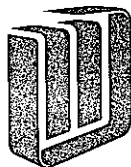


JUN -9 1992

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

  
EXECUTIVE SECRETARY

May 26, 1992

(Engineering and Operations Committee--Action)

To: Board of Directors (Water Problems Committee--Action)

From: General Manager

Subject: Authorization to Prepare and Transmit a Letter Indicating Metropolitan's Principles for Purchasing the Allen-McColloch Pipeline and to Negotiate an Agreement for Payment of Metropolitan's Pro-Rata Share in the Santa Margarita Pipeline

Report

Since 1989, Metropolitan has been discussing a possible purchase of the Allen-McColloch Pipeline (AMP) with the Municipal Water District of Orange County (MWDOC). The AMP is a regional facility, which if owned and operated by Metropolitan, would add flexibility and reliability to our central pool distribution system.

Recently, MWDOC and the owners have embarked on a flow augmentation construction program which will increase the capacity of the pipeline. The Flow Augmentation Program (FAP) is being conducted in three phases. The first phase, now complete, parallels about 18,000 feet of the AMP with a 66 inch diameter pipe. Later phases will parallel other portions of the AMP, provide booster pumps and appurtenant facilities. The cost of the proposed improvements in escalated dollars could be as much as \$77 million depending on the facilities needed. The improvements will enlarge the capacity of the AMP and make it more valuable to Metropolitan as a future regional pipeline. With the increased capacity resulting from the modification, the pipeline can provide interim capacity to meet Coastal Municipal Water District's (Coastal) near-term need for additional water.

Coastal has expressed a strong desire to have deliveries made to San Clemente via the AMP and the Santa Margarita Pipeline (SMPL) beginning in the summer of 1992. Conversations with MWDOC indicate that the AMP owners may make capacity available to Coastal if they have a firm indication of Metropolitan's intent to purchase the AMP. It is proposed that the General Manager be authorized to

submit a letter to MWDOC indicating Metropolitan's intent to purchase the AMP if agreement can be reached consistent with the following principles:

1. Metropolitan will fund the FAP by making or assuming a series of payments which will represent payment for FAP facilities built or under construction by January 1, 1992. These payments will be structured so that the required payments can be made from Metropolitan Bond Funds.
2. Metropolitan will agree to make certain other improvements on the AMP when and if such improvements are necessary to continue water service.
3. Metropolitan will agree, beginning in the year 2000, to make or assume seven annual payments in the amount of approximately \$9,700,000 as consideration for the AMP. (Metropolitan may agree to other payment plans equivalent to this.)
4. Metropolitan will agree to provide additional delivery points for treated water to MWDOC and Coastal including any points of connection along the AMP, South County Pipeline and along any future Metropolitan pipelines connecting into or paralleling these facilities. All service connections costs will be borne by the member agencies.
5. Prior to reaching agreement, Metropolitan will have the opportunity to inspect the AMP to determine the condition of the pipeline. Metropolitan will also have the opportunity to review all operation, maintenance, repair, construction, and other documents which would provide information on the condition of the pipeline.
6. The California Environmental Quality Act has been or will be complied with to the extent applicable, in advance of any commitment to purchase.

These principles are consistent with principles outlined in MWDOC's letter of November 4, 1991 except that MWDOC's proposal provided that Metropolitan make nine annual payments of \$9,700,000 commencing in 1998. Also, certain cost items in the FAP must be negotiated before an agreement to purchase can be presented to your Board for approval.

If Coastal is successful in obtaining capacity in the AMP, they will request Metropolitan to exercise its capacity rights in the SMPL. The SMPL is a recently constructed, 24 mile pipeline extending from the end of the AMP to the City of San Clemente. Originally, the Santa Margarita Water District intended to build a 48-inch pipeline but entered into a participation agreement with Metropolitan which upsized the line to 66 inch. Under the terms of the participation agreement, Metropolitan agreed to provide funds to cover the incremental cost to upsize the SMPL from 48 inches to 66 inches (about \$40 million). In turn, Metropolitan received a right, to use 60 percent of the capacity of the pipeline (approximately 70 cfs). However, upon exercising its capacity right Metropolitan is required to pay 60 percent of the construction cost of the pipeline less the amount already paid to have the pipeline upsized (about \$20 million). The agreement also provides Metropolitan the right to purchase SMWD's share in the pipeline on January 1, 1995 by assuming, or paying an amount of money sufficient to retire SMWD outstanding obligations for construction and financing the pipeline. Regarding the payment due upon exercising our capacity right, SMWD has agreed to discuss and negotiate a payment plan.

We have been negotiating an agreement which provides for the joint operation and maintenance of the SMPL. In May 1990, your Board authorized the General Manager to enter into such an agreement pending resolution of an issue pertaining to SMWD reserving wheeling rights in the SMPL after Metropolitan assumes full ownership. The issue was resolved by Metropolitan agreeing to wheeling under specific emergency conditions, subject to an agreement to be negotiated, and subject to certain water quality criteria.

If your Board authorizes the General Manager to move forward with purchase of the AMP and SMPL, and if negotiations are successful, a substantial financial commitment in the range of \$231 million, may be incurred. Table 1, which is attached, outlines the magnitude of some of the likely costs. Rather than lump sums, these costs would most likely be met through a series of payments over several years. Graph 1 shows an approximation of the payments--actual payments and payment schedules have yet to be negotiated.

For these expenditures, Metropolitan would receive approximately 51 miles of pipeline serving three member agencies and 11 subagencies located in Central and Southern Orange County. The pipeline system could provide treated water either from the Diemer Plant or the contemplated Central Pool Augmentation Plant.

A map of the region showing the pipelines is attached.

Board Committee Assignments

This letter is referred for action to:

The Engineering and Operations Committee pursuant to Section 2431(d) of Metropolitan's Administrative Code dealing with providing distribution facilities and connections for the delivery of water.

The Water Problems Committee pursuant to Section 248(b) dealing with changes in Metropolitan's Aqueduct System to provide for the changing needs of Metropolitan's member agency.

Recommendations

**WATER PROBLEMS AND ENGINEERING & OPERATIONS COMMITTEES FOR ACTION.**

That the General Manager be authorized to prepare a letter indicating Metropolitan's intent to purchase the Allen-McColloch Pipeline if agreement can be reached consistent with the principles outlined in this letter.

That the General Manager be authorized to negotiate and prepare an agreement with the Santa Margarita Water District for the payment of Metropolitan's pro-rata share in the Santa Margarita Pipeline. Such agreement will be presented to your Board for approval.

  
for Carl Boronkay

DLA:as

Attachments

Table 1

## Allen-McColloch Pipeline

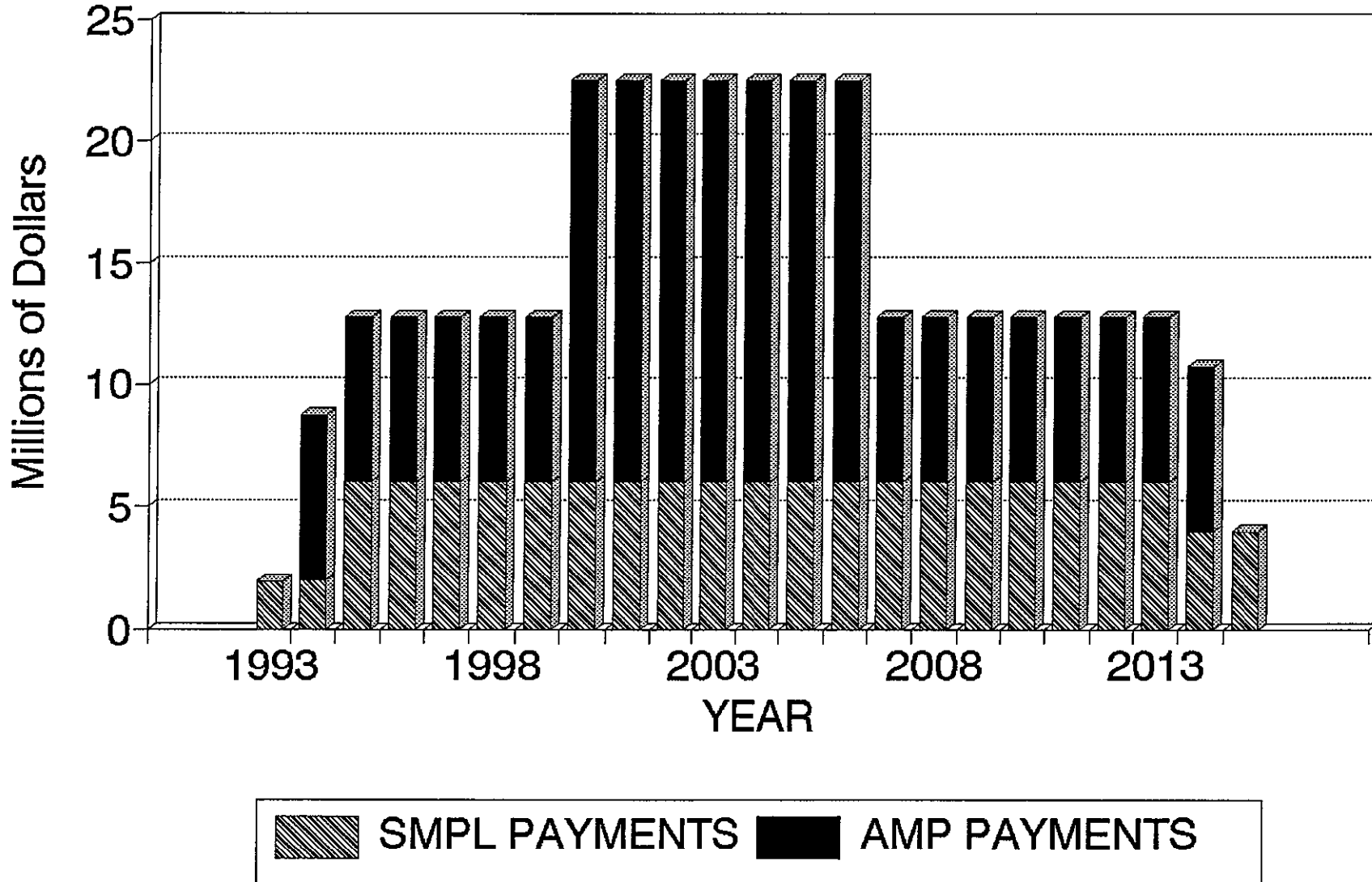
Flow Augmentation Project	\$ 65,000,000
Buy out	<u>66,000,000</u>
Subtotal	131,000,000

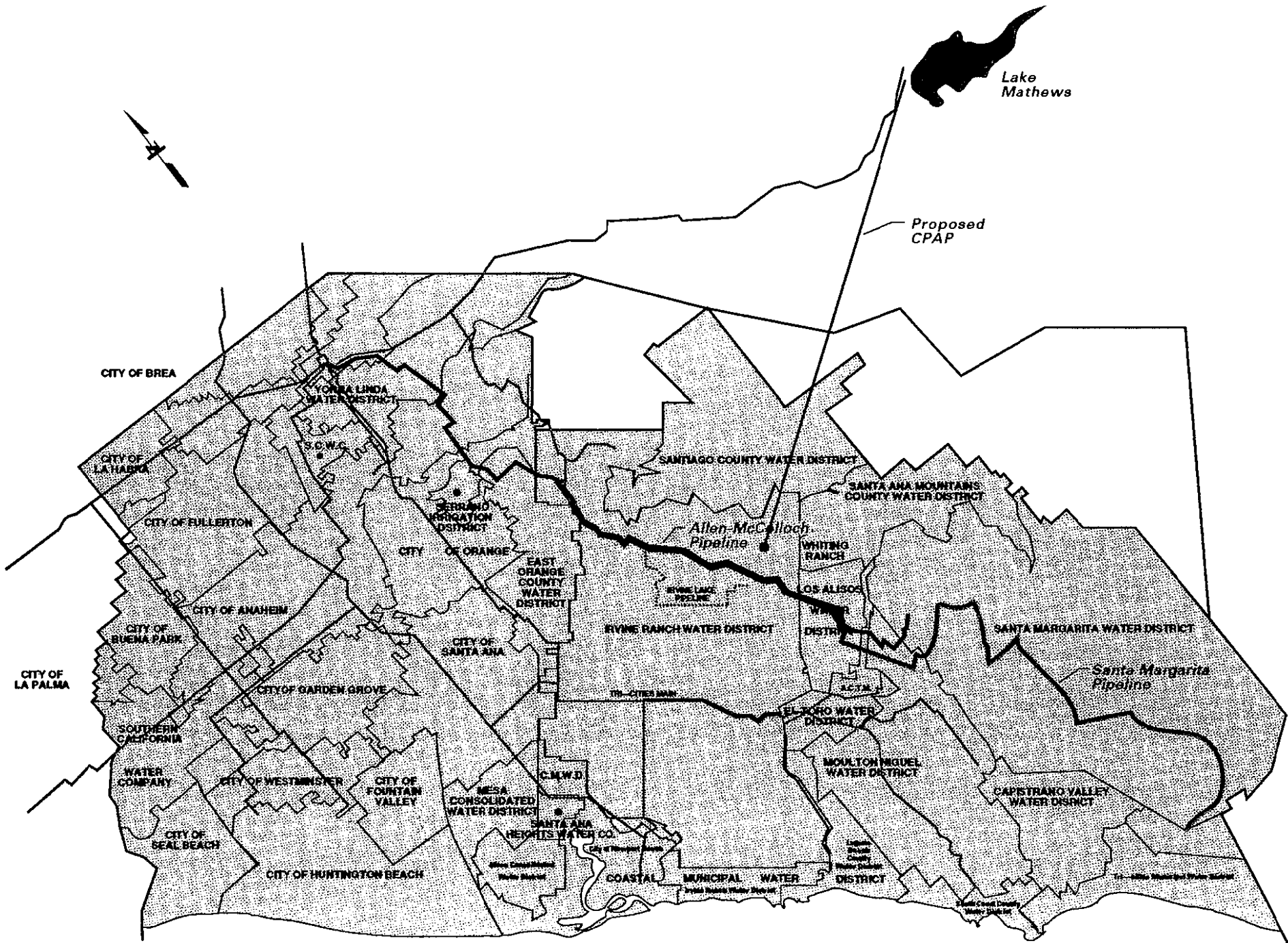
## Santa Margarita Pipeline

Upsizing Cost	40,000,000
Pro-rata Share	20,000,000
Buy out	<u>40,000,000</u>
Subtotal	100,000,000
Total	231,000,000

# CASH FLOW COMPARISON

## ORANGE COUNTY PIPELINE NEGOTIATIONS





**ALLEN-McCOLLOCH AND SANTA MARGARITA PIPELINE**



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