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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
~~EXECUTIVE SECRETARY~~

June 6, 1994

(Land Committee--Action)  
(Engineering and Operations Committee--Action)

To: Board of Directors (Finance and Insurance Committee--Information)

From: General Manager

Subject: Authorize the General Manager to Enter into an Agreement for  
Sale and Purchase of the Allen-McColloch Pipeline

Report

In 1981, the Municipal Water District of Orange County (MWDOC) and other water districts in South Orange County jointly constructed the Allen-McColloch Pipeline (AMP) beginning at the Diemer Filtration Plant extending southeasterly along the foothills to a point near El Toro Reservoir in Mission Viejo. The 25-mile long pipeline begins at 114 inches in diameter at the northerly end and reduces to 48 inches in diameter at the southerly end. The pipeline incorporated 3.5 miles of the then existing 54-inch diameter Santiago Aqueduct recognizing that a second barrel, among other projects, would be required to augment the capacity when water demands warranted. Work on these projects, collectively called the Flow Augmentation Project (FAP), began in 1989.

At the time AMP was designed and constructed it was recognized that Metropolitan might eventually desire to buy the pipeline and incorporate it into its own distribution system. Accordingly, the plans and specifications were submitted for our review and the pipeline constructed to our strict standards.

In June 1992, your Board authorized the General Manager to send a letter of intent committing to purchase AMP. AMP, together with the upsized South Orange County Pipeline (SOCP) recently constructed by the Santa Margarita Water District, can serve as a distribution system for the Central Pool Augmentation Project (CPAP). The CPAP (to be completed soon after the turn of the century) is planned to deliver water from Lake Mathews, under the Cleveland National Forest, to South Orange County agencies, including Coastal Municipal Water District (Coastal). Until the CPAP is completed, AMP and SOCP will be used to supply needed water to Coastal from the Diemer plant.

The terms outlined in the Letter of Intent sent March 17, 1993 were:

- Metropolitan to pay annual cash payments of \$4.6 million starting July 1, 1994 and continuing to July 1, 2006. These payments are the equivalent of the remaining debt obligation on the original AMP for the period of July 1, 2000, to July 1, 2006.
- Metropolitan to pay a cash payment of \$11 million on July 1, 1993, and estimated annual payments of \$3 million from July 1, 1994 to July 1, 2016, representing costs already incurred for the FAP.
- Transfer of control and operation of the AMP and the FAP at the time of Metropolitan's initial payment and transfer of ownership on July 1, 2000.
- Operation and maintenance costs through fiscal year 1999-2000 were to be reimbursed to Metropolitan by existing owners.
- Metropolitan to be responsible for all operation and maintenance costs incurred as of July 1, 2000.
- AMP would be subject to inventory and inspection prior to transfer.
- Certain minimum hydraulic grade lines would be maintained.
- Metropolitan agrees to operate the AMP as any other Metropolitan pipeline and provide access for treated water to MWDOC, Anaheim and Coastal along the AMP and any future Metropolitan pipelines connecting into or paralleling these facilities.
- Metropolitan will agree to make certain other improvements to augment the capacity of the AMP when and if such improvements are necessary to continue water service.

Staff has now negotiated an Agreement for the Sale and Purchase of the Allen-McColloch Pipeline (Agreement No. 4623) which generally conforms to the above principles with the exception that:

- Metropolitan shall pay interest of approximately \$0.5 million on the \$11 million payment that was to have been made on July 1, 1993, but will now be made on July 1, 1994.
- Operation and maintenance costs will be assumed by Metropolitan as of July 1, 1994, except for energy costs at Pump Station ST-21 which will be the responsibility of those receiving service through Station ST-21. As of July 1, 2000, all operation and maintenance costs will be assumed by Metropolitan. The additional costs through June 30, 2000 are estimated to be approximately \$1.2 million per year.
- Some right of way title problems exist and will be corrected by MWDOC at their expense. Problems not resolved by April 1, 1996, may be resolved by Metropolitan at MWDOC's expense.
- Inventory and inspection of AMP cannot be completed prior to when the transfer is desired. The time for completion of the inspection has been extended to April 1, 1996. Costs of repairs, if any, to bring AMP up to standards applicable at the time of original design and construction will be paid as follows: the first \$500,000 will be borne by Metropolitan; costs above \$500,000 will be split equally between Metropolitan and MWDOC. Approximately two miles of the prestressed section of the pipeline were recently inspected by Metropolitan and found to be in good condition. Other sections of the pipeline have been recently inspected by MWDOC consultants and found to be in similar condition. Widespread problems with the pipeline are not expected.
- Metropolitan shall assume control of the AMP and ownership of the pipeline capacity on July 1, 1994. Metropolitan shall assume ownership of the system facilities on July 1, 2016.

The present value of the total payments to be made for the acquisition of the AMP are approximately \$88.1 million. The depreciated replacement cost of the AMP is estimated up to \$160 million.

No new bonded indebtedness by Metropolitan will be required to cover the cost of transfer of the pipeline. Metropolitan will pay a portion of the existing debt service on the FAP certificates of participation issued by the financing corporation until final maturity.

Requests for funding of the AMP acquisition will be presented to your Board as part of the annual budget for Metropolitan. Approval of the budget would approve funding for the AMP acquisition, as well as the operation and maintenance costs, similar in process to the funding for the San Diego Pipeline No. 1 acquisition.

MWDOC currently has four permanent employees involved in operation and maintenance of AMP. Until Metropolitan can take the steps necessary for orderly takeover of the operation and maintenance responsibility of AMP, these functions will continue to be performed by MWDOC under contract with Metropolitan. When Metropolitan takes over actual operation and maintenance activities, positions on Metropolitan's staff will be necessary for the four MWDOC employees.

Your Board's approval of the transfer agreement is exempt from the provisions of the California Environmental Quality Act (CEQA), because it is not a project as defined by CEQA, because it can be seen with certainty that there is no possibility that the transfer will have a significant effect on the environment, and because it involves taking over the operation of an existing public utility service.

#### Board Committee Assignments

This letter is referred for action to:

The Land Committee pursuant to its authority to study, advise and make recommendations with regard to the purchase and leasing of land and buildings under Administrative Code Section 2451(b) and the fixing of purchase prices relating to the purchase of land or interests in property and related negotiations under Administrative Code Section 2451(g).

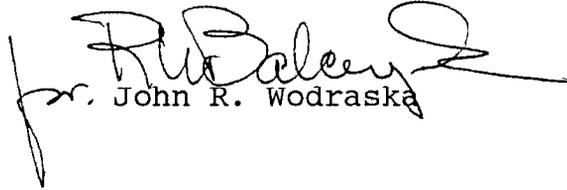
The Engineering and Operations Committee pursuant to its authority to study, advise and make recommendations with regard to the providing of storage and distribution facilities and connections for the delivery of water under Administrative Code Section 2431(d).

This letter is referred for information to the Finance and Insurance Committee pursuant to its authority to study, advise and make recommendations with regard to preparation of budgets under Administrative Code Section 2441(a).

Recommendation

**LAND AND ENGINEERING & OPERATIONS COMMITTEES FOR ACTION**

It is recommended that the General Manager be authorized to enter into Agreement No. 4623 with the Municipal Water District of Orange County, the Municipal Water District of Orange County Water Facilities Corporation and the Participants to acquire the Allen-McColloch Pipeline including entitlements, the permanent easements and fee parcels through and on which the AMP is constructed on terms as set forth in this letter and in a form approved by the General Counsel.

  
for John R. Wodraska

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