



● **Board of Directors**

One Water (Conservation and Local Resources) Committee

11/8/2022 Board Meeting

7-5

Subject

Adopt CEQA determination that the environmental effects of the East County Advanced Water Purification Local Resources project that is the subject of the proposed action was previously addressed in Padre Dam Municipal Water District's Mitigated Negative Declaration and related CEQA actions and that no further CEQA review is required, and authorize the General Manager to amend the existing Local Resources Program agreement with San Diego County Water Authority and East County Advanced Water Purification Joint Powers Authority for the East County Advanced Water Purification Project

Executive Summary

The Local Resources Program (LRP) provides financial incentives to encourage the development of local water supplies for Southern California. Each LRP agreement includes milestones for timely construction, operation, and production. In June 2021, the Board extended the start-of-operation milestones for four LRP projects pursuant to a framework and evaluation criteria proposed by staff and adopted those guidelines for all future extension requests. In October 2021, the Board approved a framework for amending program agreements to provide additional flexibility to agencies to return projects to operation after a disruption. Under the approved framework for extension requests, member agencies may request an extension to the start of operation of their LRP project by up to three additional fiscal years if the member agency conforms to certain criteria. This letter requests authorization for Metropolitan to approve the San Diego County Water Authority's (SDCWA) request to extend the start of operation from June 30, 2025, to June 30, 2028, for the East County Advanced Water Purification Project (Project), consistent with the adopted framework.

Details

Background

In 1982, Metropolitan created the LRP to provide financial incentives to help local agencies develop water recycling and groundwater recovery projects and therefore assist Metropolitan in reaching its regional water reliability goals. Since the LRP's inception, Metropolitan has provided about \$721 million in incentives for the development of more than 3.08 million acre-feet (AF) of recycled water and 1.1 million AF of recovered groundwater. There are 103 projects currently in operation. LRP projects increase water supply reliability, reduce imported water demands, decrease the burden on Metropolitan's infrastructure, reduce system costs, and free up conveyance capacity. In addition, the LRP helps Metropolitan meet its legislative mandates under Senate Bill 60 to expand water conservation, recycling, and groundwater storage and replenishment measures. Overall, the LRP benefits all member agencies regardless of the project location.

2021 Framework and Criteria for Evaluating the Request to Extend the Start-of-Operation

In June 2021, the Board approved extensions for four LRP projects pursuant to a framework and evaluation criteria proposed by staff and adopted the same to apply to all member agency requests for extensions due to delays in the start-of-operation milestone for LRP projects. To qualify, the project must have an active agreement and currently be under construction. The member agency must also meet the following four criteria: (1) formally request an extension and describe the reasons for the delay; (2) affirm that all parties to the agreement are still pursuing the project; (3) provide a revised schedule; and (4) affirm that the project will start operation within the requested extension (not to exceed three fiscal years).

SDCWA's Request to Extend the Start-of-Operation Deadline

On June 3, 2022, SDCWA, on behalf of the East County Advanced Water Purification Program Joint Powers Authority (JPA), which is composed of the County of San Diego, Padre Dam Municipal Water District, and the City of El Cajon, submitted a formal request for an extension to the Project's start of operation by three fiscal years due to various construction-related issues, as described in their letter (**Attachment 1**). The Project has an active LRP agreement and is under construction. Metropolitan staff determined their request satisfied the established criteria to seek an extension; the letter affirmed that all parties to the agreement continue to pursue the project, provided a revised schedule, and affirmed that the project would start operation within the requested extension of three years.

Prolonged delays for a wide number of construction materials impacted the project. The JPA and its Design Builders could not secure firm pricing and scheduling commitments for critical materials and equipment. Vendors delayed final pricing and executing contracts due to supply chain uncertainties. For example, inflation caused a 200 percent increase in the price of hot rolled steel and a 30 percent increase in the cost of all construction materials. Suppliers and vendors were unable to commit to pricing and delivery schedules due to the uncertainty of future pricing. Additionally, supply chain constraints resulted in vendors and suppliers taking twice as long to provide finished materials and equipment. Supply chain constraints caused schedule delays in the startup, testing, and regulatory approval. By May 2022, the market stabilized, allowing the JPA to secure commitments in pricing and scheduling for construction materials and equipment. Another contributing factor to the delay is that after working with the State Division of Drinking Water (DDW) and the San Diego Regional Water Quality Control Board, it is now understood that startup and commissioning activities will occur over a longer period than originally anticipated in order to meet regulatory requirements.

If the Board grants SDCWA's extension request, the LRP project agreement will terminate 25 years following the new start-of-operation due date (the "25-year operation term"). **Attachment 2** summarizes the Project's current LRP contract terms and the revised terms if the Board approves the request. Metropolitan would not incur any new overall financial obligations from such an extension. This project is included in the budget, and the current forecast includes payments to the project starting in 2025. Once granted, staff would shift the timing of the payments by three years. If the extension request is not granted and the agreement terminates, the estimated payments to the project will be removed from the forecasted expenditures of the LRP.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 49923, dated October 14, 2014, the Board approved refinements to the Local Resources Program to encourage additional local resource production.

By Minute Item 51356, dated October 9, 2018, the Board approved an interim Local Resources Program target yield of 170,000 AFY of new water production.

By Minute Item 52056, dated July 14, 2020, the Board approved authorizing the General Manager to enter into a Local Resources Program Agreement with the SDCWA and the East County Advanced Water Purification Program Joint Powers Authority for the East County Advanced Water Purification project.

By Minute Item 52415, dated June 8, 2021, the Board approved changes to the start-of-operation timing for four Local Resources Program Projects and formally adopted the policy described in the board letter for evaluation of future LRP extension requests.

By Minute Item 52548, dated October 12, 2021, the Board approved, reviewed and considered the City of Beverly Hills' approved Final Mitigated Negative Declarations and Addendum and took related CEQA actions; authorized the General Manager to reinstate and amend the existing Groundwater Recovery Program Joint Participation Agreement for Recovery and Utilization of Degraded Groundwater for the Beverly Hills Desalter Project with the City of Beverly Hills for up to 2,600 AFY of advanced treated brackish groundwater under the terms included in the board letter; and approved the proposed framework and one-time pause and extension of agreement terms.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, the Padre Dam Municipal Water District, acting as the Lead Agency, prepared a Mitigated Negative Declaration (MND) for the East County Advanced Water Purification Project (ECAWP). The MND was adopted, and the Lead Agency approved the project on December 6, 2018. Metropolitan, as a Responsible Agency under CEQA, certified on July 14, 2020, that it reviewed and considered the information in the MND, adopted the Lead Agency's Findings and the Mitigation, Monitoring, and Reporting Program, and authorized the General Manager to enter into a LRP Agreement with the SDCWA and the ECAWP Joint Powers Authority. The proposed board action is based on amending the existing agreement with SDCWA and the ECAWP Joint Powers Authority for the ECAWP Project and not on any changes to the approved project itself. Hence, the previously adopted environmental documentation in conjunction with the current action fully complies with CEQA and the State CEQA Guidelines. Accordingly, no further environmental documentation is necessary for the Board to act on with respect to the proposed action.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt CEQA determination that the environmental effects of the East County Advanced Water Purification Local Resources project that is the subject of the proposed action was previously addressed in Padre Dam Municipal Water District's Mitigated Negative Declaration and related CEQA actions and that no further CEQA review is required, and authorize the General Manager to amend the existing Local Resources Program agreement with SDCWA and East County Advanced Water Purification Joint Powers Authority for the East County Advanced Water Purification Project.

Fiscal Impact: No new financial obligations will result from the proposed amendment. Payments to the project are included in the budget and are currently projected to begin in 2025. Payments to the project will be shifted by three years to begin in 2028. The maximum financial obligations were provided when the Board approved the ECAWP LRP agreement on July 14, 2020, and remain at up to \$91.8 million for a project yield of 322,000 AF over 25 years.

Business Analysis: The project would help Metropolitan support local supply development and meet legislative mandates while reducing the district's system costs.

Option #2

Do not authorize an amendment to the original agreement for the Project.

Fiscal Impact: Metropolitan's financial commitment for up to \$91.8 million over 25 years would be removed from the budget forecast.

Business Analysis: Metropolitan would no longer provide financial incentives for the project, and it may take longer to meet the LRP's target goals.

Staff Recommendation

Option #1



Brad Coffey
Manager, Water Resource Management

10/22/2022

Date



Adel Hagekhalil
General Manager

10/22/2022

Date

Attachment 1 – SDCWA Letter Requesting Start-of-Operation Extension**Attachment 2 – Local Resources Program (LRP) Project Requesting
Start-of-Operation Extensions**

Ref# wrm12687027



June 3, 2022

Sandy Kerl, General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, California 92123

RE: MWD's Local Resources Program Agreement No. 191285

Dear Sandy,

This letter is required for San Diego County Water Authority (SDCWA) to initiate a request to Metropolitan Water District of Southern California (MWD) to extend for three fiscal years the contractual date for commencement of operations under the above referenced Local Resources Program (LRP) Agreement. On May 19, 2022 the East County Advanced Water Purification (AWP) Joint Powers Authority (JPA) Board approved three Design Build contracts for the construction of the East County AWP Project. Construction will commence in June 2022 which is a requirement under the LRP for an extension to be approved by the MWD Board of Directors.

As you know, in November 2020 the East County AWP JPA, MWD, and SDCWA executed the above referenced LRP Agreement. The JPA is requesting a delay of the start-of-operations date from June 30, 2025 to June 30, 2028 due to COVID-19 related impacts. This request is consistent with the requirements outlined in the June 8, 2021 Item 7-7 approved by the Water Planning and Stewardship Committee and MWD's Board of Directors.

Background

The East County AWP Project (Project) is a multi-agency interjurisdictional project that uses state of the art water treatment technology to produce an anticipated 12,882 acre feet annually of advanced treated recycled water for potable reuse via surface water augmentation. The Project is governed by the East County AWP JPA which is made up of Padre Dam Municipal Water District (Padre Dam), the County of San Diego (County), and the City of El Cajon (El Cajon). Helix Water District (Helix) is also a Project partner with an Ex-Officio member on the JPA Board of Directors and, along with Padre Dam, will beneficially reuse the advanced purified water produced by the Project. Padre Dam is the JPA Administrator and is leading the design and construction effort for the 16 MGD water recycling facility, the 11.5 MGD advanced water treatment plant, and associated conveyance facilities. Padre Dam will also be the contracted operator of the Project facilities.

The Project consists of four individual construction packages and is being executed through the Progressive Design Build (PDB) delivery method. On May 19, 2022 the JPA Board of Directors approved amendments to the Design Build Agreements to authorize the concurrent commencement of final design and construction on the three packages necessary to produce and reuse advanced treated recycled water.



A Notice To Proceed (NTP) was issued by the JPA Administrator on June 1, 2022. No further Board action is required. This date fulfills the JPA's requirement under the LRP Agreement to commence construction within two fiscal years of Agreement execution (FY 2023).

Reason For Requested Extension

As you are aware we are in the midst of unprecedented and worldwide COVID-19 related macroeconomic pressures that are having an outsized impact on the cost of construction commodities and the delivery of critical materials and equipment. As a combined treatment and conveyance project, the East County AWP is being impacted by continuing significant price increases and long delay times for a wide number of construction materials. Because of this very uncertain construction environment, the JPA and its Design Builders were unable to obtain pricing commitments for critical materials and equipment until very recently. This resulted in months' long delays in finalizing prices and executing contracts. While the JPA was able to enter into lump sum fixed price contracts with its Design Builders, the continuing impacts of supply chain constraints has significantly affected delivery time for key materials and equipment, especially related to treatment plant construction. These macroeconomic conditions caused by the worldwide COVID-19 pandemic necessitates a delay in start of operations.

One prime example of delays caused by material price volatility is steel. Because of the use of steel in the construction of over 10 miles of large diameter pipelines and the extensive presence of steel rebar in concrete structures used in the treatment facilities and pump stations we have been subject to significant cost increases over the last year. In the twelve months ending October 2021 the price of Hot Rolled Steel has increased 200 percent¹ while we had experienced an overall 31 percent increase in all construction materials over the same period.² Cost increases in other commodities such as copper and plastic used in the many instrumentation and control processes had further impacted the cost of the Project and created future price uncertainty leading to an unwillingness of suppliers and vendors to commit or hold (for any extended period of time) pricing or delivery schedules. Because this is the most inflationary economy experienced in the last 40 years it was necessary for the JPA to determine whether the market had stabilized enough where it could obtain pricing commitments and achieve an acceptable level of price certainty. It took until May 2022 to reach that point.

Compounding the management of unpredictable material costs, constraints in supply chains are resulting in extensive delays in finished materials and equipment (e.g. pipe fabrication and pumps), with Project vendors and suppliers reporting delivery windows of up to twice as long as is typical under more normal circumstances. These supply chain constraints have required an extension of the construction schedule and has impacted Project startup, testing, and commissioning and the timing for regulatory approval.

All of these factors are the result of the COVID-19 pandemic and are beyond the control of the JPA and dramatically affect its ability to meet MWD's LRP requirement for start of operations and production within four fiscal years of agreement execution. The JPA believes that these extraordinary conditions meet the requirements outlined in MWD's June 8, 2021 Water Planning and Stewardship Committee Item 7-7 for extension of the start of operations. Granting the JPA an extension will allow us the flexibility to

¹ US Midwest Hot Rolled Steel Futures

² Federal Reserve Economic Data-Producer Price Index



manage the extended timing of material and equipment purchases and take advantage of the potential leveling of prices to optimize the cost of the Project in the current volatile construction cost environment.

Another contributing factor for this request to extend the start of operations date is that after working with the State Division of Drinking Water (DDW) and the San Diego Regional Water Quality Control Board, it is now understood that startup and commissioning activities will occur over a longer period than originally anticipated to meet regulatory requirements. As one of the first of two surface water augmentation projects in California (along with City of San Diego's Pure Water), regulators want to take a longer paced, more incremental approach to bringing this new source of supply online. This regulatory requirement along with much longer vendor and manufacturer delivery schedules caused by COVID-19 and the uncertain impact of the latest variant in themselves necessitate a request for extending the LRP start of operations date.

Commitment to Continuing to Pursue the AWP Project

Recognizing the severity of California's water supply challenges, the JPA and its partner agencies are committed to implementing the East County AWP in the most expeditious manner possible to provide a local water supply that will bolster the region's multifaceted water supply diversification strategy. We will meet the LRP Performance Requirement to commence construction within two fiscal years of agreement execution (FY 2023) and expect to meet all of the water production and reuse targets in the Agreement. Because of the extraordinary and unique economic circumstances brought about by the COVID-19 pandemic the JPA is requesting a delay of three fiscal years, extending the start of operations and production from FY 2025 to FY 2028 to begin start of operations. We will make every effort to bring the Project online sooner if possible. I am including a summary schedule of project implementation with a revised start of operations date as required by MWD. If you or your staff have any questions please contact me at (619) 258-4673.

Thank you for your consideration and the JPA looks forward to working with SDCWA and MWD staff on seeking approval of this request and bringing this important water supply to MWD's service area.

Sincerely,

A handwritten signature in black ink that reads "Kyle Swanson".

Kyle Swanson

CEO/General Manager for Padre Dam, the East County AWP JPA Administrator

Enclosure (1)

cc: Kelley Gage, SDCWA Director of Water Resources
Mark Niemiec, Padre Dam Director of AWP
Karen Jassoy, Padre Dam Director of Finance

**REVISED EAST COUNTY AWP IMPLEMENTATION SCHEDULE**

Date	Activity
June 1, 2022	Commence AWP Construction
March 2026	Begin Start Up and Commissioning
October 2026	Conduct UV Validation Testing for DDW
December 2026	Pass DDW Inspection
February 2027	Receive DDW Approval letter for surface water discharge to Lake Jennings Reservoir
May 2027	Complete Full System Testing
June 2027	Complete Acceptance Testing
July 2027	Begin Municipal Operations

**LOCAL RESOURCES PROGRAM (LRP) PROJECT REQUESTING
START-OF-OPERATION EXTENSIONS**

Project Information	
<i>LRP Project</i>	East County Advanced Water Purification Project
<i>Member Agency</i>	San Diego County Water Authority (SDCWA)
<i>Ultimate Yield (AF)</i>	12,882
<i>Date of Agreement Execution</i>	November 10, 2020
Extension Timeline	
<i>Start-of-Operation Milestone</i>	June 30, 2025
<i>Revised Start-of-Operation Milestone</i>	June 30, 2028
<i>Length of Extension Requested</i>	36 months
Additional Information	
<i>Project currently under construction?</i> <input checked="" type="checkbox"/>	
<i>Member Agency affirmed all parties pursuing project?</i> <input checked="" type="checkbox"/>	
<i>Member agency provided revised schedule?</i> <input checked="" type="checkbox"/>	
<i>Member agency affirmed that the project will start operation within 3 fiscal years?</i> <input checked="" type="checkbox"/>	
Reasons for Requested Extension	
<p>The delays are related to the pricing and scheduling of construction materials, and equipment, resulting from impacts due to COVID-19. Unpredictable material costs, and constraints in supply chains are resulting in extensive delays in finished materials and equipment. Project vendors and suppliers report delivery windows of up to twice as long as is typical under more normal circumstances. Vendors delayed final pricing and executing contracts, and were unable to commit to pricing and delivery schedules due to the uncertainty of future pricing. These supply chain constraints caused project delays in startup, testing, and regulatory approval.</p>	