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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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EXECUTIVE SECRETARY

December 20, 1994

(Finance & Insurance Committee--Action)
(Ad Hoc Committee on Energy & Desalination--Action)
To: Board of Directors (Engineering & Operations Committee--Action)

From: General Manager

Subject: Authorize the General Manager to Enter Into a Letter Agreement With the California Department of Water Resources Setting Forth the Unit Rate For Power Sales From Metropolitan's Phase I Hydroelectric Power Plants

Report

Metropolitan sells the power generated by the Phase I Hydroelectric Power Plants (Greg Avenue, Lake Mathews, Foothill Feeder, San Dimas and Yorba Linda) to the California Department of Water Resources (DWR) in accordance with the District-State Hydroelectric Power Sale Contract (Contract) dated January 9, 1978. Under the terms of the Contract, effective in 1983, and every six years thereafter, Metropolitan and DWR are to establish a new unit rate for power based on the then-existing market conditions. Such rate is adjusted for the subsequent five years of the six-year period by an index agreed to by the Parties. Accordingly, Metropolitan and DWR entered into an agreement dated January 10, 1989, which established the following unit rates, in mills per kilowatthour (kWh), based on the then existing market conditions:

	Unit Rate (mills/kWh)
1989	40.00
1990	41.20
1991	42.44
1992	43.71
1993	45.02
1994	46.37

In accordance with the Contract, the staffs of DWR and Metropolitan have been meeting to discuss the appropriate unit rate and index for the next six-year period from January 1, 1995 to December 31, 2000. The power market was surveyed to determine the current rate for long term transactions. It was found that the current market is not as favorable for sellers as it was when the previous six-year period began in 1989. Due to mainly decreased demands, there is an excess of generation available and the proposed deregulation of power rates by the California Public Utilities Commission could drive the price for power down even lower. As an example, Metropolitan is currently purchasing energy on the non-firm energy market for 15 to 20 mills/kWh and short-term firm generation could be purchased for 30 to 35 mills/kWh. Recently executed long-term firm agreements are approximately 40 mills in 1995.

The staffs of DWR and Metropolitan have agreed that based on the existing market conditions and the uncertainty in the future, the appropriate unit rate and index to incorporate in an agreement for the next six-year period beginning January 1, 1995 should be 40 mills/kWh escalated at 1.5% annually. The beginning rate is reflective of the current market conditions. The escalation factor equates to maintaining a fixed capacity component of approximately 20 mills/kWh and applying an approximate annual 3% escalation rate on the equivalent fuel component embedded in the overall rate. This escalation rate is comparable to recent forecasts, including the California Energy Commission forecast.

Under the terms of the Contract, at the conclusion of the next six-year period, Metropolitan and DWR will again develop a new unit rate and index based on the then-existing market conditions affecting the State Water Project.

California Environmental Quality Act

This action is not subject to the California Environmental Quality Act because this action can have no adverse effect on the environment.

Recommendation

It is recommended that the General Manager be authorized to execute the Agreement setting forth the unit rate for power sales from Metropolitan's Phase I Hydroelectric Power Plants 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:

JR Wodraska

John R. Wodraska
General Manager

DAL:hah

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