in lower charges.

**SUMMARY OF FACTORS CONTRIBUTING TO
INCREASES (DECREASES) IN BILLINGS FROM 1994 TO 1995
(in millions of dollars)**

	<u>Increase (Decrease)</u>
<u>TRANSPORTATION CHARGE - VARIABLE OMP&R</u>	
revised assumptions related to energy purchases	(31.7)
past cost adjustments	0.6
decrease in power sales estimates	26.5
decrease in recovery generation credits	0.6
Net change.....	(4.0)
<u>TRANSPORTATION CHARGE - CAPITAL AND MINIMUM OMP&R</u>	
decrease due to capitalization of control system and other past cost adjustments	(14.9)
increased cost estimates related to extraordinary O&M repair costs, general overhead expenses, and construction of the San Bernardino Tunnel intake	6.1
Net change.....	(8.8)
<u>OFF-AQUEDUCT POWER FACILITIES CHARGE</u>	
decrease in coal and O&M costs for Reid-Gardner	(10.4)
revised water allocation assumptions	(0.4)
Net change.....	(10.8)
<u>EAST BRANCH ENLARGEMENT</u>	
revised cost estimates as construction nears completion and facilities begin operating	1.8
bond issuance for continued construction	1.1
revised estimates of 1994 O&M costs and 1993 debt service costs	(0.6)
Net change.....	2.3
<u>OTHER INCREASES AND DECREASES</u>	
adjustment in Delta Water Charge for past cost refinements and future cost assumptions pending Delta solution and cost escalation	4.5
increase in Water System Revenue Bond Surcharge debt service resulting from bond issuance	3.1
Net change.....	7.6
Net decrease in billings from 1994 to 1995.....	\$ (13.7)

**SUMMARY OF SETTLED AUDIT FINDINGS AFFECTING
THE 1995 STATEMENT OF CHARGES**

	Effect on MWD's 1995 Invoice Increase (Decrease)
Recomputation of variable fish replacement charges	\$ (6,976,000)
Capitalization of control system replacement costs	(6,128,000)
Suspension of historical Water Operations Control Center costs	(497,000)
Correction of error in classifying fiber optic system costs	(473,000)
Correction of error in classifying Replacement costs charged against the replacement fund and minimum and capital components	(396,000)
Correction of error in allocating costs into erroneous reaches	(366,000)
Correction of posting error related to 1983 variable costs	(189,000)
Correction of errors in recording wheeling transaction credits	(178,000)
Correction in recording previously suspended costs and credits	(153,000)
Correction of error in recording 1992 land sale	(35,000)
Correction for Delta Fish Agreement capital costs	(18,000)
Proper recording of USBR payments related to Suisun Marsh	(6,000)
Correction of errors in 1993 water operations data used to calculate the variable charge	9,000
Correction of errors in the allocation of general operating costs	39,000
Correction in recording purchase cost of 1991 Drought Water Bank water	<u>1,287,000</u>
NET EFFECT ON MWD's 1995 INVOICE	\$ <u>(14,080,000)</u>

Table 4

**SUMMARY OF CREDITS, REFUNDS, AND ADJUSTMENTS
FROM SETTLED AUDIT FINDINGS FOR 1994 AND 1995**

1)	Return of excess replacement fund deposits	\$ (48,805,000)
2)	Return of past replacement fund deposits resulting from capitalization of new control system.	(24,166,000)
3)	Return of portion of 1993 debt service costs as a result of bond refunding. Amounts were collected under the East Branch Enlargement and Water System Revenue Bond Surcharge components.	(2,113,000)
4)	Return of excess debt service reserves resulting from two recent bond refundings.	(1,605,000)
5)	Finalization of the purchase price of 1991 and 1992 Drought Water Bank water.	(700,000)
6)	Recomputation of WSRB Surcharge	(638,000)
7)	Reallocation of estimated 1994 Off-Aqueduct costs.	14,000
8)	Reallocation of 1992 Off-Aqueduct costs.	492,000
9)	Recomputation of Off-Aqueduct costs allocated to water wheeling charges.	<u>3,900,000</u>
	NET BENEFIT TO METROPOLITAN	\$ <u>(73,621,000)</u>