THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

BOARD ACTION

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

9/14/2010 Board Meeting

8-2

Subject

Authorize execution of two Western Area Power Administration Electric Transmission Service Agreements to access supplemental energy for the Colorado River Aqueduct

Description

Summary

This letter recommends the Board authorize the General Manager to execute two new transmission service agreements (TSAs) with the Western Area Power Administration (Western) that will replace two TSAs that expire December 31, 2010.

Background

Metropolitan has two existing long-term TSAs with Western that will terminate on December 31, 2010. One TSA is for 30 megawatts (MW) and the other is for 50 MW. The Board approved these TSAs in July 2001. Metropolitan entered into these TSAs to reserve a portion of the limited transmission capacity to its Colorado River Aqueduct (CRA) Gene Substation (see **Attachment 1**). It was anticipated that planned generation expansion in the region would provide a new source of supplemental power for Metropolitan's CRA operation and the reservation of the transmission would ensure Metropolitan could access this new supply. Turmoil and uncertainty in the energy industry led to the cancellation of a number of planned power plants and the reduction in CRA use eliminated the need for most supplemental energy. As a result, Metropolitan did not have an immediate need for the transmission. Metropolitan assigned its rights to this transmission to other parties, providing a source of revenue that covers the fee Metropolitan pays Western while retaining Metropolitan's rights to the transmission at some time in the future. Western's rules prevent Metropolitan from charging more for the transmission than what it pays.

Western provides transmission service on its regional transmission system through TSAs. These TSAs have terms and rates described in Western's Open Access Transmission Tariff (OATT) as submitted to the Federal Energy Regulatory Commission (FERC). Western's OATT allows existing customers with contract terms of five years or more to renew or continue to take transmission service under a new agreement(s) when the TSAs expire.

Benefits to Metropolitan

To reduce Metropolitan's reliance on the Mead Substation as its primary energy transaction point (at times some energy suppliers have had difficulty gaining access to Mead) and to preserve transmission rights to generation that is expected to be available from areas in Arizona and southeastern California, Metropolitan plans to renew firm transmission service from Western for an additional ten years through calendar year 2020. This renewal would enable Metropolitan to reserve transmission rights and access to traditional and renewable energy providers and provide energy resource options following the September 30, 2017 termination of the CRA integration agreement with Southern California Edison. Western is improving and expanding its regional transmission system and is considering a new connection to the Palo Verde substation near Phoenix, Arizona, which could provide Metropolitan access to a major energy transaction point.

If Metropolitan does not immediately need the transmission service, it can market and assign the rights to use the transmission to others as it has done under the current TSAs. Alternatively, Metropolitan could reserve the right to use the transmission at a point in the future by paying one month's charge for the transmission service per year or approximately $87,000 for both TSAs or $54,000 for only the 50 MW TSA under the rates charged by Western today. Metropolitan also has the ability to terminate either of the proposed TSAs whenever Western's applicable transmission rates change. Unless Metropolitan exercises its termination right, the cost of transmission service under the proposed TSAs will increase during the term of the contracts if FERC accepts Western's proposed rate increases. Metropolitan will have the opportunity to review and provide comment on proposed rate increases both prior to Western's FERC filing and at FERC.

Given the uncertainties regarding future energy costs, potential regulations concerning green house gasses, and the structure of a new CRA energy service agreement, staff believes the costs are reasonable given the flexibility and options provided by retaining Metropolitan's rights to utilize transmission service from Western.

Policy

Metropolitan Water District Administrative Code Section 8122(e): General Manager's Contracting Authority in Specified Circumstances – Power and Transmission Contracts

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 the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize the General Manager to execute both proposed TSAs with Western. The proposed TSAs will provide Metropolitan with firm transmission rights on Western's Parker-Davis Project transmission system. Metropolitan has the ability to determine a Point of Receipt for each of the TSAs prior to executing.

Fiscal Impact: Approximately $87,000 to $1.04 million per year

Business Analysis: Based on Western's current rates for both 30 MW and 50 MW proposed TSAs, if Metropolitan chooses to reserve the transmission for one year and not use or market it, the annual cost is based on a one-month fee of $86,400. Use for all twelve months would cost $1.04 million. However, the net cost of these TSAs is based on Western's current rates and will be reduced by the savings obtained from Metropolitan's increased access to additional energy suppliers, its avoidance of increased costs at Mead due to transmission constraints, and from the revenue received from Metropolitan's sale of the use of the transmission service when it is not needed by Metropolitan. Metropolitan may terminate the TSAs after any applicable rate increase by Western.

Option #2

Adopt the CEQA determination and authorize execution of only the 50 MW proposed TSA. This will provide some of the benefits desired.

Fiscal Impact: Approximately $54,000 to $650,000 per year

Business Analysis: If Metropolitan chooses to reserve the transmission for one year and not use or market it, the annual cost is based on a one-month fee of $54,000. Use of the 50 MW TSA for all twelve months would cost $648,000. However, the net cost of this TSA is based on Western's current rates and will be reduced by the savings obtained from Metropolitan's increased access to additional energy suppliers, its avoidance of increased costs at Mead due to transmission constraints, and from the revenue received from Metropolitan's sale of the use of the transmission service when it is not needed by Metropolitan. Metropolitan may terminate the TSA after any applicable rate increase by Western.

Option #3

Take no action. If not executed, Western will deem Metropolitan's application to be withdrawn and Metropolitan will lose its priority for transmission service and potential access to energy providers at its Gene Substation. Additionally, Metropolitan would have less flexibility and fewer options as it transitions into a new CRA energy services agreement.

Fiscal Impact: If Metropolitan does not execute the TSAs, it will not pay the reservation or use fee. However, it will also lose some future flexibility and options to acquire energy from generation resources at its CRA Gene Substation. It is uncertain how much energy may be acquired using the TSAs, although it is anticipated that CRA operations will annually require 600,000 to 900,000 megawatt-hours of supplemental, market energy. Having greater access to the energy market will provide Metropolitan more options in selecting the location, provider and price of the energy necessary to meet the CRA energy requirements.

Business Analysis: Metropolitan will continue to utilize Mead as its primary transaction point for CRA market energy purchases and will be subject to the price impacts of reduced supply during periods of transmission limitations.

Staff Recommendation

Option #1

8/31/2010

James F. Green *Date*
Manager, Water System Operations

9/1/2010

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Location Map

Ref# wso12607092

Location Map