

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

July 10, 2001 Board Meeting

9-6

Subject

Authorize the Chief Executive Officer to execute two Electric Transmission Service Agreements (TSAs) with the Western Area Power Administration (Western)

Description

Metropolitan makes most of its market energy purchases for the Colorado River Aqueduct (CRA) at Mead Substation in Nevada near the Hoover Dam. Recently, Metropolitan has observed frequent congestion on the transmission lines terminating at Mead. This congestion has resulted in limiting the supply of market energy at Mead and increasing the price of what is available. With the development of new generating plants in Nevada and the expanded use of Mead as an energy transaction point by others, it is anticipated the congestion problem will increase.

To lessen Metropolitan's reliance on Mead as its primary energy transaction point and to gain access to the increasing amount of generation available from newly constructed power plants in Arizona, Metropolitan has recently requested firm transmission service from Western. Western provides transmission service through a TSA with terms and pricing as defined in its Open Access Transmission (OAT) tariff as submitted to FERC. In the first agreement, Western shall supply 30 megawatts (MW) of firm transmission from Parker, Arizona to Metropolitan's Gene Substation from approximately August 1, 2001 until December 31, 2010. In the second agreement, Western shall supply 50 MW of firm transmission from Yuma, Arizona to the Gene Substation beginning June 1, 2003 and ending December 31, 2010.

Western's offer of transmission service is governed by strict rules and procedures established in its OAT tariff. Metropolitan must accept Western's offer by July 28, 2001, or Western will be required to offer the transmission service to another party. If Metropolitan does not accept Western's current offer, it is unlikely that any such transmission capacity will be available in the future, as Metropolitan anticipates other parties have submitted or plan to submit requests for transmission service. If Metropolitan does not need the transmission service, it can market the rights to use these transmission paths to others. Metropolitan has the ability to terminate either agreement whenever Western's applicable transmission rates change. Unless Metropolitan exercises its termination right, the cost of transmission service under the TSAs will increase during the term of the contracts if FERC accepts Western's proposed rate increases. Metropolitan will have the opportunity to review and provide comment on proposed rate increases both prior to Western's FERC filing and at FERC.

Policy

Metropolitan Water District Administrative Code Section 8115: Negotiated Contracts

CEQA

The proposed action, i.e., executing two Electric TSAs with Western, is not defined as a project under the California Environmental Quality Act (CEQA), because it involves continuing administrative and maintenance activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to 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 Sections 15378(b)(2) and 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 both TSAs with the Western Area Power Administration. The TSAs will provide Metropolitan with firm transmission rights from Parker to Gene Substation and, in 2003, from Yuma to Gene Substation. If Metropolitan determines the Yuma market has not developed as anticipated, it would have the opportunity to terminate the Yuma to Gene Substation TSA prior to the contract's effective date of June 1, 2003, so long as Western changes its transmission rate before then.

Fiscal Impact: Under current Western rates, the monthly transmission charge will be approximately \$34,000 per month or \$408,000 annually for the Parker to Gene Substation TSA. In 2003, the total cost for both TSAs will increase to \$90,000 monthly, or \$1.08 million for the year, with the addition of the Yuma to Gene Substation TSA. Both TSAs will terminate December 31, 2010. The net cost of these TSAs will be reduced by the savings obtained from Metropolitan's increased access to additional energy suppliers, its avoidance of congestion costs at Mead, and from the revenue received from Metropolitan's sale of the use of the transmission service when it is not needed by Metropolitan. Metropolitan may terminate the TSAs after any applicable rate increase by Western.

Funding: Fiscal year 2001-02 annual budget appropriation

Option #2

Adopt the CEQA determination and authorize the Chief Executive Officer to execute only the Parker to Gene Substation TSA. This will provide some of the benefits desired. However, it would probably result in Metropolitan not having access to the Yuma market in the future, as it is anticipated any excess capability on Western's transmission system will be quickly acquired by others.

Fiscal Impact: Under current Western rates, the monthly transmission charge will be approximately \$34,000 per month or \$408,000 annually for the Parker to Gene Substation TSA. The net cost of this TSA will be reduced by the savings obtained from Metropolitan's increased access to additional energy suppliers, its avoidance of congestion costs at Mead, and from the revenue received from Metropolitan's sale of the use of the transmission service when it is not needed by Metropolitan. Metropolitan may terminate the TSA after any applicable rate increase by Western.

Funding: Fiscal year 2001-02 annual budget appropriation



Option #3

No Action. If not executed, Western will deem Metropolitan's application to be withdrawn and Metropolitan will lose its place in the queue for transmission service.

Fiscal Impact: Unknown, though the market energy costs for the CRA are expected to be higher than with either of the other two options. Metropolitan will continue to utilize Mead as its primary transaction point for CRA market energy purchases and will be subject to the price impacts of reduced supply during periods of congestion.

Staff Recommendation

Option #1

	6/29/2001
J. T. Wicke Manager, Water System Operations	Date
	7/2/2001
Ronald R. Foster Chief Executive Officer	Date

BLA #1217