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VIA FACSIMILE

ORANGE
COUNTY
WATER
DISTRICT

Mr. Dana Sakamoto
Director, BRAC Environmental Division
Department of the Navy
Southwest Division Naval Facilities
Engineering Command
1220 Pacific Highway
San Diego, California 92132-5190

Re: Cost Sharing for Alternative 6A

Dear Mr. Sakamoto:

I am responding to your letter of October 18, 1996. You requested that Orange County Water District ("OCWD") provide you with a total cost figure and a detailed cost breakdown for its October 10, 1996 proposal that OCWD and the Department of Navy ("DON") agree to fairly share the costs to construct and operate Alternative 6A.

OCWD proposed that it and DON share the actual costs of the common elements of the IDP system, based on OCWD's and DON's relative contribution of water to that system. (This includes up to 1,260 gpm of untreated water from the Shallow Groundwater Unit ("SGU").) Because we proposed that DON pay its proportional share of actual costs, which have yet to be incurred, we did not provide a final dollar value for payments by DON (or OCWD) over the life of the project. We did, however, use the figures in DON's August 9, 1996 Draft Final Interim RI/FS ("Draft RI/FS") to estimate DON's share of costs for common IDP system elements, and its total costs to pursue the project.

OCWD offered DON two payment options. Under Option One, DON would pay actual costs as they are incurred. Under Option Two, DON would pay its share of anticipated capital and 20-year operation and maintenance ("O&M") costs up-front, and would include payment for capital and O&M contingencies during the 20-year estimated project (as identified by DON in the Draft RI/FS). Both options include a reopener for additional payments if, after 20 years, new capital investment or further O&M costs are necessary to address DON's VOC plume.

Our best estimate is that under Option One, DON's actual cost as incurred would be \$31 million. Under Option Two, the up-front payment to OCWD for DON's share

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of estimated costs of the common components of the IDP system would be \$20,549,339.00. Under Option Two, DON also would be responsible for constructing and operating the shallow groundwater extraction and conveyance system, and monitoring wells not part of the joint project. Under this option, DON's total project cost is estimated to be approximately \$33.6 million. A detailed cost breakdown is provided in the enclosed table.

The difference between the up-front payment proposed by DON, \$11.5 million, and the up-front payment under Option Two of this counteroffer, \$20.6 million, is approximately \$9 million. The difference is, in part, attributable to different project designs. For example, DON's offer was based upon a long-abandoned alternative that did not, among other differences, include the two proposed DON extraction wells east of Culver Drive. Also, DON proposed an up-front payment of anticipated costs in its September 4, 1996 offer, but it did not provide for the contingencies, reopener, or certain capital costs that apply to Alternative 6A. The specific cost items causing the difference between DON's offer and OCWD's counteroffer are as follows:

- Approximately \$5.6 million of the \$9 million difference is attributable to capital cost contingencies and allowances which DON projected in its Draft RI/FS cost tables but omitted from its offer. These include a capital cost contingency of 20% and allowances for mobilization, engineering, legal and administrative costs.
- Approximately \$2 million of the remaining \$3.4 million difference is attributable to the capital cost of Alternative 6A as compared to the capital cost of the outdated alternative upon which DON's offer was based. Approximately one-half of this added cost is for the two proposed DON extraction wells east of Culver Drive and associated pipelines.
- Approximately \$400,000 of the remaining \$1.4 million difference is attributable to equipment replacement costs, which DON included in its Draft RI/FS cost estimates but overlooked in its offer.

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- The remaining difference, \$1 million, is attributable to the 10% contingency for O&M costs, which DON included in its Draft RI/FS cost estimates but overlooked in its offer.

Each cost item in our counteroffer represents a cost previously projected by DON. Specifically, for each item we used DON's figures from Volume IX of the Draft RI/FS, primarily Table E-6A, which presents DON's detailed summary of cost estimates for Alternative 6A.

If DON chooses to make the up-front payment of \$20,649,339.00, DON's total cost to construct and operate Alternative 6A would be approximately \$33.6 million. This compares to DON's estimate in the Draft RI/FS of \$48.1 million for Alternative 2A; \$34.4 million for Alternative 6A (at 50% for common elements); \$29 million for Alternative 7A; \$39.8 million for Alternative 7B; and \$27.6 million for Alternative 8. Again all costs are based upon the present value of an estimated 20-year project.

We trust that the foregoing answers all of the questions in your October 18 letter. Nonetheless, in order to avoid any possible misunderstanding, we will specifically answer each of the four questions posed in your letter.

First you asked us to explain the statement on page 2 of our October 10 counteroffer, in which we stated that "DON must fairly compensate OCWD for the value realized by DON by sharing in the IDP." This was a response to DON's proposal--which would have allowed DON to shift a large part of its cleanup cost to OCWD, and create a windfall for DON. This is not a separate cost item. OCWD merely asks DON to fairly share in the actual cost of the IDP system.

Second you asked us to explain the second bullet on page 4 of our counteroffer, providing that "OCWD would accept up to 1,260 gpm of untreated water from the SGU for treatment in the IDP system if DON . . . (ii) shares equally with OCWD the estimated costs savings realized by DON for not being required to pre-treat such water or to reinject it as proposed in Alternative 6A." Again, there is no separate cost item for savings; instead this statement related to fair sharing of costs, which is achieved under the terms proposed by OCWD.

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Your final two questions are related, asking for an explanation of our statements that "preliminary financial estimates indicate that DON would enjoy real savings under [OCWD's] proposal," and comparing the costs of alternatives under consideration. DON would enjoy real savings under either of the payment options offered by OCWD. At a cost of approximately \$31 million (\$19 million of which would be used to defray the common elements of the project), Alternative 6A would cost less than DON projected for Alternative 2A (at \$48.1 million); 6A (at \$34.4 million); or 7B (at \$39.8 million). Alternative 6A would cost \$2 million more than DON projected for Alternative 7A (at \$29 million). However, DON's cost estimate for 7A is unrealistic. DON did not include contingency costs associated with reliance on the continued operation of third-party wells, or the possibility of performing active remediation in the future. This means that the real costs of Alternative 7A might climb much higher. Alternative 6A involves no such uncertainties. It is the best means of achieving DON's commitments and project objectives. Further, DON's projections show that it is a highly cost-effective way to proceed.

If you have further questions about our proposal, please feel free to call me.

Sincerely,


William R. Mills Jr., P.E.
General Manager

Enclosure

cc: Congressman Christopher Cox
Congressman Robert K. Dornan
Gerard Thibeault, Santa Ana RWQCB
Larry Vitale, Santa Ana RWQCB
David Hodges, U.S. EPA
Dan Opalski, U.S. EPA
ayseer Mahmoud, DTSC
John Scandura, DTSC
Robert McVicker, IRWD
Ronald E. Young, IRWD
Captain M. R. Johnson, CEC, U.S. Navy
Andrew Piszkin, Navy SWDIV
Seth Daugherty, OCHCA

Description	Division Totals	Alt. 6A		Proposed
		Total	DON	Alt. 6A
		DON Cost	Cost %	DON Payment to OCWD
CAPITAL COSTS				
MCAS El Toro Components				
Principal Aquifer				
Discharge to Remainder of IDP Treatment System	\$13,000	\$4,550	35	\$4,550
Extraction System (EXT1D and EXT2D)	\$584,000	\$204,400	35	\$204,400
Conveyance	\$2,169,500	\$759,325	35	\$759,325
<i>Subtotal-Principal Aquifer</i>	\$2,766,500	\$968,275		\$968,275
Shallow Groundwater Unit				
Extraction System	\$2,199,600	\$2,199,600	100	
Conveyance	\$1,511,500	\$1,511,500	100	
<i>Subtotal-Shallow Groundwater Unit</i>	\$3,711,100	\$3,711,100		\$0
Well Closures (in year 20)	N/A	N/A	100	\$570,500
Groundwater Monitoring Wells	\$712,500	\$712,500	100	\$0
<i>Subtotal MCAS El Toro Components</i>	\$7,190,100	\$5,391,875		\$1,538,775
Conting., Mobil., Engr, Legal, Admin. Allowances (77%)	\$5,510,000	\$4,151,744		\$745,572
MCAS El Toro Replacement Costs	\$415,300	\$415,300	100	\$415,300
MCAS El Toro Components With All Allowances	\$13,115,400	\$9,958,919		\$2,699,647
OCWD Components				
Land and Easements	\$1,149,500	\$528,770	46	\$528,770
Extraction System (Well Construction Costs)				
Wells IDP-1, IDP-2, IDP-3, IDP-4	\$1,440,000	\$504,000	35	\$504,000
Existing Well ET-1 [reimbursed costs deleted]	\$0	\$0	--	\$0
Conveyance	\$4,378,250	\$1,532,388	35	\$1,532,388
VOC Treatment System	\$1,753,000	\$1,753,000	100	\$1,753,000
VOC Treatment to Accommodate SGU Water	\$324,000	\$324,000	100	\$324,000
Treatment Equipment Building/Site Work/Telemetry	\$3,383,900	\$1,556,594	46	\$1,556,594
Replacement Costs	\$470,000	\$164,500	35	\$164,500
<i>Subtotal OCWD Components</i>	\$12,898,650	\$6,363,252		\$6,363,252
Conting., Mobil., Engr, Legal, Admin. Allowances (77%)	\$9,931,961	\$4,899,704		\$4,899,704
OCWD Components With All Allowances	\$22,830,611	\$11,262,956		\$11,262,956
CAPITAL COST TOTAL	\$35,946,011	\$21,221,874		\$13,962,602
ANNUAL O&M COSTS				
Principal Aquifer				
OCWD Components				
Extraction System (IDP-1 through -4)	\$117,200	\$41,020	35	\$41,020
VOC Treatment System	\$240,000	\$240,000	100	\$240,000
Additional VGAC for Untreated SGU Water	\$21,000	\$21,000	100	\$21,000
Existing Well ET-1	\$42,000	\$14,700	35	\$14,700
Lab Analysis of Finished Water	\$127,700	\$63,850	50	\$63,850
<i>Subtotal - OCWD Component Principal Aquifer</i>	\$547,900	\$380,570		\$380,570
MCAS El Toro Components				
Extraction System (EXT1D and EXT2D)	\$4,700	\$1,645	35	\$1,645
Conveyance	\$166,854	\$58,399	35	\$58,399
<i>Subtotal - MCAS El Toro Component Principal Aquifer</i>	\$171,554	\$60,044		\$60,044
Shallow Groundwater Unit				
Extraction System	\$37,150	\$37,150	100	
Conveyance	\$89,250	\$89,250	100	
<i>Subtotal - Shallow Groundwater Unit</i>	\$126,400	\$126,400		\$0
Groundwater Monitoring Wells				
Monitoring	\$186,200	\$186,200	100	\$0
<i>O&M Cost Subtotal</i>	\$1,032,054	\$753,214		\$440,614
10% Contingency on All Components	\$103,205	\$75,321		\$44,061
O&M Cost Total	\$1,135,259	\$828,535		\$484,675
PRESENT WORTH				
Capital Costs with Allowances	\$35,946,011	\$21,221,874		\$13,962,602
Approximate O&M Costs (PW 20 yrs @ 4%)	\$15,428,175	\$11,259,795		\$6,586,737
20-YEAR PRESENT WORTH TOTAL	\$51,374,186	\$32,481,668		\$20,549,339