

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

September 14, 2004 Board Meeting

---

**10-3**

---

**Subject**

Preliminary analysis of State Water Project calendar year 2005 Statement of Charges

---

**Description**

Metropolitan has received the calendar year 2005 Statement of Charges for its participation in the State Water Project. Staff is reviewing the Statement of Charges with the Department of Water Resources (DWR) to ensure that these charges comply with the contracts and will report its findings to the Board. The SWP currently provides about 70 percent of Metropolitan's imported water supply and represents about 30 percent of its annual budget.

The charges total \$504 million, which is \$40 million less than charges for CY 2004. A comparison of CY 2004 and 2005 charges 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, which 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 2005 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 2004 Statement of Charges are discussed below:

- \$13 million decrease in Power (variable and off-aqueduct) charges. This decrease reflects a combination of factors. As illustrated in [Attachment 2](#), the variable power is \$38 million lower due to a downward shift in projected power market prices. The reduction in power costs will be partially offset by increases in off-aqueduct and transmission costs. Off-aqueduct costs are \$5 million higher due to increased debt service and operating costs. CY 2005 power costs will include transmission costs of \$20 million.

Commencing with the 2005 Statement of Charges, DWR is changing the accounting method used to invoice contractors for the variable portion of power transmission costs. A new state tariff is being introduced with both fixed and variable transmission costs, whereas previously all transmission costs were fixed. Hence, the new variable transmission cost is being allocated to the Power Variable component. This also results in a reduction to the Minimum component, as described below.

- \$17 million decrease in the Minimum Operation, Maintenance, Power & Replacement (OMP&R) charges. The decrease is mainly a result of the change in the accounting method for charging variable transmission costs.
- \$10 million decrease in capital. Since the Monterey Amendment was executed in 1995, DWR annually utilized excess cash flow from prior years to reduce the contractors' upcoming capital charges. The decrease in capital charges is due to two factors: (1) the increase in the amount of excess cash flow DWR is making available to reduce capital costs, and (2) a portion of the capital costs were refinanced with lower cost variable interest rate bonds.

**Future Steps**

At staff's direction, Richardson and Company has commenced Metropolitan's independent audit of the CY 2005 Statement of Charges. Staff is also working with the other contractors and DWR to further analyze project costs. In the upcoming months, staff will present the results of the independent audit, and request the Board to consider authorizing the Chief Executive Officer to make SWP payments beginning in January. In the new year, if SWP supply allocations, energy market rates, or variable transmission costs are less than projected, actual energy costs invoiced to Metropolitan will be lower.

**Policy**

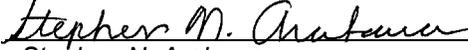
---

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

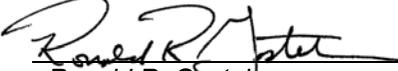
**Fiscal Impact**

---

Staff is currently assessing the impact of the SWP charges on the FY 2004/05 budget and future revenue requirements.

  
Stephen N. Arakawa  
Manager, Water Resource Management

8/14/2004  
Date

  
Ronald R. Gastelum  
Chief Executive Officer

8/23/2004  
Date

**Attachment 1 – Comparison of Metropolitan's Statement of Charges for CY 2004 and CY 2005**

**Attachment 2 – Comparison of Metropolitan's Statement of Charges for CY 2004 and CY 2005  
Power Costs**

<b>Comparison of Metropolitan's Statement of Charges for CY 2004 and CY 2005</b>			
(\$ millions)			
	<b>CY 2004 SOC</b>	<b>CY 2005 SOC</b>	<b>Change*</b>
<b>Total Power</b>	\$ 274	\$ 261	(13)
<b>Total Min OMP&amp;R</b>	115	98	(17)
<b>Total Capital</b>	155	145	(10)
<b>Total SWP Charges</b>	<b>\$ 544</b>	<b>\$ 504</b>	<b>(40)</b>

\* Increase (Decrease)

<b>Comparison of Metropolitan's Statement of Charges for CY 2004 and CY 2005</b>			
<b>Power Costs</b>			
(\$ millions)			
	<b>CY 2004</b>	<b>CY 2005</b>	<b>Change*</b>
<b>Variable Power</b>	\$ 204	\$ 166	\$ (38)
<b>Transmission**</b>		20	20
<b>Off-Aqueduct</b>	70	75	5
<b>Total Power Charges</b>	<b>\$ 274</b>	<b>\$ 261</b>	<b>\$ (13)</b>

\*Increase (Decrease)

\*\* Commencing with CY 2005 transmission costs previous classified as Minimum are being reclassified as variable to reflect a new state tariff. It is estimated that the portion of CY 2004 transmission costs that would be classified as variable under the new tariff is approximately \$14 million.