



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

November 19, 2002 Board Meeting

8-1

Subject

Authorize negotiation and execution of bilateral contracts with California investor-owned utilities for sale of power from Metropolitan's small hydroelectric plants and interruptible load from certain Colorado River Aqueduct pumping plants pursuant to California Public Utilities Commission procurement process

Description

In accordance with California Public Utilities Commission (CPUC) Decision No. 02-78-071, California's investor-owned utilities (IOUs), including Southern California Edison Company (SCE) and San Diego Gas and Electric Company (SDG&E), are authorized to enter into bilateral long-term contracts for the purchase of electrical generating capacity, associated energy, demand response products, and ancillary services. Recently enacted legislation also requires the IOUs to develop a long-term program to increase their procurement of renewable energy resources by at least one percent per year, with a goal of having renewable resources contribute 20 percent of the utilities' annual energy requirements by 2017. The CPUC decision and resulting solicitations from these utilities offer an opportunity for Metropolitan to ensure a secure revenue stream from the sale of power from its small hydroelectric facilities and from load shedding of some Colorado River Aqueduct (CRA) pumps upon the expiration of certain existing contracts described below. The CPUC has established a benchmark ceiling price for IOU procurement of renewable energy at 5.37 cents/kWh, which is above prevailing spot market conditions.

Metropolitan has three existing contracts for the sale of capacity and energy from 15 small hydroelectric plants that will terminate in the near future, including: (1) nine plants under contract with SCE with a termination date of October 29, 2003; (2) the Etiwanda Power Plant under contract with the Pacific Gas and Electric Company with a termination date of December 31, 2004; and (3) five plants under contract with the Department of Water Resources which is terminable upon ten years' advance notice. All of Metropolitan's small hydroelectric facilities are eligible renewable resources that can be sold to third parties such as SCE or SDG&E as soon as the existing contracts expire.

Pursuant to the CPUC decision, the IOUs have quickly prepared solicitations for bids. On September 18, 2002, SCE issued an "All Sources" Request for Offer (SCE RFO) with responses due September 27, 2002. On September 20, 2002, SDG&E issued a Request for Offer of renewable resources (SDG&E RFO) with responses due on September 30, 2002. Additionally, on September 28, 2002, SCE issued a Request for Proposals (RFP) for renewable resources with a response due date of October 10, 2002.

Metropolitan has submitted non-binding expressions of interest for sale of capacity and energy from the above-described facilities to SCE and SDG&E. Both renewable RFP/RFOs require a minimum contract term of five years. The negotiation process will determine the price and other terms and conditions. Metropolitan intends to negotiate the maximum benefits possible with a maximum five-year term for new contracts. Such benefits would consider the potential for additional costs incurred to meet California ISO requirements for metering, transmission, scheduling, and imbalance energy that Metropolitan does not presently incur under the existing contracts. All of the RFP/RFOs contemplate submission of proposed contracts with the successful respondents to the CPUC for approval by the end of November. While the utilities' ability to comply with that schedule is in question, they are expected to file contracts with the CPUC by no later than the end of this year.

Metropolitan Water District Administrative Code § 8118 requires that the Board approve contracts for sale of energy or capacity in excess of two years. This letter seeks Board delegation to the CEO of the authority to

negotiate and execute contracts with a maximum term of five years resulting from the CPUC procurement process referenced above. The requested delegation of authority would enable Metropolitan to respond to potential contract offers within the tight time parameters established by the CPUC. Metropolitan has the flexibility to extract maximum benefit from its renewable resources if the requested delegated authority is authorized.

As an alternative to execution of new contracts resulting from the RFO/RFP process, Metropolitan could issue its own RFP to sell (1) the load shedding from its referenced pumping plants, and (2) capacity and energy from the small hydro plants as their existing contracts expire. However, this alternative is not as attractive since it may not yield responses offering as generous a price as the CPUC's renewable energy benchmark ceiling of 5.37 cents/kWh. Additionally, by the time a Metropolitan RFP is prepared and advertised, responses are evaluated and a contract is negotiated, SCE and SDG&E may have met their statutory minimum renewable energy portfolio requirement, resulting in a lower value for Metropolitan's renewable resources.

Finally, Metropolitan could sell its capacity and energy into the spot market or use it to meet a portion of the CRA pumping requirements. This alternative does not currently, and is not anticipated to, offer a premium for renewable power and may thus result in less revenue for Metropolitan. Additionally, Metropolitan would face greater exposure to price volatility in the energy spot market, and may have limited ability to bid capacity into the spot market.

Policy

Metropolitan Water District Administrative Code § 8118: 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 activities, such as 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

- a. Authorize the Chief Executive Officer to negotiate and execute new bilateral contracts, in form approved by the General Counsel, with a maximum term of five years for the sale of capacity and energy from some of Metropolitan's small hydroelectric generation plants pursuant to the CPUC procurement process described in this letter.
- b. Authorize the Chief Executive Officer to negotiate and execute new bilateral contracts, in form approved by the General Counsel, with a maximum term of five years for load sheds from Hinds pumping plant and possibly supplemental load sheds from the Gene and Intake pumping plants.

Fiscal Impact: Execution of new contracts for the referenced Metropolitan energy resources would provide revenues that have averaged between \$10 million to \$20 million annually since 1987.

Option #2

Take no action, staff would market Metropolitan's energy resources within the parameters established under Administrative Code § 8118.

Fiscal Impact: Unknown, but probable lower value for renewable energy resources obtained outside of CPUC procurement process.

Staff Recommendation

Option #1


Jill T. Wicke
Manager, Water System Operations

10/28/2002
Date


Ronald R. Gasteck
Chief Executive Officer

10/29/2002
Date

BLA #2032