

- **Board of Directors**
Audit, Budget and Finance Committee

June 12, 2001 Board Meeting

9-5

Subject

Authorize Change of State Water Project Capital Charges Payment from July 2001 to June 2001

Description

California's efforts to restructure its energy markets have resulted in higher than anticipated costs for State Water Project (SWP) water deliveries. The Department of Water Resources (DWR) now projects that 2001 SWP contractor power revenues may not adequately cover rising energy costs for SWP water deliveries. DWR projects its cash accounts will be drawn down, jeopardizing its ability to pay June 2001 SWP bond debt service payments. DWR staff believes early payment of Transportation and Delta capital charges payable in July 2001 by Metropolitan and Kern County Water Agency (KCWA), its largest contractors, will allow DWR to pay its obligations until its cash account balances are restored after July 2001.

KCWA and Metropolitan have expressed conceptual support for early payment of capital charges if their agencies are compensated for lost interest. DWR proposes to compensate Metropolitan and KCWA for lost interest at California's Surplus Money Investment Fund (SMIF) rate ([Attachment 1](#)). Metropolitan's Transportation and Delta capital charges payable in July 2001 totaling \$36,231,492 will be discounted by (prepaid) interest at the current annual SMIF rate of 6.160 percent for the number of days payment is made prior to the normal payment date (July 31). By comparison, Metropolitan's current money market yields could be approximately two percentage points lower.

If payments are not made in June, Metropolitan could experience increases in its future SWP charges if DWR credit rating is adversely affected by cash flow limitations.

Policy

By Minute Item 44304, dated January 9, 2001, the Board authorized payments for State Water Project and Devil Canyon/Castaic contracts for 2001 statement of charges.

CEQA

The authorization to change the SWP capital charges payment date is not defined as a project under the California Environmental Quality Act (CEQA), because the proposed action involves government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination for Option #1 is: Determine that the proposed action is not subject to CEQA per Section 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to pay SWP capital charges in June 2001 rather than July 2001.

Fiscal Impact: Metropolitan benefits by approximately \$102,000 higher interest earnings.

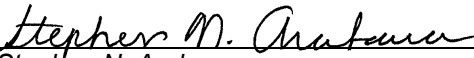
Option #2


Pay SWP capital charges totaling \$36,231,492 in July 2001.

Fiscal Impact: Metropolitan could experience increases in its future SWP charges if DWR's credit rating is adversely affected by cash flow limitations.

Staff Recommendation

Option 1

 Stephen N. Arakawa Manager, Water Resource Management	5/18/2001 Date
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 Ronald R. Oster President & Chief Executive Officer	5/22/2001 Date
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Attachment 1 – Letter from Perla Netto-Brown re: Accelerated Payment of Transportation and Delta Capital Charges

BLA #1036

STATE OF CALIFORNIA THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES
1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
(916) 653-6791

May 18, 2001

Mr. Stephen N. Arakawa
The Metropolitan Water District of
Southern California
700 North Alameda Street
Box 54153, Terminal Annex
Los Angeles, California 90054

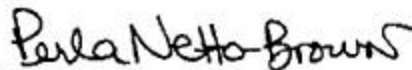
Accelerated Payment of Transportation and Delta Capital Charges

Deregulation of the California energy market has allowed certain conditions to exist rendering the assumptions used in projecting the power costs for the State Water Project 2001 Statement of Charges to be vastly different than actual costs. The high cost of energy and the inability of the California Independent Systems Operator to pay for ancillary power services is projected to result in a short-term cash flow deficiency in the California Water Resources Development Bond Fund beginning in March 2001 and peaking in June 2001.

To help alleviate this cash flow issue, Kern County Water Agency and The Metropolitan Water District of Southern California (hereinafter each is referred to as "agency") have expressed a willingness to pay their semiannual payments of 2001 Transportation and Delta capital charges in advance of July 31, 2001, discounted in the manner described in this agreement. The last date payment can be made on such charges without incurring interest pursuant to their state water contracts on such capital charges and the date when both agencies customarily would pay is July 31, 2001. The Department of Water Resources recognizes that the two agencies would incur a loss of interest earnings in making payments in advance of the date that the payments would have been made in the absence of this program and is willing to accept such payments discounted at the State's surplus money investment fund rate of 6.160%, computed at a daily rate times the number of days payment is made in advance of July 31, 2001, provided advanced payments are paid prior to June 29, 2001.

Please acknowledge your acceptance of this agreement by signing below and returning the original of this letter to me. Thank you for your assistance in finding solutions to this matter.

Sincerely,



Perla Netto-Brown
Chief, Division of Fiscal Services

Authorized Agency Representative

cc: Mr. Brian Thomas
The Metropolitan Water District of
Southern California
700 North Alameda Street
Box 54153, Terminal Annex
Los Angeles, California 90054