

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

OCT 10 1995



MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Baron E. Wolf
EXECUTIVE SECRETARY

September 22, 1995

To: Board of Directors (Legal and Claims Committee--Action)
(Finance and Insurance Committee--Action)
(Water Planning and Resources Committee --Action)
(Committee on Legislation --Action)

From: General Manager and General Counsel

Subject: Authorization to Expend up to \$500,000 for the Protection of Metropolitan's
Power Interests

RECOMMENDATION:

It is recommended that the Board of Directors authorize the expenditure of up to \$500,000 from the contingency contained in the Annual Budget Appropriation for the preservation and protection of Metropolitan's power entitlements and interests.

John R. Wodraska
General Manager

Submitted by:

Debra C Man

Debra C. Man, Chief
Planning and Resources

N. Gregory Taylor

N. Gregory Taylor
General Counsel

Concur:

John R. Wodraska

John R. Wodraska
General Manager

for

AF:hah
pmabdaf/board

EXECUTIVE SUMMARY:

This letter seeks your Board's authorization of expenditures up to \$500,000 to fund the hiring of law firms and a consultant to protect Metropolitan's continued entitlement under existing contracts to power produced at Hoover and Parker power plants and to provide specialized expertise to the General Manager and the General Counsel on this issue and in other areas in the rapidly changing electric utility industry. It is recommended that such expenditures be debited to the contingency fund contained in the Annual Budget Appropriation.

DETAILED REPORT:

For operation of the Colorado River Aqueduct (CRA) , Metropolitan has contracts with federal agencies for purchase of hydroelectric power generated at power plants located on the Colorado River. As we have previously advised your Board, these contracts may be affected by various bills pending in Congress which mandate sale of power marketing administration (PMA) and other federally owned power-related assets. If the pending bills were enacted and Metropolitan was required to replace power obtained under the existing contracts at current market rates, it is estimated that Metropolitan's net increased cost would be \$100 million annually, which could increase Metropolitan's water rates by an estimated \$50/acre foot.

Based upon the foregoing, your Board authorized the General Manager to take such action as is necessary to protect Metropolitan's interests in Hoover and Parker power plants. Metropolitan has therefore joined with other lower Colorado River power contractors in a legislative proposal for the right to acquire an interest in the respective power facilities, in exchange for payment to the federal government of the debt associated with such facilities.

In addition to the proposed sale of federal power-related assets, other major issues are currently facing the electric utility industry. Of particular interest to Metropolitan is a proposed regulation by the Federal Energy Regulatory Commission on open transmission access, and the California Public Utility Commission's proposal for deregulation of the electric utility industry. Both developments, which are revolutionary and very complex may significantly impact Metropolitan's power operations.

To assist in these areas, the General Counsel has retained the Washington, D.C. law firm of Duncan, Weinberg, Miller & Pembroke. This firm has extensive experience in energy law, particularly as it affects public entities. Additionally, the General Counsel is working with the law firm of O'Melveny & Myers on finance issues that may arise from a PMA acquisition. Further, the General Manager is seeking a contract with a consulting firm with power resource management skills in these areas to augment and support the efforts. Cumulatively, an amount of \$500,000 in expenditures (\$300,000 legal and \$200,000 technical) is requested in funding. All expenditures herein requested would be debited to the contingency fund currently available in the Annual Budget Appropriation.

An oral report on the then-current status of legislative proposals for transfer of an interest in the referenced hydroelectric power plants will be provided at each Committee meeting.