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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

R. E. Deff
EXECUTIVE SECRETARY

February 21, 1995

To: Board of Directors (Committee on Legislation--Action)
From: General Manager
Subject: Oppose Federal Legislation on Privatization of the Federal Power Marketing Administrations

Report

On January 4, 1995, Representative Scott L. Klug (R-Wisconsin) introduced H.R. 310 which was referred to the Committee on Resources. The bill, cited as the Federal Power Administration Privatization Act of 1995, directs the Secretary of Energy to sell the physical assets and terminate the operations of the Federal Power Marketing Administrations (PMAs). The proceeds from the sale will be credited as miscellaneous receipts in the United States Treasury.

Metropolitan purchases hydroelectric generation produced by the Hoover Power Plant from Western Area Power Administration, one of the largest PMAs, under a contract which expires on September 30, 2017. Together Hoover and Parker Power Plants meet approximately 60% of the energy and 100% of the power capacity requirements for operation of the Colorado River Aqueduct. Should the bill be passed in its current form, it is uncertain what impact will result to these resources presently available to Metropolitan. Under a worst case scenario, it is estimated that replacement of these resources would cost Metropolitan upwards of \$100 million per year, and would most certainly result in litigation.

The contemplated sale of the PMAs involves consideration of a number of complex issues which are not adequately addressed by the proposed legislation. The following issues need to be addressed:

- How will the PMA assets be sold? The entire system, pieces of the system, or just contractual rights?

- Will existing purchasers be extended a preference in bidding on the assets, and if so, based upon current contract entitlements or some other formula?
- Since public entities currently enjoy preferential rights for purchase of PMA power, will they be given similar rights in the sale of the assets or purchase of power produced by the assets once sold?
- How will existing PMA contracts continue to be honored after the sale of the PMAs?
- If PMAs are sold, how will their customers be given protection from significant rate increases?
- Since most PMA power is produced by hydroelectric generation, who will have authority to determine the timing and magnitude of water releases which provide the generation?
- Most PMA power contracts provide that the power rate base include the cost of project debt. Will the legislation be amended to dedicate proceeds from sale of the project assets to retirement of the debt? If not, what will be the impact on repayment obligations?
- What, if any, effect will the PMA sale have on Indian, Mexican and Canadian treaty water rights?

Parties supporting opposition to this legislation include, but are not limited to, the American Public Power Association, National Rural Electric Cooperative Association, Colorado River Energy Distributors' Association, Irrigation and Electrical Districts Association, Arkansas River Power Authority, Iowa Association of Municipal Utilities, Oregon Electric Cooperative Association, Breckenridge Utilities, Wisconsin Electric Cooperative Association, Florida Electric Cooperatives Association, Southeastern Federal Power Customers, the Los Angeles Department of Water and Power, Sacramento Municipal Utility District, and the Southern California Public Power Authority.

Recommendation

It is recommended that your Board oppose H.R. 310.

John R. Wodraska
General Manager

Submitted by:



Debra C. Man
Chief, Planning and Resources

Concur:



John R. Wodraska
General Manager

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