

- **Board of Directors**
Engineering and Operations Committee

July 11, 2006 Board Meeting

8-3

Subject

Authorize (1) a reimbursable agreement of \$5 million per year for five years with the California Department of Water Resources to provide services for State Water Project operations and maintenance activities; (2) entering into subcontracts greater than \$250,000 to complete work under the agreement and (3) authorize Metropolitan to hire subcontractors as needed, not to exceed \$1.5 million per year

Description

In July 1983, Metropolitan entered into Agreement No. B-54783 with the California Department of Water Resources (DWR) to perform machining, fabricating, coating, and other support services provided by the Maintenance Support Unit located at the F. E. Weymouth Treatment 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 commitment to cooperate in mitigation efforts related to minimizing electrical costs and maximizing water availability, both parties wish to enter into a new agreement to supersede the expiring existing agreement. The new agreement will provide Metropolitan with greater flexibility and expand Metropolitan's ability to provide machining, fabricating, coating, and other support 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 The new agreement also recognizes that the existing agreement and its amendments are outdated and need to be revised. 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 October 1, 2006 through September 30, 2011.
- Increase the amount of service that Metropolitan can provide to \$5 million per year. (The limit is currently \$3 million per year).
- Authorize Metropolitan to provide engineering services as needed to assist DWR.
- Authorize Metropolitan to hire subcontractors as needed, not to exceed \$1.5 million per year. (The limit is currently \$1 million per year).
- Streamlined work authorization notices by DWR, especially during emergency situations.

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 over 60 percent of the project's annual operations and maintenance (O&M) costs. Providing services to DWR at economical rates saves Metropolitan on annual O&M payments under the state water contract and provides benefits to the other State Water Contractors. These savings will also be passed on to our member agencies through lower annual revenue

requirements. In addition, there are intangible benefits associated with this agreement including increased water and power reliability and emergency response capabilities for both DWR and Metropolitan.

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

Policy

Metropolitan Water District Administrative Code Section 8113: Award

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed actions involving the financial aspects of the DWR agreement and related subcontracts are not subject to CEQA because they involve 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). For the services related to the State Water Project O&M activities associated with these financial arrangements, the proposed actions involve minor modifications or replacements to existing public facilities with negligible or no expansion of use and no possibility of significantly impacting the physical environment. In addition, the proposed actions consist of basic data collection and resource evaluation activities that do not result in a serious or major disturbance to an environmental resource. This may be strictly for information gathering purposes, or as part of a study leading to an action that a public agency has not yet approved, adopted, or funded. Accordingly, the proposed actions also qualify under Classes 1, 2, and 6 Categorical Exemptions (Sections 15301, 15302, and 15306 of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are exempt from CEQA pursuant to Sections 15301, 15302, 15306, and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize (1) a reimbursable agreement of \$5 million per year for five years with the California Department of Water Resources to provide services for State Water Project operations and maintenance activities; (2) entering into subcontracts greater than \$250,000 to complete work under the agreement; and (3) authorize Metropolitan to hire subcontractors as needed, not to exceed \$1.5 million per year.

Fiscal Impact: Reduce state water contract O&M costs by up to \$5 million per year.

Business Analysis: If reimbursable agreement of \$5 million per year for five years is approved, Metropolitan's electrical costs will be minimized and water availability will be maximized along with increased system reliability.

Option #2

Adopt the CEQA determination and renew the contract as is, namely authorize (1) a reimbursable agreement of \$3 million per year for five years with the California Department of Water Resources to provide services for State Water Project operations and maintenance activities; (2) entering into subcontracts greater than \$250,000 to complete work under the agreement; and (3) authorize Metropolitan to hire subcontractors as needed, not to exceed \$1 million per year.

Fiscal Impact: Reduce state water contract O&M costs by up to \$3 million per year.

Business Analysis: Option #2 provides less flexibility than Option #1, as it fails to account for the escalation of labor and material costs over the agreement period.

Option #3

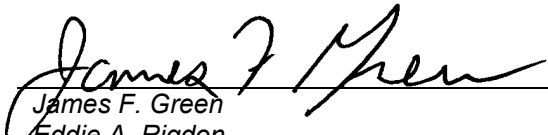
Let the existing contract expire and do not realize the benefits of the agreement, including emergency assistance and increased water and power reliability. DWR would have to outsource machine, fabrication, and coating services resulting in higher O&M costs for the State Water Contractors.

Fiscal Impact: Higher state water contract O&M costs.

Business Analysis: If reimbursable agreement of \$5 million per year for five years is not approved, Metropolitan will potentially experience reduced water and electrical reliability and increased power costs.

Staff Recommendation

Option #1


for James F. Green 6/20/2006
Eddie A. Rigdon Date
Manager, Water System Operations


Jeffrey Kightlinger 6/20/2006
General Manager Date

BLA #4579