



- Board of Directors
Finance and Insurance Committee

8/16/2011 Board Meeting

8-5

Subject

Authorize additional payment for calendar year 2011 charges for water from the State Water Project

Description

Summary

Staff requests authorization to increase payments to the Department of Water Resources (DWR) by up to \$34 million for a total of up to \$607 million for calendar year 2011 State Water Project (SWP) charges. The Board initially authorized payment of up to \$573 million in December 2010, based on a reasonable projection of SWP deliveries under average hydrologic conditions. However, because of very wet hydrology since December 2010, SWP supplies are significantly higher than anticipated. Near-record precipitation filled Lake Oroville to levels requiring flood control releases for the first time since 2006. High San Joaquin River flows meant fishery restrictions were less stringent, allowing DWR to maintain high levels of exports through April, and Metropolitan to take delivery of 180 thousand acre-feet (TAF) of Article 21 supplies. The initial Table A allocation of 25 percent announced in November increased four times before reaching the current allocation of 80 percent by April. As a result, additional funds are required to pay the power and other variable charges to move these supplies to Metropolitan's service area and Central Valley groundwater storage programs.

Detailed Report

In December 2010, staff indicated that supplemental board authorization would be sought if projected SWP charges exceeded initial assumptions, consistent with the Administrative Code provisions for State Water Contract payments. The December authorization was for payments of up to a total of \$573 million for Metropolitan's calendar year 2011 SWP charges. Metropolitan's SWP charges include: (1) fixed charges for capital and core administration and maintenance activities, and (2) variable charges for the amount of energy consumed in pumping its water. Fixed charges under the initial authorization were assumed to be \$419 million with variable charges of \$154 million.

Fixed Charges

Fixed charges are projected to be \$3 million less than assumed in the initial authorization. On June 30, 2011, DWR revised the 2011 SWP charges by providing \$8 million in rate management credits towards Metropolitan's capital costs. However, DWR also revised Off-Aqueduct Power facility charges, increasing calendar year charges by \$3 million. At the same time, DWR corrected an error which resulted in a \$2 million increase to fixed operating costs.

Delta Habitat

The initial authorization included \$22 million for supplemental funding for the Bay Delta Conservation Plan (BDGP) and Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement to cover additional program costs. The supplemental funding agreement has yet to be signed by the program participants. Staff continues to anticipate that the agreement will be signed and DWR will bill Metropolitan for the

supplemental funding this calendar year. This supplemental funding agreement will be the subject of a separate action item to be discussed in the Water Planning and Stewardship Committee.

Variable Charges

Variable charges are projected to exceed the initial authorization amount by up to \$37 million. The current authorization of \$573 million is based on the SWP delivery of 1.2 MAF to Metropolitan at a 50 percent SWP allocation along with 200 TAF of San Joaquin Valley storage withdrawals and transfers. This calendar year 2011 delivery projection was based on average hydrologic conditions and expected fishery restrictions. However, Metropolitan is scheduled to take delivery of up to 1.9 MAF of SWP supplies that have become available due to wet hydrology. Metropolitan plans to deliver up to 1.5 MAF into its service area and approximately 0.4 MAF to storage in the San Joaquin Valley. The total variable charges associated with this higher SWP delivery projection are approximately \$191 million. **Attachment 1** summarizes the fixed and variable costs associated with the initial authorization and the projected calendar year 2011 charges.

The current authorization of \$573 million would support deliveries of 1.3 MAF into the service area. Staff recommends authorizing additional payment up to \$34 million to ensure that Metropolitan is able to take full advantage of all available SWP supplies in 2011. With the delivery of up to 1.9 MAF of SWP and available Colorado River Aqueduct deliveries, Metropolitan's storage reserves would increase up to 2.5 MAF above emergency storage, the highest historical level, by the end of calendar year 2011.

Policy

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

By Minute Item 48333, dated July 13, 2010, the Board authorized additional funding of up to \$21.5 million for Metropolitan's share of costs to prepare preliminary engineering and environmental documentation for the Bay Delta Conservation Plan.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

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

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize additional payment of up to \$34 million for a total of \$607 million to DWR in calendar year 2011 for Metropolitan's SWP charges.

Fiscal Impact: Payments in calendar year 2011 for SWP charges of up to \$607 million for in-basin deliveries of 1.5 MAF. Payments will vary with actual deliveries and unit energy costs.

Business Analysis: The request represents staff's estimate of the payments that would be incurred for delivery of up to 1.5 MAF of SWP supplies to Metropolitan's service area. If actual in-basin deliveries exceed 1.5 MAF, additional board authorization may be required to pay the increased energy costs for delivery of the water.

Option #2

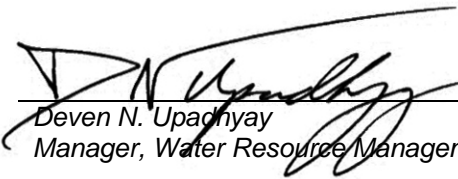

Do not authorize additional payment to DWR in calendar year 2011 for Metropolitan's SWP charges.

Fiscal Impact: Payments in calendar year 2011 for SWP charges of up to \$573 million for in-basin deliveries of 1.3 MAF. Payments will vary with actual deliveries and unit energy costs.

Business Analysis: This option would limit Metropolitan's ability to take delivery of its allocated SWP supplies in calendar year 2011 and would result in forfeiture of up to 0.2 MAF of SWP supplies.

Staff Recommendation

Option #1

 <hr/> Deven N. Upadhyay Manager, Water Resource Management	8/3/2011 Date
 <hr/> Jeffrey Kightlinger General Manager	8/3/2011 Date

Attachment 1 – Comparison of Metropolitan's State Water Project Initial Authorization Amount and Projected Actual Charges for CY 2011

**Comparison of Metropolitan’s State Water Project Initial Authorization Amount
and Projected Actual Charges for CY 2011**

	Initial Authorization (\$ millions)	Projected Actual Charges (\$ millions)	Change since Initial Authorization (\$ millions)
Off Aqueduct	\$ 104	\$ 107	\$ 3
Past Energy Adj.	(43)	(43)	0
Fixed Energy	61	64	3
Operating	170	172	2
Capital	166	158	(8)
Supplemental DHCCP	22	22	0
Total Fixed	419	416	(3)
Variable	154	191	37
Total SWP Charges	\$ 573	\$ 607	\$ 34

