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



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

OCT 10 1995

David E. Deff
EXECUTIVE SECRETARY

9-5

September 26, 1995

To: Board of Directors (Finance & Insurance Committee--Information)
(Water Planning & Resources Committee--Information)
(Special Audit Committee--Information)

From: General Manager

Subject: Preliminary Analysis of the 1996 Statement of Charges for the State Water Project

Recommendation:

For information only.

John R. Wodraska
General Manager

Submitted by:

Debra C. Man
Debra C. Man, Chief
Planning & Resources

Concur:

J. Wodraska

John R. Wodraska
General Manager

Attachments

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Executive Summary:

This report presents the 1996 Statement of Charges for Metropolitan's contract for the State Water Project water supplies and presents an initial analysis of these charges as compared to previous years. The 1996 Statement of Charges total \$373,507,189. This is a decrease of \$26.6 million as compared to the 1995 Statement of Charges. This net decrease is due, in large part, to lower energy related charges. Actual 1996 payments are expected to be less than the Statement of Charges as a result of credits and reduced water deliveries. A detailed examination of the charges is currently underway and the results are expected to be presented in December 1995.

Detailed Report:

The 1996 Statement of Charges (1996 Statement) under Metropolitan's Water Service Contract with the California Department of Water Resources (DWR) was received and a preliminary analysis has been completed. Metropolitan staff and Richardson & Company, our State Water Contract auditors, are currently performing a detailed examination of the 1996 Statement.

The 1996 Statement totals \$373,507,189. The 1996 Statement is made up of a number of components, which for the purpose of this report, have been summarized into two basic categories: fixed charges of \$218.1 million, covering capital, minimum operation, and other charges which are not dependent upon the amount of water stored, transported, or delivered during the year; and delivery charges of \$182.0 million, covering power and other charges which are directly affected by the above factors.

The changes from the 1995 to the 1996 Statement of Charges amount to a decrease of \$26.6 million and are summarized on Table 1 and illustrated on Graph 1. Net increases in fixed charges resulted from a combination of: (1) decreases in the Delta Water Charge due to lower projections of estimated capital and operating costs for conservation facilities; (2) increases in Transportation Capital largely due to the bond surcharge from the issuance of Series N Water System Revenue Bonds; (3) increases in Transportation Minimum due to increased O&M cost estimates and past cost adjustments; and (4) increases in East Branch Enlargement due to the issuance of Series N Bonds and the correction of an over-refunding for Series L Bonds.

Decreases in delivery charges resulted from reductions in both Transportation Variable and Off-Aqueduct charges. DWR's utilization of less conservative procedures to estimate power purchase requirements and expected energy generation reduced the estimated Variable charges. Off-Aqueduct charges also decreased due to the reduction of debt payments from the redemption of Power Facilities Revenue Bonds Series G in December 1994 and the anticipated reduction in 1996 coal purchases at Reid Gardner because a reduced demand for energy in 1995 resulted in the carryover of coal from 1995.

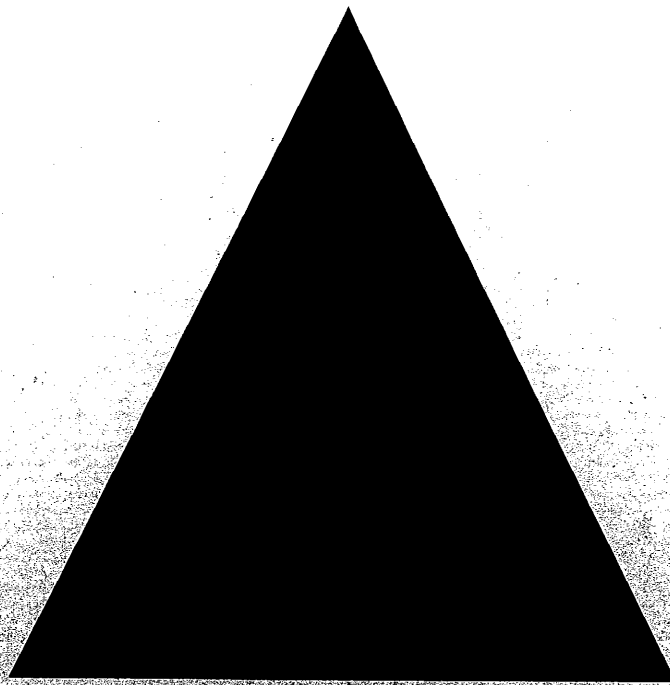
In addition to the comparison of the 1995 and 1996 Statements, a comparison of the 1996 Statement to DWR's previous estimate of our 1996 Statement made in 1994 is shown on Table 2 and illustrated on Graph 2. A net decrease of \$64.1 million exists for many of the reasons discussed in the above analysis.

Metropolitan is contractually obligated to pay all valid charges reflected in the 1996 Statement and can, and does, later seek adjustment for inaccuracies. However, these amounts can vary significantly with the amounts Metropolitan will actually pay after adjustments and credits, particularly with regard to delivery charges. For the years 1995 through 1999, Metropolitan has entered into an agreement with DWR, whereby the variable charges are adjusted in December using less conservative and more probable water delivery assumptions, thus reducing potential overcharges by DWR. This current 1996 Statement does not yet reflect the expected December adjustment.

Metropolitan staff and our State Water Contract auditors, Richardson & Company, expect to present the results of their detailed examination of the 1996 Statement of Charges to your Board at the December 1995 meeting. At that time, we will request Board approval for the payment of the 1996 invoices.

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