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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Baren E. Doff
EXECUTIVE SECRETARY

December 26, 1995

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

From: General Manager *[Signature]*

Submitted by: Debra C. Man, Chief
Planning and Resources *[Signature]*

Subject: Authorization to Pay 1996 Invoices Under State Water Service and Devil
Canyon-Castaic Contracts

RECOMMENDATION

It is recommended that the General Manager be authorized to approve and make all payments he determines to be due and payable under the terms of the State Water Service and Devil Canyon-Castaic contracts for the 1996 calendar year.

EXECUTIVE SUMMARY

The State Department of Water Resources (DWR) has submitted its Statement of Charges (Invoices) dated June 30, 1995, for payments due during the 1996 calendar year in keeping with provisions of Metropolitan's State Water Service and Devil Canyon-Castaic Contracts (Contracts). As a result of a review by Metropolitan and an audit by Richardson & Company, Metropolitan's State Water Contract auditor, DWR has revised the Invoices. A summary of the revised Invoices is shown on the attached Table 1. While a number of State Water Project charges allocated to Metropolitan could be impacted by ongoing discussions with the Department of Water Resources, we are not aware of any charges that should be protested at this time.

DETAILED REPORT

The October 1995 letter to your Board summarized the Department of Water Resources' (DWR) original June 30, 1995 Statement of Charges (Invoices), which totaled \$373.5 million. These Invoices were reduced by \$49.3 million in December 1995 to \$324.2 million. Table 1 presents the revised Invoices. These revisions reflect lower water delivery

projections, lower unit energy costs, and the correction of significant errors discovered through our audit.

Included in the June 30, 1995 Invoices were Transportation Variable charges of \$55.0 million based on water deliveries of 100 percent of entitlement requests made in 1994. As provided by the Five-Year Variable Reduction Agreement, DWR has adjusted the variable unit rates contained in the revised 1996 Invoices to rates based on water deliveries of 75 percent of entitlement requests. Applying these adjusted rates to our assumed water deliveries of 638,800 acre-feet for 1996 results in a decrease in Metropolitan's 1996 Variable payments of approximately \$34.5 million.

In performing Metropolitan's audit of our 1996 Statement of Charges, Richardson & Company discovered several errors which resulted in a \$14.8 million reduction. These errors that have been corrected in the revised Invoices are described in the enclosed audit report. As part of their annual work program, Richardson & Company has issued three reports: (1) a comprehensive report entitled "Report on the Audit of the 1996 Statement of Charges"; (2) a "Summary Report on the Audit of the 1996 Statement of Charges"; and (3) a "Summary Report on Special Projects Related to Charges and Payments Under State Contract". Copies of the summary reports are enclosed and a copy of the comprehensive report will be available for your review in the office of the Executive Secretary.

The revised Invoices are \$75.6 million less than Metropolitan's 1995 Invoices dated June 30, 1994. Factors contributing to the decrease between the 1995 and 1996 Invoices are shown on the attached Table 2.

Metropolitan and other SWP contractors have disputed certain procedures and assumptions utilized by DWR in calculating past Invoices. DWR has issued an extension-of-time letter, as it has in prior years, which preserves all the contractors' opportunity to contest the calculations and the charges included in this billing should there be a future dispute over DWR's cost allocation methodology.

It is the General Manager's opinion that the amounts set forth in the Invoices are acceptable under the terms of the Contracts. Adequate remedies exist for adjustment of accounting errors as well as agreed to cost allocation adjustments. Sufficient funds are available in the 1995-96 budget to cover that portion of the Invoices payable during the 1995-96 fiscal year.

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Attachments

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Table 1

**STATE WATER SERVICE AND DEVIL CANYON-CASTAIC CONTRACTS
SUMMARY OF INVOICES FOR PAYMENTS DUE DURING CALENDAR YEAR 1996**

Delta Water Charge* (Inv.#96-014-T)

Capital Component	\$	21,388,980
Minimum OMP&R Component		19,806,943

Transportation Charge (Inv.#96-014-T)

Water System Revenue Bond Surcharge (Revised)	20,965,723
Capital Component	62,252,901

Minimum OMP&R Component (Revised)	62,676,117
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Variable OMP&R Component ** (Revised)

East & West Branch - 638,800 AF	15,126,831
Adjustment for pre-1995 charges	5,365,072

<u>Off-Aqueduct Power Facilities Charge (Inv.#96-013-O) ***</u>	73,618,810
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East Branch Enlargement Charge (Inv.#96-004-E)

Capital Cost Component (Revised)	29,251,236
Minimum OMP&R Component	2,810,767

Devil Canyon-Castaic Contract Charge (Inv.#96-002-DCC)

Debt Service	5,306,494
Operation & Maintenance	5,620,029

Total	\$	<u><u>324,189,903</u></u>
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* Based on Metropolitan's 1996 Table A entitlement of 2,011,500 acre-feet of water.

** Subject to change depending on actual water deliveries. Amounts shown are calculated using unit rates based upon 75 percent deliveries of 1996 Table A entitlement. Reduced deliveries will result in lower charges.

*** Subject to change depending upon revised water delivery projections in May 1996.

**SUMMARY OF SIGNIFICANT FACTORS CONTRIBUTING
TO INCREASES (DECREASES)
BETWEEN JUNE 1994 INVOICES FOR CALENDAR YEAR 1995
AND DECEMBER 1995 INVOICES FOR CALENDAR YEAR 1996
(in millions of dollars)**

	Increase (Decrease)
<u>TRANSPORTATION CHARGE - VARIABLE OMP&R</u>	
revised assumptions related to energy purchases	\$ (23.3)
past cost adjustments	9.8
increase in power sales estimates	(17.0)
increase in recovery generation credits	(2.8)
decrease due to lower water delivery projections	(34.5)
Net change.....	<u>(67.8)</u>
<u>TRANSPORTATION CHARGE - CAPITAL AND MINIMUM OMP&R</u>	
revised cost estimates	7.2
increased cost estimates related to replacement of circuit breakers at Edmonston, inclusion of Municipal Water Quality Investigation costs, and decrease in Castaic Lake Storage costs	<u>(1.2)</u>
Net change.....	<u>6.0</u>
<u>OFF-AQUEDUCT POWER FACILITIES CHARGE</u>	
decrease in debt service from bond refunding	(11.2)
decrease in coal and O&M costs for Reid-Gardner	(5.1)
revised water allocation assumptions	(3.8)
Net change.....	<u>(20.1)</u>
<u>EAST BRANCH ENLARGEMENT</u>	
revised cost estimates as construction nears completion and facilities begin operating	0.5
bond issuance for continued construction	1.8
redetermination of past cost adjustments	3.7
Net change.....	<u>6.0</u>
<u>OTHER INCREASES AND DECREASES</u>	
adjustment in Delta Water Charge for removal of Municipal Water Quality Investigation Program costs, reduced energy costs, and past cost refinements	(3.3)
increase in Water System Revenue Bond Surcharge debt service resulting from bond issuance	<u>3.6</u>
Net change.....	<u>0.3</u>
Net decrease in billings from 1995 to 1996.....	<u>\$ (75.6)</u>