

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

December 9, 2003 Board Meeting

9-1

Subject

Authorize payments of State Water Project calendar year 2004 Statement of Charges

Description

In November, the state Department of Water Resources issued a revised Statement of Charges totaling \$544 million due for calendar year (CY) 2004 under Metropolitan's State Water Project and Devil Canyon/Castaic contracts.

The charges are \$103 million more than the charges for CY 2003. A comparison of CY 2003 and 2004 is detailed in [Attachment 1](#). Noticeable differences are:

\$116 million increase in Variable Operation, Maintenance, Power, & Replacement Charges. This increase reflects both an upward shift in power market prices and increased water supply delivery projections resulting in DWR estimating higher purchased power costs for 2004. This invoice reflects DWR's estimate of variable power costs averaging \$34 per megawatt-hour. Calendar year 2003 variable changes are averaging about \$23 per megawatt-hour. If variable power rates were to remain at this year's level, the variable cost would be about \$100 million less than on the 2004 Statement of Charges, and Metropolitan would receive invoices reflecting these lower rates.

\$26 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' estimated costs to reflect actual costs of operations and other credits.

\$13 million increase in capital. The Monterey Amendment provides that if project revenues exceed costs, DWR would reduce the contractors' upcoming capital payments. Capital costs will be reduced by a nominal amount in 2004 because very limited excess unrestricted funds are available.

Total charges for 2004 are now \$31 million below the value that was presented to this committee in September. Metropolitan, working through the State Water Contractors organization, reviewed DWR's underlying analysis. As a result of that review, DWR issued the reduced billing for CY 2004.

An independent auditor's review was completed verifying that the 2004 Statement of Charges complies with Metropolitan's State Water Project contracts. The auditor's report and comparative analysis of these charges were provided as a separately mailed board report, and were reviewed by the Audit Subcommittee.

The \$544 million in charges presented to Metropolitan does not reflect refunds and credits that typically range between \$60 and \$70 million annually. Furthermore, if Metropolitan takes delivery of less water than the amount DWR used to calculate power costs, the power charges will be lower than projected in this Statement of Charges. Recognizing these and other adjustments, Metropolitan budgeted \$375 million for FY 2003/04 State Water Project charges. Fiscal year costs will vary with actual energy costs, and are estimated to be \$50 million greater than the FY 2003/04 budgeted amount. If necessary, an additional budget authorization may be requested later this fiscal year to pay State Water Project charges in excess of the current budget authorization.

In order to comply with the terms of its State Water Project contracts, Metropolitan would pay 2004 charges beginning January 2004. In case of default, the State Water Project contracts allow DWR to suspend State Water

Project water deliveries as long as the default continues, and require that Metropolitan impose property taxes to recover unpaid charges.

Policy

Metropolitan Water District Administrative Code § 5112: State Water Contract Payments

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 or maintenance 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, 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 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 approve payments up to a total of \$544 million determined to be due and payable under the terms of the State Water Project and Devil Canyon/Castaic contracts for CY 2004.

Fiscal Impact: Maximum payments in CY 2004 of \$544 million. Net calendar year payments should be lower than shown in the statements of charges because of credits, refunds, and adjustments that are not included in the annual statement. Fiscal year costs will vary with actual energy costs.

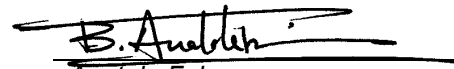
Option #2

Do not authorize payments.

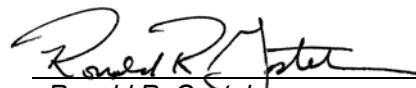
Fiscal Impact: State Water Project contracts allow DWR to suspend State Water Project water deliveries. This would reduce Metropolitan water sales and revenues.

Staff Recommendation

Option #1



Anatole Falagan
for Stephen N. Arakawa
Manager, Water Resource Management
11/21/2003
Date



Ronald R. Gastelum
Chief Executive Officer
11/21/2003
Date

Attachment 1 – Comparison of Metropolitan’s Statement of Charges for CY 2003 and CY 2004

Comparison of Metropolitan's Statement of Charges for CY 2003 and CY 2004 (\$ millions)			
	CY 2003	CY 2004	Change*
Total Power	\$ 158	\$ 274	\$ 116
Total Min OMP&R	141	115	(26)
Total Capital	142	155	23
Total SWP Charges	\$ 441	\$ 544	\$ 103

*Increase (Decrease)