



● **Board of Directors**
Business and Finance Committee

1/12/2010 Board Meeting

8-2

Subject

Authorize payment for calendar year 2010 charges from the State Water Project under terms of water supply contracts with the Department of Water Resources

Description

Board authorization is requested to pay Metropolitan's expected State Water Project (SWP) contractual obligations. Staff proposes initial authorization to pay up to \$598 million for calendar year 2010 to cover probable SWP contractual Table A and other SWP system deliveries of 1.2 million acre feet (MAF). Metropolitan's Administrative Code requires the General Manager to make recommendations as to the payment of any billings received under the State Water Contract, and to only make payments upon approval of the Board.

The initial 2010 Statement of Charges invoice issued in July for 2010 water supply totaled \$651 million for 1.7 MAF. Staff has developed the \$598 million recommendation which is \$53 million lower than the July invoice, based upon a delivery of 1.2 MAF. The 1.2 MAF of water delivery into Metropolitan's service area includes deliveries derived from the Table A allocation, withdrawals from groundwater storage programs, water transfer programs and other water management actions. In the event less water is received, Metropolitan would pay the fixed charges plus the variable charges associated with the reduced delivery amount. If a greater amount of water supply becomes available, and delivery amounts exceed 1.2 MAF, supplemental board authorization would be requested to pay the additional variable energy charges necessary to transport the increased supply.

Fixed and Variable Costs

Metropolitan's annual SWP charges are divided into two broad categories: fixed costs and variable energy cost. Invoices associated with the fixed portion are independent of any water the SWP delivers and are divided into two sub-categories: (1) capital charges that are paid semiannually, and (2) fixed operating charges that are paid monthly primarily for salaries and maintenance. The fixed charges for 2010 total \$449 million and are shown in [Attachment 1](#). These fixed charges include debt repayment and costs required to operate and maintain infrastructure. The second category is the charge for variable energy costs related to actual amounts of water supply delivered. The monthly payment cycle for fixed and variable charges is shown in [Attachment 2](#).

Variable Energy Costs

The variable charges for pumping 1.2 MAF in 2010 are projected to be \$149 million. A number of factors affect SWP variable energy charges, including the amount of water delivered into our service area, the amount of hydroelectric power generated by the SWP, the price of energy in the market and the outcome of energy rate litigation. In 2010, hydrologic conditions and Delta pumping restrictions to protect endangered species are expected to continue influencing the amount of water to be pumped. Dry hydrology could translate to low SWP hydroelectric revenues and greater net costs for acquiring market energy. High volatility in costs of purchased energy may return as the natural gas market follows the price of oil. In addition, the SWP is experiencing increasing energy transmission costs. [Attachment 3](#) compares the combined charges contained in staff's recommendation with Department of Water Resources' (DWR) July Statement of Charges.

Statement of Charges Revision

DWR has announced that it intends to revise the 2010 charges. The revisions are not expected to significantly change Metropolitan's 2010 charges. DWR expects to issue the revised charges in early January 2010.

Audit of the Statement of Charges

Metropolitan's independent outside auditor, Richardson and Company, has completed an annual audit of the initial 2010 Statement of Charges. The auditor determined DWR corrected reported findings reducing the 2010 charges by \$17.4 million. The auditor identified approximately \$2.6 million in new overcharges, which combined with previously reported overcharges bring the total outstanding overcharges to \$55 million. Overall, the auditor determined that with the future correction of these audit findings, the charges comply with the terms and conditions of the SWP contract. [Attachment 4](#) summarizes the results of the audit. The review of any January revisions to the 2010 Statement of Charges will be incorporated into the annual audit of the 2011 Statement of Charges.

Changes under Discussion

DWR and the State Water Contractors have implemented a process to review and resolve outstanding overcharge claims. Since the process commenced in January, contractors have registered 93 claims with DWR, with 55 from Metropolitan. DWR has resolved 53 of these claims, 28 from Metropolitan. Eight of the resolved claims are incorporated into the 2010 charges. Metropolitan's remaining resolved claims will be incorporated into future charges. The claims resolution discussions are ongoing.

Policy

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

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative 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.

Board Options

Option #1

Adopt the CEQA determination and authorize payments up to a total of \$598 million to DWR in CY 2010 for Metropolitan's SWP charges.

Fiscal Impact: Maximum payments in CY 2010 for Metropolitan's SWP expenses of up to a total of \$598 million for expected deliveries of 1.2 MAF. Net calendar year payments should be lower because of credits, refunds, and adjustments that are not included in the annual charges. Payments will vary with actual deliveries and unit energy costs.

Business Analysis: Historically, Metropolitan's actual SWP costs have been less than DWR's estimated charges due to lower energy costs and water deliveries. This request is \$53 million less than DWR's initial 2010 Statement of Charges estimate. This request represents charges that would be incurred for delivery, to Metropolitan's service area, of up to 1.2 MAF of SWP allocations, groundwater pump-in programs, water transfers, and other water management actions. If additional water supplies become available, supplemental requests would be made for board authorization to pay the additional energy costs for taking delivery of the water.

Option #2

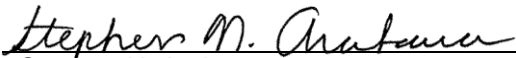
Adopt the CEQA determination and authorize payments up to a total of \$651 million to DWR in CY 2010 for Metropolitan's SWP charges.

Fiscal Impact: Payments in CY 2010 for Metropolitan's SWP expenses up to a total of \$651 million for deliveries of up to 1,711,500 AF. Net calendar year payments should be lower because of credits, refunds, and adjustments that are not included in the annual charges. Payments will vary with actual deliveries and energy unit costs.

Business Analysis: This option authorizes payments that would be incurred with a SWP allocation of up to 90 percent, and would include some deliveries to storage in the San Joaquin Valley. Metropolitan would pay fixed charges plus the variable charges associated with only the actual amount of water delivered. If actual deliveries are 1.2 MAF, Metropolitan's payments would be same as in Option #1.

Staff Recommendation

Option #1



Stephen N. Arakawa
Manager, Water Resource Management

12/30/2009

Date



Jeffrey Kightlinger
General Manager

12/30/2009

Date

Attachment 1 – Schedule of Fixed CY 2010 Charges

Attachment 2 – Figure 1 – Monthly Payment Cycle

Attachment 3 – Figure 2 – Comparison of Staff Recommendation with Revised CY 2010 Charges

Attachment 4 – Summary Report on the Audit of the CY 2010 Statement of Charges

Reference Number wrm12602421

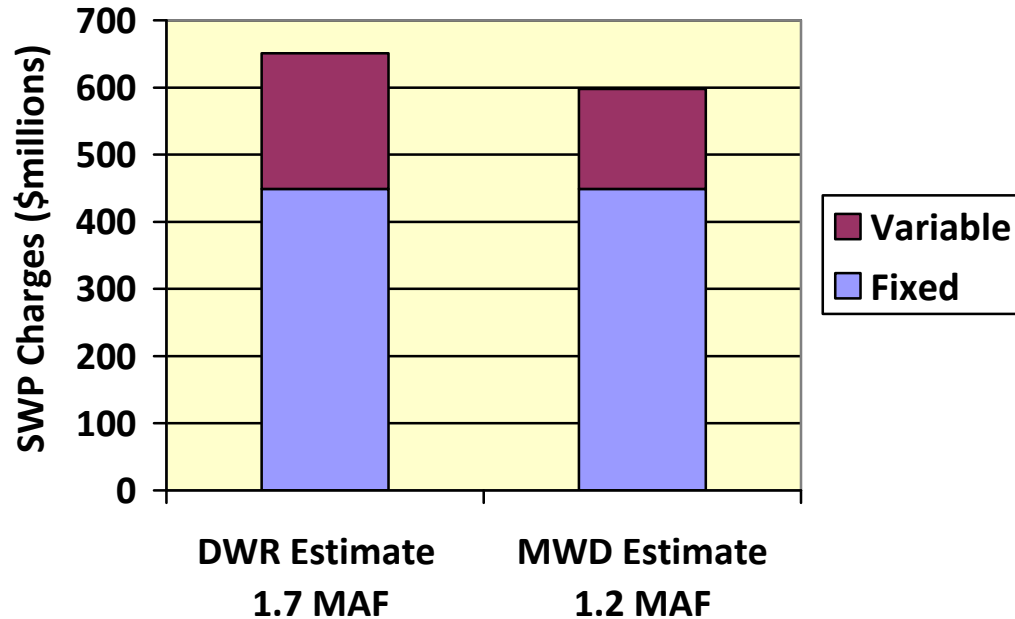
Schedule of Fixed CY 2010 Charges

	CY 2010 SOC <u>(\$millions)</u>
Off Aqueduct Power Facilities	93
Total Min OMP&R	192
Total Capital	<u>164</u>
Total Fixed SWP Charges	449

Figure 1 - Monthly Payment Cycle

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
<u>Fixed Charges</u>												
Capital	✓						✓					
East Branch Capital			✓						✓			
Minimum O&M	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Off Aqueduct Power	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<u>Variable Charges</u>												
Power	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Project capital payments are made semiannually. Minimum Operations and Maintenance, and Power Variable and Off Aqueduct charges are made monthly.

Figure 1 - Comparison of Staff Recommendation with Revised CY 2010 Charges

The fixed or core charges for 2010 total \$449 million and are shown in Attachment 2. These include the charges for capital, operations and maintenance, and the fixed energy charges. The variable component is based on DWR's estimate of delivering of 1.7 MAF and higher prices for purchased energy. DWR's estimate of the variable energy charge for 1.7 MAF delivery is \$202 million. Combined, these charges are a total of \$651 million. In 2010, Metropolitan's water receipts are expected to be substantially less than 1.7 MAF due to drought and environmental restrictions and purchased energy prices are also projected to be lower than DWR's estimate. Actual variable energy charges are expected to be substantially lower than included in the Statement of Charges.

In formulating staff's recommendation for this Board letter, expected MWD water receipts were projected at 1.2 MAF instead of 1.7 MAF. The cost to deliver 1.2 MAF, representing SWP Table A allocation, transfers, groundwater pump-in programs, and other water management actions, would be the fixed cost of \$449 million, plus a variable energy cost of \$149 million for a total of \$598 million. If additional supplies are available, the variable charges would increase at the rate of about \$12.5 million for each additional 100,000 acre-feet delivered to the Metropolitan service area or about \$9 million if half of the increased delivery is to storage in the San Joaquin Valley. In the event additional supplies become available, a supplementary request for additional funds would be presented to the Board.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

**SUMMARY REPORT ON THE
AUDIT OF METROPOLITAN'S 2010 CHARGES
FOR WATER SUPPLY FROM THE STATE WATER
PROJECT**

**ISSUED BY STATE OF CALIFORNIA DEPARTMENT OF
WATER RESOURCES**

RICHARDSON & COMPANY

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

**SUMMARY REPORT ON THE
AUDIT OF METROPOLITAN'S 2010 CHARGES
FOR WATER SUPPLY FROM THE STATE WATER PROJECT
PREPARED BY STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES**

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INDEPENDENT AUDITOR'S REPORT

The Metropolitan Water District
of Southern California
Los Angeles, California

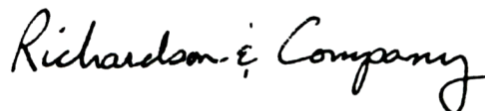
We have audited the accompanying 2010 Charges for water supply from the State Water Project submitted to the Metropolitan Water District of Southern California (Metropolitan) by the State of California Department of Water Resources (Department). This Statement of Charges is the responsibility of the Department's management. Our responsibility is to express an opinion on this Statement of Charges based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Charges is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Statement of Charges. An audit also includes assessing the accounting practices used and significant estimates made by the Department's management for conformity with our understanding of Metropolitan's Water Supply Contract. The audit also includes evaluating the overall Statement of Charges presentation. We believe that our audit provides a reasonable basis for our opinion.

In conformity with the requirements of Metropolitan's Water Supply Contract with the Department, a significant portion of the Statement of Charges is based on current estimates of future costs which are not susceptible to audit verification. The Statement is also based on interpretations made by the Department's management relating to various provisions of the Water Supply Contract. Many of these interpretations are the subject of ongoing negotiations. In addition, Metropolitan's contract provides that any overpayment or underpayment, by reason of error in computation or other causes, shall be adjusted in the next succeeding year. Accordingly, the Statement of Charges issued to Metropolitan is a tentative billing which is subject to adjustment when final costs are known and when resolution of unsettled issues such as described in our reports and others are agreed upon.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary if the matters described in the preceding paragraph were susceptible to audit verification, the 2010 Statement of Charges referred to in the first paragraph is fairly presented, in all material respects, in conformity with the provisions of Metropolitan's Water Supply Contract as we understand them.

This report is intended solely for the information and use of Metropolitan and the Department and is not intended to be and should not be used by anyone other than these specified parties.



November 30, 2009

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
2010 STATE WATER PROJECT STATEMENT OF CHARGES

	Cost Components			Total
	Variable ^{1/}	Minimum	Capital	
<u>WATER SUPPLY CONTRACT</u>				
Transportation Charge	\$ 202,097,138	\$ 133,679,267	\$ 61,343,827 ^{2/}	\$ 397,120,232
Off-Aqueduct Power Facilities Charge ^{1/}		92,839,556		92,839,556
Delta Water Charge		47,012,233	24,992,616 ^{2/}	72,004,849
East Branch Enlargement		5,202,365	30,146,101	35,348,466
Water System Revenue Bond Surcharge			35,073,902	35,073,902
Tehachapi Second Afterbay Facilities			5,001,372	5,001,372
<u>DEVIL CANYON – CASTAIC CONTRACT</u>				
Operations and maintenance – Article 17(b)		6,319,159		6,319,159
Debt service on bonds – Article 17(a)			7,017,340	<u>7,017,340</u>
			TOTAL ^{3/}	<u><u>\$ 650,724,876</u></u>

The accompanying report is an integral part of our presentation of the Statement of Charges.

1/ Based on a water delivery schedule of 1,711,500 acre-feet.

2/ Amounts typically reflect Urban Rate Reduction credits in the transportation charge and the Delta Water Charge as stated under Article 51 of the Monterey Amendment. However, the Department will not include these credits in the 2010 Statement of Charges until a study of the amount of credits that could be given is completed.

3/ Metropolitan pays the capital cost component in semi-annual payments and the minimum and variable cost components in monthly payments.

LIST OF ABBREVIATIONS

CAISO	California Independent System Operator
CARA	Cost Allocation and Repayment Analysis System
CEQA	California Environmental Quality Act
CESA	California Endangered Species Act
EBE	East Branch Enlargement
FALPOC	Final Allocation of Power Costs
FERC	Federal Energy Regulatory Commission
KCWA	Kern County Water Agency
KWB	Kern Water Bank
KWH	Kilowatt - hour
LADWP	Los Angeles Department of Power and Water
MWQI	Municipal Water Quality Investigation
O&M	Operations & Maintenance
PALPOC	Preliminary Allocation of Power Costs
PUFF	Proportionate Use of Facilities Factor
SAP	The Department's business information and accounting system
SCADA	Supervisory Control and Data Acquisition software
SMIF	Surplus Money Investment Fund
SWPAO	State Water Project Analysis Office
USBR	United States Bureau of Reclamation
WSRB	Water System Revenue Bond

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
 COMPARISON OF THE 2009 AND 2010 STATE WATER PROJECT STATEMENTS OF CHARGES
 (IN MILLIONS)

	Transportation Charge				Delta Water Charge		East Branch Enlargement		Water System Revenue Bonds	Total
	Capital	Minimum	Off-Aqueduct Minimum	Variable	Capital	Minimum	Capital	Minimum		
2009 Statement of Charges dated December 24, 2008	\$ 53.7	\$ 127.1	\$ 95.8	\$ 243.5	\$ 24.9	\$ 33.3	\$ 30.3	\$ 7.0	\$ 36.5	\$ 652.1
Increase (decrease) due to changes in:										
Estimated costs	0.8	5.3	(4.3)	(62.7)	0.2	19.8		(0.4)		(41.3)
Past cost adjustments	0.2	7.6		16.9	(0.1)		0.2	(1.4)		23.4
Change in debt service	18.7		1.8				(0.4)		(1.4)	18.7
Recovery generation				1.1		(6.1)				(5.0)
Allocations among contractors			(0.5)	3.3						2.8
NET CHANGE	19.7	12.9	(3.0)	(41.4)	0.1	13.7	(0.2)	(1.8)	(1.4)	(1.4)
2010 Statement of Charges dated July 1, 2009	\$ 73.4	\$ 140.0	\$ 92.8	\$ 202.1	\$ 25.0	\$ 47.0	\$ 30.1	\$ 5.2	\$ 35.1	\$ 650.7

Comparison of the 2009 and 2010 Statements of Charges

As shown on the previous page, Metropolitan’s 2010 charges decreased by \$1.4 million compared to the December rebill of the 2009 Statement of Charges. The more significant of these changes are the result of the following items:

TRANSPORTATION CAPITAL: The increase of \$19.7 million in the transportation capital component is primarily due to the following:

Decrease in WSRB Debt Service Reserve Credit: \$ 18.7 million

Debt service reserve credits are included in 2009, but not 2010.

Change in debt service costs from 2009 to 2010: 0.2 million

Increased debt service costs for Tehachapi Second Afterbay and Devil Canyon Castaic.

Changes in cost estimates: 0.8 million

Mostly caused by Perris Dam remediation costs being reallocated to the recreation Project purpose.

TOTAL CHANGE IN TRANSPORTATION CAPITAL COMPONENT \$ 19.7 million

TRANSPORTATION MINIMUM: The increase in the transportation minimum component of \$12.9 million is the result of a \$5.3 million increase in cost estimates and a \$7.6 million increase in the past cost adjustment. The net increase is due primarily to the following increases and decreases:

Changes in estimated costs:

Increase in operations control system cost estimates for 2009 and 2010 \$9.1 million

Operations control systems estimates increased by \$12.1 million related primarily to the following:

Control system remote terminal unit replacement project cost increases	\$5.1 million
CAISO electricity market initiatives and transmission system redesign cost increases	2.8 million
Cyber-Security Infrastructure Protection compliance cost increases	2.2 million
Increased cost estimates for Project Operations Center and plant SCADA system	1.1 million
Centralized Control System migration miscellaneous cost increases	1.6 million

Revision of 2009 and 2010 estimated water gains and losses and reservoir storage changes 5.0 million

The Department's estimate of water gains and losses and reservoir changes increased due primarily to changes in storage assumptions at Lakes Castaic and Perris. The reservoir levels for Castaic are estimated to increase by 39,000 acre-feet and for Perris, decrease by 8,000 acre-feet for 2009, resulting in a net increase of \$3.8 million. In addition, for 2010, the estimated reservoir level for Perris increased by 12,000 acre-feet, resulting in a \$1.2 million increase.

Increased costs for the Delta Habitat Conservation and Conveyance Program 3.1 million

Delta Habitat Conservation and Conveyance Program costs increased from \$27.2 million in 2009 to \$33.7 million in 2010.

Increase in estimated 2009 and 2010 costs for major O&M activities 2.8 million

The Department increased the 2009 and 2010 estimates for planned major O&M activities by \$1.9 million for the entire Project. The cost increase is due to a combination of projects being completed and new projects starting.

Inclusion of Bay Delta Extraordinary Costs for 2009 and 2010 1.0 million

Estimated costs totaling \$3.7 million for Delta fish facility improvement projects and for fishery survival improvements under the 2004, 2009 National Oceanic and Atmospheric Administration Operation Criteria and Planning Biological Opinion were included.

Inclusion of Division of Environmental Services extraordinary costs for 2010 0.6 million

Estimated consultant costs for salmon and smelt CESA and CEQA compliance and for Bay-Delta Environmental Protection Study-related costs, which are allocated on the state-wide basis.

Revisions to 2009 and 2010 Municipal Water Quality Investigation program costs (0.3 million)

Change in Proportionate Use of Facilities (PUF) factors (0.3 million)

PUF factors changed as a result of Desert and Coachella purchasing capacity from Tulare and Kern.

Reduction in Bay Delta Conservation Plan Costs (0.7 million)

No additional amounts need to be collected in 2010.

Reduction of estimated planning cost for the Lodi Powerplant (2.5 million)

Estimated planning costs were removed for 2009 and 2010.

Change in State Government charges (2.9 million)

Estimated State Government charges from other State agencies decreased by \$5 million.

Updated O&M cost estimates for 2009 and 2010 (9.9 million)

Cost estimates decreased by \$11.5 million as a result of the following:

Reduction of costs by 5% in response to contractor requests. \$ (8.6 million)

Salary cost reductions due to State-mandated furlough of
Department employees. (6.3 million)

These decreases are partially offset by an increase due to the following:

Updating O&M cost estimates using revised cost projections.

The costs were higher due to an increase in the average of the
last three years' general O&M costs, which is the basis for the
estimate. 3.4 million

<u>Other unidentified changes</u>	0.3 million
Total change in estimated costs	<u>5.3 million</u>

Change in past cost adjustments:

Adjustments of 2008 costs from estimates to actual 9.5 million

The Department underestimated the transportation minimum costs for 2008 in the prior year. The Department revised estimates to actual.

Inclusion of operating equipment purchases for fiscal year 2008 2.6 million

Operating equipment purchases totaling \$4 million that were previously excluded due to a programming error were included.

Impact of additional year of interest on the prior over and underpayments 2.0 million

Revisions to 2007 and 2008 MWQI program costs 0.2 million

Update of water gains and losses and reservoir storage changes from 1999 to 2008 0.1 million

The Department revised all downstream calculations of water gains and losses and reservoir storage changes from 1999 to 2007 and also updated 2008 amounts from estimates to actual.

Update of 2008 transmission costs to actual (2.0 million)

Revisions to 2008 and prior costs (4.8 million)

The 2009 Statement of Charges included a \$4.8 million overpayment due to revisions to prior year's cost, which causes a decrease in charges when compared to the 2010 Statement of Charges.

Total change in past cost adjustments	<u>7.6 million</u>
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TOTAL CHANGE IN TRANSPORTATION MINIMUM COMPONENT	<u><u>\$ 12.9 million</u></u>
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OFF-AQUEDUCT MINIMUM: The \$3.0 million decrease in Metropolitan’s off-aqueduct minimum component is due primarily to the following:

Change in debt service costs: \$ 1.8 million

Scheduled debt service costs increased by \$2.7 million between 2009 and 2010 due primarily to the issuance of Series AF Water System Revenue Bonds in March 2009.

Allocations among contractors: (0.5 million)

Increases in other Southern California contractor water deliveries of 38,350 acre-feet resulted in a decrease in costs allocated to Metropolitan of \$0.5 million.

Change in estimated costs: (4.3 million)

Coal costs at Reid Gardner decreased by \$11 million due to an \$11.58 per-ton decrease in the price of coal and a decrease in estimated usage from 770,000 to 731,500 tons. Transmission costs increased by \$4.6 million due to a rate methodology change within Southern California Edison’s transmission service area.

TOTAL CHANGE IN OFF-AQUEDUCT MINIMUM COMPONENT **\$ (3.0 million)**

TRANSPORTATION VARIABLE: The variable component decreased by \$41.4 million between 2009 and 2010. This decrease results from the following:

Changes in estimated costs: \$(34.8 million)

Decreased net power cost estimates for 2010

The decrease in the Department’s net power costs consists of the following:

Decrease in power costs	\$(100.1 million)
Decrease in power sales	41.2 million
Addition of contingencies	<u>20.3 million</u>
	(38.6 million)

Net power cost estimates decreased primarily due to:

Decrease in costs for long-term energy purchases of \$59.8 million	(155%)
Decrease in costs for short-term purchased energy of \$46.8 million	(121%)
Decrease in CAISO charges of \$15.5 million	(40%)

These cost decreases were partially offset by increases due to:

Decrease in sales of energy of \$41.2 million	106%
Increases in recovery generation plant costs of \$22.4 million	58%
Contingency for contractor payment lag of \$10 million	26%
Contingency for payment lag due to energy market redesign of \$10.3 million	26%

Differences between energy study and variable charges (25.9 million)

Additional decreases result from amounts used to calculate the variable charges that are not reflected in the energy requirements study for 2010 preliminary water deliveries. The only difference in amounts should be the affect of the downstream allocation of costs for water gains, losses and storage changes; however, this does not appear to be the cause of the entire difference. The Department has not been able to provide an explanation as to why these two tables contain inconsistent data.

Decrease in replacement costs: (2.0 million)

Reduction of the equipment replacement charge for 2010 and the adjustment to update estimated replacement costs for 2009.

Total change in estimated costs (62.7 million)

Changes in the past cost adjustment:

Revision of 2008 from estimated to actual power costs (4.1 million)

The 2008 variable charges decreased as a result of an adjustment of the 2008 payment amount to actual, and a decrease as a result of higher power sales caused by the reduction in the amount of energy required by the pumping plants. In addition, Metropolitan’s actual water deliveries for 2008 were 1,047,761 acre-feet less than the amount estimated in the prior year. The variable unit rates also decreased for 2008.

Revision of 2009 estimated power costs 21.4 million

The 2009 charges increased because Metropolitan underpaid for this year, due to revisions to the 2008 and prior costs.

Additional year of interest on the overpayment of prior years’ variable charges (0.4 million)

Total change in past cost adjustments 16.9 million

Changes in recovery generation credits: 1.1 million

Recovery generation credits decreased primarily because of decreased deliveries to Metropolitan on the East Branch and the Department’s assumption of less water being delivered through Mojave Siphon, which was partially offset by an increase of deliveries through the West Branch.

Changes in allocations among contractors:

Metropolitan’s water deliveries were shifted to the West Branch 3.3 million

The major factor contributing to the increase in Metropolitan’s share of energy costs is the shift of 45,373 acre-feet of Metropolitan’s deliveries from Semitropic storage north of the Tehachapis to the West Branch, which increased costs by \$6 million. This increase was partially offset by a decrease due to a change in Metropolitan’s delivery pattern from the East Branch to the West Branch, which has a lower unit cost.

TOTAL CHANGE IN TRANSPORTATION VARIABLE COMPONENT **\$(41.4 million)**

DELTA WATER CHARGE MINIMUM: The increase of \$13.7 million in the Delta Water Charge minimum component is primarily due to the following:

Changes in estimated costs:

Increased O&M cost estimates for 2012 to 2035 \$18.4 million

The Department increased the Oroville, Delta and the San Luis facilities extraordinary O&M cost estimates by \$1.135 million.

Updated O&M cost estimates for 2009 through 2010 0.6 million

O&M costs used in the Delta Water Charge increased by \$22.5 million due to the following:

O&M cost estimates for 2009 through 2011 increased as a result of a \$34.4 million increase in the average of historical costs for the last three years, upon which these estimates are based, including a 5% escalation factor.	\$34.4 million
Increased FERC relicensing cost projections.	2.6 million
Reduction of costs by 5% in response to contractor requests.	(7.8 million)
Decrease in State Government charges from other State agencies.	(2.9 million)
Salary cost reductions due to State-mandated furlough of Department employees.	(3.8 million)

Update of estimated San Luis Reservoir storage changes 0.1 million

Changes in assumptions of reservoir levels at San Luis, including a significant fill in 2010, resulted in an increase in costs of \$3.7 million.

Change in operations control system cost estimates for 2009 to 2011 0.3 million

Operations control systems estimates increased by \$8 million as a result of projects described on page 5.

Increase in estimated 2009 through 2011 costs for major O&M activities 0.4 million

O&M project costs for conservation facilities increased by \$14.9 million for the entire Project. The increases are due primarily to Thermalito refurbishment of \$8.8 million and Delta mitigation land purchases of \$4.2 million.

Total change in estimated costs 19.8 million

Changes in the operating credit for Hyatt-Thermalito: (6.1 million)

Oroville power revenues increased for years 2010 through 2035 by \$380 million as a result of the Department increasing its cost estimates for extraordinary O&M costs, which are recorded as a credit in the Delta Water Charge and a charge in the variable component.

TOTAL CHANGE IN DELTA WATER CHARGE MINIMUM COMPONENT \$ 13.7 million

EAST BRANCH ENLARGEMENT MINIMUM: The East Branch Enlargement minimum component decreased by \$1.8 million between 2009 and 2010 due to the following:

Changes in past cost adjustment: \$ (1.4 million)

Costs decreased primarily due to an increase from estimated to actual costs of \$1.8 million for 2008, offset by a decrease in cost estimates of \$0.5 million for 2009, a decrease due to the overpayment of \$2.2 million included in the 2009 Statement of Charges and a decrease in 2006 costs of \$0.4 million.

Change in estimated minimum costs: (0.4 million)

**TOTAL CHANGE IN EAST BRANCH ENLARGEMENT
MINIMUM COMPONENT** **(\$ 1.8 million)**

WATER SYSTEM REVENUE BOND SURCHARGE: The Water System Revenue Bond Surcharge decreased by \$1.4 million as a result of the following:

Change in debt service costs: \$ (1.4 million)

Surcharge decreased \$8.2 million as a result of the refunding of Series Q and U and decreased \$5.4 million due to a decrease in scheduled debt service for Series Z. These decreases were partially offset by an increase in scheduled debt service of \$9.4 million for Series AE and AF.

TOTAL CHANGE IN WATER SYSTEM REVENUE BOND SURCHARGE **\$ (1.4 million)**

Future Potential Refunds and Adjustments

Metropolitan's estimated 2010 charges of \$650.7 million do not include certain credits, refunds and adjustments that are expected in 2010 as part of the Department's normal accounting and billing process. The refunds below are expected to reduce Metropolitan's 2010 billings by approximately \$47.6 million for the following items:

	<u>Estimated Refund Date</u>		
<u>Cover – Off-Aqueduct</u>			
July – December 2008	April 2010	\$ 4,515,000	
January – June 2009	October 2010	<u>4,345,000</u>	\$ 8,860,000
<u>Cover – Water System Revenue Bond (WSRB)</u>			
January 2009	October 2010	<u>7,653,000</u>	7,653,000
<u>Cover – East Branch Enlargement (EBE)</u>			
March 2009	April 2010	3,101,000	
September 2009	October 2010	<u>3,095,000</u>	6,196,000
<u>Cover – Tehachapi Second Afterbay</u>			
March 2009	April 2010	415,000	
September 2009	October 2010	<u>493,000</u>	908,000
<u>Federal Securities Earnings</u>			
July – December 2008	March 2010	516,000	
January – June 2009	March 2010	516,000	
July – December 2009	March 2010	516,000	
January – June 2010	October 2010	<u>516,000</u>	2,064,000
<u>SMIF Interest – Off-Aqueduct</u>			
July – December 2008	March 2010	685,000	
January – June 2009	March 2010	685,000	
July – December 2009	March 2010	685,000	
January – June 2010	October 2010	<u>685,000</u>	2,740,000
<u>SMIF Interest – WSRB</u>			
July – December 2008	March 2010	634,000	
January – June 2009	March 2010	634,000	
July – December 2009	March 2010	634,000	
January – June 2010	October 2010	<u>634,000</u>	2,536,000
<u>SMIF Interest – EBE</u>			
July-December 2008	March 2010	313,000	
January-June 2009	March 2010	313,000	
July – December 2009	March 2010	313,000	
January – June 2010	October 2010	<u>313,000</u>	1,252,000
<u>SMIF Interest – Reserve Account</u>			
July – December 2008	March 2010	1,961,000	
January-June 2009	March 2010	1,961,000	
July – December 2009	March 2010	1,961,000	
January – June 2010	October 2010	<u>1,961,000</u>	7,844,000
<u>Devil Canyon and Tehachapi Second Afterbay</u>			
2009 Devil Canyon debt service	May 2010	4,254,000	
2009 Tehachapi debt service	May 2010	<u>3,328,000</u>	<u>7,582,000</u>
TOTAL ESTIMATED REFUNDS			<u><u>\$ 47,635,000</u></u>

In addition, the 2010 variable and off-aqueduct charges may be reduced further if 2010 costs are determined to be overstated during the year. Also, amounts described in this section are in addition to the other credits, refunds and adjustments related to audit findings that are summarized on page 22.

Federal securities earnings and State Managed Investment Fund (SMIF) interest for July 2008 through June 2009 should have been refunded during 2009. However, the Division of Fiscal Services has indicated that SMIF interest refunds will not be calculated until SWPAO completes the analysis of the reallocation of the bond debt service reserves.

UNRESOLVED ISSUES RELATED TO THE 2010 STATEMENT OF CHARGES

During our audit, we encountered a number of issues related to the calculation of various components of the 2010 Statement of Charges that need to be addressed by the Department. Some of these issues result in errors in the Statement of Charges.

Rebill of the 2010 Statement of Charges. The Department has identified adjustments to the transportation minimum, transportation variable and conservation components in the original 2010 Statement of Charges that are expected to be reflected in a rebill in December 2009. These revisions include the following: revise the three-year average escalation factors for 2010 and 2011, reflect the permanent capacity transfer from Dudley to Mojave starting in 2010, incorporate future cost estimates for the Delta Fish Agreement, Bay Delta Compliance Plan and the Oroville Settlement Agreement and include rate management credits for 2010.

Reallocation of Recreation Costs. Metropolitan has contended that the Department inappropriately included, in Metropolitan's bills, charges for the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. As a partial solution for funding recreation debt service costs, the Department revised the recreation allocation percentage for certain Delta facilities costs from 14% to 3.3% for minimum and 3.4% for capital, which shifted additional costs retroactively to Metropolitan and the other contractors. The Department believes this change better reflects the purpose of these facilities and their recreation and fish and wildlife enhancement cost structure. In addition, the Department secured a \$29.6 million loan from the Pooled Money Investment Account (PMIA) to fund the remaining financed recreation costs. The Department has pledged revenues from the State Water Facilities Capital Account and all amounts remaining, if any, after the Water Contractor rate reduction credits. Future recreation capital costs will be funded from the Capital Facilities Account and reimbursements from the General Fund. However, the Department projects that this account may be in a deficit position by 2011.

Accounting System Upgrade. Since the implementation of the new SAP/CARA computerized accounting system in 2000, the Department has been unable to produce a Water System Revenue Bond Surcharge calculation. As a result, the Department has billed the contractors an estimated amount based on the Surcharge calculation that was included in the 2000 Statement of Charges, Attachment 3, which was calculated in 1999. In addition, effective July 1, 2006, the Department upgraded their computerized accounting system. The Department determined that the system is still not functioning properly for certain components and computed certain components of the 2010 Statement of Charges outside of the CARA system.

Springing Amendment. On April 1, 2002, the Department amended provisions of the General Bond Resolution relating to the Debt Service Reserve Account, reducing the amount of reserves the Department

is required to maintain. Credits representing the refunding of these excess debt service reserves have been given as part of the revised 2008 and 2009 Statements of Charges in July 2009 and December 2008 totaling \$33.4 million, of which Metropolitan's share was \$21.4 million. The Department has indicated that \$64.6 million remains to be distributed. The Department is also preparing a revised allocation methodology as a result of concerns expressed by the contractors that the refunds given have not been allocated equitably among contractors.

Variable Component Billings. Since the implementation of SAP, the Department has had difficulty calculating the water table redistribution entries that reallocate costs between the minimum, variable and Delta Water Charge components for water gains and losses and changes in reservoir storage within the SAP system. In our current year audit, we were able to recalculate the Department's downstream allocation, except that the Department did not record the entries in SAP in time for the preparation of the 2010 Statement of Charges. In addition, we noted significant inconsistencies between Table B-3, which reports the actual energy related costs for each pumping and recovery plants, with the costs allocated to the contractors using Table B-12 of Bulletin 132.

Delta Fish Agreement Amendment Four. An agreement was signed between the Department and the Department of Fish and Game (DFG) on December 30, 1986 to provide payments to offset fish losses caused by operations in the Delta. The Department continues to negotiate to amend the 1986 Agreement for a fourth time; however, the contractors have informed the Department that they are unable to support the proposed amendment and will oppose efforts by the Department to fund the activities described in the amendment. In the Delta Water Charge component of the 2009 Statement of Charges, the Department included \$200 million to pay for new projects and for the acquisition of mitigation lands, but these amounts were removed in the December 2008 rebill. Mitigation land purchases totaling \$4.2 million have been included in the 2010 Delta Water Charge.

East Branch Enlargement. During April 1986, Metropolitan and the Department entered into Amendment No. 19, known as the East Branch Enlargement Amendment, to the basic Water Service Contract, which established the basis for repayment of the costs of enlarging the East Branch of the California Aqueduct. The Enlargement work was in addition to the Mojave Division modification to correct the basic capacity deficiency. The methodology used by the Department to allocate costs to the Enlargement and the modification is still considered an interim or temporary approach that has not been officially accepted by the contractors. The Department has indicated that consideration will be given to Metropolitan's concerns while developing the revised East Branch Enlargement allocation methodology, which is a low priority project for the Department.

TABLE A
Summary of Settled Audit Findings Resulting in Changes to
the 2010 Statement of Charges

Throughout the year, we worked with Metropolitan's representatives and the Department to resolve audit exceptions. The following is a brief summary of the items resolved during 2009 which affected the 2010 Statement of Charges. A more detailed description of these items starts on page 23.

Items	Effect on Metropolitan's 2010 Costs Increase (Decrease)
<u>Previously Reported Findings</u>	
1. MWQI costs for 1999 through 2004 were corrected. (Refer to page 23)	\$ (5,853,000)
2. Water table redistribution entries for 2006 and 2007 to allocate costs between the minimum and variable charges were calculated using updated water information. (Refer to pages 23 and 24)	(4,716,000)
3. Technology improvement cost estimates of \$15,589,000 included twice in the Delta Water Charge and estimates of \$8,055,000 included twice in the transportation minimum charges were removed. (Refer to page 24)	(3,561,000)
4. Special engineering cost estimates for 2008 through 2013, overstated by \$63,928,000 in the prior year calculation of the Delta Water Charge capital and transportation capital components, were revised. (Refer to page 24).	(1,243,000)
5. Coastal Branch power charges included in the 2009 variable component were corrected. (Refer to page 24)	(923,000)
6. Tehachapi Second Afterbay 2009 debt service included in the calculation of the variable component were revised to actual. (Refer to page 24)	(830,000)
7. Credits totaling \$2,376,000 for 2007 wheeling water transactions were properly recorded in the cost accounting system. (Refer to page 24)	(462,000)
8. Lake Perris mitigation cost projections totaling \$2.1 million were properly removed from the contractors' bills. (Refer to pages 24 and 25)	(125,000)
9. The 2008 and 2009 recovery generation amounts for Alamo and Mojave Siphon included in the variable component calculation were corrected. (Refer to page 25)	(54,000)
10. Payments received from the USBR totaling \$166,000 for San Luis were properly recorded in the accounting system. (Refer to page 25)	(7,000)
11. Oroville revenues incorrectly included in the Delta Water Rate calculation for 2035 were reduced by \$4,960,000. (Refer to page 25)	44,000
12. MWQI charges billed through the Statement of Charges were corrected. (Refer to page 25)	73,000

Items	Effect on Metropolitan's 2010 Costs Increase (Decrease)
13. Credits for Hyatt Thermalito O&M costs for 2004 through 2007 and FERC relicensing costs for 1999 through 2007 were partially corrected in the Delta Water Rate calculation. (Refer to pages 25 and 26)	284,000
NET BENEFIT	<u><u>\$ (17,373,000)</u></u>

TABLE B
Summary of Audit Findings Projected to Result in Changes to
the 2011 Statement of Charges

Throughout our examination, we worked with Department and Metropolitan representatives to resolve findings which arose during our audit of the 2010 Statement of Charges. We will work with the Department to ensure the correction of these findings in the 2011 Statement of Charges. The items are discussed in detail starting on page 26 of this report. The items are summarized as follows:

Items	Effect on Metropolitan's 2011 Costs Increase (Decrease)
<u>New Findings</u>	
1. Metropolitan's 2008 variable calculated component was overstated due to the use of incorrect unit rates. (Refer to page 26)	\$ (4,242,000)
2. Monterey Amendment Litigation costs totaling \$8.4 million were included twice in the transportation minimum component. (Refer to page 26)	(3,686,000)
3. Refurbishment costs for Hyatt Units 1, 3 and 5 totaling \$6.1 million were incorrectly included in the Delta Water Charge and variable components. (Refer to page 26)	(257,000)
4. Bay Delta Conservation Plan charges for 2007, 2008 and 2009 totaling \$7.5 million were incorrectly included in the transportation and conservation minimum components. (Refer to page 26)	(242,000)
5. The exchange of 10,033 acre-feet of demonstration water from the Kern Water Bank has not been credited to the system power costs. (Refer to page 26)	(138,000)
6. The debt service credit included in the Delta Water Charge to offset the refurbishment costs for Hyatt Units 2, 4 and 6, is understated by \$1.7 million. (Refer to page 27)	(56,000)
7. The present value of water used in the calculation of the Delta Water Rate was based on outdated information. (Refer to page 27)	(30,000)
8. Charges totaling \$41,000 for a 2007 4 th of July event were incorrectly assessed to the contractors in 2009. (Refer to page 27)	(1,000)
9. Litigation settlement costs were allocated manually rather than through the SAP cost allocation system. (Refer to page 27)	2,000
10. The 2010 recovery generation amounts for Alamo and Mojave Siphon, included in the variable component calculation, are understated by \$1,072,000. (Refer to page 27)	2,000
11. Oroville flood control charges for 2008 totaling \$201,000 were excluded from the Delta Water Rate calculation. (Refer to pages 27 and 28)	7,000

Items	Effect on Metropolitan's 2011 Costs Increase (Decrease)
12. The fish replacement charge unit rate computed for 2009 was used for calculating the 2010 charge, resulting in a \$109,000 understatement of the variable component. (Refer to page 28)	87,000
13. Accounting adjustments to correct the effect on the downstream distribution of energy costs were not reflected in the 2010 Statement of Charges. (Refer to page 28)	1,755,000
14. Conservation water delivered through Banks was not considered in the calculation of the downstream allocation of costs. (Refer to page 28)	<u>4,188,000</u>
	(2,611,000)
<u>Previously Reported Findings</u>	
15. The downstream reallocation of costs totaling \$23,432,000 were not reflected in the variable component calculation. (Refer to page 28)	(18,745,000)
16. Costs totaling \$13,374,000 for Gorman Creek Improvement Channel emergency repairs were included in the transportation minimum component instead of the transportation capital component. (Refer to page 29)	(11,276,000)
17. Variable energy charges, billed outside of the SAP accounting system, are overstated by approximately \$324,000 for 2006, \$6,245,000 for 2007 and \$4,012,000 for 2008. (Refer to page 29)	(8,465,000)
18. Hyatt-Thermalito operating costs for 1998 to 2000 and 2004 to 2008, included in the computation of the variable charges, were overstated \$6,536,000 and credits for Hyatt-Thermalito operating costs included in the Delta Water Charge were overstated by \$219,000. (Refer to page 29)	(5,834,000)
19. Delta cross channel pilot study costs and other Delta-related costs totaling \$4,112,000 have been allocated statewide instead of through the Delta Water Charge. (Refer to page 29)	(2,523,000)
20. Replacement costs for 2005 through 2008, used to calculate the variable replacement charge, were overstated by \$409,000 due to the use of outdated cost information and 2009 and 2010 costs totaling \$1,120,000 were allocated incorrectly. (Refer to pages 29 and 30)	(1,429,000)
21. Adjustments related to 2009 and 2010 Thermalito Diversion Dam Powerplant capital cost repayment amounts totaling \$1,531,000 were erroneously included twice in the variable component. (Refer to page 30)	(1,225,000)
22. Metropolitan's November and December 2006 variable payments totaling \$940,000 were improperly excluded from the 2006 payment amount and the 2007 and 2008 payments are understated by \$5,000 and \$59,000, respectively, on Attachment 4C of the Statement of Charges. (Refer to page 30)	(1,195,000)
23. Peaking credits totaling \$1,884,000 for 1998 and 1999 were excluded from the computation of the variable component. (Refer to page 30)	(1,080,000)

Items	Effect on Metropolitan's 2011 Costs Increase (Decrease)
24. Coastal Extension debt service charges were erroneously included in the 2008 variable component instead of the Coastal Branch power charge. (Refer to page 30)	(923,000)
25. Final energy costs for 1998 were not recorded or were recorded incorrectly in the bills. (Refer to page 30)	(906,000)
26. Costs incurred at the Oroville facilities associated with FERC relicensing for 1999 to 2008 used in the transportation variable charge and the Delta Water Charge were outdated. (Refer to pages 30 and 31)	(595,000)
27. Costs totaling \$92.9 million, partially allocated to recreation prior to the implementation of SAP, were billed entirely to the conservation minimum component. (Refer to page 31)	(483,000)
28. The Los Angeles Department of Water and Power (LADWP) peaking credit was excluded from the computation of the 2005 variable component. (Refer to page 31)	(470,000)
29. Credits for wheeling water transactions for 2004 totaling \$229,000 and for 2008 totaling \$30,000 were not recorded in the cost accounting system. (Refer to page 31)	(110,000)
30. The adjustment to the 2007 rate management credit to correct errors in previous credits was understated. (Refer to page 31)	(79,000)
31. Deliveries of 5,000 acre-feet taken from storage in the San Joaquin Valley were billed as if they were delivered from the Delta. (Refer to pages 31 and 32)	(73,000)
32. Hyatt-Thermalito operating costs, included as a credit in the Delta Water Charge, were understated \$855,000 for 2009 and \$766,000 for 2010. (Refer to page 32)	(51,000)
33. The 2007 recovery generation amounts for Alamo, Mojave Siphon, Warne, Castaic and Devil Canyon included in the variable component calculation are misstated by \$293,000. (Refer to page 32)	(35,000)
34. Recovery generation credits for San Luis, Devil Canyon and Warne Powerplants for 1998 were misstated by \$396,000. (Refer to page 32)	(22,000)
35. Lake Perris mitigation project costs for 2005 to 2007 totaling \$325,000 were allocated to the contractors instead of to the recreation purpose. (Refer to page 32)	(19,000)
36. Gianelli Pumping Plant replacement costs totaling \$167,000 were improperly included in the calculation of the Delta Water Charge. (Refer to page 32)	(8,000)
37. Power costs were understated and recovery generation credits were overstated by \$267,000 due to an incorrect 2002 Alamo mill rate and the use of an outdated 1999 San Luis amount. (Refer to pages 32 and 33)	(7,000)
38. The fish replacement charge unit rate computed for 2008 was used for calculating the 2009 charge. (Refer to page 33)	18,000

Items	Effect on Metropolitan's 2011 Costs Increase (Decrease)
39. Power costs and revenues, transmission, station service and peaking costs totaling \$31,747,000 for 1999 through 2005 were not recorded or were recorded incorrectly in the accounting system. (Refer to page 33)	61,000
40. Outdated debt service amounts were used to determine the Devil Canyon Second Afterbay charges for 2003 through 2008 in the variable component. (Refer to page 33)	91,000
41. Minimum transmission costs for 2006 and 2007 were understated by \$207,000 and station service charges for 2006 and 2008 were understated by \$881,000. (Refer to page 33)	707,000
42. Debt service amounts for the Tehachapi Second Afterbay were understated by \$939,000 for 2004 through 2008 in the calculation of the variable component. (Refer to page 33)	751,000
43. Incorrect wheeling credits, contractor payments and water amounts, and an error in the calculation of the present value of water was noted in the variable fish replacement charge. (Refer to page 33)	853,000
44. Costs totaling \$1,406,000 for the Division of Environmental Services relocation were omitted from the transportation minimum component. (Refer to pages 33 and 34)	914,000
45. Hyatt-Thermalito Units 1, 3 and 5 refurbishment costs totaling \$1,241,000, were excluded from the variable component. (Refer to page 34)	<u>993,000</u>
NET BENEFIT	<u>\$ (53,776,000)</u>

TABLE C**Summary of Audit Findings Resulting in Credits, Refunds and Adjustments**

Audit findings affect not only the Statement of Charges but also the amounts of credits, refunds and adjustments the Department issues to Metropolitan. The following is a brief summary of the items found during our audit that affect credits, refunds and adjustments. A more detailed description of these items starts on page 34.

Items	Effect on Metropolitan's 2011 Costs Increase (Decrease)
<u>Previously Reported Findings</u>	
1. Incorrect costs were used to compute the 1992 WSRB Surcharge and an inconsistent project purpose split was used to compute the 1990 to 1993 WSRB Surcharge. (Refer to page 34)	\$ (655,000)
2. Certain Coastal Branch capital cost repayment amounts were excluded from the computation of the 2000 WSRB Surcharge. (Refer to page 34)	(632,000)
3. Errors were noted in the calculation of the SMIF interest refund. (Refer to page 34)	<u>6,000</u>
NET BENEFIT	<u>\$ (1,281,000)</u>

DISCUSSION OF OUR SERVICES, AUDIT FINDINGS
AND GENERAL COMMENTS

In conformity with the contract between The Metropolitan Water District of Southern California (Metropolitan) and Richardson & Company, we have audited the 2010 Statement of Charges submitted to Metropolitan by the State of California Department of Water Resources (Department).

Scope of the Assignment. The primary service we perform for Metropolitan is the audit of the annual Statement of Charges under Metropolitan's Water Service Contract with the Department. In addition to our audit work, we perform special projects as requested by Metropolitan's staff in areas such as investigating financial and accounting matters, disputes over Department policy and in negotiating contract amendments and administrative changes in the Department's management of the State Water Project. We also participate with Metropolitan in water contractor meetings that serve as a forum for resolving accounting, billing and budgeting issues, including meetings of the State Water Contractor (SWC) Audit-Finance Committee.

Reporting. The more significant findings and results of our audit, special projects work and participation in meetings are presented in two reports prepared after the completion of our annual audit: a comprehensive report that serves as a working document between the auditors, Department and Metropolitan staff and a summary report that is provided to Metropolitan's Board of Directors and management addressing the results of our audit.

Audit Findings. Our goal is to provide Metropolitan with a thorough audit. The engagement is divided into forty-one separate areas and fieldwork is completed primarily from April through October. Computer auditing techniques are used to test posting, mathematical accuracy and select samples from data files. The following are the more significant findings of our audit. The changes reflected in the 2010 Statement of Charges are summarized in Table A on pages 16 and 17, those projected to be reflected in the 2011 Statement of Charges are summarized in Table B on pages 18 to 21 and those that will affect credits, refunds and adjustments are summarized in Table C on page 22.

Findings Resulting in Changes to the 2010 Statement of Charges:

- MWQI costs for 1999 through 2004, included twice in the billing system in the prior year, have been corrected, resulting in a decrease to Metropolitan's transportation minimum charge of \$5,853,000 in the 2010 Statement of Charges. (TABLE A, Item 1)
- Our prior year audit disclosed discrepancies in the Department's calculation of the water table redistribution entries that appeared to be attributable to the Department not using the most current summary of annual water quantities conveyed through each pumping and power recovery plant. In our current year audit, we verified that the water delivery and reservoir storage changes used to

calculate the downstream reallocation of costs were properly updated. The impact of this correction on Metropolitan's 2010 Statement of Charges was to reduce the minimum component by \$5,256,000 and increase the Delta Water Charge by \$540,000, respectively, in the 2010 Statement of Charges. (TABLE A, Item 2)

- When compiling the 2008 and 2009 estimates for technology improvement projects, the Department included certain estimates in the 2009 Statement of Charges twice. This error was corrected in the rebill of the 2009 Statement of Charges, resulting in a decrease in Metropolitan's Delta Water Charge and transportation minimum component by \$123,000 and \$3,438,000, respectively. (TABLE A, Item 3)
- Special engineering cost estimates for 2008 through 2013, overstated by \$63,928,000 in the calculation of the 2009 Statement of Charges, were reduced in the 2010 Statement of Charges, resulting in a decrease in the Delta Water Charge capital and transportation capital components by \$454,000 and \$789,000, respectively. (TABLE A, Item 4)
- In our prior year audit, we reported that the Department included the Coastal Branch Extension 2009 debt service amount of \$2,935,000 instead of the Coastal Branch power charges of \$1,781,000. This error was corrected, resulting in a reduction to Metropolitan's transportation variable charge of \$923,000 in the 2010 Statement of Charges. (TABLE A, Item 5)
- The Tehachapi Second Afterbay charge for debt service allocated to the power benefit included in the 2009 variable charges was overstated by \$1,038,000 in the 2009 Statement of Charges. The 2009 estimate was revised to agree to the debt service schedule in the 2010 Statement of Charges, resulting in a decrease in Metropolitan's transportation variable component of \$830,000. (TABLE A, Item 6).
- In our prior year audit, we reported invoices totaling \$2,376,000 for 2004 and 2007 wheeling transactions were billed but were not collected and hence not credited to the contractors. These invoices have now been credited to the cost accounting system, resulting in a decrease of \$86,000 and \$376,000, respectively, to Metropolitan's transportation capital and minimum components in the 2010 Statement of Charges. (TABLE A, Item 7)
- The Department incurred \$3.4 million of costs in 2005, 2006, and 2007 for recreation and fish and wildlife projects at Perris Reservoir. These expenditures were to facilitate easy access for park users to the water for recreation, and maintain and enhance wildlife habitat due to the reservoir level being lowered to address public safety concerns related to the stability of Perris Dam in the event of a major earthquake. These costs were being allocated mostly to the water supply Project purpose rather than 100% to the recreation Project purpose. As the expenditures

have no apparent transportation water supply purpose, the Department made a correction to reallocate \$2.1 million of these costs to a recreation cost center, with the exception of the costs related to the irrigation system, which Metropolitan concurs should be billed to the contractors under the transportation capital component. As a result of this correction, Metropolitan's transportation capital component decreased by \$125,000 in the 2010 Statement of Charges. (TABLE A, Item 8)

- Our prior year audit disclosed that the Department calculated the 2008 and 2009 recovery generation credits for Alamo and Mojave Siphon using incorrect mill rates, understating the value of recovery generation for 2008 by \$4,999,000 and understating the value of recovery generation for 2009 by \$1,641,000. These errors were corrected when the Preliminary Power Allocation Memo for 2008 was issued and the 2009 estimates were revised for the 2010 Statement of Charges. As a result, Metropolitan's transportation variable component decreased by \$535,000, the transportation minimum component increased by \$477,000 and the Delta Water Charge minimum component increased by \$4,000 in the 2010 Statement of Charges. (TABLE A, Item 9)
- The Department has recorded credits in the cost accounting system for payments received from the USBR in 2006 totaling \$166,000 for San Luis capital costs. Because the contractors are charged initially for 100% of the costs until reimbursement is received from the USBR, Metropolitan's transportation capital and Delta Water Charge capital components are now properly reduced by \$5,000 and \$2,000, respectively, in the 2010 Statement of Charges as a result of these credits being recorded. (TABLE A, Item 10)
- Oroville power revenues in the Delta Water Rate calculation for 2035, overstated in the prior year as a result on an input error, were reduced by \$4,960,000. As a result, Metropolitan's 2010 Delta Water Charge increased \$44,000 in the 2010 Statement of Charges. (TABLE A, Item 11)
- A portion of the MWQI costs are billed by the Department and a portion are billed by the State Water Contractors Association (SWCA). A SWCA consultant has determined that the Department incorrectly allocated these costs between the annual Statement of Charges and the SWCA in the 2009 Statement of Charges. The Department has prepared a revised allocation and, as a result, Metropolitan's transportation minimum component increased by \$73,000 in the 2010 Statement of Charges. (TABLE A, Item 12)
- Although differences remain between actual Hyatt-Thermalito O&M costs for 2004 through 2007 and FERC relicensing costs for 1999 compared to the credits included in the Delta Water Rate calculation for these years, adjustments have been made by the Department to update amounts to reflect actual costs. In addition, the credits for the FERC relicensing costs for 2000 through 2007 have been updated to actual. The correction of the credits included in the Delta Water Rate

calculation result in an increase of \$284,000 in Metropolitan's Delta Water Charge in the 2010 Statement of Charges. (TABLE A, Item 13)

Findings Projected to Result in Changes to the 2011 Statement of Charges:

New Findings

- Metropolitan's 2008 variable calculated component is overstated by \$4,242,000 in the 2010 Statement of Charges due to the use of incorrect unit rates in calculating this charge. (TABLE B, Item 1)
- Monterey Amendment Litigation charges totaling \$8.4 million, which have been included in the contractor's transportation minimum component charges on Attachment 4B of the Statement of Charges, were also allocated through the cost allocation process, resulting in these costs being billed twice. This error results in an overstatement to Metropolitan's transportation minimum component and Delta Water Charge of \$3,589,000 and \$97,000, respectively, in the 2010 Statement of Charges. (TABLE B, Item 2)
- We noted that the Department had included approximately \$6.1 million of Hyatt Unit 1, 3, and 5 refurbishment costs in the computation of the Delta Water Charge; however, the Department did not include a credit to offset these charges, resulting in the double billing of these costs, since they are now being billed through the variable component. The exclusion of the credit results in an overstatement to Metropolitan's Delta Water Charge by \$257,000 in the 2010 Statement of Charge. (TABLE B, Item 3)
- Bay Delta Conservation Plan costs are billed as a separate component of the transportation minimum charge in the Statements of Charges. The Department must include a credit in the Delta Water Rate calculation in order not to double bill the contractors. Our audit procedures disclosed that the Department erroneously excluded the credits for 2007, 2008 and 2009, overstating costs included in the Delta Water Charge by approximately \$7,500,000 and overstating Metropolitan's Delta Water Charge by \$242,000 in the 2010 Statement of Charges. (TABLE B, Item 4)
- In 2008, Kern County Water Agency (KCWA) exchanged 10,033 acre-feet of entitlement water for the same amount of 1990 Demonstration water held in the Kern Water Bank (KWB). The Department billed KCWA for this water as if delivered from the Delta. Since all contractors were charged when the KWB was filled, 2008 system power costs should be reduced for the amount paid by KCWA from Banks to reach 10A. This credit was not included in the Department's computation of the variable charges, which results in an overstatement of \$138,000 to Metropolitan's 2008 variable component in the 2010 Statement of Charges. (TABLE B, Item 5)

- The 2010 Statement of Charges includes scheduled debt service costs for Hyatt Units 2, 4, and 6 of \$1,259,000 for 2009 and \$1,304,000 for 2010 through 2029 as a result of the issuance of Series AE WSRB in 2008. The debt service schedule used in the 2010 Statement Charges is based on total costs for Units 2, 4, and 6 of \$16.9 million. However, we determined the total costs in SAP were \$18.6 million. Since the credit is included in the Delta Water Charge based on the \$16.9 million instead of the \$18.6 million, Metropolitan's 2010 Delta Water Charge is overstated by \$56,000. (TABLE B, Item 6)
- The present value of water used to calculate the Delta Water Rate was based on prior year water data. The use of the outdated entitlement water results in a \$150,000 overbilling to Metropolitan's Delta Water Charge in the 2010 Statement of Charges. (TABLE B, Item 7)
- Our audit disclosed that costs incurred in prior years that were previously suspended were assessed to the contractors in 2009, including \$41,000 in charges for a 2007 4th of July event at Lake Oroville. This error results in an overstatement of \$1,000 to Metropolitan's Delta Water Charge in the 2010 Statement of Charges. (TABLE B, Item 8)
- The Department incurred \$2.0 million in litigation settlement costs related to a condemnation lawsuit involving the San Luis Canal and Arroyo Pasajero Flood Control Improvement Project. Costs incurred at San Luis have a joint Project purpose split, resulting in 55% of the costs being billed to the contractors, with the remaining 45% being billed to the United States Bureau of Reclamation. However, we noted that the contractors were allocated only 51% of the settlement cost instead of the 55%, as a result of the Department allocating costs manually rather than allocating the cost through the SAP cost allocation system. This allocation error understates Metropolitan's capital component in the 2010 and future Statement of Charges by \$2,000 per year. (TABLE B, Item 9)
- The Department calculated the 2010 recovery generation credits for Alamo and Mojave Siphon using incorrect mill rates, understating the value of recovery generation for 2010 by \$1,072,000. As a result, Metropolitan's transportation variable component is overstated by \$15,000 and the transportation minimum component is understated by \$17,000 in the 2010 Statement of Charges. (TABLE B, Item 10)
- The Federal government previously paid for flood control costs at Oroville, but no longer did so beginning in 1986. To include these costs in the contractor billings, the Department must prepare entries to allocate Oroville flood control costs to the contractors each year. Our audit of the 2010 Statement of Charges disclosed that the Department did not make this entry before the 2010 Statement of Charges was issued. As a result, Oroville flood control costs totaling \$201,000 were

excluded from the 2010 Statement of Charges, understating Metropolitan's Delta Water Charge by \$7,000. (TABLE B, Item 11)

- Although the Department prepared a 2010 fish replacement charge calculation, the unit rate calculated for the 2009 Statement of Charges was used for 2010. Because the 2009 rate was used instead of the 2010 rate, Metropolitan's 2010 variable charge is understated by \$87,000. (TABLE B, Item 12)
- Although the Department calculated the downstream distribution to reallocate costs between the minimum and variable components for water gains and losses and changes in reservoir storage in SAP, entries to record the effect of the downstream calculation were not made to SAP in time to be included in the 2010 Statement of Charges. As a result, the transportation minimum costs for 2006 through 2008 are understated by \$2,256,000 and the conservation minimum costs are understated by \$23,000. The impact of this error on Metropolitan's 2010 Statement of Charges is to understate the transportation minimum component by \$1,754,000 and understate the Delta Water Charge by \$1,000. (TABLE B, Item 13)
- During our testing, we determined that the program developed by the Department to compute the downstream distribution using the SAP system excluded initial fill water, operation losses, and net annual storage changes associated with the San Luis Reservoir and the portion of the California Aqueduct that is allocated to conservation. This change in methodology of excluding conservation water delivered through Banks Pumping Plant from the downstream calculation for 1999 to 2008 understates the variable and transportation minimum costs by \$3,672,000 and \$3,413,000, respectively, and overstates the conservation minimum costs by \$6,964,000. The impact of this error on Metropolitan's 2010 Statement of Charges is to understate the variable component by \$2,938,000, understate the transportation minimum component by \$1,486,000 and overstate the Delta Water Charge by \$236,000. (TABLE B, Item 14)

Previously Reported Findings

- Although the Department is now utilizing the SAP system to calculate the downstream distribution that reallocates costs between the minimum and variable components for water gains and losses and changes in reservoir storage, because the Department billed the variable component outside of the SAP system in the 2010 Statement of Charges for the years 2006, 2007 and 2008, the entries to record the downstream distribution of costs calculated by SAP were not included in the contractors' variable charges, as they were for the minimum component, resulting in an overstatement of Metropolitan's variable component by \$18,745,000. (TABLE B, Item 15)

- The Department included \$13,374,000 of estimated and actual costs for Gorman Creek Improvement Channel emergency repairs in the 2010 Statement of Charges. The Department considers the inclusion of these costs in the transportation minimum component proper because they believe that the repair work is to bring the facility back to normal conditions and is not a betterment. However, these repairs appear to meet the qualifications for capitalization under the Department's capitalization policy. The inclusion of these costs in the transportation minimum component overstates Metropolitan's transportation minimum component by \$12,049,000 and understates the transportation capital component by \$773,000 in the 2010 Statement of Charges. (TABLE B, Item 16)
- As in the past two years, our review of the variable energy charges and discussion with Department personnel disclosed that the variable energy charges were not calculated using the power costs and power sales from the SAP accounting system. Net power costs summarized on Table 10 of the 12-Table study were used for calculating the 2006, 2007 and 2008 variable charges. We compared this summary of power costs used in the calculation of the Statement of Charges to the amounts in SAP, adjusted for known misspostings, and estimate that the 2006, 2007 and 2008 variable charges are overstated by \$324,000, \$6,245,000 and \$4,012,000, respectively, in the 2010 Statement of Charges, resulting in an overstatement of \$8,465,000 to Metropolitan's transportation variable component. (TABLE B, Item 17)
- The 1998, 1999, 2000 and 2004 to 2008 Hyatt-Thermalito O&M costs included in the variable component are overstated by \$6,536,000 and the credits included in the computation of the Delta Water Charge are understated by \$219,000 due to the Department not using actual O&M costs. The effect of these errors was to overstate Metropolitan's transportation variable and minimum components by \$5,854,000 and \$87,000, respectively, and to understate Metropolitan's Delta Water Charge by \$107,000 in the 2010 Statement of Charges. (TABLE B, Item 18)
- Costs totaling \$4,112,000 for Delta-related projects were allocated statewide instead of to the Delta reaches. The incorrect allocation of these costs results in a \$150,000 understatement of Metropolitan's Delta Water Charge and a \$2,673,000 overstatement to Metropolitan's transportation minimum component in the 2010 Statement of Charges. (TABLE B, Item 19)
- We examined the Department's calculation to allocate historical and estimated plant replacement costs to contractors based on water deliveries and noted that the Department's calculation does not reflect the most current historical cost information. Replacement costs used to calculate the variable replacement charges are overstated by \$471,000 for 2005 and 2006. In addition, we noted that incorrect replacement costs for 2007 and 2008 were used in the Statement of Charges. Also, for 2009 and 2010, cost estimates for the Banks Pumping Plant were incorrectly allocated

based on the water at the Buena Vista Pumping Plant, resulting on an overstatement of costs of \$1,120,000. These errors result in a \$1,429,000 overstatement of Metropolitan's replacement charges on Attachment 5 and the transportation variable component in the 2010 Statement of Charges. (TABLE B, Item 20)

- Thermalito Diversion Dam capital credits appear to be included in the variable charges twice for 2009 and 2010. The result is to overstate variable costs for 2009 and 2010 by \$1,531,000, which overstates Metropolitan's variable component by \$1,225,000 in the 2010 Statement of Charges. (TABLE B, Item 21)
- Metropolitan's 2006 variable payment included in Attachment 4C of the 2010 Statement of Charges did not include payments totaling \$940,000. In addition, the payments for 2007 and 2008 are understated by \$5,000 and \$64,000, respectively. These errors overstate Metropolitan's transportation variable charges by \$1,195,000, including interest on the underpayment, in the 2010 Statement of Charges. (TABLE B, Item 22)
- The Department calculated a peaking charge for 1998 of \$351,000 and for 1999 of \$1,533,000, but the Department had not reduced the system power costs by these amounts. If these peaking charges were included in the calculation of the variable charge, Metropolitan's transportation variable and minimum components would be reduced by \$967,000 and \$113,000, respectively. (TABLE B, Item 23)
- We noted a discrepancy of \$1,153,000 for 2008 variable charges because the Coastal Branch debt service amount was used instead of the Coastal Branch power charge. As a result, Metropolitan's variable component in the 2009 Statement of Charges was overstated by \$923,000. (TABLE B, Item 24)
- During our reconciliation of the final 1998 energy, transmission and station service costs, we noted that power costs are overstated by \$2,659,000, power sales are understated by \$501,000, transmission costs are understated by \$293,000, station service costs are overstated by \$95,000 and Coastal Branch power costs are understated by \$680,000 due to the use of outdated information. These errors resulted in an overstatement of Metropolitan's variable component by \$1,048,000 and an understatement of the minimum component by \$142,000 in the 2010 Statement of Charges. (TABLE B, Item 25)
- FERC relicensing costs for 1999 through 2008 were overstated by \$99,000 in the computation of the variable component and 1999 and 2008 costs were understated by \$322,000 in the Delta Water Rate calculation due to the use of outdated costs. As a result, Metropolitan's variable

charge is overstated by \$611,000, and the Delta Water Charge is understated by \$16,000 in the 2010 Statement of Charges. (TABLE B, Item 26)

- Upon conversion to a new system in 1999, the Department revised the allocation of certain conservation costs from 1999 to 2002, including Bay-Delta environmental protection studies, compliance monitoring, environmental protection support, planning model development, Delta facilities planning and Bay-Delta proceedings, such that they were allocated on a statewide basis and billed to the contractors mostly through the transportation minimum component; whereas in the previous system, these costs were being allocated to a Delta facilities reach and were billed to the contractors through the Delta Water Charge, after the allocation to the recreation Project purpose. As a result of this change, \$89,531,000 of minimum costs and \$3,368,000 of capital costs from 1999 through 2008 are being allocated entirely to the contractors, instead of a portion being allocated to the recreation Project purpose, which results in the overstatement of Metropolitan's 2010 and future Delta Water Charge by \$115,000 each year and the overstatement of the 2001 through 2010 Statements of Charges by \$368,000. (TABLE B, Item 27)
- We noted in a previous audit that LADWP paid \$587,000 to the Department in 2005 for interruption and curtailment of capacity as well as for peaking capacity foregone by the Department at the Castaic Powerplant that was not properly recorded in the accounting system. This credit has been properly recorded in the accounting system; however, because the Department did not use SAP to bill the variable charges, the 2010 Statement of Charges does not reflect this correction, resulting in an overstatement of \$470,000 to Metropolitan's variable component. (TABLE B, Item 28)
- Water wheeling transactions for 2004 with an estimated cost of \$230,000 have not yet been collected and credited to the contractors. In addition, an invoice for a wheeling transaction in 2008 totaling \$30,000 that has been billed and collected was not credited to the accounting system. The estimated impact of these unrecorded transactions on Metropolitan's 2010 Statement of Charges is an overstatement of \$110,000. (TABLE B, Item 29)
- In previous audits, we reported that the Department had recalculated the rate management credits for 1997 through 2004 because they had incorrectly used a Table B-15 that had been adjusted for the changes related to the permanent transfer of entitlement water. This recalculation improperly excluded \$79,000 from the 2005 rate reduction credit due to an error in the Department's reallocation computation. (TABLE B, Item 30)
- Metropolitan's 2007 variable calculated component erroneously treated the delivery of 5,000 acre-feet of water taken from storage in the San Joaquin Valley as if the water had been delivered

from the Delta through the Banks Pumping Plant. This error overstates Metropolitan's 2007 calculated component by \$73,000 in the 2010 Statement of Charges. (TABLE B, Item 31)

- The credit for Hyatt-Thermalito included in the Delta Water Rate computation was \$855,000 less than the charges in the variable component for 2009 and was \$766,000 less for 2010. These misstatements result in an overstatement of Metropolitan's Delta Water Charge by \$51,000 in the 2010 Statement of Charges. (TABLE B, Item 32)
- The 2007 recovery generation amounts for Warne and Castaic are understated and the amounts for Alamo, Mojave Siphon and Devil Canyon are overstated in the variable component calculations due to the use of outdated amounts. As a result, Metropolitan's transportation variable component was understated by \$34,000 and the transportation minimum component is overstated by \$69,000 in the 2010 Statement of Charges. (TABLE B, Item 33)
- The value of recovery generation for the San Luis and Warne Powerplants for 1998 is understated by \$457,000 and \$14,000, respectively, and the Devil Canyon recovery generation is overstated by \$75,000, due to the use of outdated information. The effect to Metropolitan is to overstate the transportation variable and understate the transportation minimum components by \$28,000 and \$6,000, respectively, in the 2010 Statement of Charges. (TABLE B, Item 34)
- The Department incurred \$3,400,000 of costs in 2005 through 2007 for recreation and fish and wildlife projects at Perris Reservoir that were being allocated mostly to the water supply Project purpose, rather than 100% to the recreation Project purpose. As these expenditures had no apparent transportation water supply purpose, the Department made a correction to reallocate \$2.1 million of these costs from a transportation cost center to a recreation cost center. However, after making these corrections, we noted an additional \$325,000 of recreation-related capital costs continue to be allocated to the contractors, resulting in the overstatement of Metropolitan's calculated capital component in the 2010 Statement of Charges by \$19,000 per year. (TABLE B, Item 35)
- Due to the incorrect coding of cost centers, actual replacement costs totaling \$167,000 for the Gianelli Pumping and Generating Plant have been improperly included in the 2010 Delta Water Charge, instead of being paid from the conservation replacement fund, which results in the overstatement of Metropolitan's 2010 Delta Water Charge by \$8,000. (TABLE B, Item 36)
- The Department used an outdated mill rate when valuing the recovery generation at the Alamo Powerplant, resulting in the value of recovery generation for the Alamo Powerplant for 2002 being overstated by \$97,000. In addition, we noted that the value of recovery generation credit for the San Luis Powerplant for 1999 was understated by \$170,000. The effect to Metropolitan of

these errors was an overstatement of the transportation variable component of \$7,000 in the 2010 Statement of Charges. (TABLE B, Item 37)

- Although the Department prepared a 2009 fish replacement charge calculation, the unit rate calculated for the re-bill of the 2008 Statement of Charges was used in the 2009 Statement of Charges. Because the charge calculated using the unit rate from the 2009 rebill is lower than the revised 2009 charge calculated from the fish replacement charge calculation, Metropolitan's 2009 variable charge is understated by \$18,000 in the 2010 Statement of Charges. (TABLE B, Item 38)
- Power costs totaling \$14,848,000 and sales totaling \$2,676,000 for 1999 through 2005, were not recorded or were recorded incorrectly in the accounting system. In addition, transmission costs totaling \$14,042,000 and station service costs totaling \$181,000 for 1999 to 2001, and 2003 to 2005 were not recorded properly in the accounting system. These errors result in an understatement of Metropolitan's variable component by \$3,529,000 and an overstatement of the minimum component by \$3,468,000 in the 2010 Statement of Charges. (TABLE B, Item 39)
- The Devil Canyon Second Afterbay Charges for debt service were understated by \$113,000 for 2003 through 2008 due to the use of an outdated debt service schedule. As a result, Metropolitan's variable charges in the 2010 Statement of Charges were understated by \$91,000. (Table B, Item 40)
- Minimum transmission charges for 2006 and 2007 were understated by \$207,000 and minimum station service charges for 2006 and 2008 were understated by \$881,000, resulting in an underbilling of \$707,000 to Metropolitan's transportation minimum component in the 2010 Statement of Charges. (TABLE B, Item 41)
- The Tehachapi Second Afterbay charge for debt service allocated to the power benefit included in the variable charges were understated by \$939,000 for 2004 through 2008 due to the use of an outdated debt service schedule. As a result, Metropolitan's transportation variable component in the 2010 Statement of Charges is understated by \$751,000. (TABLE B, Item 42)
- Actual contractor payment and water delivery amounts were not used in calculating the fish replacement charges and wheeling credits were outdated or excluded from the computation. In addition, the present value of water was incorrect due to an error in the formula calculating the amount. As a result, Metropolitan's variable component included in the 2010 Statement of Charges is understated by \$853,000. (TABLE B, Item 43)
- Costs for relocating the Division of Environmental Services for 2006, 2007 and 2008 totaling \$1,406,000 were not properly allocated in the cost accounting system, resulting in these costs not

being included in the 2010 Statement of Charges. As a result, Metropolitan's transportation minimum component is understated by \$914,000. (TABLE B, Item 44)

- After adjusting the variable component for Hyatt Units 1, 3 and 5 historical refurbishment costs in the 2007 Statement of Charges, an additional \$1,241,000 of refurbishment costs were incorrectly allocated to the Thermalito Power Features reach, and thus were incorrectly excluded from the variable component. The exclusion of the refurbishment costs at Thermalito from the variable component results in an understatement of \$993,000 in Metropolitan's 2010 Statement of Charges. (TABLE B, Item 45)

Findings Resulting in Credits, Refunds and Adjustments:

- There was an inconsistency in the application of the recreation Project purpose split between two components of the WSRB Surcharge computation. The error resulted in the overstatement of the WSRB Surcharge in the 1990 through 1993 Statements of Charges totaling \$933,000, of which Metropolitan's share is \$555,000. In addition, as noted in prior year, certain costs were excluded from the computation of the 1992 Surcharge, which results in an overstatement of Metropolitan's 1992 Surcharge of approximately \$100,000. (TABLE C, Item 1)
- The Department excluded \$19,644,000 of Coastal Branch capital costs that were recovered through the transportation variable component from the computation of the 2000 Surcharge, which results in these costs being billed to the contractors twice, resulting in an overstatement of Metropolitan's 2000 Surcharge by \$632,000. (TABLE C, Item 2)
- In our testing of the SMIF interest refund, we noted errors in the calculation, causing Metropolitan's portion of the refund to be overstated by \$6,000. (TABLE C, Item 3)