- **Board of Directors**
  Engineering, Operations and Real Property Committee

July 10, 2001 Board Meeting

9-5

Subject

Authorize the Chief Executive Officer to execute the Third Amendment to the District-Edison 1987 Service and Interchange Agreement

Description

The District-Edison 1987 Service and Interchange Agreement (Agreement) between Metropolitan and Southern California Edison Company (Edison) provides for the integration of Metropolitan's Colorado River Aqueduct (CRA) electrical system, including its entitlements to Hoover and Parker generating resources, with Edison's system. The combined electrical system is operated to the mutual benefit of both parties. One of the benefits Metropolitan receives under the Agreement is the ability to borrow or exchange energy with Edison. Metropolitan determines the quantity and timing of the receipt and return of this "Exchange Energy". The value of the Exchange Energy from Edison's perspective must be determined for both delivery and return transactions. At the end of the contract year, September 30, the Exchange Energy balance must be zero and Edison must have received Exchange Energy at least equal in value to the Exchange Energy provided to Metropolitan.

Originally, the method of valuing Exchange Energy utilized Edison's incremental cost of producing the energy. Typically, this cost was derived from the costs associated with Edison's oil/gas-fired thermal power plants. As part of the deregulation of California electric utilities, Edison sold their thermal plants, thus eliminating the basis for valuing Exchange Energy. The First and Second Amendments to the Agreement developed a new valuing methodology by using prices reported by the Power Exchange (PX).

On January 18, 2001, the PX suspended Edison's authority to trade in the PX power markets. The PX has subsequently stopped all power transactions and filed for bankruptcy. These events have again eliminated the basis by which Metropolitan and Edison value Exchange Energy transactions. The Third Amendment to the Agreement develops a new methodology for the valuing of the Exchange Energy to be returned to Edison within the current contract year. Also, due to the disruption in the energy markets after the suspension of Edison's trading privileges at the PX, Metropolitan will be provided additional time to return this year's Exchange Energy obligation.

Through negotiations, Metropolitan and Edison have mutually agreed to use any one of three widely reported and recognized market energy price indices as the method of determining the value of Exchange Energy returned to Edison. This methodology would be utilized to value Exchange Energy Metropolitan returns to Edison for the current contract year after the date Edison was suspended from trading in the PX markets. The Third Amendment to the Agreement will implement this methodology and provide the contractual basis for Metropolitan and Edison to fulfill their respective Exchange Energy obligations as specified in the Agreement.

The Third Amendment also provides an additional delivery point for Metropolitan to receive economy energy.

Policy

Metropolitan Water District Administrative Code Section 8115: Negotiated Contracts

CEQA

The proposed action, i.e., executing the Third amendment to the Agreement, is not defined as a project under the California Environmental Quality Act (CEQA), because it 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 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 execute the Third Amendment. This Amendment will designate three widely recognized and publicized energy indices as the contractual basis for valuing Exchange Energy between Metropolitan and Edison in lieu of the now-defunct PX, as well as provide increased flexibility in Metropolitan's scheduling of economy energy.

Fiscal Impact: There is no cost to Metropolitan from this action. The Third Amendment to the Agreement simply provides a contractual basis for valuing Exchange Energy transactions between Metropolitan and Edison. Using the proposed market energy price indices for this contract year will show Metropolitan has returned Exchange Energy to Edison that is at least of equal value as the Exchange Energy originally provided to Metropolitan, thus fulfilling Metropolitan's contractual obligations. The Exchange Energy provision of the Agreement provides significant flexibility in Metropolitan's energy purchasing operations and is estimated to have saved Metropolitan over $3.3 million this contract year by being able to "borrow" energy for later repayment instead of buying market energy at high prices.

Option #2

No Action. Continued negotiations with Edison would be required.

Fiscal Impact: Unknown

Staff Recommendation

Option #1

Jill T. Wicke 6/29/2001
Jill T. Wicke *Date*
Manager, Water System Operations

Ronald R. Gastelum 7/2/2001
Chief Executive Officer *Date*

BLA #1219