



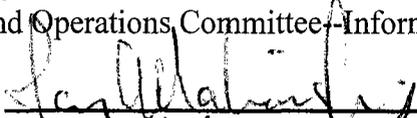
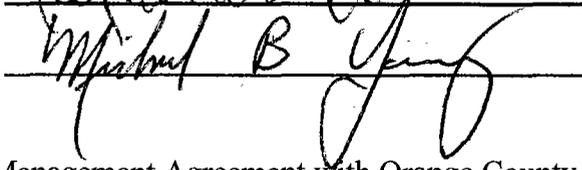
MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

7-8

June 18, 1998

To: Board of Directors (Water Planning and Resources Committee--Action)
(Engineering and Operations Committee--Information)

From: ^{FOR} General Manager 
Submitted by: J. W. Malinowski
^{FOR} Chief of Operations 

Subject: First Amendment to Water Supply Management Agreement with Orange County Basin

RECOMMENDATION(S)

It is recommended that your Board authorize the General Manager to execute the First Amendment to the Water Supply Management Agreement with Orange County Basin as described in this letter, substantially in the form of Attachment A and in form approved by the General Counsel.

EXECUTIVE SUMMARY

Metropolitan Water District of Southern California (Metropolitan), Orange County Water District (OCWD), and Municipal Water District of Orange County (MWDOC) wish to enter into a First Amendment to the Water Supply Management Agreement with Orange County Basin (First Amendment). This First Amendment revises the Water Supply Management Agreement (WSM Agreement), dated September 1, 1997 among Metropolitan, OCWD, and MWDOC. The WSM Agreement allows Metropolitan to place water into the Orange County Basin when water is available to be credited to Metropolitan's account. When OCWD places a request for supplemental water for replenishment from Metropolitan, through MWDOC, Metropolitan has the prerogative of delivering new supplies or debiting its account to WSM.

The First Amendment to the WSM Agreement, if approved by your Board, provides that:

1. the current WSM Agreement term is extended;
2. the maximum allowable storage will increase slightly;
3. limited summer in-lieu storage is allowed at an adjusted price; and

4. any water remaining in the WSM account at the termination date may be transferred to another water management account in the Basin.

DETAILED REPORT

Original Water Supply Management Agreement

Metropolitan, MWDOC, and OCWD entered into a Water Supply Management (WSM) Agreement on September 1, 1997 to be able to pre-deliver up to 43,000 acre-feet (AF) of Metropolitan's replenishment water into the Orange County Basin (Basin) while supplies are available. When delivered by either direct or in-lieu means, the Metropolitan water is stored in the Basin in a Metropolitan WSM account. When OCWD places an order for replenishment water through MWDOC, Metropolitan has the prerogative of delivering new supplies or debiting its WSM account. The 1997 WSM Agreement terminates December 1998, however, the Agreement may be amended and/or extended if mutually agreed. As of April 1, 1998 the Metropolitan WSM account held about 26,500 AF.

First Amendment to the WSM Agreement

This First Amendment to the WSM Agreement will, if approved by your Board:

1. extend the termination date from December 1998 to December 2000;
2. increase the maximum allowable storage from 43,000 AF to 50,000 AF;
3. provide for up to 10,000 AF per year (within the total account of 50,000 AF) of summer (May 1 through September 30) in-lieu storage for agencies along the coastal area of the Basin as a temporary basin management tool; and
4. allow, by mutual consent, that the Agreement be terminated and any water remaining in the WSM account at the termination date may be transferred to another water management account in the Basin.

Summer In-Lieu Deliveries and WSM

Five of Metropolitan's member agencies are within Orange County: the City of Anaheim, the City of Fullerton, the City of Santa Ana, Coastal Municipal Water District, and the Municipal Water District of Orange County. The Orange County agencies have constructed a total of fourteen new wells in response to the Seasonal Storage Service (SSS) Program, and some of the agencies shift nearly 100% of their production to the summer period.

In recent years, Orange County's coastal agencies have experienced widely fluctuating groundwater levels. These fluctuations may be related to groundwater pumping patterns of

inland agencies participating in Seasonal Shift, especially increased summer pumping associated with the fourteen new wells. Fluctuating levels may also create lower pressure in the clear water aquifers and allow colored water from lower aquifers to permeate into the clear water.

In spite of this concern, the overall condition of the Orange County Basin is good, and seasonal fluctuations have impacted only two Orange County agencies amounting to less than 3% of total annual Basin production. However, seasonal groundwater fluctuations preclude coastal agencies' participation in Seasonal Shift. As a result, these agencies are unable to contribute to the regional benefit of reduced summer peaking off of Metropolitan.

Metropolitan partners with all of its member agencies in protecting regional reliability. The WSM account offers Metropolitan greater flexibility in managing its distribution system, allows for the storage of replenishment water when supplies are available, and provides for sale of replenishment water from Metropolitan's storage account when supplies are limited, thus enhancing regional reliability. The summer in-lieu component of the First Amendment, proposed by Metropolitan staff, will augment storage in Metropolitan's WSM account at a time when direct replenishment water is plentiful and available to all agencies.

At the same time, summer in-lieu deliveries will provide a temporary management tool for the Basin while the Basin Manager (OCWD) develops a permanent solution to fluctuating coastal groundwater levels (summer to winter) associated with Seasonal Shift pumping. The amended WSM Agreement will encourage the coastal agencies impacted by Seasonal Shift to mitigate fluctuating water levels by leaving water in the Basin and taking in-lieu deliveries. Water left in the Basin will be transferred into Metropolitan's WSM account from which it will be sold at an appropriate replenishment rate.

The summer in-lieu component is a short-term solution until OCWD can permanently resolve the problem, and is intended only for those coastal agencies impacted by Seasonal Shift. In the meantime, inland agencies can continue participating in Seasonal Shift without adversely impacting the coastal area, and Metropolitan will continue to benefit from Orange County's reduced summer peaking realized through Seasonal Shift.

Agencies desiring to participate in summer in-lieu must demonstrate to OCWD and Metropolitan that their wells' production ability has been affected by inland agencies that participated in Metropolitan's SSS Program. It is anticipated that the summer in-lieu water would be made available to only the two currently impacted agencies that are along the coastal area of the Basin. Additionally, agencies storing water in-lieu of pumping during summer may not participate in Seasonal Shift. Both agencies are past participants in the SSS Program.

Summer in-lieu deliveries would be limited to no more than 10,000 AF per year. Additionally, summer in-lieu storage water delivered into the WSM Agreement account and later transferred and sold will be charged the full treatment surcharge (currently \$82 per AF) instead of the

discounted SSS treatment surcharge (currently \$57 per AF). This higher surcharge is appropriate because summer in-lieu deliveries will be operating at the same time as the shifting operations of the SSS Program, and thus should not receive the discounted treatment surcharge. However, because Metropolitan is storing water in its WSM account, the untreated replenishment rate is appropriate as the commodity rate component.

The summer in-lieu portion of the First Amendment is a temporary Basin management tool which may not be extended beyond December 2000. It is anticipated that the summer in-lieu water would only be used in 1998-99. As a temporary measure set within an agreement, it does not set precedent for other agencies to take in-lieu summer seasonal deliveries.

The method to calculate the summer in-lieu will be the same Operational Plans as were used to certify for water placed by in-lieu means (approximately 13,900 AF) into the existing WSM Agreement balance. The methodology for these Operational Plans was first approved by the Joint Program Advisory Committee (JPAC) in the summer of 1997, and recently confirmed by the JPAC.

Joint Program Advisory Committee Consensus

The June, 1998 Board requested that the JPAC review the First Amendment. The JPAC's consensus was that the summer in-lieu deliveries accomplished Metropolitan's primary objective of storing replenishment water, making the amended WSM Agreement a win-win plan for both Metropolitan and the Basin. However, the amended WSM Agreement is not a precedent for summer in-lieu deliveries to other agencies; the summer in-lieu component is a temporary Basin management tool intended only for those coastal agencies impacted by Seasonal Shift. Furthermore, summer in-lieu deliveries would only occur during times when Metropolitan has made direct replenishment water available throughout its service area. The JPAC also agreed that the use of Operating Plans to verify storage under the original 1997 WSM Agreement is appropriate for the amended WSM Agreement.

Transfer to Another Water Management Account in the Basin

Metropolitan, MWDOC, and OCWD continue to work to develop long-term contractual storage in the Basin. In the event that a long-term storage contract is successfully negotiated, any balance remaining in the WSM account could be transferred to the new agreement, if mutually agreed upon.

It is recommended that the Board authorize the General Manager to execute the First Amendment as described in this letter.

CJL:ms
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Attachment

**1ST AMENDMENT TO THE
ORANGE COUNTY BASIN
WSM AGREEMENT**

This AMENDATORY AGREEMENT is made as of the _____, 1998 by and between THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA, a public corporation of the State of California, herein referred to as "Metropolitan"; the ORANGE COUNTY WATER DISTRICT, a regulatory agency created by the State of California, herein referred to as "OCWD"; and the MUNICIPAL WATER DISTRICT OF ORANGE COUNTY, a public corporation of the State of California, herein referred to as "MWDOC".

EXPLANATORY RECITALS

A. OCWD is responsible for managing the Basin and managing, replenishing, regulating, and protecting the groundwater supplies within its legally constituted boundaries. OCWD is authorized to purchase supplemental water from Metropolitan through MWDOC (as well as from Metropolitan's other Orange County member public agencies; the cities of Anaheim, Fullerton, Santa Ana, and the Coastal Municipal Water District (Coastal)) for recharge purposes.

B. OCWD is authorized to enter into Water Storage Management (WSM) agreements for utilization of groundwater storage capacity in the Orange County Basin (Basin) for cyclic or regulatory storage of supplemental water, with all such agreements to be in accord with the Orange County Water District Act (OCWD District Act), Section 2.1. Such agreements benefit all parties by providing for utilization of available storage capacity in the Basin in conjunction with the availability of imported water.

C. Pursuant to the OCWD District Act (OCWD District Act), Section 2.1, OCWD, MWDOC and Metropolitan entered into an agreement titled Water Supply Management Agreement with Basin, dated September 1, 1997. The WSM Agreement allows Metropolitan to recharge and store up to 43,000 acre-feet of California State Water Project (SWP) and/or Colorado River Aqueduct (CRA) water in the Basin for subsequent use by MWDOC, Fullerton, Anaheim, Santa Ana, and Coastal.

D. The WSM Agreement will expire on December 31, 1998. By mutual agreement of the parties hereto, the WSM Agreement may be extended for additional terms, not to exceed five years each.

E. Under the Agreement, cyclic water is delivered by either direct or in-lieu means. In-lieu deliveries to a WSM Agreement Account may be made on a pre-approved schedule, by all parties, that may or may not take the place of Metropolitan's groundwater seasonal storage certification form to show that water is stored in-lieu of pumping to follow the intent of the definition of Long-Term Storage as stated in Section 3, Types of Seasonal Storage Service (SSS), of Metropolitan's October 1996 User Handbook for Seasonal Storage Service.

F. Deliveries to the WSM Agreement Account by in-lieu means are normally made from October 1 through April 30 when imported water supplies are plentiful.

G. WSM agreements and the SSS program allow both Metropolitan and member agencies to better manage their water supply. Under the SSS program, agencies may participate by shifting groundwater production from winter to summer months. Shift occurs when an agency increases its summer groundwater production above a baseline amount while reducing its Metropolitan deliveries. In the winter, the agency would then match the incremental increased summer groundwater production with imported water while reducing groundwater production. By shifting groundwater production, agencies provide a regional benefit for which a savings on imported water is realized. However, declining water levels and the threat of seawater intrusion limit participation in the shift aspect of the SSS program by certain MWDOC coastal producers.

H. As a result of fluctuating and declining water levels and the threat of seawater intrusion experienced by coastal producers, Metropolitan proposes amending the WSM Agreement to adjust the method of delivery into the WSM Agreement Account by those affected agencies.

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES, COVENANTS AND CONDITIONS HEREINAFTER SET FORTH, THE PARTIES HERETO DO HEREBY ENTER INTO THIS AMENDMENT TO THE AGREEMENT AS FOLLOWS:

1. Delivery, Amount, and Ownership of Stored Water

Metropolitan may, subject to the conditions hereinafter set forth, deliver to the Basin imported water which will be stored for Metropolitan's purposes and credited by OCWD to Metropolitan's WSM Agreement Account until such time as needed by MWDOC to meet supplemental water requirements placed on it by OCWD. Metropolitan may store up to 50,000 acre-feet in the WSM Agreement Account, whether by direct or in-lieu delivery methods. All such water delivered to the WSM Agreement Account shall be over and above the replenishment water which OCWD would normally purchase through MWDOC (and from the aforementioned Metropolitan member public agencies) from Metropolitan during OCWD's fiscal year starting March 1 through February 28/29. Deliveries into the WSM Agreement Account in any one year may be by direct spreading or a combination of direct spreading and in-lieu deliveries. In-lieu deliveries to affected coastal agencies during the summer shall not exceed 10,000 acre-feet in any one year. OCWD shall make a good faith effort to take up to one-half of its deliveries into the WSM Agreement Account by direct spreading as hydrology and spreading conditions permit.

2. OCWD Control of Spreading, Injection, Storage, and Use of Stored Water

All water stored for Metropolitan's WSM Agreement Account pursuant to this Agreement shall be recharged by OCWD in accordance with the OCWD District Act. The time, place, and amount of water delivered to the Basin shall be approved in advance by OCWD. To the extent possible, Metropolitan will directly deliver water to the WSM Agreement Account through OC-59 in order to meet OCWD's objective for total dissolved solid levels in the Basin. Notwithstanding any other provisions of this Agreement, OCWD reserves the right to order the cessation or reduction in delivery rate of water being recharged for WSM Agreement. If there is a significant probability that the Basin will spill, OCWD will notify Metropolitan of the probability of such an occurrence as soon as is possible. Metropolitan shall issue a quarterly report to MWDOC and to OCWD indicating the amount of water which Metropolitan has delivered hereunder for storage in Metropolitan's WSM Account. Such reports shall be due on the last day of the

month of the relevant quarter, i.e., April 30, July 31, October 31, and January 31, and shall be subject to OCWD's and MWDOC's verification.

6. Obligation for Payment

Metropolitan may, subject to the conditions herein set forth, deliver to the Basin, imported water from its WSM Agreement Account, which will subsequently be purchased by OCWD from MWDOC to meet the supplemental water requirements of OCWD. OCWD shall pay MWDOC for all imported water which has been so transferred from Metropolitan to OCWD in accordance with the billing and payment provisions in Metropolitan's Administrative Code. In-lieu deliveries shall be purchased by OCWD when ownership of delivered water is transferred from Metropolitan's WSM Agreement Account to MWDOC's Account, not when delivery is made. Such transfer of ownership shall be equivalent to the sale and delivery of water for purposes of applying the provisions of the OCWD District Act. Payments to Metropolitan shall be calculated by using Metropolitan's rate for water sold for groundwater replenishment plus the appropriate treatment surcharge when applicable as defined in Section 16, below. For purposes of this Agreement, said rate shall be Metropolitan's lowest Seasonal Storage Service rate for groundwater replenishment in effect at any time during the fiscal year in which such a debit to Metropolitan's WSM Agreement Account occurs. Prior to a Metropolitan rate change OCWD has the option to transfer ownership of, and purchase, all water remaining in Metropolitan's WSM Agreement Account.

9. Term

The term of this Agreement shall commence on the day, month, and year first above written and shall terminate December 31, 2000 unless previously terminated or extended as hereinafter provided, except for the Summer WSM Agreement Account deliveries which expire December 31, 2000, as noted below in Section 13. By the mutual agreement of the parties hereto, this Agreement may be extended for additional terms, not to exceed five years each. Should water remain in the WSM Agreement Account at the termination date then such water shall be purchased by OCWD at that time, subject to the

provisions of Paragraph 6 above, unless the Agreement is extended or amended at that time by mutual agreement. By mutual consent of the parties hereto, this WSM Agreement Account may be terminated, and water remaining in the WSM Agreement Account at the termination date may be transferred to another water management account in the Basin.

13. Summer WSM Agreement Account Deliveries

In years that excess supplies and system capacity permit, Metropolitan will deliver water to its WSM Agreement Account through in-lieu deliveries to impacted coastal agencies which wish to participate in the Summer WSM Agreement Account Delivery Program. These agencies shall reduce their pumping from their planned normal pumping in the summer (May 1 through September 30), and produce 75% of their demand or their planned pumping percentage during the winter (October 1 through April 30). Agencies receiving summer in-lieu deliveries may not participate in the SSS program. This provision of the WSM Agreement may not be extended past December 31, 2000.

14. Preapproved Producers

Participation of impacted agencies in the summer WSM Agreement are subject to approval by Metropolitan. Metropolitan reserves the right to review data documenting declining water levels and potential sea water intrusion problems experienced by coastal agencies. Summer in-lieu deliveries shall be made in accordance with an operating plan approved in advance by the parties to this Amended Agreement.

15. Interruption of Summer WSM Agreement Account Deliveries

Metropolitan reserves the right to interrupt deliveries under the Summer WSM Agreement Account Delivery Program should system demands increase above available supplies or for regulation of Metropolitan's distribution system. Should an interruption occur, the impacted agency will increase pumping to its planned normal pumping level.

16. Payment for Summer WSM Agreement Account Deliveries

Water delivered under the Summer WSM Agreement Account Delivery Program will be sold at the lowest untreated replenishment rate plus the lowest full treatment surcharge (treatment surcharge for full service water) in effect at any time during the fiscal year in which such a debit to Metropolitan's WSM Agreement Account occurs. Water will be sold from the WSM Agreement Account on a first in/first out basis for application of the treatment surcharge.

17. Rates for Winter WSM Agreement Account Deliveries

Water delivered in the winter through in-lieu means will be sold at the lowest treated rate for groundwater replenishment in effect at any time during the fiscal year in which such a debit to Metropolitan's WSM Agreement Account occurs.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by its authorized officers.

ATTEST:

ORANGE COUNTY WATER DISTRICT

By _____
Secretary

By _____
General Manager

APPROVED AS TO FORM AND EXECUTION:

Attorney for OCWD

(seal)

ATTEST:

MUNICIPAL WATER DISTRICT
OF ORANGE COUNTY

By _____
Secretary

By _____
General Manager

APPROVED AS TO FORM AND EXECUTION:

Attorney for the MWDOC

(seal)

ATTEST:

THE METROPOLITAN WATER
DISTRICT OF SOUTHERN
CALIFORNIA

By _____
Executive Secretary

By _____
General Manager

APPROVED AS TO FORM AND EXECUTION:

Attorney for Metropolitan

(seal)