



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-7

August 25, 1998

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

From: *for* General Manager *Edward J. Meier III*

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

Subject: Preliminary Analysis of the 1999 Statement of Charges for the State Water Project

RECOMMENDATION

For information only.

EXECUTIVE SUMMARY

This report presents the 1999 Statement of Charges for Metropolitan's contract for the State Water Project (SWP) water supplies and presents an initial analysis. The 1999 Statement of Charges totals \$384,246,450. This is an increase of \$34.3 million as compared to the 1998 Statement of Charges. This net increase is due, in large part, to increased water delivery requests and therefore higher energy related charges. Several activities are currently being pursued that are expected to result in revised payment obligations for 1999 and in subsequent year adjustments. As reflected in Metropolitan's budget, staff expects the net SWP costs to be less than the Statement of Charges as a result of credits and reduced water deliveries. A detailed examination of the 1999 Statement of Charges is currently underway and the results are projected to be presented in January 1999 for Board action approving payments.

DETAILED REPORT

As provided under our Water Service Contract with the California Department of Water Resources (DWR), Metropolitan received the 1999 State Water Project (SWP) Statement of Charges for calendar year 1999 (1999 Statement). Metropolitan staff and Richardson & Company, our State Water Contract auditors, have completed a preliminary analysis and continue to perform a detailed examination of the 1999 Statement.

The 1999 Statement totals \$384,246,450. The 1999 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 \$265.2 million, covering capital, minimum operating expenditures, and other charges which are not dependent upon the amount of water delivered during the year; and delivery charges of \$119.0 million, covering power and other charges which are directly related to water deliveries.

The changes from the 1998 to the 1999 Statement of Charges amount to an increase of \$34.3 million and are summarized on Table 1 and illustrated on Graph 1. Net increases in fixed charges of \$8.5 million resulted from a combination of 1) decreases in the Delta Water Charge and Transportation Capital components due primarily to an increased rebate under the Monterey Amendment, 2) an increase in the Transportation Capital component arising from an increase in Water System Revenue Surcharge resulting from issuance of Series S bonds for refunding outstanding bonds and construction of East Branch and Coastal Branch facilities, 3) an increase in the Transportation Minimum component due to increases in transmission costs that result from grid management fees from the electrical utility industry's restructuring, re-classification from the Delta Water Charge of Municipal Water Quality Investigation costs, and higher Direct O&M costs, 4) an increase in the East Branch Enlargement component due to partial bond refundings offset by the sale of new bonds, increases in estimated costs and past cost adjustments. A net increase in the delivery charges of \$25.8 million resulted from: 1) an increase of \$4.6 million in the Off-Aqueduct charges due to an increase in Metropolitan's estimated entitlement deliveries; 2) an increase in the Variable component of \$21.2 million due to a combination of higher energy and other costs, increased water delivery request, lower power sales, and offset by higher recovery generation credits.

The 1999 Statement does not indicate Metropolitan's net SWP costs as credits and adjustments typically received by Metropolitan are not included. There is a relatively high degree of certainty associated with some of these credits such as return of about \$42.2 million in bond cover, interest earnings, and Devil Canyon Second Afterbay debt service costs for Fiscal Year 98-99. Other credits are significantly less certain. These types of credits include adjustments for past errors, implementation of negotiated agreements, adjustments for energy charges to reflect the actual annual costs incurred by DWR and the actual quantities of water delivered to Metropolitan. These less certain credits are projected at about \$21.5 million in Fiscal Year 1998-99. For Metropolitan's 1998-99 Fiscal Year Budget, staff considered both the relatively certain and less certain credits and adjustments, as well as other factors, when estimating net fiscal year SWP costs to be \$240.3 million.

Incorporation of these less certain credits into Metropolitan's 1998-99 Fiscal Year Budget continues the procedures implemented in the 1996-97 Fiscal Year Budget which improved the accuracy of the net SWP cost projections. This new practice, however, increases the risk that in a given year, actual costs may exceed the budgeted amounts because the credits, while expected, are not assured and corrections for past errors or higher-than-anticipated energy costs may actually increase Metropolitan's SWP costs. Should that occur, money would be required from the Water Rate Stabilization Fund or other sources to cover any shortfall. Nevertheless,

recognizing the importance of more accurate SWP cost estimates for financial planning purposes, staff anticipates it will continue to incorporate projections of these less certain credits when preparing future budgets.

Although the Department has issued revised billing statements for error corrections over the last four consecutive years, we are currently not aware of any significant items that might warrant the issuance of a revised 1999 Statement.

Metropolitan is contractually obligated to pay all valid charges reflected in the 1999 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. Metropolitan staff and our State Water Contract auditors, Richardson & Company, expect to present the results of their detailed examination of the 1999 Statement of Charges to your Board at the December 1998 meeting or at the January 1999 meeting, if DWR issues a revised 1999 Statement. At that time, we will request Board approval for the payment of the 1999 Statement of Charges invoices.

MSV/TAR:cl

Attachments

o:\ cluster 11\ mm\board\tar1999chrg.doc

COMPARISON OF 1998 & 1999 STATEMENTS OF CHARGES

	1998 (in millions of dollars)	1999	INCR (DECR)
FIXED CHARGES			
Delta Water Charge	46.2	43.1	(3.1)
Transportation Capital	98.3	93.0	(5.3)
Transportation Minimum	81.7	94.9	13.2
East Branch Enlargement	30.5	34.2	3.7
TOTAL FIXED CHARGES	256.7	265.2	8.5
DELIVERY CHARGES			
Transportation Variable	27.8	49.0	21.2
Off-Aqueduct Power Facilities	65.4	70.0	4.6
TOTAL DELIVERY CHARGES	93.2	119.0	25.8
TOTAL SWP CHARGES	\$ 349.9	384.2	34.3

1998 vs. 1999 Statement of Charges

(\$millions)

