

- **Board of Directors**
Engineering, Operations and Real Property Committee

July 10, 2001 Board Meeting

9-2

Subject

Authorize entering into (1) a reimbursable agreement of \$3 million per year for 5 years with the California Department of Water Resources to provide services for State Water Project operations and maintenance activities; and (2) subcontracts greater than \$250,000 necessary to complete work under the agreement

Description

In July 1983, Metropolitan entered into Agreement No. B-54783 with the California Department of Water Resources (DWR) to perform machining, fabricating and other support services provided by the Special Services Unit located at the F. E. Weymouth Filtration Plant. Since that time, the agreement has been amended six times. The amendments generally provided for periodic extensions of the agreement, changes in amounts payable annually by DWR, changes in agreement administrators, and clarification of liability issues.

For several reasons, including Metropolitan's and DWR's commitments to cooperate in mitigation efforts related to the electrical energy crisis, both parties wish to enter into a new agreement to supersede the existing agreement. The new agreement will provide Metropolitan greater flexibility and expand Metropolitan's ability to provide machining, fabricating and other services to DWR. This mutual goal for both agencies recognizes the importance of maintaining DWR's water delivery and electrical energy producing facilities at a high level of availability. The new agreement also recognizes that the existing agreement and its amendments are outdated and confusing. This promotes inefficiencies at a time when increased efficiency and cooperation are critical. All costs incurred by Metropolitan under this agreement and related subcontracts will be reimbursed by DWR.

The new agreement will provide the following:

- Continuation of services authorized under the existing contract.
- A term beginning July 1, 2001 through June 30, 2006.
- Increase the amount of service that Metropolitan can provide to \$3 million per year. (The limit is currently \$2 million per year).
- Authorize Metropolitan to provide engineering services as needed to assist DWR.
- Authorize Metropolitan to hire subcontractors as needed.
- Streamlined work authorization notices by DWR, especially during emergency situations.
- Improved estimating, accounting, billing and payment provisions.

It has long been recognized that the agreement has greatly benefited both Metropolitan and DWR. It has allowed Metropolitan to maximize the use of its heavy, fixed machining tools at the La Verne shop, while allowing DWR to avoid the high cost of building its own machine shop or contracting such work out to other vendors who would likely be less experienced and more expensive than Metropolitan's highly specialized staff.

In addition, as the largest State Water Project (SWP) contractor, Metropolitan pays well over 60 percent of the project's annual operations and maintenance (O&M) costs. Assuming Metropolitan completes \$3 million of work for DWR and all of that work was completed by an outside contractor, the savings to Metropolitan would be approximately \$1.8 million per year. In addition, there are intangible benefits associated with increased water and power reliability. Providing services to DWR at economical rates saves Metropolitan on annual O&M payments under the State Water Contract and also provides benefits to the other state contractors. In addition, these savings will be passed to our own member agencies through lower annual revenue requirements.

In June 2000, Metropolitan and DWR also signed a "Partnering Opportunities" agreement to maximize ongoing efforts to improve State Water Project reliability and cost effectiveness. This proposed new agreement with DWR would directly contribute to achieving the objectives of that "Partnering Opportunities" agreement.

Policy

Agreements in excess of \$250,000.

CEQA

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA), because it involves continuing maintenance activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA per Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to enter into the proposed new reimbursable agreement to provide services to DWR related to SWP O&M activities in a form approved by Metropolitan's General Counsel; and authorize the Chief Executive Officer to enter into subcontracts pursuant to the agreement with DWR.

Fiscal Impact: Reduced SWP O&M costs up to \$1.8 million per year.

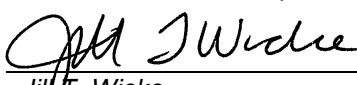

Option #2

Continue providing machining services to DWR under the current agreement No. B-54783.

Fiscal Impact: Increased SWP O&M costs up to \$1.8 million per year.

Staff Recommendation

Option #1

	6/18/2001
Jill T. Wicke Manager, Water System Operations	Date
	6/29/2001
Ronald R. Foster Chief Executive Officer	Date