

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

September 13, 2005 Board Meeting

9-4

Subject

Preliminary analysis of State Water Project calendar year 2006 Statement of Charges

Description

Metropolitan has received the calendar year 2006 Statement of Charges for its participation in the State Water Project. Staff is reviewing the Statement of Charges (SOC) with the Department of Water Resources to ensure compliance with the contracts and will report its findings to the Board. The State Water Project annual costs represents about 30 percent of Metropolitan's annual budget. The importance of SWP assets has increased in recent years as available SWP supplies can be fully utilized annually by Metropolitan due to its increased storage and treatment capabilities and its coordinated operation with the new agreements implemented for the Colorado River.

The charges total \$506 million, which are \$2 million more than charges for CY 2005. A comparison of CY 2005 and 2006 charges is detailed in [Attachment 1](#). A significant difference, reflected in the 2006 SOC, is the implementation of our 2003 exchange agreement with Desert Water Agency (Desert) and Coachella Valley Water District (Coachella) to transfer 100,000 acre feet of Metropolitan's Table A project water along with associated costs. Under the terms of the agreement Metropolitan has annual options to recall the water. Recalling all the water will incur additional fixed costs of about \$16 million plus variable charges, which would be reimbursed to DWA and CVWD. An estimate of the cost changes resulting from the transfer to Desert and Coachella is detailed in [Attachment 2](#).

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, actual expenditures historically are lower than the invoice Statement of Charges.

Preliminary Analysis of CY 2006 Statement of Charges

Comparisons with last year's charges are as follows:

- \$1.6 million decrease in Power (variable and off aqueduct) charges. This decrease reflects a combination of factors including changes in energy rates, transmission costs and water deliveries used to calculate the charge. In the new year, if SWP supply allocations, energy market rates, or variable transmission costs are less than projected, actual energy costs actually invoiced to Metropolitan will be lower.
- \$10 million increase in the Minimum Operation, Maintenance, Power & Replacement (OMP&R) charges. Each year's SOC includes an estimate for the year's operating cost and a catch up adjustment for prior years over or under collection. In recent years, Metropolitan's catch up adjustment has partially offset actual costs. The increase in OMP&R charges is due mainly to a reduction in the catch up adjustment and resulting reduction in the offset against actual costs. DWR estimates little change in 2006 SWP operating costs.
- \$6.3 million decrease in Capital. The reduction is due to the transfer to Desert and Coachella, and additional rate management credits that are partially offset by increased charges for the East Branch Enlargement.

Improved Cost Management Practices

One of Metropolitan's State Water Project strategic goals is to improve DWR's business processes. As a response to Metropolitan's and other State Water Contractors' requests for timely and more accurate power cost estimates, the Department of Water Resources is developing a new power cost calculation system. The new system will be operational in 2006 and will significantly reduce the time needed to prepare monthly power cost estimates and increase their accuracy. The system will also eliminate delays in the annual calculation of actual costs.

Future Steps

Another of Metropolitan's State Water Project strategic goals is to ensure that the Department of Water Resources billings are correct. Richardson and Company, Metropolitan's independent auditor, has commenced a review of the CY 2006 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 2006. Additionally, staff may also seek authorization to recall up to 100,000 AF from Desert and Coachella and to reimburse them for the associated costs. Staff will report changes, if any, to the Statement of Charges in December 2005.

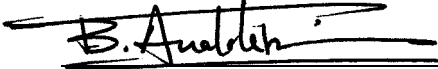
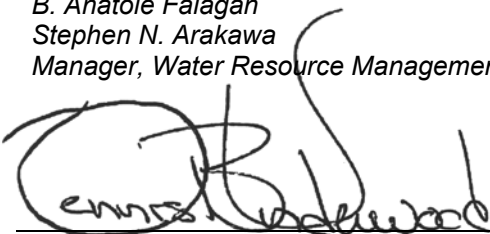
Policy

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

By Minute Item 20862, dated October 4, 1960, the Board authorized Metropolitan to enter into the State Water Project contract, which commits Metropolitan to pay for costs associated with the SWP.

Fiscal Impact

Staff is currently assessing the impact of the SWP charges on the FY 2005/06 budget and future revenue requirements.

	8/25/2005
B. Anatole Falagan for Stephen N. Arakawa Manager, Water Resource Management	Date
	8/26/2005
Dennis B. Underwood CEO/General Manager	Date

Attachment 1 – Comparison of Metropolitan's Statement of Charges for CY 2005 and CY 2006

Attachment 2 – Additional Fixed Charges for Desert and Coachella of 100,000 AF of Table A Water

Comparison of Metropolitan's Statement of Charges for CY 2005 and CY 2006			
(\$ millions)			
	CY 2005 SOC	CY 2006 SOC	Change*
Total Power	\$ 261	\$ 259	(2)
Total Min OMP&R	98	108	10
Total Capital	145	139	(6)
Total SWP Charges	\$ 504	\$ 506	2
Table A Water AF	2,011,500	1,911,500	(100,000)

* Increase (Decrease)

Additional Fixed Charges for Desert and Coachella of 100,000 AF of Table A Water
(\$ millions)

	Fixed Charges
Fixed Power	4
Min OMP&R	6
Capital	6
Total Fixed Charges	16