

January 26, 1999

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

From: General Manager _____

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

Subject: Amendment No. 1 to the Pilot Program Agreement for the Feasibility Study
of the American Basin Project

RECOMMENDATION

It is recommended that your Board authorize the General Manager to execute, in a form approved by the General Counsel, an amendment extending the term of a pilot agreement with the Department of Water Resources for a State Water Project supply program.

EXECUTIVE SUMMARY

Amendment No.1 to the Pilot Program Agreement for the Feasibility Study of the American Basin Project would extend the term of the agreement for one year or until completion of the planning program, whichever ever comes first. Metropolitan's financial commitment of up to half of the estimated \$980,000 planning program cost, would not be increased under this amendment.

Your Board previously authorized the execution of a pilot agreement (see attached February 25, 1997, letter 8-3) between Metropolitan and the Department of Water Resources (DWR) for joint planning of a State Water Project (SWP) supply program. Under this type of agreement the participating SWP contractors have considerably more control over DWR's planning efforts, including budgeting and spending, than in the past.

The American Basin Project would provide a dry-year supply, with approximately half of the yield available to Metropolitan. If determined to be cost-effective, this dry-year supply would be consistent with the water transfer component included in Metropolitan's Integrated Resources Program. Prior to proceeding beyond the planning stage of development for this program, your Board's approval to amend the SWP Water Service Contract would be needed.

DETAILED REPORT

In 1997, Metropolitan entered into a pilot agreement on cost sharing for the feasibility study and planning for the American Basin Project. Under this pilot agreement, individual SWP contractors were allowed to choose whether or not to participate in the planning for the additional SWP water supply project. In addition, this type of agreement gave the participating SWP contractors considerably more control over the DWR's planning efforts, including budgeting and spending,

than in the past. Ultimately, if individual SWP contractors choose to participate in the construction or implementation of such a project, an amendment to the State Water Supply Contract would be required and your Board's authorization would be necessary.

Over the past two years, the SWP contractors participating in this pilot agreement have guided DWR's planning efforts for the development of a groundwater conjunctive-use and surface water supply acquisition program in the American Basin, north of Sacramento. This dry-year supply, if determined to be cost-effective, would be consistent with the water transfer component included in Metropolitan's Integrated Resources Program.

Under the pilot agreement, Metropolitan is committed to funding half of the estimated \$980,000 planning costs. This financial commitment would not increase as a result of this amendment. Metropolitan benefits from this commitment by being entitled to participate in the development of at least half of the project's dry-year yield, currently estimated in the 35,000 AF to 100,000 AF range. In addition there are a number of other incidental benefits to participating in this program. One of the most significant incidental benefits is having greater control over DWR's planning activities.

Initially, DWR was to have completed a feasibility report and environmental documentation for the American Basin program during the two-year period of the agreement. However, the participating SWP contractors requested that DWR delay commencing the environmental review process until support from the local participating agencies was assured. Recently, DWR, the participating SWP contractors and local participating agencies have begun developing an agreement on principles for participation. Once such an agreement has been developed, the participating SWP contractors will authorize completion of the necessary environmental documentation. As a result, an extension to the initial two-year agreement is necessary to complete the environmental documentation.

In developing the principles for participation, staff will continue to monitor the program to evaluate whether continued participation is warranted. This evaluation will be based on a number of factors, including the following conditions:

- Consistent with IRP water supply, quality, and cost objectives and targets;
- Consistent with the CALFED Program;
- Consistent with efforts to establish responsibility for meeting Bay/Delta standards;
- Assurance that those who pay receive the benefits; and
- Partnership in decision-making with DWR.

If an amendment to the pilot agreement is authorized, principles for participation are developed, and planning proceeds to the end of the environmental process, staff will present such information to your Board for consideration. At that time, your Board will have the opportunity to authorize moving forward with the project and executing the necessary amendments to the State Water Service Contracts to implement the program.

KAD/cl

Attachment 8-9A

8-3

February 25, 1997

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

From: General Manager _____

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

Subject: Pilot Agreement with Department of Water Resources for Joint Planning of a
 State Water Project Supply Program

RECOMMENDATION

It is recommended that your Board authorize the General Manager to execute, in form approved by the General Counsel, a pilot agreement with the Department of Water Resources for planning for a State Water Project supply program, substantially in compliance with the terms described in this letter; and approve spending for project planning costs through an interim milestone of completion of a feasibility report and negotiation of principles of agreement, which is estimated to cost \$420,000.

EXECUTIVE SUMMARY

The Department of Water Resources (DWR) and the State Water Project (SWP) contractors are jointly developing a program where each contractor would be able to choose whether or not to participate in the planning and construction of additional SWP 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 of such a program would ultimately require an amendment to the State Water Contracts of, at least, the participating contractors.

DWR and the contractors are initially proceeding with a pilot agreement for a small water supply project, covering only the planning for that project. If constructed, the project 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.

This pilot project is a first step in developing additional SWP supply programs needed to improve SWP supply reliability. 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 agreement and approve spending for project planning costs through an interim milestone of completion of a feasibility report and negotiation of principles of agreement with other parties to the project. Costs through this interim milestone are an estimated \$420,000. If the project appears favorable at that milestone, staff will seek approval from your Board for continued participation in the project and for spending for the remaining planning costs.

DETAILED REPORT

Background. 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 supply facilities, including planning and construction, are currently paid by all contractors through the Delta Water Charge (i.e., in proportion to entitlement and capitalized through 2035), as is dictated by the contractors' State Water Contracts with DWR.

Description of Joint Planning Agreement and Process. In response to this situation, DWR and the contractors are jointly developing a program where each contractor would be able to choose whether or not to participate in the planning and construction of future SWP supply projects, on a project-by-project basis. The program would be for future supply projects only and would exclude system improvements in which all contractors have a responsibility, such as 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 would require an amendment to the State Water Contracts of, at least, the participating contractors.

DWR and the contractors are initially proceeding with a pilot project. To carry out the pilot, an agreement is necessary to enable DWR to charge only the participating contractors for planning costs. In addition, the contractors wanted the agreement to specify some measure of contractor oversight and control. The two-year agreement developed for this initial pilot project 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 project, DWR and the contractors chose 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 a 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 and supply facility costs.

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 hope that the project planning can be completed within the funding available, through refinement of DWR's scope of work and preliminary cost estimates and reduction of contingencies included in this estimate. However, there may be limits to the amount of reductions that are practical, and the agreement recognizes that the not-to-exceed cost provision may need to be amended.

Interested contractors have until March 31, 1997, to sign their agreements with DWR for participation in the pilot project. The pilot 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.

Consistency With Integrated Resources Plan (IRP). The dry-year supply which could be developed from the proposed pilot project is consistent with Metropolitan's 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).

Staff Recommendation. This pilot project is a first step in developing additional SWP supply programs needed to improve SWP supply reliability. 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 agreement and approve spending for project planning costs through an interim milestone of completion of a feasibility report and negotiation of principles of agreement with other parties to the project. Costs through this interim milestone are an estimated \$420,000. If the project appears favorable at that milestone, staff will seek approval from your Board for continued participation in the project and for spending for the remaining planning costs. At this and other milestones at which project participants may drop out of the

project, continued participation will be evaluated based on the project continuing to meet the following conditions:

- Consistent with IRP water supply, quality, and cost objectives and targets;
- Consistent with CalFed Program;
- Consistent with efforts to establish responsibility for meeting Bay/Delta standards;
- Assurance that those who pay receive the benefits; and
- Partnership in decision-making with DWR.

NEC:cl