

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

November 9, 2004 Board Meeting

8-3

Subject

Authorize execution of the First Amendment to the District Etiwanda Capacity and Energy Sale Contract with Pacific Gas and Electric Company

Description

The District Etiwanda Capacity and Energy Sale Contract (Sale Contract) became effective in 1994, and is part of a complex set of arrangements under which Metropolitan sells Etiwanda Hydroelectric Power Plant (Etiwanda) output to Pacific Gas and Electric Company (PG&E). The Sale Contract is dependent upon two related contracts that will terminate on December 31, 2004. These contracts provide for the scheduling and transmission of Etiwanda's energy to PG&E in northern California. The Sale Contract requires Metropolitan and PG&E enter into good faith negotiations and execute an amendment with replacement provisions. If negotiations are not successful, the Sale Contract will also terminate on the same date as the other two contracts.

Since 1994, Metropolitan has received an average of \$2.3 million annually in revenues from PG&E under the Sale Contract. In 2003, as a result of high State project water deliveries, revenues exceeded \$4.5 million. PG&E includes Etiwanda in its renewable energy portfolio, and is interested in maintaining the Sale Contract. Metropolitan and PG&E have completed negotiations of the First Amendment to the Sale Contract (Amendment) to add provisions to replace the terminating contracts.

The Amendment would modify the Sale Contract as follows: (1) establish the Etiwanda 230kV Substation on the California Independent System Operator (CAISO) Grid as a new delivery point for PG&E's receipt of Etiwanda energy; (2) delete references to expired contracts; (3) add new provisions necessitated by CAISO operation of the transmission grid; (4) modify operating procedures; and (5) modify the pricing formula as necessary to reflect the other Sale Contract changes. The Amendment would have no effect on the term of the Sale Contract, which has a minimum term of 2014 unless terminated earlier through self-executing provisions.

Policy

Metropolitan Water District Administrative Code § 8115: 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 (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 the provisions of 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 authorize the Chief Executive Officer to execute the Amendment. This Amendment provides replacement scheduling and transmission arrangements due to the termination of two related contracts.

Fiscal Impact: No significant change in revenues. Annual revenues are expected to remain within the \$3-5 million range.

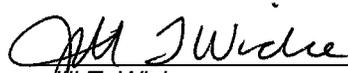
Option #2

Take no action. Negotiations with third parties would be required.

Fiscal Impact: Sale Contract would terminate on December 31, 2004 and Metropolitan's ability to sell energy would be limited until successor agreements are executed. Expect annual loss of approximately \$3-5 million in power sale revenues if no such agreements are executed.

Staff Recommendation

Option #1



Jill T. Wicke
Manager, Water System Operations

10/18/2004
Date



Ronald R. Gastelum
Chief Executive Officer

10/19/2004
Date