

- **Board of Directors**
Budget, Finance and Investment Committee
Water Planning, Quality and Resources Committee

June 11, 2002 Board Meeting

9-3

Subject

Approve principles for San Diego Surface Storage Operating Agreement

Description

Upon Board approval of the rates and charges at the March 2002 board meeting, staff was directed to work with the member agencies to develop cost-effective storage agreements that would be consistent with the rate structure. Staff from Metropolitan, the San Diego County Water Authority (SDCWA) and water agencies in the San Diego County area developed storage program principles ([Attachment 1](#)) to more effectively utilize surface reservoir storage capacity to help meet summer time demands in the Skinner service area, for your consideration.

Agencies within SDCWA have historically participated in Metropolitan's seasonal storage service shift program to take water into storage during the winter months and to withdraw it during the summer months. Typically, agencies within SDCWA shift about 50,000 acre-feet per year or roughly 10 percent of the total imported water demand within the SDCWA service area. The new rate structure eliminates the seasonal storage shift program by April 30, 2003. In its place, a Capacity Reservation Charge (CRC) and Peaking Surcharge were adopted by the Board to provide incentives to reduce peak day demands on Metropolitan's system.

Under the new rate structure, a member agency requests an amount of system capacity to meet the peak day demands it places on the system between May 1 and September 30. If a member agency exceeds its requested capacity amount, it would be subject to the Peaking Surcharge. The CRC is set at \$6,100 per cubic-foot-second of requested capacity and the Peaking Surcharge is set at \$18,300 per cubic-foot-second. These charges are effective January 1, 2003.

Demands in the Skinner service area are at pipeline and treatment plant capacity, particularly during peak demand periods. Because the demands are so high relative to total available capacity, the CRC and Peaking Surcharge will not provide a sufficient enough economic incentive to the SDCWA and its member agencies to continue a surface storage seasonal shift operation. Without an alternative storage operating agreement, SDCWA and its member agencies could discontinue the use of existing reservoir capacity to meet summer demands and increase their reliance on Metropolitan for additional treated and raw water capacity. The potential for operational problems in the Skinner service area (e.g., Metropolitan exceeding the Department of Health Services operating permit level for the Skinner filtration plant) would increase.

By delivering water into a Metropolitan storage account(s) in the San Diego area reservoirs between November 1 and May 31, demands in the SDCWA service area can be partially met by drawing down the accounts between June 1 and October 31. Through this continued reservoir operation, it is expected that Metropolitan's existing pipeline and treatment capacity will be able to meet most demand scenarios until additional capacity is added. San Diego area agencies have put in place or are constructing additional treatment facilities and pipeline capacity to provide for such operations. Construction is expected to be completed in about five years.

The principles provide for the delivery of Metropolitan water into Metropolitan storage accounts in participating San Diego agencies' reservoirs. Metropolitan would deliver between 50,000 and 70,000 acre-feet each year during the lower demand winter months and withdraw it during the summer months. SDCWA would pay for all water withdrawn from storage at the applicable Tier 1 or Tier 2 rate, including the System Access Charge, Water Stewardship Fee, Power Rate, and Water Supply Rate. In addition, SDCWA would pay its CRC based on

100 percent of the available system capacity (and, therefore, would not be subject to the Peaking Surcharge). Finally, water withdrawn from storage would go into the calculation of the Readiness-to-Serve Charge Allocation.

As is the case with Metropolitan's own surface water storage facilities, Metropolitan would absorb a proportionate share of the evaporation losses on the account and would take on the risk of loss due to spill (i.e., the Metropolitan water would ride on top). Metropolitan would provide a credit equal to \$70/acre-foot on the majority of the water that is withdrawn on a pre-determined schedule, with a premium of \$35/acre-foot for water that is withdrawn upon 24-hour notice.

This program improves upon the existing seasonal storage program in three fundamental ways:

- a. All water is delivered to a Metropolitan storage account.
- b. Metropolitan, SDCWA, and the participating San Diego agencies would cooperatively develop storage and withdrawal delivery schedules, integrating the San Diego area reservoirs into the Metropolitan and SDCWA operating plans and therefore increasing the benefits of coordinated operations.
- c. Some of the water delivered into the Metropolitan storage accounts will be subject to withdrawal upon a 24-hour notice ("call") by Metropolitan, providing additional flexibility to Metropolitan.
- d. Through coordinated operations and increased operational flexibility the existing local investments in storage facilities and treatment capacity can be better leveraged to increase the overall benefit to the region.

The term of the agreement would be for five years, with a review and evaluation to be completed at the end of the five-year term. A five-year period was selected as that coincides with the expected completion of Skinner Module 7, which will expand treatment capacity at the Skinner filtration plant. If warranted, the arrangement could be extended.

This arrangement is consistent with the new rate structure and addresses water management needs in the Skinner service area. It builds on existing agreements, including pre-delivery contracts, as well as the seasonal storage program and conjunctive-use agreements. The arrangement would be cost based, providing sufficient economic incentive to continue to build facilities in the SDCWA service area and provide regional benefits by expanding Metropolitan storage in the San Diego area. It provides direct benefits to the SDCWA in the form of financial incentives and improved reliability. Finally, it provides benefits to Western Municipal Water District and Eastern Municipal Water District in the form of greater reliability during the peak summer months. Given the Board's approval of the principles, staff would work with SDCWA and the participating SDCWA member agencies to develop a final operating agreement. The operating agreement would be brought to the Board for consideration and action in December 2002 or January 2003. Similar terms and conditions could be developed for other areas of the Metropolitan system if commensurate benefits could be demonstrated.

Policy

Metropolitan Water District Administrative Code § 4209 states that Metropolitan "... may join or enter into agreement with member public agencies to make more effective use of water resources, including agreements providing for the wheeling, exchange, or banking of water, so long as such agreements serve a purpose of the District."

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves the creation of government funding mechanisms or other 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.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and

- a. Approve principles for San Diego Surface Storage Operating Agreement; and
- b. Direct staff to develop draft agreement.

Fiscal Impact: Net revenues from the sale of water under the proposed Agreement are estimated to be \$19.8 million.

Option #2

Do not approve principles for San Diego Surface Storage Operating Agreement and direct staff to investigate alternative ways of meeting demand in Skinner service area.

Fiscal Impact: Revenue could be \$5 million less to \$4 million more than revenues with the Agreement depending on San Diego area reservoir operations without the Agreement.

Staff Recommendation

Option #1


 Brian G. Thomas
 Chief Financial Officer

5/17/2002
 Date


 Ronald R. Gastelum
 Chief Executive Officer

5/20/2002
 Date

Attachment 1 – San Diego Surface Storage Operating Agreement Principles

BLA #1756

San Diego Surface Storage Operating Agreement Principles

April 22, 2002

Purpose

The Metropolitan Water District of Southern California (MWD), the San Diego County Water Authority (SDCWA), and those SDCWA member agencies with reservoirs in San Diego county agree that coordinated operations and use of the reservoir capacity in San Diego county will provide benefits to MWD's member agencies by reducing peak demands on the Skinner filtration plant and San Diego Pipelines 1-5. In addition, such coordinated reservoir use will also provide benefits to SDCWA and its member agencies by helping to ensure supplies are available to meet peak demands. The purpose of the San Diego Surface Storage Operating Agreement will be to:

- a. Deliver water into storage during low demand periods.
- b. Enhance operational flexibility for MWD, SDCWA and the SDCWA member agencies.
- c. Reduce peak-day impacts on MWD and SDCWA facilities, including the Skinner filtration plant, MWD pipelines and SDCWA pipelines.
- d. Efficiently utilize local treatment and storage facilities and conserve water during winter months for use in summer months.

Principles

To accomplish these objectives, MWD, SDCWA and the SDCWA participating member agencies have established the following principles:

1. These principles are part of a cooperative effort between SDCWA and MWD to address treatment and capacity needs in as economic and efficient a manner as possible. SDCWA and MWD acknowledge that MWD has scheduled capacity expansion at the Skinner Treatment Plant (currently scheduled to be on-line in 2007) and construction of San Diego Pipeline No. 6 (currently scheduled to be on-line 2008) and that SDCWA is finalizing a Water Facilities Master Plan (to be completed by the fall of 2002) that could impact these dates. For the past two years MWD, SDCWA, Eastern Municipal Water District, and Western Municipal Water District and others within the Skinner Service Area have formally cooperated to manage growing demands within existing capacity constraints and will continue to work in this cooperative fashion.

MWD and SDCWA agree that coordinating development of facilities is desirable based on the master planning efforts to minimize costs while at the same time providing reliability for peak demands, as well as emergency and drought needs. SDCWA agrees that MWD, through its current implementation of its Capital Improvement Plan as it relates to the Skinner Service Area and adoption of this Operating Agreement, is making reasonable efforts to ensure continued reliable treatment and delivery capacity to SDCWA and its member agencies. MWD agrees that SDCWA and its member agencies have taken the steps necessary and within its control, through current and planned expansion of local surface water treatment plants, participation in this Operating Agreement and SDCWA's master planning efforts now underway, to contribute to the alleviation of peak demand capacity constraints in the Skinner Service Area. It is further agreed by MWD and SDCWA that any

remaining capacity shortfalls (should they occur) could not be avoided, given the circumstances as they exist today.

2. These principles will become the basis of an operating agreement that is intended to accomplish the purposes set forth above. The term of the agreement will be for a period of 5 years, beginning on the date the existing “shift” seasonal storage program is terminated after implementation of MWD’s new rate structure. At the end of this agreement, the costs and benefits will be evaluated, with SDCWA to demonstrate the need and benefits of the program. The agreement may be renewed by mutual agreement on similar terms if adequate benefits are demonstrated.
3. The operating agreement will establish MWD storage accounts in various San Diego County reservoirs operated by SDCWA or participating SDCWA members. Between November 1 and May 31 MWD will deliver water (by direct or in-lieu means) into the MWD storage accounts.
4. MWD storage accounts will be reduced to account for a proportionate share of reservoir evaporation loss per month.
5. MWD will take on the risk of spill. For this purpose, MWD water will float “on top” of local supplies (MWD, SDCWA and reservoir agencies will work together to minimize this risk).
6. SDCWA will pay MWD for supplies when water is withdrawn from the storage accounts.
7. MWD will bill the SDCWA for all water withdrawn from the storage accounts on a monthly basis. SDCWA will be responsible for billing reservoir agencies.
8. Water withdrawn from the MWD storage accounts will be billed at the applicable Tier 1 or Tier 2 rate (depending on the SDCWA’s total firm water purchases).
9. Water withdrawn from the MWD storage accounts will count toward SDCWA's ten-year rolling average of firm deliveries used to allocate the Readiness-to-Serve Charge.
10. SDCWA will pay the Capacity Reservation Charge on 100% of the total estimated flow capacity, which is currently 1,296 cfs, and as a result the SDCWA would not be subject to a peaking surcharge.
11. The annual volume of storage under this agreement is estimated to be between 50,000 to 70,000 acre-feet per year (250,000 to 350,000 acre-feet over the agreement term), and will be determined as part of developing the annual operating plan (Plan).
12. Water delivered into storage accounts through either direct or in-lieu means will be either “Schedule Water” or “Call Water”.
 - a. “Schedule Water” is water that is withdrawn on a pre-set schedule as defined in the Plan. The Plan will be mutually agreed upon among MWD, SDCWA and the participating SDCWA member agencies. MWD’s needs for storage will be provided to SDCWA and an operating plan will be drafted by SDCWA and reviewed and approved by an operating

committee with representatives from MWD, SDCWA and the participating SDCWA member agencies. As conditions change from those anticipated in the Plan, SDCWA may meet the total schedule withdrawals through any combination of reservoir accounts, as long as all affected reservoir agencies agree. SDCWA will be responsible for accounting for reservoir operations among the participating SDCWA member agencies and distributing credits/payments provided by MWD. Schedules will be set in acre-feet per month. "Schedule Water" from a given reservoir may be withdrawn in any month or combination of months from June 1 through October 31 as agreed to by MWD, SDCWA and participating SDCWA member agencies. SDCWA will also provide MWD with actual daily reservoir operating data (inflow, outflow, levels) to be used to better understand the benefits of coordinated operations and refine/improve this operating agreement.

- b. "Call Water" is water that MWD may request be taken by SDCWA instead of other MWD deliveries. Call Water may be withdrawn upon 24-hour notice from MWD to SDCWA and the reservoir agency. "Call Water" will be withdrawn to further reduce peak week(s) demands and will be withdrawn in addition to "Schedule Water" as evidenced by reservoir outflow data. SDCWA will coordinate "Call Water" withdrawals with its member agencies.
- c. Any "Call Water" not withdrawn at the end of the relevant year will be used to initiate fill of the "Schedule Water" account for the following year. MWD will work with SDCWA and participating SDCWA member agencies to determine the amount of "Call Water" to be stored in any year as part of the Plan.

MWD will work with SDCWA and the participating SDCWA member agencies to ensure that "Call Water" will be available, considering treatment plant constraints, system constraints (e.g. reservoir getaway capacity and pipeline capacity etc.), scheduled deliveries of local supplies and water quality limitations. The participating SDCWA member agencies will maintain their rights and responsibilities to manage the local storage reservoirs and treatment plants to meet these and all other considerations with respect to both "Call" and "Schedule" water.

13. MWD will issue a credit/payment to SDCWA for each acre-foot of "Scheduled" or "Call Water" withdrawn from storage. SDCWA will directly pass thru the credit/payments to participating SDCWA member agencies that take "Schedule" or "Call Water." The credit/payment applied to all "Schedule Water" will be \$70 per acre-foot to compensate reservoir agencies for the cost of developing, operating and maintaining reservoirs.
14. A premium payment will also be made by MWD for "Call Water." The premium will be equal to \$35 per acre-foot of water called. This premium will be additive to the credit/payment for "Schedule Water."
15. MWD, SDCWA and the participating SDCWA member agencies agree that it is important to move ahead and evaluate opportunities to use surface water storage capacity in the SDCWA service area for the long-term storage of imported water (long-term conjunctive use).