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

41551

AUG 22 1995

EXECUTIVE SECRETARY

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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August 1, 1995

To: Board of Directors (Committee on Legislation – Action)
(Finance and Insurance Committee – Information)
(Engineering and Operation Committee – Information)

From: General Manager

Subject: Sale of the Power Marketing Administrations

RECOMMENDATION:

It is recommended that: (1) Metropolitan protect its entitlement to the Hoover power plant and the Parker power plant to the extent of acquiring an interest in these resources if such action would provide a long-term power supply at the most cost-effective price; (2) the Board support the introduction and enactment of legislation which is consistent with this recommendation; and (3) staff be directed to take steps to implement this recommendation.

John R. Wodraska
General Manager

Submitted by:

Debra C. Man, Chief
Planning and Resources

Concur:

John R. Wodraska
General Manager

DAL:DM

dalpmabd/board

EXECUTIVE SUMMARY:

In attempting to streamline government and reduce the Federal deficit Congress has introduced legislation and is entertaining proposals to acquire various Federal assets. Specifically, legislation has been introduced addressing the sale of the Power Marketing Administrations (PMAs) and associated power generation assets. The sale of Hoover power plant and Parker power plant would have a direct effect on Metropolitan's contracts with the Western Area Power Administration (Western) and the Secretary of Interior for Colorado River Aqueduct power. To avoid significant cost increases, it would be beneficial for Metropolitan to work with existing customers for acquisition of some type of possessory interest in the energy assets.

DETAILED REPORT:

For operation of the Colorado River Aqueduct, Metropolitan has contracted with the Western Area Power Administration for purchase of hydroelectric power produced by the Hoover power plant and the Parker power plant. These contracts may be affected by various bills recently introduced which mandate sale of the Power Marketing Administrations (PMAs) and its assets, such as the referenced power plants. H.R. 310, introduced by Representative Scott L. Klug (R-Wisconsin), directs the Secretary of Energy to sell the physical assets and terminate the operations of the PMAs. Your Board last March authorized an "oppose" position on this bill. H.R. 1122 , the "Alaska Power Administration Sale Act" introduced by Rep. Don Young (R-Alaska), would sell the two Federal projects in the Alaska PMA to existing customers at the present value of outstanding debt due the United States Treasury. H.R. 1801, the "Federal Power Asset Privatization Act of 1995" was introduced by Rep. Mark Foley (R-Florida). It directs the Secretary of Energy to take such steps as necessary to sell all electric power generation facilities and transmission facilities that are currently owned and operated by Federal departments and agencies under the supervision of, or coordinated with, the PMAs. H.R. 1801 also states that the Secretary shall obtain the highest possible price for such facilities, including the value of future tax revenues. H.R. 1993 introduced by Representative Todd Tiahrt (R-Kansas) directs the sale of all federal power generation and transmission facilities except those marketed by Bonneville Power Administration to the highest bidder, which shall be determined with consideration to future tax revenues. Although legislation which directs sale of PMA assets to the highest bidder requires that existing contracts be honored, rates would be permitted to increase up to 10% per year.

In addition, the Clinton Administration has announced its intent to streamline the Department of Energy by, among other things, selling the PMAs. The Administration proposes sale of PMA assets to existing customers, although no sponsor has yet introduced legislation in support of the Administration's proposal. Given such bipartisan interest in disposal of PMA assets, it strongly appears that some legislative action will be taken in this area.

The Conference Report (Report) on the budget reconciliation bill requires the Department of Energy to sell or otherwise transfer out of the federal government $7.8 billion in assets over a seven year period. The Report for fiscal year 1996 assumes net mandatory savings from energy assets sales of $2.6 billion. Although the Report does not require the sale of the

PMAs in FY96, it noted that "the entire unspecified energy asset savings could be achieved by the sale of the PMA assets."

Staff is participating in the numerous customer groups which have been formed to address the proposed sale of the PMAs. Of greatest concern to Metropolitan is the sale of the Hoover power plant and Parker power plant. Metropolitan has purchased generation from Hoover since 1938 under long-term, firm contracts. The current contract will expire on September 30, 2017 and provides for payment at cost-based rates, currently $11.27/megawatthour, versus market-based rates which are considerably higher. Metropolitan has received generation from Parker since 1952. Although Metropolitan paid for and constructed the dam and power plant, the United States retained title to the facilities. However, Metropolitan enjoys contract rights in perpetuity to 50% of the generation output from the power plant at cost-based rates. The current rate at Parker is $1.67/megawatthour, which is probably among the least expensive power in the United States today.

In fiscal year 1994-95, Metropolitan's Colorado River Aqueduct power requirements of 100% capacity and 64% energy were obtained from Hoover and Parker power plants. Additionally, the long term firm contract Metropolitan negotiated with Western for Hoover generation is an integral part of the contractual relationship between Metropolitan and Southern California Edison (Edison). A delicate balance of various power services was reached with Edison during the re-negotiation of the Hoover contract in 1987; the PMA sale of Hoover would likely jeopardize this balance. The net result to Metropolitan of all of the foregoing could reach as high as $100 million annually.

Metropolitan would benefit most from acquisition of its proportionate share of the resources, as this would best achieve Metropolitan's goals of customer control and cost containment. Alternatively, proposals for lease of the assets are also being discussed, where most of the lease payments are accelerated at the beginning of the lease, to provide needed revenue to the U.S. Treasury. Staff has been working with existing power plant customers on development of such proposals, with payment to the federal government based upon present value of outstanding debt due the United States Treasury. According to documentation received from Western, for Hoover this is approximately $145 million, of which Metropolitan's share is $29.9 million (20.6125%). An additional $200 million is owed to the Schedule B Contractors, who financed the Uprating program which expanded the power plant. Metropolitan's total acquisition cost for Hoover would be approximately $71.1 million, if Congress agrees to accept present value of outstanding debt as the basis for sale of the PMA assets. The outstanding debt due the United States Treasury for the generation portion of the Parker-Davis Project is approximately $5 million. Metropolitan has already paid its share of this amount and does not anticipate having to pay any additional sums.

Staff believes that if the PMAs are not sold this year, they likely will be sold next year. Additionally, it is believed that the earlier a deal is negotiated, the more favorable it will be to the customers. The worst case scenario is that the facilities are sold to an investor-owned utility at the highest bid (Tucson Electric Power has already bid $9 billion for the Phoenix area assets), and the debt service associated with the bidding price is included in our rates to the extent of a 10% per year rate increase. Metropolitan currently pays approximately $16 million annually for Hoover and Parker generation. A 10% per year increase would be approximately $1.6 million in the first year, approximately $1.8 million in the second year, approximately $1.9 million in the third year, etc.