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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

7-4

September 24, 1996

To: Board of Directors (Finance and Insurance Committee--Action)
(Organization and Personnel Committee--Action)
(Water Planning and Resources Committee--Information)

From: *for* General Manager Edward J. Mezza

Submitted by: Debra C. Man, Chief Debra C. Man
Planning and Resources Division

Subject: Authority to Enter into a Consulting Contract for Rate Refinement Process
Facilitator

RECOMMENDATION

It is recommended that your Board authorize the General Manager to enter into a consulting contract for facilitation services and expenses up to \$200,000 for Phase 3 of the Rate Refinement Process, funding these expenditures from the O&M contingency budget.

EXECUTIVE SUMMARY

Continuation of Rate Refinement negotiations (Phase 2 and Phase 3) was directed by your Board (Board Letter 8-1 dated June 25, 1996). Funding for Phase 2 facilitation services and expenses is provided under a contract between Metropolitan and Calleguas Municipal Water District, as amended to extend the term of the contract to September 31, 1996, and increase the maximum payment to \$249,000 from \$200,000.

Facilitation of negotiations for Phase 3 of the Rate Refinement process will require approval of an additional contract with Gordon, Thomas, Honeywell, Malanca, Peterson & Deheim, PLIC for professional services and expenses not to exceed \$200,000. The contract term will be October 1, 1996 to June 30, 1997.

The requirement to continue facilitation of the extended Rate Refinement process was not anticipated at the time the 1996-97 Annual Budget was approved; therefore, it is requested expenditures not to exceed \$200,000 for professional facilitation services be allocated from the O&M Contingency budget.

DETAILED REPORT

Rate Refinement negotiations which began January 1996 have been facilitated by James C. Waldo, Gregory W. Forge, and Barbara J. Mirk of the law firm of Gordon, Thomas, Honeywell, Malanca, Peterson & Deheim, PLIC, under a contract with Calleguas Municipal Water District (Calleguas). Mr. Waldo and his associates were selected through a Request for Proposals and interview process that was conducted by a group of member agency managers. Calleguas contracted with Gordon, Thomas, Honeywell, Malanca, Peterson & Deheim, PLIC, for consultant services and agreed to administer the consultant contract on behalf of Metropolitan.

The first report from the participants of the Rate Refinement negotiations, dated May 23, 1996, included recommendations to simplify and provide greater certainty for Metropolitan's member agencies, as well as reduced rates over the next 5 years. These recommendations were approved by your Board on July 9, 1996. At the July meeting, your Board directed staff and the Rate Refinement Team to continue with Phase 2 of the Rate Refinement Process. This Phase was designed to consider and develop analyses to assist your Board in its deliberations regarding wheeling, opportunities for cost containment, and the San Diego County Water Authority's Water Exchange Proposal. Evaluations of the Inland Feeder Project and the Lake Mathews Outlet Tower were discussed at the September Board meeting, while discussion of the Ozone Retrofit Program is expected in November 1996. The Phase 2 report and recommendations regarding wheeling will be reported at the October and November Board Meetings with action on the recommendations anticipated in November. Phase 3 discussions will develop alternative revenues and long-term rate structure reforms, complete a Drought Management Plan, and address outstanding issues from prior phases of the rate refinement process. The Rate Refinement Team will deliberate Phase 3 issues between October 1996 and the end of March 1997.

Under Agreement No. 9025, Metropolitan has reimbursed Calleguas for \$249,000 for facilitation services associated with Phase 1 and 2. An additional \$200,000 will be required for Phase 3 to be completed over the period October 1, 1996 to June 30, 1997.

At the time the 1996-97 Annual Budget was approved, the need to facilitate the extended Rate Refinement negotiations was not anticipated. Therefore, approval to allocate expenditures for professional services to facilitate the third phase of the Rate Refinement process from the O&M Contingency budget is requested.

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