

SEP 13 1994

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

[Handwritten Signature]
EXECUTIVE SECRETARY

August 29, 1994

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

From: General Manager

Subject: Cooling Water for Desert Power Plants

Report

During the 1970's, Metropolitan entered into a number of letters of intent with various electric utilities in California for providing cooling water for power plants to be sited in the desert outside of Metropolitan's service area. These obligations totaled 100,000 acre-feet (AF) per year from Metropolitan's Colorado River supply and 60,000 AF per year from its State Water Project supply. Metropolitan entered into these agreements, recognizing that the power plants would create no greater demand on Metropolitan than if the plants were located on an inland site within Metropolitan's service area. Moreover, pursuant to the authorizing legislation, the majority of power produced by the plants must be used directly or indirectly within Metropolitan's service area or for pumping, producing, treating or reclaiming water for use within such area. (Metropolitan Water District Act § 131, subd. (b).) Due either to cancellation or indefinite postponement of the projects, all of the letters of intent, with the exception of the letter of intent with San Diego Gas & Electric Company (SDG&E), have terminated under their own provisions. A chronology of the various events relating to these letters of intent is contained in Attachment 1.

Under the letter of intent presently in effect with SDG&E, Metropolitan is obligated to provide up to 17,000 AF per year of its Colorado River supply to SDG&E for cooling water purposes at a planned desert power plant if and when constructed near Blythe, California. SDG&E would pay Metropolitan for the water at the untreated noninterruptible rate, plus an amount equivalent to the taxes that SDG&E would have paid to Metropolitan had the plant been located within Metropolitan's service area. At the request of Metropolitan, the municipal utilities are entitled to use such water to participate in SDG&E's plant and DWR is also allowed to so participate so as to provide power for operation of the State

water in the Palo Verde outfall drain. The obligation is conditional on a power plant being fully approved by the applicable regulatory agencies by the year 2000 and provides that Metropolitan's obligation to serve water to the plant would extend through the year 2033.

In addition to the letter of intent, Metropolitan entered into two agreements with SDG&E and other agencies to permit diversion of water from the Palo Verde outfall drain. One of the agreements provides for the diversion of 17,000 AF per year of water allocated to Metropolitan. The other agreement provides for the diversion of up to an additional 33,300 AF of drainage water annually, chargeable to the Palo Verde Irrigation District's Colorado River entitlement, subject to the use of almost one-half of such water required for crop rotation. This latter agreement is based on the ownership by SDG&E of farmland within the Palo Verde Irrigation District service area which would be fallowed rotationally with the amount of water available pursuant to said agreement based upon the quantity of irrigation water saved. Representatives of the Department of the Interior proposed that drain water from the Palo Verde Outfall drain be used for power plant cooling in a step to assist in solving the Colorado River salinity problem.

In February 1993, your Board was informed that SDG&E wished to amend the letter of intent with Metropolitan. SDG&E requested that the time period to obtain applicable regulatory approval be extended from the year 2000, and a term be established for the agreement of either 50 years from the start of water use, or until the year 2053, whichever occurs first. At that time, staff indicated to SDG&E representatives that such discussions should be deferred pending more definitive development plans by SDG&E. Over the past several months, negotiations of contract terms have taken place between representatives of Metropolitan and SDG&E, and your Board has been informed of those discussions.

The representatives have reached tentative agreement on the principles for extending the letter of intent. Several drafts of the actual language of the documentation have been exchanged and it is expected that the final documents would be available in September or October. The principles are now ready for your Board's consideration. Additionally, the approval of other California Colorado River contractors and the United States will be necessary. It is expected that by the time of your September or October meeting, at least informal discussions with key staff members of these other entities will have taken place and will be reported to your Board.

The principal terms are as follows:

a) It is expected that it would take several years for a power plant to be developed and that the need for water would occur incrementally. Therefore, under the terms of the proposed amendment, SDG&E must provide a seven-year notice to Metropolitan for each increment of water anticipated to be used by the power plant. SDG&E could revise the notice, if regulatory authorities required additional water for the plant. If such additional water would double the amount requested originally, Metropolitan could disapprove the excess amount. In no event could the total amount used exceed 17,000 AF per year.

b) SDG&E would agree to pay all applicable Metropolitan charges, including the applicable water rate for untreated water, readiness-to-serve charge, demand charge, etc. At the commencement of water use, SDG&E would pay charges equivalent to the then existing annexation fee, ad valorem taxes and standby charges. The underlying principle which the representatives have agreed upon is that SDG&E would be treated as if it were a member agency of Metropolitan when such charges are imposed and have proposed that San Diego would pay charges such as readiness-to-serve and water rates at the same rate as the San Diego County Water Authority.

c) In the case of the demand charge, SDG&E has agreed that it would pay the one-time-demand charge in effect at the time or \$2,400 per acre-foot whichever is greater.

d) SDG&E has agreed to pay Metropolitan a one-time-extension fee which would be the equivalent of the then-in-effect untreated noninterruptible water rate for each acre-foot called in each final notice to construct. This amount would be paid over two years after plant licensing.

e) Municipal utilities within Metropolitan's service area, the Department of Water Resources, Imperial Irrigation District and Metropolitan itself may participate, as owners, in any plant using the water without furnishing a separate water supply. Those agencies may also participate in related transmission line projects.

f) Metropolitan would agree to provide water until the year 2053. There would no longer be a requirement that all regulatory approvals be accomplished within a date certain.

It is expected that the above terms and conditions would be documented in a restated letter of intent which would be executed by the parties. Additionally, amendment of the diversion agreement to conform to these terms would be required.

This action is exempt from the provisions of California Environmental Quality Act under Public Resources Code section 21080, subdivision (b)(6).

Recommendation

It is recommended that the General Manager be authorized to execute appropriate documentation to amend the letter of intent with the San Diego Gas & Electric Company to provide a water supply, upon the terms and conditions outlined in this letter and in a form approved by the General Counsel.

John R. Wodraska
General Manager

By Debra C. Man
Debra C. Man
Chief of Planning & Resources

Concur :

John R. Wodraska
John R. Wodraska
General Manager

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ATTACHMENT 1

CHRONOLOGY

Metropolitan Cooling Water for Power PlantsGeneral History

- 3/9/73 - Metropolitan's Board of Directors agreed in principle to furnish 100,000 acre-feet (AF) of Colorado River water for power plant cooling in the Eastern Mojave Desert. The price for such water would be the equivalent of the noninterruptible untreated rate plus general taxes which would have been paid to Metropolitan had the plant been located on the Coastal Plain of Southern California.
- 11/19/73 - The Board's Water Problems Committee agreed to the following allocation, which had been suggested by the indicated utilities:

| <u>Utility</u> | <u>AF/year</u> |
|----------------|----------------|
| SCE | 50,000 |
| SDG&E | 17,000 |
| LADWP | <u>33,000</u> |
| Total | 100,000 |

- 1974 - The Metropolitan Water District Act was amended by Section 131(b) to specifically permit Metropolitan to allocate up to 100,000 AF/year from the Colorado River and 60,000 AF/year from the State Water Resources Development System for power plant cooling purposes outside Metropolitan's service area. Each such use shall first assure maximum use of agricultural wastewater, brackish groundwater, or other water not suitable for domestic, municipal, and agricultural purposes to the extent practicable.

Letters of IntentSDG&E Colorado River Water

- 5/24/74 - Initial Letter of Intent to provide up to 17,000 AF/year of Metropolitan's Colorado

River water in exchange for drainage water diverted from the Palo Verde Outfall Drain for cooling water purposes to a proposed nuclear generating facility at the Sun Desert site.

- 12/10/76 - Metropolitan, Palo Verde Irrigation District, Coachella Valley Water District, Imperial Irrigation District, City of San Diego, United States, and SDG&E executed an agreement for the use of water for power plant cooling consistent with the May 24, 1974 Letter of Intent with Metropolitan. Also, the same agencies executed an agreement for use of 33,300 AF/year of PVID's entitlement in exchange for SDG&E fallowing farmland for additional power plant cooling.
- 12/13/78 - Secretary of the Interior reconfirmed his earlier execution of the December 10, 1976 agreements.
- 10/10/79 - Letter of Intent extended to January 1, 1990, and permitted use of cooling water for all generating technologies, not just nuclear.
- 12/20/82 - Letter of Intent extended to January 1, 2000.
- 04/17/90 - PVID Diversion Agreements clarified that the cooling water could be used for all generating technologies, not just nuclear.
- Current Status - SDG&E seeking extension of Letter of Intent beyond the year 2000 and seeking to extend term 50 years or 2053, whichever is sooner.

SCE Colorado River Water

- 3/20/73 - Initial Letter of Intent to provide use of up to 40,000 AF/year of Metropolitan's Colorado River water for cooling water purposes to a proposed nuclear generating facility on a site in eastern San Bernardino or Riverside County.
- 5/23/74 - Letter of Intent to provide up to an additional 10,000 AF/year of Metropolitan's

Colorado River water in exchange for drainage water diverted from the Palo Verde Outfall Drain for cooling water purposes to a nuclear generating facility.

- 11/21/79 - Letter of Intent to provide use of 25,000 AF/year of Metropolitan's Colorado River water in the vicinity of the Colorado River Aqueduct without limitation as to type of fuel. Letter of Intent terminates March 20, 1973 and May 23, 1974 letters of intent.
- 10/16/81 - Amendment to Letter of Intent permitted direct diversion from Colorado River as a proposed power plant site was not in the vicinity of the Colorado River Aqueduct.
- Current Status - Letter of Intent terminated under its own provisions January 1, 1990.

LADWP Colorado River Water

- 5/17/74 - Letter of Intent to provide up to 33,000 AF/year of Metropolitan's Colorado River water in exchange for drainage water diverted from the Palo Verde Outfall Drain for cooling water purposes for a proposed nuclear generating facility.
- Current Status - Letter of Intent terminated under its own provisions on January 1, 1985.

LADWP State Project Water

- 5/17/74 - Letter of Intent to provide up to 60,000 AF/year from the State Water Project for cooling water purposes for a proposed nuclear generating facility in the San Joaquin Valley.
- Current Status - Letter of Intent terminated under its own provisions on January 1, 1980.