

- **Board of Directors**
Engineering and Operations Committee

August 20, 2002 Board Meeting

8-2

Subject

Authorize execution of the Fourth 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 Edison's system with Metropolitan's Colorado River Aqueduct electrical system, including Metropolitan's entitlements to Hoover and Parker generating resources. 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 exchanged energy to Edison 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 or supplied Exchange Energy at least equal in value to the Exchange Energy either supplied or received from 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 its 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 California Power Exchange (PX). The Third Amendment developed a new interim methodology since the PX ceased to function by late January.

Through negotiations, Metropolitan and Edison have further developed the interim methodology, which uses any of three widely reported and recognized market energy price indices as the method of determining the value of Exchange Energy. The indices are reported in the following three publications: Platts' Energy Trader, Platts' MegaWatt Daily, and the Wall Street Journal. The Fourth 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 Fourth Amendment also provides an additional delivery point or region for Metropolitan to receive economy energy, which should provide greater flexibility and benefit to power operations.

Policy

Metropolitan Water District Administrative Code § 8115: Negotiated Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA, because it involves continuing administrative and maintenance activities, such as purchases for supplies, general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project that 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 pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to execute the Fourth Amendment. This Amendment will designate three widely recognized and publicized energy indices as the contractual basis for valuing Exchange Energy between Metropolitan and Edison and provide increased flexibility in Metropolitan's scheduling of economy energy.

Fiscal Impact: There is no cost to Metropolitan from this action. The Fourth 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 enable Metropolitan and Edison to demonstrate they each have provided or returned Exchange Energy of at least equivalent value to each other, thus fulfilling their respective contractual obligation.



Option #2

No action. Continued negotiations with Edison would be required.

Fiscal Impact: Unknown

Staff Recommendation

Option #1

 Jill Wicke Manager, Water System Operations	7/19/2002 Date
 Ronald R. Gastelum Chief Executive Officer	7/30/2002 Date