

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

September 9, 2003 Board Meeting

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**10-3**

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**Subject**

Preliminary analysis of State Water Project calendar year 2004 Statement of Charges

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**Description**

Metropolitan has received the calendar year (CY) 2004 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 \$576 million, which is \$135 million more than charges for CY 2003. A comparison of CY 2003 and 2004 is detailed in [Attachment 1](#).

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 2004 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:

- \$146 million increase in Variable Operation, Maintenance, Power, & Replacement Charges. This increase reflects an upward shift in power market prices, resulting in DWR estimating higher purchased power costs for 2004. As reflected in [Attachment 2](#), this shift has also impacted Metropolitan's 2003 SWP power costs, which are now projected at \$197 million, an increase of \$39 million over the \$158 million in the 2003 Statement of Charges. The 2004 Statement of Charges anticipates further increases in DWR's power purchase costs along with greater deliveries into Metropolitan's service area. As illustrated in [Attachment 2](#), 2004 power costs are projected to exceed 2003 costs by \$107 million. If SWP allocations or energy market rates are less than projected, actual energy costs will be significantly lower than shown in the 2004 Statement of Charges.
- \$27 million decrease in the Minimum Operation, Maintenance, Power, & Replacement (OMP&R) charges. The decrease in OMP&R charges is primarily based on adjustments in prior years' costs for terminal reservoir operations and other credits.
- \$16 million increase in capital. Since the Monterey Amendment was executed, DWR annually utilized excess cash flow from prior years to reduce the contractors' upcoming capital charges. This process has been suspended in 2004 primarily because in recent years the pool of unrestricted funds supporting the Monterey credits declined to levels that would not allow capital reductions in 2004.

**Future Steps**

In the upcoming months, staff will present the results of an independent audit of the CY 2004 Statement of Charges by Metropolitan's consultant Richardson and Company, and request the Board authorize the Chief Executive Officer (CEO) to make SWP payments beginning in January.

**Policy**

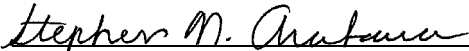
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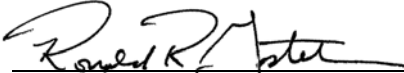
Each year, the Board considers authorizing the CEO to make payments for the CY charges under Metropolitan's SWP contracts.

**Fiscal Impact**

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Staff is currently assessing the impact of the increased SWP charges on the FY 2003/04 budget and future revenue requirements.

 <hr/>	8/15/2003
Stephen N. Arakawa Manager, Water Resource Management	Date

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Ronald R. Gastelum Chief Executive Officer	Date

**Attachment 1 – Comparison of Metropolitan's Statement of Charges for Current CY 2003 and CY 2004**

**Attachment 2 – Comparison of Metropolitan's Statement of Charges for Current CY 2003 and CY 2004 Adjusted to Reflect Projected Power Costs**

<b>Comparison of Metropolitan's Statement of Charges for CY 2003 and CY 2004</b> (\$ millions)			
	<b>CY 2003</b>	<b>CY 2004</b>	<b>Change*</b>
<b>Total Power</b>	\$ 158	\$ 304	\$ 146
<b>Total Min OMP&amp;R</b>	141	114	(27)
<b>Total Capital</b>	142	158	16
<b>Total SWP Charges</b>	<b>\$ 441</b>	<b>\$ 576</b>	<b>\$ 135</b>

\*Increase (Decrease)

<b>Comparison of Metropolitan's Statement of Charges for CY 2003 and CY 2004</b>			
<b>Adjusted to Reflect Projected Power Costs</b>			
(\$ millions)			
	<b>CY 2003 Projected</b>	<b>CY 2004</b>	<b>Change*</b>
<b>Total Power</b>	\$ 197	\$ 304	\$ 107
<b>Total Min OMP&amp;R</b>	141	114	(27)
<b>Total Capital</b>	142	158	16
<b>Total SWP Charges</b>	<b>\$ 480</b>	<b>\$ 576</b>	<b>\$ 96</b>

\*Increase (Decrease)