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Testimony

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Subcommittee on Water and Power

Hearing on

***Securing the Bureau of Reclamation's Water and Power Infrastructure***

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Good morning Mr. Chairman and members of the subcommittee. My name is Jon Lambeck and I am the Operations Planning Manager for The Metropolitan Water District of Southern California (Metropolitan). I would like to thank you for the opportunity to testify before your subcommittee today and explain Metropolitan's position on the issue of security costs at the Bureau of Reclamation's (Reclamation) facilities. Simply stated, Metropolitan supports continued federal power customer payment for the standard type of security activities for which they were responsible prior to September 11, 2001. However, the additional security costs incurred to address post-September 11 th concerns are a matter of national security, just as they were during World War II, and should be appropriately funded.

Metropolitan is a quasi-municipal corporation, created in 1928 by vote of the electorates of several southern California cities. Its primary purpose is to provide supplemental water to its 26 member agencies in southern California. Metropolitan is the largest wholesale water supplier in southern California, ultimately providing water to approximately 18 million consumers within the six county region of southern California (Los Angeles, Orange, Riverside, Ventura, San Diego, and San Bernardino counties), an intensely populated area covering nearly 5,200 square miles. Approximately one-half of the water used within the region is supplied by Metropolitan.

One of Metropolitan's two major sources of water is the Colorado River. Metropolitan pumps water out of Lake Havasu on the Colorado River and transports it through its Colorado River Aqueduct (CRA) to southern California. Metropolitan's other source is the Bay-Delta in northern California, which water is delivered through the California State Water Project. Moving the water through both of these systems requires over 5,000,000 megawatt-hours of energy annually, representing 2-3% of the State of California's total energy requirement. The pumping necessary to bring this water to Metropolitan's service territory is the single largest use of energy in California.

To obtain the power needed to meet its pumping requirements, Metropolitan has established long-term contractual and operational ties to two of the three power facilities operated by Reclamation on the Lower Colorado River. For example, Metropolitan was one of the original power contractors at Hoover Power Plant and currently receives 28 percent of the facility's energy production. At Parker, Metropolitan paid for the entire cost of dam construction and for 50 percent of the power plant cost. In consideration of its funding, Metropolitan receives 50 percent of the power produced at Parker. The federal hydropower from Hoover and Parker is critical to moving Metropolitan's water 242 miles through the CRA to the 18 million inhabitants of southern California.

Today, Metropolitan pays nearly 21 percent of the operation, maintenance and replacement costs at Hoover and 50 percent of these costs at Parker. Given the magnitude of these percentages and the payments that result, Metropolitan has viewed with concern the evolution of the treatment of the extraordinary security costs at both of these Reclamation facilities since the events of September 11, 2001. New security costs, which were originally determined to be a matter of national security and declared as non-reimbursable, as they were during World War II, are now being at least partially classified as reimbursable, and therefore paid by the power contractors. Additionally, Metropolitan has observed "definition creep," as more and more costs are identified as falling under the security umbrella. It appears reimbursable "security" costs could become a magnet for all manner of costs that could be tenuously linked to security.

Metropolitan believes that normal security costs at the Hoover and Parker Dams, as existed prior to September 11 th, should continue to be paid for by the power contractors. However, the new, defensive measures taken to protect these facilities from acts of war and terrorist attack should be treated as non-reimbursable. Furthermore, these measures go far beyond the normal reimbursable operation, maintenance and replacement activities that were contemplated under the power contracts. Since the additional security costs stem from national security concerns, they should be so funded. If such federal funding is unavailable, and some or all of the post-September 11 th security costs are treated as reimbursable, then the security costs should be charged to all beneficiaries of these multi-purpose facilities in proportion to the benefits received.

Another area of concern to Metropolitan is the lack of transparency and oversight of security decisions. Metropolitan and the other power contractors have worked very hard with Reclamation to develop a cooperative and collaborative partnership in the management of its Lower Colorado Region facilities. All parties recognize their collective interest in maintaining reliable and efficient operations. However, Reclamation is now making decisions on security issues with little or no input from the power contractors who ultimately have to pay the bills. This is the same type of management practice that resulted in the cost of the Hoover Dam Visitor Center going from an initial \$32 million estimate in 1984 to the \$124 million it ultimately cost at completion in 1994, for which the power contractors were obliged to pay. A mechanism must be found to keep the power contractors involved as a true partner in security decisions if federal funding is not provided or alternatively, some other method of appropriate oversight should be established.

Finally, Metropolitan believes there must be some form of cap or limit on the new security costs. Recent stories have highlighted the difficult choices that must be made in allocating limited Homeland Security funds to cities and towns across the country. These are tough decisions, and everyone recognizes that there will never be enough money to fund all the activities proposed. Under such circumstances, it is critical an evaluation process be implemented to review each proposal and assure that limited funds are spent in ways to achieve the maximum benefit. Unfortunately, there appears to be no recognition of the need for such a disciplined approach at Reclamation facilities where the power contractors are expected to fund whatever security activities are implemented. With no cap or limit on the amount of security costs that could be imposed, and no restraint that would normally come from having to pay for those costs from budgeted funds, Reclamation faces no incentive to hold down costs. Metropolitan believes some form of cap or limit on security expenditures must be imposed in conjunction with the oversight function described above.

In conclusion, Metropolitan believes the new post-September 11 th security costs at the Bureau's facilities should continue to be treated as non-reimbursable. If funding is not made available and some or all of these new costs are determined reimbursable, then all beneficiaries of the facilities operated by Reclamation should pay their appropriate share of the costs. Additionally, decisions on security measures should continue to include the power contractors as is done in other operational areas, or a new method of oversight must be established. Finally, some limit or cap must be placed on security expenditures deemed to be reimbursable to assure fiscal discipline and restraint.

Thank you again for opportunity to testify before your committee. I would be happy to answer any questions you may have.