

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

October 8, 2002 Board Meeting

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**Subject**

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Preliminary analysis of State Water Project calendar year 2003 Statement of Charges

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**Description**

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Metropolitan has received the calendar year (CY) 2003 Statement of Charges for its participation in the State Water Project (SWP). Staff is reviewing the Statement of Charges with the Department of Water Resources (DWR) to ensure that these charges comply with the contracts. At the conclusion of the review, staff will report its findings to the Board.

The charges total \$483.2 million, which is \$92 million less than charges for CY 2002. A comparison of CY 2002 and 2003 is detailed in [Attachment 1](#). DWR indicates that the CY 2003 charges will be adjusted downward in December 2002; however, the amount of reduction is unknown at this time. The current charges would need to be reduced by about \$20 million to conform with Metropolitan's SWP budget for FY 2002/03.

The Statement of Charges is an invoice for the CY charges provided in advance to each SWP contractor. The charges are derived from estimates made by DWR for the upcoming year. Because DWR then issues invoices based on its estimates, corrections for over or under payments are made in subsequent years after actual costs are determined. As a result, DWR normally issues credits that reduce Metropolitan's net payment below the Statement of Charges amount (that is why actual expenditures historically are lower than the invoice). In Metropolitan's case, the Statement of Charges addresses both the SWP water supply contract and the Devil Canyon-Castaic contract.

**Preliminary Analysis of CY 2003 Statement of Charges**

Staff compared last year's charges to the current year's Statement of Charges. Principal reasons for the changes in the CY 2003 Statement of Charges are discussed below:

- \$155 million decrease in Variable Operation, Maintenance, Power & Replacement Charges. This decrease is primarily due to a return of stability in the energy markets. Last year's Statement of Charges unit variable rate was \$40.35/megawatt hour while this year the rate is projected at about \$21/megawatt hour.
- \$67 million (58 percent) increase in the Minimum Operation, Maintenance, Power & Replacement (OMP&R) charges. Metropolitan staff voiced concern to DWR that the initial charges overstated the expected costs. Metropolitan, working through the State Water Contractors organization reviewed both the OMP&R budget and the process for preparing the Statement of Charges. As a result of that review, DWR will issue a revised billing in December. Metropolitan expects the revised OMP&R charges to drop significantly; however, the charges will likely exceed last year's amount. The expected OMP&R cost increase is based on recent major aqueduct and pump repairs, expanded terminal reservoir operations, and reduced credits. In addition, last year's charges included large credits for over collection of prior years' actual costs.
- \$5 million decrease in capital. This is due to a reduction in the Delta Water charge caused by an adjustment for over collection in prior years. DWR is reviewing the calculation of the Delta Water charge and may revise the charge in December.

**Future Steps**

Staff will present the results of an independent audit of the CY 2003 Statement of Charges by Metropolitan's consultant Richardson and Company as soon as the work is finished. We expect to make a recommendation to the Board regarding payment authorization in January.

**Policy**

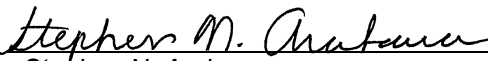
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An annual request is made to authorize the CEO to make payments for CY charges under the SWP contracts.

**Fiscal Impact**

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Staff anticipates that the current charges would need to be reduced by about \$20 million to conform with Metropolitan's SWP budget for FY 2002/03.

 Stephen N. Arakawa Manager, Water Resource Management	9/6/2002 Date
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 Ronald R. Gastelum Chief Executive Officer	9/20/2002 Date
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**Attachment 1 – Comparison of Metropolitan's Statement of Charges for Current CY 2002 and CY 2003**

BLA #1898

**Comparison of Metropolitan's Statement of Charges  
for Current CY 2002 and Initial CY 2003**

(\$ Thousands)

	<b>Current CY 2002</b>	<b>Initial CY 2003</b>	<b>Percent Change *</b>
<b>Total Capital</b>	\$ 147,475	\$ 142,213	(3)%
<b>Total Min OMP&amp;R</b>	114,607	182,065	59
<b>Total Power</b>	313,767	158,986	(49)
<b>Total SWP Charges</b>	<b>\$ 575,849</b>	<b>\$ 483,264</b>	<b>(16)%</b>

\*Increase (Decrease)