

PENDING
10-2

October 27, 1998

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

From: General Manager

Submitted by: Debra Man, Chief
Planning and Resources

Subject: Amendment of Metropolitan's State Water Project Contract

RECOMMENDATION

It is recommended that the General Manager be authorized to execute an amendment to Metropolitan's State Water Project Contract, consistent with the terms and principles described in this letter in a form approved by the General Counsel.

EXECUTIVE SUMMARY

Given the changes in the State administration at the end of this year, Metropolitan and other State Water Project (SWP) contractors have taken this opportunity to propose implementation of several desirable changes to Metropolitan's long-term water supply contracts and related administrative procedures. Many of these changes provide refinements to clarify or otherwise provide the means to implement the principles underlying previous amendments. The changes most important to Metropolitan involve (a) administrative changes to facilitate water exchanges and storage programs, (b) clarification of a contractor's priority right to convey any type of water through paid-for aqueduct capacity, and (c) rules for water entitlement reductions. The Board is requested to authorize the General Manager to execute State Water Project contract amendments consistent with principles described in this letter and in a form approved by General Counsel. It is anticipated that the changes will be exempt from the California Environmental Quality Act (CEQA).

DETAILED REPORT

Given the changes in the State administration at the end of this year, Metropolitan and other State Water Project (SWP) contractors have taken this opportunity to propose implementation of several desirable changes to Metropolitan's long-term water supply contracts and related administrative procedures. Many of these changes provide refinements and clarifications of previous contract amendment provisions or otherwise provide more effective means to implement those amendments.

During the period of August through October 1998, SWP contractor representatives and Department of Water Resources (DWR) staff discussed several proposed principles for water supply contract amendments and changes in administrative procedures. Copies of the October 19, 1998, Statement of Principles are available from the Executive Secretary. Those principles of most significance to Metropolitan are summarized below:

Storage and Exchange Programs

The current contract provides a contractor with the opportunity to enhance the reliability of its water supplies by storing water outside of its service area and by participating in water exchanges. The proposed administrative changes would further support this practice by clarifying that unbalanced storage and exchange programs (where a contractor may deliver up to twice as much water as is returned) are acceptable if there is rational justification, e.g., lower value wet-year water is provided in return for a lesser amount of higher value dry-year water.

To further encourage this type of water management, the contract would be amended to provide that a contractor storing or exchanging water would not be subject to use-of-facilities fees if that contractor or the contractor receiving the water participates in the repayment of the aqueduct reaches needed for the transaction.

Aqueduct Delivery Priorities/Charges

If there is insufficient capacity to make water deliveries to all contractors, the current contract prioritizes deliveries based on type of water being delivered. The proposed amendment clarifies that a contractor would have first priority to move any type of water through the capacity on which its aqueduct facility payments are based. (DWR has recently expressed concern regarding contractors being able to convey non-SWP supplies with the same priority as project supplies. Discussions continue on this topic.)

The amendment would also increase the options to contractors that need additional capacity to convey SWP entitlement purchased from another contractor. A contractor could (a) purchase excess capacity from another contractor, (b) pay past and prospective costs for a first priority to unused capacity, or (c) pay only prospective costs for a second priority to unused capacity.

Entitlement Reductions

The current contract provides that a contractor may temporarily reduce its water supply entitlement and be relieved of Delta Water charges associated with the reduction. The unpaid costs are then amortized and added to the Delta Water charge of all contractors. This procedure results in a near-term revenue shortfall to DWR.

To address this problem for the currently anticipated entitlement reductions, the proposed contract amendment would authorize DWR to increase contractors' annual charges to cover revenue shortfalls associated with entitlement reductions of up to 100,000 acre-feet. Increased charges would be allocated to contractors in proportion to their entitlements.

Other Issues

Principles for issues of primary concern to other contractors have also been negotiated. Castaic Lake Water Agency, located in the Valencia area, is in the process of acquiring approximately 50,000 acre-feet of additional water supply entitlement from other contractors. DWR would appropriately adjust West Branch contractors' regulatory and emergency storage and associated costs to reflect these increases. Metropolitan would continue to have adequate quantities of emergency and regulatory storage available to it. Further, Metropolitan's access to flexible storage would remain constant at 153,990 acre-feet.

Implementation

During the months of October and November, a committee of contractors and DWR representatives began drafting a potential amendment to implement principles that require a contract amendment. Concurrently, DWR staff is drafting potential administrative memoranda to implement the remainder of the principles. In the meantime, DWR is acting as the lead agency in reviewing these proposed changes for CEQA compliance.

Contract amendments will become effective at the end of this year if contractors holding at least 90 percent of maximum Table A entitlements execute the amendments by December 10, 1998.

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