



**MWD**

*METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

**Summary Report on Special Projects  
Related to Charges and Payments  
Under State Contract**

**June 30, 1994**

**Richardson & Company**

THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

SUMMARY REPORT ON SPECIAL PROJECTS  
AND PARTICIPATION IN MEETINGS

Scope of the Assignment. The primary service Richardson & Company performs for the Metropolitan Water District of Southern California (Metropolitan) is the audit of the annual Statement of Charges under Metropolitan's Water Service Contract with the State of California Department of Water Resources (Department). In addition to our audit work, we perform a substantial amount of special projects work assisting Metropolitan in investigating financial and accounting matters as requested by Metropolitan's staff in such areas as disputes over Department policy, negotiating contract amendments, and analyzing administrative changes in the Department's management of the State Water Project. We also participate in meetings that serve as a forum for resolving accounting, billing, and budgeting issues, including meetings of the Technical Accounting Committee (TAC), progress meetings with Metropolitan staff, State Water Contractor (SWC) Audit-Finance and Business Information System Committee meetings, and meetings with Metropolitan and Department staff to negotiate changes in the allocation of costs.

Reporting. The more significant findings and results of our audit, special projects work, and participation in meetings are presented in two reports prepared after the completion of our annual audit; a comprehensive report that serves as a working document between the auditors, the Department, and the Metropolitan staff and a summary report that is part of the annual presentation to Metropolitan's Board of Directors. This report is intended to specifically highlight the status and results of special projects and participation in meetings for the period ending June 30, 1994.

### **Special Projects**

The 1994 Special Projects Plan. Each December we present a plan to Metropolitan that highlights the special projects we expect to perform during the next calendar year in addition to the annual audit. In addition, many special projects are in response to Metropolitan's immediate need for financial analyses or information and, therefore, are short-term in nature.

A number of projects related to such areas as disputes over policy or involving significant administrative changes require substantial study and negotiation to resolve and, therefore, are longer-term in nature. The basic outline of the plan for scheduled special projects for 1994 was as follows:

- REPLACEMENT ACCOUNTING SYSTEM
  - Continue to work with DWR to fully implement the new methodology
  - Resolve remaining issues as part of implementation process
  
- INCREMENTAL COST ALLOCATION ISSUES
  - Work with DWR and Metropolitan staff to resolve issues related to excess capacity credits and East Branch Enlargement cost allocations
  
- VARIABLE COMPONENT RECONCILIATION
  - Complete our audit of the recently finalized power cost allocation memorandums for 1983 through 1990
  - Work with the Department to record entries to reconcile the two sets of power accounting records
  
- DROUGHT WATER BANK
  - Finish evaluating the accounting for the 1991 and 1992 Banks and report results to Metropolitan
  - Work with DWR and Metropolitan to finalize the mill rate for pumping Bank water
  
- DEPARTMENT BUDGET REVIEW
  - Participate in the SWC process
  - Provide bi-monthly reviews
  
- BUSINESS INFORMATION SYSTEM (BIS)
  - Participate in the BIS Committee (now the Information Systems Subcommittee)
  - Provide feedback as requested by Metropolitan

- REVIEW AND EVALUATE DWR'S INVOICE PREPARATION PROCESS
  - Participate in SWC subcommittees
  - Assist with the accumulation of data for review
  
- OTHER SPECIAL PROJECTS AS REQUESTED BY METROPOLITAN

### **Replacement Accounting System**

In order to ensure continuing operation of the State Water Project and to spread the high costs of replacing certain pieces of equipment, the Department and the water contractors agreed to establish a sinking fund to provide for the contractors' portion of the cost of replacing significant Project facilities. The deposit amounts collected from the contractors are held by the State Controller on the contractors' behalf. Determining the required replacement fund balance and accounting for deposits, interest income and replacement expenditures on an individual contractor basis were incorporated into the Replacement Accounting System.

Issues regarding the Replacement Accounting System were extensively assessed during TAC and other meetings during the past few years. Changes developed for this system as a result of TAC and other discussions have resulted in a fundamental change in the methodology used to determine each contractor's required fund balance and future deposits. These changes have reduced Metropolitan's 1990 to 1993 billings by more than \$25 million, have resulted in \$24 million and \$47 million cash refunds to Metropolitan in 1993 and 1994, respectively, and will reduce Metropolitan's 1995 billing by \$8 million.

The changes in the required fund balance are based on studies prepared in 1992 using the new methodology, known as Normalized Expense Tracking (NET). The study results indicated that a replacement fund balance ranging from \$20 million to \$60 million would be sufficient to keep the fund from going negative, assuming that future deposits are made at the levels used in the study. To reduce the actual replacement fund balance to this level, the Department suspended all or portions of the deposits included in the contractors' annual billings for the past several years and has refunded part of the fund balance. However, the balance still remained at \$130 million as of December 1993 and we continued to work with Metropolitan and

Department staff to study and resolve the issue of further reducing the fund balance and of lowering the target balance. Related issues recently resolved or presently under review include the following:

- Recently, it was decided through the Technical Accounting Committee that a target balance in the replacement fund of \$20 million to \$40 million would be sufficient for future replacements. Reducing the fund to this level will result in a refund during 1994 to the contractors of approximately \$63 million. Metropolitan's share of this refund will be approximately \$49 million. The contractors would still be required to make deposits at the levels prescribed under the new methodology, however, the balance in the fund would be evaluated each year and any excess would be returned to the contractors. The Department has indicated that they will continue to monitor the fund balance and consider additional reductions if feasible, especially upon repayment of the California Water Fund debt.
- The Department is replacing and updating its control system on a project-wide basis at a total estimated cost of \$75 million (water contractors' share approximately \$70 million). We assisted Metropolitan and Department staff in the evaluation of the long-term and short-term financial impact of capitalizing the control system costs and to determine the amount, if any, that should be refunded. After careful consideration of all the complex aspects of this proposal, all parties involved agreed it was in the best interests of the Department, Metropolitan and the other contractors to capitalize 100% of the costs of replacing and updating the control system instead of collecting it through the replacement accounting system. In 1993 the Department refunded to the contractors approximately \$34 million of minimum deposits that had been accumulated in the replacement fund to replace the control system. Metropolitan's share of this refund was \$24 million. Also, approximately \$11 million in state operations costs related to the control systems that were billed through the transportation and conservation minimum components were capitalized, resulting in a refund through an adjustment to

Metropolitan's 1995 Statement of Charges of approximately \$7 million. An additional \$5 million, collected in 1993 for the control system, will be refunded as part of the plan to reduce the replacement fund balance and is included in the \$49 million refund described on page 4.

Approximately \$58 million of the replacement fund excess is attributable to conservation and Oroville power facility replacements. The Department has stated in the past that no portion of these amounts could be refunded due to restrictions related to Oroville Revenue Bonds or because these funds cannot be identified by contractor since they were collected through the Delta Water Charge. However, the Department determined that it can legally return the portion related to Oroville facilities, which represents \$35 million and is included in the \$63 million refund previously described. The remaining \$23 million excess relates to conservation facilities and will remain in the fund until such time as loans to the agricultural contractors from the replacement fund are repaid and the Department develops an acceptable method for allocating these excess funds to individual contractors. We will continue working with Metropolitan and Department staff to determine what amount of the \$23 million should be refunded and the methodology for allocating the refund among contractors.

Determine the consistency of the Operations and Maintenance (O&M) Division's replacement program with the intent of the replacement accounting system and how the O&M Division's program compares to the cost estimates used to determine the required level of the replacement fund. A recent study performed by O&M indicates the estimate costs to replace impellers is approximately \$6.2 million less than the cost estimate used in the NET methodology to develop the target balances and the annual deposits. The study of rewinds is expected to be completed soon. Reductions in the estimates for replacement items could support a lower target balance or possibly lower annual replacement deposits. We will continue to work with the Department on the issue of cost estimates used in the NET methodology.

- Evaluate the need to fund for the future replacement of the control system after the current replacement is completed.
- We have worked with the Department on the implementation of the new NET methodology. Since NET computes only a maximum balance level for the fund in total, procedures were needed for handling contractor balances that fall below zero, or some minimum level, to ensure that certain contractors are not funding other contractors' shortfall even though the balance in total is acceptable. We have worked with the Department to ensure that any excess in Metropolitan's share of the replacement fund is returned on an annual basis. Metropolitan's excess as of December 31, 1993 is included in the \$49 million refund described on page 4.

### **Variable Component Reconciliation**

Since 1982, the State Water Project Analysis Office (SWPAO) has maintained a separate set of records for energy and transmission costs. Energy and transmission costs recorded in the system used by the accounting department to prepare the Statement of Charges are manually adjusted to equal SWPAO records without reconciling the two systems. In past years we noted errors were made in the contractor's statements of charges as a result of manually adjusting the bills that have resulted in refunds to Metropolitan totaling \$7 million. The Department again found it necessary to manually adjust the cost accounting system to prepare the 1995 bills. Our audit of the 1995 Statement of Charges indicates that Metropolitan's minimum component is understated \$3,668,000 and the variable component is overstated \$1,001,000 due to the weaknesses in the procedures for billing energy costs. We have continued to work with the Department the past few years to see that the entries needed to correct the accounting system were made prior to the preparation of the bills, which significantly reduced the extent of errors in the 1993 and 1994 bills.

The Department has made some progress in making permanent entries in the accounting system but has not yet completed its reconciliations of the two systems and correction of the data in the accounting system. We will continue to work with the Department to see that the

remainder of these entries are permanently made in the accounting system prior to the implementation of the new Business Information System.

In October 1992, the Department issued Final Power Allocation memos summarizing energy costs incurred during the year by category and by pumping plant for 1983 through 1990 energy costs and sales. These memos were used to calculate the variable and minimum power charges beginning with the 1994 bills. We have audited these final memos in conjunction with our testing of the 1994 Statement of Charges. Our auditing was focused toward the allocation of power related to special transactions and significant changes from the Preliminary Power Allocation Memos we previously audited. The results of our audit are as follows:

Peaking Water: A procedural paper finalizing the methodology on the allocation of charges for peaking service water was issued and was utilized in the Final Power Allocation Memos. Peaking service water charges may be incurred when monthly entitlement water deliveries exceed their maximum allowable monthly entitlement water delivery amount and are billed directly to the contractor receiving delivery. We noted that the treatment of peaking service water in the Final Power Allocation Memos was determined in accordance with these procedures, which resulted in a reduction of variable costs billed for entitlement water deliveries of approximately \$509,000 for 1983 through 1990. The effect on Metropolitan was a reduction of the 1994 transportation variable component by approximately \$407,000.

Kern River Intertie: During the years of 1983, 1984 and 1986, the State Water Project received inflows from the Kern River Intertie, which subsequently resulted in a reduction of variable costs billed to the contractors for entitlement water due to the Intertie being downstream from the H.O. Banks and Dos Amigos Pumping Plants. The cost reduction was reflected as if the water had been pumped from the upstream entry point of H.O. Banks. This change resulted in a shifting of \$620,000 of costs upstream and a cost savings to Metropolitan of approximately \$124,000, which was reflected in the 1994 transportation variable component. We further noted that the 1986 intertie water savings of approximately \$66,000 had not been reallocated upstream, resulting in an overstatement of approximately \$13,000 in Metropolitan's charges.

Value of Recovery Generation: Our testing of the value of recovery generation (VORG) at power plants disclosed an overstatement of VORG at Devil Canyon and Warner Power Plants for 1985 of \$27,000 and the overstatement of VORG at San Luis Pumping Generation Plant for 1984 of \$62,000. The effect of these errors on Metropolitan's 1995 Statement of Charges is an overstatement to the variable component of \$30,000 and an understatement to the minimum component and the Delta Water Charge of \$5,000 and \$16,000, respectively.

1985 Devil Canyon Recovery Generation: In order to avoid affecting the water contractors' energy charges for the 43,472 acre-feet of water released in the aqueduct by the Los Angeles Department of Water and Power in 1985, the Department reduced the cost of energy at Devil Canyon Powerplant for the amount of energy needed to pump the water through Pearblossom Pumping Plant. The computation appears to be fair and equitable to the parties involved. We did note however, that the recovery generation credits in excess of pumping costs, totaling approximately \$526,000 were not allocated to the contractors because the distribution of this excess has not been settled. We believe this excess recovery generation should be credited directly to Devil Canyon Powerplant just as the other recovery generation credits instead of being allocated on a statewide basis. We will continue to work with the Department to see that the allocation of the excess recovery generation credits is resolved equitably. Metropolitan's share of this credit would be approximately \$510,000.

Final allocations of power costs have not been completed for 1991, 1992 or 1993 primarily because of the complexities associated with the delivery of Drought Water Bank water. We will continue to monitor the progress of the issuance of these Final Power Allocation Memos.

### **Drought Water Bank**

Drought conditions have had a significant impact on the State Water Project over the past several years. Early in 1991 the Governor directed the Department to establish a Drought Water Bank in response to critical water needs throughout the State. The Drought Water Bank was in operation during 1991 and 1992. We have worked closely with Metropolitan's

representatives to monitor Metropolitan's participation in the 1991 and 1992 Water Banks, the accounting for Water Bank revenues and expenses and the propriety of charges to Metropolitan for Water Bank water.

We previously audited the Department's preliminary accounting for the 1991 Drought Water Bank. However, the accounting has not been finalized due to the disputes regarding purchased water, which have been turned over to the Attorney General's office for litigation. It is uncertain when the disputes will be resolved and the Water Bank accounting finalized. In October of 1993 the Department returned \$6 per acre-foot to the water purchasers based upon an estimate of the resolution of the disputes, which results in a rate of \$169 per acre-foot to purchase the water. Metropolitan's refund totaled \$1,290,000. We are currently in the process of reviewing the Department's updated analysis of 1991 Drought Water Bank costs to determine if additional refunds can be anticipated, although a final calculation will not be performed until the litigation is settled.

The cost of pumping Water Bank water was estimated at 40 mills per kilowatt. The Department has subsequently determined that the actual melded Project energy rate for 1991 was 41.73 mills. As a result, Metropolitan may be billed an additional \$1.6 million for wheeling Water Bank water. The propriety of the 41.73 mill rate, the application of San Luis usage charges and other issues related to wheeling Water Bank water are presently being reviewed by Metropolitan and Department staff. We are assisting with this review.

We have performed some preliminary testing of the 1992 Drought Water Bank. The Department has not yet finalized the actual cost of the water, which was purchased at \$72 per acre-foot. In August 1993, the Department refunded \$4 per acre-foot for this water, bringing the cost of the water, excluding the pumping charges, to \$68 per acre-foot. Metropolitan's credit totaled \$40,000. We are currently reviewing the Department's analysis of costs, which is expected to be finalized in 1994.

We will continue to work with Metropolitan's representatives on Water Bank issues and report the findings of our audit of the 1991 and 1992 Banks after the Department has finalized its accounting.

### **Incremental Cost Allocation Issues**

The methodology used by the Department to allocate costs to the East Branch Enlargement currently under construction and the modification to correct the basic capacity differences must still be considered an interim or temporary approach since SWPAO is currently in the process of revising these allocations.

As a result of several formal and informal meetings with Metropolitan and Department representatives, we assisted Metropolitan in preparing a memorandum describing East Branch Enlargement and excess capacity incremental cost allocation issues. This memorandum was presented to the Department, and they indicated that consideration will be given to Metropolitan's concerns while developing the revised East Branch Enlargement allocation methodology. Regular meetings have been held with the Department during the past two years to discuss the Department's approach to determining a reasonable allocation methodology. The Department is currently laying the groundwork that will serve as the basis for performing the detailed allocation computations. The Department anticipates finalizing the allocation methodology in 1995. The Department's proposal on the allocation methodology is expected to be available during the fall of 1994, at which time the Department plans to discuss the allocation methodology with all East Branch contractors. We will continue to work with Metropolitan to monitor the Department's progress in developing the new methodology. Due to the complexity of the East Branch Enlargement and the large costs involved, we believe that joint participation in the allocation methodology is necessary in order to assure that the final allocation methodology is fair and equitable to all parties involved.

### **Department Budget Review**

State Water Contractor Process. We participated with Metropolitan and State Water Contractor (SWC) representatives in budget review meetings with the Department to discuss the Department's 1994-95 budget, researched issues that arose during the meetings, assisted in the

preparation of the budget review comments for the SWC's letter to the Department, and updated the computer spreadsheet analysis compiled from Department budget documents providing a 10-year summary of budget information and history in a concise manner. This spreadsheet was used by Metropolitan and SWC representatives during the budget review process to analyze changes in the budget from previous years.

As a result of our participation in the budget review process, the following items were noted:

- The Department should provide the SWC at least annually with a summary of total projected costs and actual costs to date for all large construction projects such as the North and South Delta Facilities, H.O. Banks Pumping Plant, Los Banos Grandes, East Branch Enlargement, Coastal Branch, Water Operations Center and Kern Water Bank. The Department has indicated this information will be provided in the future.

Bi-monthly Reviews. As an interim solution to providing Metropolitan representatives with ongoing budget information until the Department's new business information system is in place, we prepared reports on a bi-monthly basis that track the Department's revisions to the fiscal year 1992-93 and 1993-94 budget. In addition, using the Department's bi-monthly Program Status Reports, we prepared analyses comparing budget to actual expenditures. This information was used to monitor the Department's budget during the year.

### **Business Information System**

Many of the errors we continue to find in Metropolitan's annual Statements of Charges are due in part to the problems caused by using a business information system that is outdated and was designed prior to the Off-Aqueduct, WSRB and East Branch Enlargement Amendments. These Amendments have had a major impact on the Department's billing and accounting procedures. In addition, the present system does not effectively tie together the budgeting, expenditure and billing processes. The Department recognizes the need to update and improve its business information processes by developing a new, fully-integrated system. As a result, the Business Information System (BIS) Development Group was created to design and install a new system.

The initial study phases of the project, including preparation of a business analysis, a functional needs analysis and a report to the State Office of Information Technology (OIT) explaining why the Department could not use the State's regular accounting system known as CALSTARS, was completed during 1988 and 1989. The Feasibility Study Report (FSR) was approved by OIT during 1991 at which time the Department began the process modeling, application development and data modeling phases of the project. The Department's Business Information Systems Development Group consists of four application development teams and the Data Base Design and Administration team. The Department has divided the BIS project into 63 modules. Some of these modules are in the designing, developing and prototyping phase while others are in the testing phase. As of June 30, 1994, the Department estimates it will spend \$3.6 million on the BIS. The total estimated cost of the project is \$10.2 million, compared to \$8.7 million originally projected in the FSR. The Department plans to have all modules in production by the end of 1996.

The Cost Allocation and Repayment Analysis System, which is used in the preparation of the Statements of Charges, including future projections, is approximately 74% complete and is expected to be 100% complete by September 1995. The project consists of 60 modules, 43 of which are completed.

Metropolitan and other contractors are monitoring and providing input to the project through a Subcommittee of the SWC organization. The SWC Information System (IS) Subcommittee has met regularly for the past three years and has used the services of a consulting firm to prepare a contractors needs analysis, review the FSR and monitor the progress of the BIS Development Group. We assisted the SWC IS Subcommittee and its consultants in preparing a report highlighting the reporting requirements from the BIS to meet the needs of SWC managers and SWC auditors. We have attended regular meetings of the SWC IS Subcommittee with the Department to discuss contractor reporting requirements, including meetings of a BIS work group formed in 1992 to discuss reporting requirements in detail.

We will continue to work with Metropolitan representatives to provide input to this important project and to seek timely implementation.

## **Billing Assumptions and Forecasts**

The SWC formed the Invoice Review Subcommittee to review the information going into the development of the annual Statement of Charges, in particular the cost estimates included in the Delta Water Charge. In the past year we have continued to provide input and assist Metropolitan on this Subcommittee by preparing a memo describing the procedures for developing cost estimates utilized by the Department in preparing the bills, and by preparing summaries of future planning, general operating and capital costs included in contractor billings. We will continue to assist Metropolitan in evaluating billing assumptions and identifying other areas where costs may be challenged.

## **Other Special Projects**

Water System Revenue Bond (WSRB) Surcharge. The WSRB Amendment calls for the Surcharge to consist of total debt service on WSR Bonds issued since March 1987 and used to finance Project improvements, reduced by the amount of capital costs and interest already recovered under the Delta Water Charge and Transportation Capital Components. We continue to work with the Department on addressing the following issues:

- Allocations of bond proceeds have been made using subjective criteria. We found that prior year allocations continue to be revised and changed, which has resulted in prior year surcharge amounts being in error.
- We determined that there was an inconsistency in the application of the recreation Project purpose split between two components of the Surcharge computation. The error resulted in the overstatement of Metropolitan's Surcharge in 1990 through 1993, by a total of \$538,000. The Department used the corrected amounts in the 1994 and 1995 Statement of Charges and plans to issue refunds to correct for these prior year errors.
- We have also noted that costs were excluded from the computation of the 1992 Surcharge, which results in an overstatement of Metropolitan's 1992 Surcharge of approximately \$100,000.

No adjustments to prior years' charges have been made for any of the previously mentioned issues because the Department believes the Amendment does not allow for adjustments. We are concerned about the lack of any adjustment or correction of prior year errors or changes in estimates. We will work with Department and Metropolitan representatives to develop a methodology for recording prior year adjustments.

The Department is considering issuing variable rate bonds to retire commercial paper instead of long-term fixed rate bonds. If the Department issued variable rate bonds, they would estimate interest rates to compute the WSRB Surcharge component of the annual statement of charges, which would require an adjustment the following year as actual interest costs are known. We will work with the Department to ensure the proper implementation of this process.

Variable Unit Rates. Future estimates of variable costs have been significantly overstated because the Department assumes the water contractors will receive 100 percent of their entitlement water requests. This assumption is not realistic because of such factors as legal pumping restrictions at the Delta, possible insufficient water supply and size limitations of State Water Project facilities. At the request of the water contractors, the Department revised the 1993 variable unit rates to assume delivery of only 75 percent of entitlement water requests, after all contractors signed a letter agreement that would allow the Department to increase variable unit rates if the revised bills proved to be too low in hindsight. Metropolitan has now negotiated a five-year agreement, covering 1994 through 1998, whereby the Department would revise its July 1 unit charges based on 100 percent deliveries to unit charges based on the projected delivery of 75 percent of entitlement water requests and a mid-year adjustment would be made to increase or decrease unit rates such that the Department's actual and projected power costs will be recovered on a current basis. This agreement will ensure that the Department has sufficient revenue to effectively operate the Project without unduly burdening the contractors with unrealistic billings and will protect the position that the Department should only bill based upon estimated water deliveries.

Adjustment of System Revenues: Metropolitan staff raised questions regarding approaches to adjust the Department's system revenues upon the repayment of the California Water Fund in 1998. The concern is that these funds may be appropriated by the State Legislature for other water-related uses. We prepared analyses and provided a memorandum to Metropolitan that addressed how much the Project Interest Rate could be reduced in order to eliminate extra system revenues, the impact on the Project Interest Rate of including the zero percent California Water Fund advances to the State Water Project in the computation of the Project Interest Rate, and other alternatives for adjusting system revenues. We will continue to assist Metropolitan in addressing issues related to the Department's system revenues.

Project Interest Rate. During 1994 the Department issued approximately \$2,000,000 of General Obligation Bonds to finance Davis-Grunsky projects. As a result, the Project Interest Rate increased from 4.620% to 4.621%. Our audit of the revised Project Interest Rate determined it had been properly computed.

Other. We also performed the following additional special assignments at the request of Metropolitan's staff:

- Researched, discussed with Metropolitan and Department staff, and analyzed 1991 Drought Water Bank wheeling charges, including issues concerning the 41.73 mill rate, off-aqueduct computations and San Luis usage charges. Assisted Metropolitan staff with their analysis of the Department's study of 1991 energy costs and obtained data needed to run the energy model developed by Metropolitan's consultants.
- Analyzed the effect of the Oroville Bond refunding on the pricing of energy at the Oroville facilities and the Delta Water Charge. Reviewed and provided feedback on a memo prepared by Metropolitan staff discussing the refunding of Oroville bonds.
- Assisted Metropolitan in evaluating the Department's proposed methodology for computing a melded energy rate.

- Researched and prepared analyses regarding financing of the Department's control system replacement, including discussions with Department personnel.
- Researched, prepared analyses and discussed with Department and Metropolitan staff issues related to financial relief for agricultural contractors.
- Reviewed the list of State Water Project energy issues developed by Metropolitan staff and prepared comments.
- Computed the impact of the 1993 bond refunding on the 1994 Statement of Charges.
- Verified the Department's calculation of the revised Project Interest Rate for 1994.
- Assisted with the analysis of the 1994 Statement of Charges for the letter to Metropolitan's Board.
- Followed up on costs of the Kern Water Bank to determine that the contractors are not billed for projected design and construction of the Bank.
- Analyzed the Department's methodology for allocating Devil Canyon Powerplant 2nd Afterbay construction costs to the variable component charges.
- Evaluated the Department's proposal to include extra pipeline capacity on the Coastal Branch to ensure pumping of all deliveries during off-peak periods and to charge the incremental cost of the excess capacity to all contractors through the variable component charges.
- Analyzed the Department's new methodology for collecting fish replacement costs and evaluated the Department's billing of costs associated with the Delta Fish Agreement.
- Researched status of and costs associated with the interim Project Operations Center site.

- Investigated issues raised by Metropolitan staff regarding the Department's tracking of certain water deliveries and transfers, including Metropolitan's agreement with Semitropic for storage of 1992 carryover water.
- Researched work orders related to the Department's Information Systems Services Office costs and how they are charged to the contractors.
- Accumulated information on projected versus actual mill rates for 1982 through 1994 used in the Delta Water Charge.
- Accumulated costs of the Vista Del Lago Visitor Facility and determined how those costs are billed to the contractors, including costs associated with the treatment plant, access road and freeway overpass.
- Obtained operating cost information by type, by location and by year included in the computation of the Delta Water Charge, including direct O&M, energy minimum charges, general operating costs and replacements.
- Researched the treatment of Santa Ana Pipeline repair costs as a capital cost versus an annual operating cost.
- Reviewed list of protested items prepared by the State Water Contractors and provided information and recommendations to Metropolitan staff.
- Researched increase in May estimate of the 1995 Delta Water Rate minimum component.
- Obtained for Metropolitan and reviewed the Department's memo outlining the criteria to be used in the preparation of the 1995 Statement of Charges.

- Obtained and reviewed the report issued by Ernst & Young on their audit of the State Water Project. Discussed the issue of the interest calculations in the Delta Water Charge with Department personnel.
- Researched various issues related to the review of the Department's budget.
- Researched and responded to questions raised related to the 1978 and 1982 Exchange Water Agreements and audited the payments and credits issued under the agreement.
- Obtained supporting documentation for refunds returned to Metropolitan and other contractors.
- Analyzed changes in the 1994 variable component between the May estimate and the 1994 Statement of Charges issued in July 1993.
- Followed up on credit memo related to SMIF interest charges on Devil Canyon construction costs.
- Obtained various Department technical drawings and reports for Metropolitan personnel.
- Obtained 1993 SMIF interest rates for Metropolitan personnel.
- Obtained the Department's financial reports for analysis by Metropolitan staff.
- Obtained Water System Revenue Bond Series M official statement.

### **Participation in Meetings**

Technical Accounting Committee (TAC) Meetings. TAC is chaired by the Department's Chief of Fiscal Services and includes members of his staff, representatives from SWPAO and representatives from the audit firms representing Metropolitan and the other contractors. TAC provides a forum for resolving issues affecting the Department's accounting, billing and

budgeting procedures and systems. Issues regarding the Replacement Accounting System were some of the more significant matters discussed during TAC meetings in the past year.

Monthly Meetings with Metropolitan. We meet on a monthly basis with Metropolitan's staff to apprise Metropolitan of the current status of issues that are part of our special work, to formulate Metropolitan's position on issues or methodologies, and to discuss current State Water Project issues facing Metropolitan. These meetings are a forum whereby we maintain close contact with Metropolitan's staff to ensure that Metropolitan's concerns are being met and to address matters that may require immediate action.

Audit-Finance Committee. We represent Metropolitan at the quarterly State Water Contractors (SWC) Audit-Finance Committee, which is also attended by representatives from SWC, Metropolitan, other water contractors and the Department. The meetings are designed to provide updates from the Department of financial matters and cost estimate changes. The Committee also receives reports from other committees, such as the Technical Accounting Committee and the Information System Subcommittee. Our participation in these committees is discussed in other sections of this report.

Other Meetings. We are also called upon to participate in special meetings as the need arises. Such meetings that we attended over the past year include the following:

- Attendance at Metropolitan's November 1993 Finance and Insurance Committee related to the discussion of the 1994 Statement of Charges.
- Participated in meetings with Metropolitan's Power Contracts Branch personnel regarding State Water Project power issues.
- SWC Energy Committee meeting to discuss the Department's methodology for computing melded energy rates by plant.

- Meeting with Metropolitan consultants and Department representatives related to the energy model prepared by the consultants.
- Meetings with the Department's Controller to discuss the early refunding of Oroville bonds, Reid Gardner issues and control system capitalization.
- SWC Energy Committee meeting to discuss the Department's proposal to construct excess capacity on the Coastal Branch to reduce the need for peaking energy and the Department's agreement to pump Vallejo permit water on the State Water Project.
- Meeting with Metropolitan to discuss water delivery issues.
- SWC Protest Item Committee meeting to discuss the protested items list and develop a plan for resolving the issues.
- SWC O&M Committee meetings to discuss replacement accounting issues.
- Meeting with Metropolitan representatives to discuss issues related to changing the Department's system revenues.
- Meetings with the Department's Deputy Controller to discuss Department financing issues.
- Meeting with Metropolitan and other SWC regarding interruptible entitlement water.