



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

8/16/2022 Board Meeting

7-7

Subject

Authorize a five-year reimbursable agreement with the California Department of Water Resources to provide services for the State Water Project operations and maintenance activities for an amount not to exceed \$3 million per year (\$15 million total); the General Manager has determined that this action is exempt or otherwise not subject to CEQA

Executive Summary

This action authorizes an agreement to provide machining, fabrication, coating, and other maintenance work for State Water Project (SWP) equipment; crane testing, maintenance, and certification; engineering, consulting, and subcontracting services; and procurement of materials and equipment for the California Department of Water Resources (DWR).

Timing and Urgency

The SWP operates and maintains over 100 large hydroelectric generating and pumping units and supplies water to 29 State Water Contractors via the California Aqueduct. As a side benefit, strategically placed turbines and generators in the SWP produce electricity to offset pumping costs and provide overall power grid reliability.

DWR's power generation and pumping facilities require timely maintenance services. Controlling the SWP's costs depends on proper, timely, and sometimes urgent maintenance of this equipment. SWP equipment must be returned to service expeditiously in order to minimize expenses (power cost for pumping) and maximize revenue (unit availability for water deliveries, required regulatory operations, and grid reliability support).

As DWR sells both energy and ancillary services to wholesale customers in the California energy market, DWR must be positioned to respond with quick and on-time machine repairs to meet these challenges. For example, an SWP generator that is not repaired in a timely manner can result in lost generation and lost ability to provide energy and market ancillary services at peak times of the year. These costs can far exceed the cost of repairs. Additionally, it is imperative that these energy and auxiliary resources be available within the state during critical times, such as a prolonged heat wave.

Metropolitan supports the SWP's reliability by providing machining, fabrication, and coating services for critical repair and rehabilitation of SWP facilities under a reimbursable agreement with DWR. The current agreement, which Metropolitan renewed with DWR in 2017, expires on September 30, 2022.

Details

Background

DWR operates and maintains SWP equipment. Neither DWR nor any other state agency has the staff, facilities, or equipment to perform the required machine shop maintenance and repair services. Metropolitan operates a machine shop, a fabrication shop, and a coatings shop in La Verne. All the shops are staffed by highly trained and experienced personnel who can perform specialized repair on components from large motors, generators, pumps, turbines, and valves. The La Verne shops perform repairs on Metropolitan's own equipment and have the capacity to also provide these services for DWR's equipment.

For over three decades, Metropolitan has performed machining, fabrication, and coating services for critical repair and rehabilitation of SWP facilities under reimbursable agreements with DWR. Under these agreements,

Metropolitan shop services have supported DWR, at its request, to expedite repair and rehabilitation work required to maintain SWP delivery capabilities. Historical trends show an increase in the reimbursable agreement with DWR for the shops' services, with services averaging approximately \$2 million per year in recent years (not accounting for the recent dip over the past two years due to COVID-19 restrictions and related impacts).

In July 1983, Metropolitan entered into Agreement No. B-54783 with DWR to perform machining, fabrication, and coating services for the benefit of the SWP. Since then, the reimbursable agreement has been amended numerous times. In 2006, Metropolitan entered a new service agreement with DWR, and, in 2011, the 2006 agreement was extended by one year to allow sufficient time to negotiate a successor agreement. The current agreement, which Metropolitan renewed with DWR in 2017, expires on September 30, 2022. The agreement covers a range of activities supporting operations and maintenance (O&M) for the SWP, including:

- Machining, fabrication, coating, and other maintenance work for SWP equipment.
- Crane testing, maintenance, and certification.
- Engineering, consulting, and subcontracting services.
- Procurement of materials and equipment.

Both agencies wish to renew the five-year reimbursable agreement. All costs incurred by Metropolitan under this agreement, including labor, materials, additives, overhead, and related subcontracts, would be reimbursed by DWR.

The renewed agreement would:

- Authorize the continuation of services to DWR through September 30, 2027.
- Continue the amount of service that Metropolitan can provide at \$15 million over five years.
- Authorize Metropolitan to hire subcontractors and consultants as needed, not to exceed \$1.5 million per year.

The services agreement has greatly benefited both Metropolitan and DWR. Both agencies recognize the importance of maintaining DWR's water delivery and electrical energy-producing facilities at a high level of reliability. As the largest SWP contractor, Metropolitan pays over 60 percent of the project's annual O&M costs. Providing services to DWR saves Metropolitan on annual O&M payments under the State Water Contract and also benefits the other State Water Contractors. These savings are passed on to Metropolitan's member agencies through lower annual revenue requirements. Furthermore, there are operational benefits associated with this reimbursable agreement, including increased water and power reliability and rapid response capabilities for both DWR and Metropolitan. In June 2000, Metropolitan and DWR signed a "Partnering Opportunities" memorandum of understanding to maximize ongoing efforts to improve SWP reliability and cost-effectiveness. This proposed five-year agreement with DWR would directly contribute to achieving those objectives.

Policy

Metropolitan Water District Administrative Code Section 8121(a): General Authority of the General Manager to Enter Contracts (Contracts over \$250,000)

Metropolitan Water District Administrative Code Section 8140-8149: Award of Contracts

Metropolitan Water District Administrative Code Section 9100(b): Objectives (Risk Management)

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines as it involves design, fabrication, machining, maintenance, and procurement of mechanical equipment at existing public facilities involving negligible or no expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed action qualifies under a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize a five-year reimbursable agreement with the California Department of Water Resources to provide services for the State Water Project operations and maintenance activities for an amount not to exceed \$3 million per year (\$15 million total).

Fiscal Impact: Reduced costs for maintenance and repair of SWP facilities

Business Analysis: This option will promote the continued system and supply reliability for the SWP and ensure that Metropolitan’s La Verne shops are used to support the reliability of the SWP facilities. The machining, fabrication, coating, and support services could be provided to complete O&M work in a timely manner and at potentially reduced costs.

Option #2


Do not proceed with the authorization of the agreement at this time.

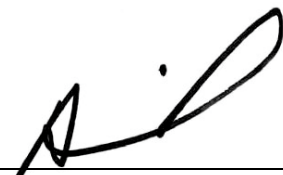
Fiscal Impact: Potential increases in State Water Contract O&M costs

Business Analysis: DWR would outsource more machine, fabrication, coating, and other support services, which would likely result in a longer lead time for completion of work and the potential for higher O&M costs for Metropolitan and other State Water Contractors. Metropolitan could experience reduced water and electrical reliability and increased power costs.

Staff Recommendation

Option #1

| | |
|--------------------------------------------------------------------------------------|-----------|
|  | 7/29/2022 |
| _____ Brent Yamasaki Group Manager, Water System Operations | Date |

| | |
|--------------------------------------------------------------------------------------|----------|
|  | 8/2/2022 |
| _____ Adel Hagekhalil General Manager | Date |