9-15

MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

February 25, 1997

To: Board of Directors (Water Planning and Resources Committee -- Information)
(Electric Industry Restructuring Ad Hoc Committee -- Information)

From: for General Manager

Submitted by: Debra Man
Chief, Planning & Resources

Debra Man

Subject: Phase II Draft Filing at the Federal Energy Regulatory Commission to Implement a Restructured Electric Utility Industry in California

RECOMMENDATION:

For information only.

EXECUTIVE SUMMARY:

Last November, the Federal Energy Regulatory Commission (FERC) ordered that the Independent System Operator (ISO), the Power Exchange (PX) and the California investor-owned utilities (IOUs) prepare and file at FERC by March 31, 1997 detailed tariffs and agreements required to implement a restructured electric utility industry (Phase II filing). Metropolitan has received rough drafts of several Phase II documents and is reviewing them with a focus on the major issues of importance to Metropolitan. These issues, recently reaffirmed by the Board in its legislative policy principles, include protection of existing contracts, avoidance of cost-shifting among customer classes, and protection of Metropolitan's long-term power resources at the Hoover Power Plant and Parker Power Plant. At this time, it appears that Metropolitan can best protect its current relatively favorable position in California's electric utility industry by retaining the Service and Interchange Agreement (S&IA) with Southern California Edison (Edison). Based on meetings to date with Edison, Edison has stated that they will continue to honor the S&IA and suggested that by honoring the S&IA Edison would transfer its contract rights to, and operational control of Metropolitan's 230-kV transmission line to the ISO. This transfer would allow the retention of Metropolitan's priority rights to transmission access for the Colorado River Aqueduct pumps and would only transfer the residual amount of available transmission to the ISO. Metropolitan would also retain the flexibility to transfer the entire transmission capability of the transmission line to the ISO when further information is known regarding the cost and operational effects of joining the ISO.

DETAILED REPORT:

As previously reported to your Board last month, California's investor owned utilities (IOUs), the independent system operator (ISO), and the power exchange (PX) are required to file at the Federal Energy Regulatory Commission (FERC) detailed tariffs and agreements for implementation of an ISO and a PX by March 31, 1997. On February 12, 1997, Metropolitan and other electric industry stakeholders received the first set of draft documents from the IOUs and the interim ISO counsel. This set does not contain all of the documents required to be filed at FERC. We anticipate most of the remaining draft documents, and possibly revised drafts of the documents recently received, will be circulated for stakeholder comment as March 31 approaches.

Metropolitan staff is carefully analyzing the draft documents received to date to ascertain how they will impact Metropolitan. Unlike many other stakeholders, Metropolitan already benefits from relatively low cost power for its Colorado River Aqueduct (CRA) pumps because Metropolitan owns its 230-kV transmission line for the CRA, and because it previously negotiated long-term energy contracts for power produced at Hoover Power Plant and Parker Power Plant. Additionally, in 1987 Metropolitan entered into the Service & Interchange Agreement (S&IA) with Southern California Edison (Edison). Under this mutually advantageous arrangement Edison, among other things, provides Metropolitan with virtually all ancillary services required for operation of our transmission line, and Metropolitan makes available to Edison residual transmission capacity remaining on our line after CRA needs are met. The California Department of Water Resources (CDWR) has similarly contracted for relatively low cost power and transmission service for the State Water Project (SWP). Metropolitan pays approximately 60% of the SWP total power cost at the current delivery levels because we are the largest contractor and one of the last on the California Aqueduct.

Since Metropolitan and DWR have already secured relatively low-cost power for the CRA and SWP operations, Metropolitan's and DWR's focus on the outstanding restructuring issues is somewhat different from that of many stakeholders. We are primarily interested in three issues. First, we require that existing contracts be honored, so that we can continue to enjoy the benefit of the favorable contract bargains. Second, since Metropolitan already owns and has fully amortized the cost of construction of its 230-kV transmission line, Metropolitan is very sensitive to transmission pricing proposals which may increase the cost of using its own transmission facilities. Finally, Metropolitan needs to ensure that its ability to "bring home" its Hoover and Parker generation entitlements will not be affected by proposed generation protocols.

AB 1890, California's landmark electric industry restructuring bill, provides that access to transmission continue to be priced on a utility specific basis for the first two years of ISO operation. During this time, the legislation directs the ISO to submit a subsequent transmission pricing proposal to FERC for approval. The interim utility specific transmission pricing method should alleviate cost-shifting for as long as it remains in effect. However, other pricing proposals to be considered by the ISO could significantly increase transmission costs for Metropolitan and CDWR.

The Phase II filings, once filed with FERC on March 31, will likely result in a number of hearings and technical workshops before a final order is issued by FERC later this year. Staff recommends that no final decisions be made regarding Metropolitan's participation in either the ISO or the PX until more information is available as to the impacts of such action. However, because the ISO will be operational on January 1, 1998, preliminary determinations need to be made at this time to facilitate implementation of the ISO and PX, and Metropolitan's potential involvement in the new paradigm.

Based on discussions with Edison regarding commencement of ISO operation, staff anticipates that all terms of the S&IA will remain intact and that Edison will transfer its contract rights to, and operational control of, Metropolitan's 230-kV line to the ISO. This would assist Metropolitan's insulation from: negative changes in the industry due to restructuring until it can determine the impact of the changes; increased transmission costs which may otherwise result from restructuring; and renegotiating or terminating the existing contracts Metropolitan has in place. Additionally, this allows Metropolitan to retain the flexibility and opportunity to join the ISO when it has further information regarding the cost and operational impacts of doing so. Edison's transfer to the ISO of its rights to Metropolitan's 230-kV transmission line would likely be accomplished through a letter agreement with Metropolitan.

Staff will continue to actively participate in the restructuring process and to periodically update your Board on such progress.

DM -#3769