



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-21

September 7, 1993

*To:* Board of Directors (Executive Committee--Action)  
(Water Problems Committee--Action)

*From:* General Manager

*Subject:* Proposed Option Agreement to Transfer Central Valley Project  
Water

Report

Staff has been actively pursuing several water transfer proposals including transfers authorized by the Central Valley Project (CVP) Improvement Act (Title XXXIV of P.L. 102-575). Negotiations with a CVP water user, Areias Dairy Farms (Seller), have progressed to the point where it is appropriate for Metropolitan to make a formal proposal for the transfer of up to 5,000 acre-feet (AF) per year of CVP San Joaquin River Exchange Water to Metropolitan during years when Metropolitan would desire this supply. This proposed transfer agreement is described in more detail in the attached principles.

The Seller is located in Central California Irrigation District (CCID). Under the terms of a contract with the U.S. Bureau of Reclamation (Reclamation), CCID, on behalf of its landowners, exchanged its San Joaquin River water rights for Sacramento/San Joaquin Delta (Delta) water deliveries through the CVP's Delta-Mendota Canal. This exchange contract requires Reclamation to provide full deliveries to CCID except under very dry conditions when deliveries may be reduced by a maximum of 28 percent. This highly reliable water supply makes transfer agreements with the CVP San Joaquin River Exchange Contractors' water users very desirable.

Negotiations between the Seller and Metropolitan have resulted in the attached set of principles. Under the proposed 15-year transfer, Metropolitan would purchase in any seven years of its choice, up to 5,000 AF of the Seller's CVP water supply for a total purchase of up to 35,000 AF. Metropolitan would also have an option to purchase additional water as described in the principles.

The estimated cost of acquiring this supply is about \$200 per AF (1993 dollars). Components of this cost include: payments of \$175 per AF for the water supply and \$25 per AF for the Environmental Restoration Fund (Restoration Fund) created by the CVP Improvement Act. The transfer would be accomplished under two agreements, hereafter referred to as "initial agreement" and "final agreement". Both of these agreements would entail expenditures requiring Board approval.

Based upon a total purchase of 35,000 AF of water, payments to Seller for this water supply would total approximately \$6.125 million (1993 dollars). This total excludes Metropolitan's payment of \$25 per AF for the Restoration Fund. The payments would be made in three components. First, a 10 percent down payment due upon execution of the initial agreement which would provide the terms for the final agreement to be executed when necessary regulatory and environmental approvals are accomplished. This payment is within the \$12 million proposed in the 1993-1994 fiscal year budget for exchanges and transfers. The Seller would agree to deliver an equivalent amount of water or refund this money, with interest, should the final agreement not be executed. Second, a payment of \$2.45 million would be made after approvals are accomplished and upon execution of the final agreement. The remaining purchase price would be paid in the years when the water is delivered at a rate of \$87.50 per AF with adjustments for inflation. To provide Metropolitan with further protection, the Seller would agree to provide security, such as a lien on the Seller's property, equal to the up-front payments made by Metropolitan.

As discussed in greater detail in the attached principles, there are a number of approvals which must be obtained before this water can be transferred including: approvals by your Board, the Secretary of the Interior, the Department of Water Resources and the State Water Resources Control Board. Staff also intends to obtain concurrence of CCID regarding the quantity of water to be transferred and other conditions necessary for the effective operation of the transfer. Compliance with the National Environmental Policy Act and the California Environmental Quality Act (CEQA) is also required prior to implementing the transfer.

It should be possible to expeditiously obtain the necessary approvals as this transfer would be accomplished under the CVP Improvement Act and the water involved in this transfer is currently being exported from the Delta. Upon gaining approvals and preparing environmental documentation, your Board would be requested to review and consider such documentation and authorize the General Manager to enter into the final agreement. CEQA compliance is not required until such time as negotiations are completed and necessary approvals are obtained for this transfer.

#### Board Committee Assignments

This letter is referred for action to:

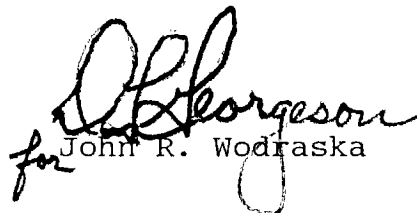
The Executive Committee because of its authority to study, advise, and make recommendations with regard to policies and procedures to be considered by the Board, pursuant to Administrative Code Section 2917(e).

The Water Problems Committee because of its authority to study, advise, and make recommendations with regard to policies, sources, and means of importing water required by the District, pursuant to Administrative Code Section 2481(a).

#### Recommendation

#### **EXECUTIVE AND WATER PROBLEMS COMMITTEES FOR ACTION.**

It is recommended that your Board authorize the General Manager to finalize negotiations with Areias Dairy Farms for the initial agreement which would provide the terms of the final agreement consistent with this letter and the attached principles.

  
for John R. Wodraska

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Attachment

**PRINCIPLES FOR AN OPTION AGREEMENT  
TO TRANSFER CVP WATER**

1. **General.** Areias Dairy Farms (Seller) will agree to transfer CVP water it now receives from the Central California Irrigation District (CCID) for use by The Metropolitan Water District of Southern California (Buyer) pursuant to The Central Valley Project Improvement Act (CVPIA, Title XXXIV of P.L. 102-575). The transfer is to be accomplished under two agreements, hereafter referred to as "initial agreement" and "final agreement".

2. **Price.** Consistent with Paragraph 7 of these principles, Seller will receive \$175 for each acre-foot (AF) of "wet" water received by Buyer. All references to dollar amounts expressed as "1993 dollars" will be adjusted for inflation using the Consumers Price Index (CPI).

3. **Quantity.** The final agreement shall provide for the transfer of up to a total of 35,000 AF of CVP water in annual amounts of up to 5,000 AF consistent with Paragraph 6 of these principles.

4. **Fees and Expenses.**

a. **Federal Fees.** Buyer will agree to pay any transfer fees required by the U.S. Bureau of Reclamation (Reclamation) under Sections 3405(a) and 3407 of the CVPIA in an amount not to exceed \$25 (1992 dollars per the CVPIA) for each AF transferred. Seller will agree to pay Reclamation any federal fees in excess of this amount, provided that if such fees are unacceptable to Seller, Seller may at no cost to the Buyer, choose not to proceed to a final agreement.

b. **CCID Water Charges.** Seller will agree to pay all CCID water charges and other fees related to the CVP water transferred. If Seller fails to make such payments, Buyer may make such payments and deduct said amount from payments to Seller.

c. **Other Expenses.** Seller will agree to pay all necessary expenses related to public relations activities required to gain public acceptance of this transfer. Buyer will agree to pay engineering, legal, and other development costs.

5. **Duration.** The final agreement shall be in force for a period of 15 years commencing upon its execution.

6. **Annual Options.**

- a. **Minimum Transfer Amounts.** Buyer will agree to purchase up to 5,000 AF of water per year during at least seven of fifteen years. Seller will agree to make available a cumulative total of up to 35,000 AF of CVP water. The precise amount of water subject to the final agreement shall be determined in studies mutually agreeable to the Buyer and Seller.
- b. **Notice.** Buyer will agree to notify Seller and CCID on or before March 15 of any calendar year during which Buyer intends to receive water pursuant to the final agreement.
- c. **Additional Water.** After 35,000 AF of water have been transferred pursuant to the final agreement, Buyer shall have the option to purchase additional CVP water from Seller in annual amounts of up to 5,000 AF consistent with the terms and conditions of that agreement, except that Buyer agrees to pay \$175 per AF (1993 dollars).

7. **Payments For Water Supply.** Based on a cumulative transfer amount of 35,000 AF, the Buyer will agree to pay Seller amounts consistent with the following payment schedule:

- \$612,500 (35,000 AF X \$175 per AF X 0.10) upon approval by Buyer's Board of Directors of these principles and execution of the initial transfer agreement by Buyer and Seller. Seller will either deliver an equivalent amount of water (3,500 AF) or will refund this money with interest should the final agreement not be executed for any reason, whether foreseeable or not.
- \$2,450,000 (35,000 AF X \$175 per AF X 0.40) upon completion of all approvals and execution of the final agreement by Buyer and Seller.
- \$87.50 per AF (1993 dollars) of water delivered to Metropolitan. Assuming total deliveries of 35,000 AF, Metropolitan's total payment would be \$3,062,500 (35,000 AF X \$87.50 per AF).

8. **Successors in Interest.** The initial and final agreements shall be binding upon all successors in interest to the Seller.

9. **Buyer Security.** To protect Buyer from non-compliance by Seller, upon execution of the initial agreement, security such as a lien on Seller's property in favor of Buyer, in an amount equal to all initial payments shall be furnished by Seller. Security shall be acceptable to Buyer. The security shall be reduced proportionately as water is received by Buyer and shall be removed upon delivery of 35,000 AF or the full contract amount.

10. **Approvals.** Execution of the final agreement is contingent upon the satisfactory completion of the following requirements:

- Approval by the Buyer's Board of Directors;
- Completion of all applicable legal requirements including compliance with the California Environmental Quality Act and the National Environmental Policy Act;
- Approval of necessary changes in place and purpose of use by the State Water Resources Control Board;
- Approval by the Secretary of the Interior pursuant to the CVPIA;
- Approval of wheeling arrangements by the Department of Water Resources;
- Concurrence from CCID regarding the amount of water to be transferred and other conditions necessary for the effective operation of the transfer.

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