



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-3

January 28, 1997

**To:** Board of Directors (Budget and Finance Committee--Action)  
(Water Planning and Resources Committee--Action)

**From:** General Manager *W. Kerff*

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

**Subject:** Pilot Agreement for Opting In To Future State Water Project Water Supply Programs and Facilities

## RECOMMENDATION

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It is recommended that your Board authorize the General Manager to execute, in form approved by the General Counsel, a pilot agreement for opting in to planning for a State Water Project supply program, substantially in compliance with the terms described in this letter, and approve spending of an initial \$300,000 for project planning costs through an interim milestone of completion of a feasibility report and negotiation of principles of agreement.

## EXECUTIVE SUMMARY

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After completion of the initial State Water Project (SWP) water supply facilities in the early 1970s, it was anticipated that additional facilities would be built to meet increasing contractor delivery needs. Despite continued efforts by the Department of Water Resources (DWR), however, no additional SWP supply facilities have been built and contractor demands cannot be met in certain dry hydrologic years. In recent years, some SWP contractors have stated that they cannot afford to pay for additional supply facilities, and object to paying for the planning of them. Other contractors, however, want more reliable SWP supplies and are willing to pay for additional supply facilities. Currently, costs for planning and construction of supply facilities are, in accordance with State Water Contract provisions, paid by all contractors in proportion to entitlement.

In response, DWR and the contractors are jointly developing an "opt-in" program, whereby each contractor would be able to choose whether or not to participate in future supply projects, on a project-by-project basis. The intent is that only those contractors participating in a given project would pay the costs for and receive the supply benefits from that project. In

addition, those contractors willing to pay for new projects seek to gain more influence than in the past over DWR decisions, activities, and expenditures on these projects. Implementation will ultimately require an amendment to the State Water Contracts of, at least, the opting in contractors.

DWR and the contractors are initially proceeding with a pilot opt-in program that covers just the planning element of what will ultimately be a comprehensive opt-in program. The small storage project chosen for the pilot program would provide a dry year supply, half of which would be available to Metropolitan. A dry year supply such as this is consistent with the water transfer target included in Metropolitan's Integrated Resources Plan (IRP). This transfer target can be met through a number of programs, and in several different ways, including projects such as this which would be developed by DWR on behalf of interested contractors.

The pilot program is the first step in ultimate development of a comprehensive opt-in program for developing future SWP supply programs and facilities. It is also a further step in providing stronger influence over DWR activities and expenditures. It is recommended that your Board authorize the General Manager to execute the pilot program agreement and approve spending of an initial \$300,000 for project planning costs. This initial amount, out of an anticipated \$490,000 total for Metropolitan, would cover estimated expenditures through an interim milestone of completion of a feasibility report and negotiation of principles of agreement with other parties to the project. If the project appears favorable at that milestone, staff will seek approval from you Board for continued participation in the project and spending for the remaining planning costs.

## **DETAILED REPORT**

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The initial water supply facilities of the State Water Project (SWP) were designed to meet the early supply needs of the SWP contractors. It was intended that additional supply facilities would be built over time to meet projected increases in contractors' delivery needs. Despite continued efforts by the Department of Water Resources (DWR), however, with the exception of four new pumps added to the Harvey O. Banks Delta Pumping Plant, no additional SWP water supply facilities have been built since the initial facilities were completed in the early 1970s. As a result, supplies from existing SWP facilities may not meet contractor demands in drier hydrologic years, and will become less reliable as contractor demands continue to increase.

In spite of this, some SWP contractors in recent years have stated that they cannot afford to pay for additional supply facilities, and object to paying for the planning of them. Other contractors, however, want more reliable SWP supplies and are willing to pay for additional supply facilities. The costs for planning and construction of supply facilities, as dictated by the State Water Contracts with DWR, are currently paid by all contractors through the Delta Water Charge (i.e., in proportion to entitlement and capitalized through 2035).

In response to this situation, DWR and the contractors are jointly developing an "opt-in" program, whereby each contractor would be able to choose whether or not to participate in future supply projects, on a project-by-project basis. The opt-in program would be for supply projects only and would exclude Delta facilities. The intent is that only those contractors participating in a given project would pay the costs for and receive the supply benefits from that project. In addition, those contractors willing to pay for new projects seek to gain more influence than in the past over DWR decisions, activities, and expenditures on these projects. Ultimately, implementation of these changes will require an amendment to the State Water Contracts.

There are a number of complex issues to be addressed in developing a comprehensive opt-in program, including: what level of planning should continue to be paid by all contractors; what is the best process for offering opt-in projects to contractors, both for more detailed planning, and ultimately, for project construction and operation; what increased role should the contractors have and how can it work most effectively; and how to ensure project supplies benefit only project participants. Due to these complex issues, as a first step, DWR and the contractors are focusing on development of an opt-in program just for project planning.

Because even this piece of an overall program has its complexities, DWR and the contractors are initially proceeding with a pilot opt-in planning program. The pilot program will be used to test and refine the planning element of a comprehensive opt-in program before ultimately developing a State Water Contract amendment. In a parallel work effort, DWR and the contractors will address those issues necessary for a comprehensive opt-in program that are outside the scope of this pilot program.

To carry out the pilot opt-in program, it was determined that an agreement was necessary to enable DWR to charge only the participating contractors for planning costs. In addition, the contractors wanted the agreement to provide for some measure of contractor oversight and control. The two-year agreement developed for this initial pilot program covers planning activities and costs for a small water supply project. The agreement provides for the establishment of a contractor Participant Committee which will: work jointly with DWR to develop the project scope, budget, and schedule; approve subsequent changes if necessary; and provide input to and oversight of DWR's work efforts on the project. The agreement includes a provision for participating contractors to drop out of the project at set milestones during the agreement. Project costs will be charged to participating contractors on a pay-as-you-go basis.

For this pilot program, DWR and the contractors picked a project from those underway for which a reconnaissance study had been completed and a feasibility study was in progress. The project chosen is a small storage project located north of the Delta. The project is estimated to provide a total dry year supply of about 55,000 acre-feet at the source, with somewhat less available after transfer across the Delta. Metropolitan would receive half of the available supply. DWR planning activities under the agreement will include completion of the feasibility report, environmental documentation, and permitting and approvals. DWR's preliminary cost estimate for work during the two-year agreement totals \$1.36 million.

Participation in the pilot project was offered by DWR to all contractors in December 1996. Nine contractors, including Metropolitan, responded with non-binding letters of interest. Metropolitan's response indicated an interest in a 50 percent share of the project. This share is in line with Metropolitan's current 48 percent repayment obligation for all DWR planning costs. In recent years, DWR's planning budget has totaled about \$16 million per year.

Based on the responding contractors' letters of interest, the potential financial commitment to the project totals \$980,000 over the two-year term of the agreement. Metropolitan's share of this total would be \$490,000 over two years. While this is less than DWR's preliminary cost estimate, DWR and the contractors agreed to proceed with this level of funding, and the agreement includes a not-to-exceed cost provision at this \$980,000 level. The participating contractors anticipate that through refinement of DWR's scope of work and preliminary cost estimate, and reduction of contingencies included in this estimate, that the work can be completed within the funding available.

Interested contractors have until February 15, 1997, to sign their agreements with DWR for participation in the pilot project. The pilot program agreement covers only project planning. Should the project prove feasible and cost effective, your Board would be asked to consider a further agreement to cover final design and construction.

The dry-year supply which could be developed from the proposed pilot project is consistent with Metropolitan's Integrated Resources Plan (IRP). The IRP includes provisions for water transfers to supplement supplies in dry years when other supplies may be inadequate. A number of programs will be necessary to provide the target quantity indicated in the IRP, and may include: transfers pursued by Metropolitan on its own behalf, supplemental water purchases made by DWR on behalf of contractors requesting such purchases, and/or supply projects developed by DWR on behalf of interested contractors. For some supply projects, such as those located north of the Delta, project development by DWR instead of by Metropolitan may be of benefit both in implementation of the project and in development of anticipated project yield (due to full incorporation of the project into SWP operations).

The pilot program is the first step in ultimate development of a comprehensive option program developing future SWP supply programs and facilities. It is also a further step in providing stronger influence over DWR activities and expenditures. It is recommended that your Board authorize the General Manager to execute the pilot program agreement and approve spending of an initial \$300,000 for project planning costs. This initial amount would cover estimated expenditures through an interim milestone of completion of a feasibility report and negotiation of principles of agreement with other parties to the project. If the project appears favorable at that milestone, staff will seek approval from your Board for continued participation in the project and spending for the remaining planning costs.

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