

April 23, 1999

To: Board of Directors (Water Planning and Resources Committee—Information)

From: General Manager

Submitted by: Debra C. Man, Chief
Planning and Resources

Subject: Principles of Participation for American Basin Supply Project

RECOMMENDATION

For information only.

EXECUTIVE SUMMARY

In March 1997, the Board authorized Metropolitan to jointly participate with the Department of Water Resources (DWR) and other State Water Project (SWP) contractors in planning activities for a conjunctive-use program known as the American Basin Project. The American Basin Project, located north of the Delta, is envisioned to be a conjunctive-use and water-transfer program that will yield water supplies during dry and critical years.

In June 1997, DWR issued a feasibility report for the American Basin Conjunctive Use Project. This project envisioned storing unregulated SWP water in the American Basin using facilities that would have been constructed and operated by DWR. Local water agencies overlying the groundwater basin expressed concerns about such a proposal. As a result, the participating SWP contractors requested that DWR delay commencement of work on the environmental impact report until there was sufficient support from the local agencies.

Subsequent negotiations between local water agencies and the SWP contractors resulted in a revised water-purchase and conjunctive-use program based on the attached principles. These Principles of Participation specify that three agreements will need to be developed to govern all aspects and phases of the program's development. Approval from the Board will be sought prior to executing each of the identified agreements.

In addition, amendments to the SWP Water Supply Contract and/or agreements with DWR may be required before commencing with construction or operation of the program. Approval from the Board will be sought before executing any amendment or agreement with DWR.

DETAILED REPORT

Background

In March 1997, the Board authorized Metropolitan to jointly participate with the Department of Water Resources (DWR) and other State Water Project (SWP) contractors in a pilot program for planning activities for a conjunctive-use program known as the American Basin Project. DWR and the SWP contractors were developing a procedure where each contractor would be able to choose whether or not to participate in the planning and implementation of additional SWP supply programs.

The American Basin Project was the first program to be pursued using this procedure. A two-year pilot agreement was developed and executed to establish participation levels and guide planning activities for the project. In February 1999, the Board authorized the extension of this agreement for one year. The SWP contractors have currently committed to fund \$980,000 of the \$1.5 million estimated to complete planning and permitting activities. Additional funding from the local agencies and other sources is currently being pursued.

The American Basin Project is envisioned to be a conjunctive-use and water-transfer program that will yield water supplies during dry and critical years. The American Basin is a groundwater basin north of the Delta that is bounded by the Sacramento River, Feather River, and American River. Local agencies that would participate in the program have a combination of groundwater, local, and Central Valley Project supplies. As currently formulated, Metropolitan would pay for and be entitled to approximately one-half of the program's yield.

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Principles of Participation

After more than a year of negotiations, several local agencies proposed draft Principles of Participation for the American Basin Project. These draft principles describe a revised program that the local agencies would support. The draft Principles of Participation were subsequently modified to address concerns of the participating SWP contractors. The most current Principles of Participation (see attachment) serve as a project description for which agreements can be negotiated and environmental documentation can be initiated.

The revised American Basin Project, as outlined by the Principles of Participation, would consist of an overall multi-purpose, multi-phased program that will provide broad benefits to the participating SWP contractors, local agencies, and the environment. The program's broad scope is intended to widely distribute benefits and thus increase the likelihood of support and overall success. If fully developed, the yield of the program could range from 35,000 AF to 70,000 AF. Under Phase 1, 19,000 AF to 29,000 AF would be available during dry and critical years. Under the current program formulation, Metropolitan would be entitled to slightly more than half of the program yield. The costs of Phase 1, which are currently being negotiated, are expected to be less

than the \$175 per AF cost associated with the 1991 Drought Water Bank. These program costs would include carriage water losses to convey the water across the Delta.

In April, the participating SWP contractors and the local agencies began the development of two of the three necessary agreements for the American Basin Project. The Environmental Review Agreement will allocate costs associated with the environmental documentation and will identify the lead agencies. The Phase 1 Agreement, which will not be executed until the environmental documentation is completed, will address the operational rules and price of water transfers associated with the first phase. The parties intend to reach agreement on the language for both the Environmental Review Agreement and the Phase 1 Agreement by December 31, 1999.

Based upon the experience gained through operation of the Phase 1 activities, a Phase 2 Agreement will be developed to govern Phase 2 activities including the design and construction of necessary conveyance and groundwater extraction facilities, the operation of groundwater storage and extraction activities, and the development of additional water-transfer opportunities. Approval from the Board will be sought prior to executing each of the three necessary agreements.

The water supply benefits for the participating SWP contractors will be obtained through implementation of groundwater conjunctive-use and water-transfer programs. Costs assigned to the participating SWP contractors are expected to be paid through a contractual mechanism that must be developed with DWR. Amendments to the SWP Water Supply Contract and/or agreements with DWR may be required before commencing with construction or operation of the program. Approval from the Board, after its review of any required environmental documentation, will be sought before executing any amendment or agreement with DWR.

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Attachment 10-19A

Attachment 10-19A**PRINCIPLES OF PARTICIPATION****American Basin Conjunctive Use Project****April 19, 1999**

1. Parties. The parties to these Principles are as follows;

Natomas Central Mutual Water Company ("Natomas")
Pleasant Grove-Verona Mutual Water Company ("PGVMWC")
South Sutter Water District ("SSWD")
Placer County Water Agency ("PCWA")
(collectively "Local Participants")

California Department of Water Resources ("DWR")
Metropolitan Water District of Southern California ("MWD")
Solano County Water Agency ("SCWA")
Santa Clara Valley Water District ("SCVWD")
Zone 7 of Alameda County Flood Control and Water Conservation District ("Zone 7")
Castaic Lake Water Agency ("Castaic")
Napa County Flood Control and Water Conservation District ("Napa")
(collectively "Contractor Participants")

2. Purpose. These Principles shall form the foundation for three written agreements to be negotiated by and between the parties. The parties pledge their good faith efforts to work diligently toward the completion and execution of (i) an agreement ("Environmental Review Agreement") governing the environmental review phase of the project, including designation of state and federal lead agencies; allocating the expenses described in paragraph 11 of these Principles; and specifying the financial terms governing the transfer of water in Phase I of the Project; (ii) an agreement ("Phase 1 Agreement") defining the rights and obligations of the parties with respect to the transfer of water during Phase 1 of the Project; and (iii) an agreement ("Phase 2 Agreement") governing the design, construction and operation of Phase 2 of the Project. These Principles shall not constitute a binding contract, in whole or in part.

3. Project Description. The project is a multi-party water transfer, conjunctive use and fish screen project which will provide facilities to (1) increase the total usable water supplies available to the parties; (2) increase the conjunctive use of surface and groundwater within the American Basin; (3) improve the fishery flows of the lower American River; (4) reduce fish entrainment on the lower Sacramento River; (5) protect endangered species in the American Basin (including, without Limitation, the Giant Garter Snake and Swainson's Hawk) by promoting continued rice agricultural practices; and (6) enable PCWA to secure entitlements to the delivery of water diverted by Natomas from the Sacramento River pursuant to PCWA water rights on the American River and its contractual entitlements to Central Valley Project water.

4. Project Facilities. The parties contemplate that the project facilities will include (1) a new diversion facility and fish screen on the Sacramento River, to be owned and operated by Natomas and/or PGVMWC, with additional capacity for delivery of water to PCWA and for the conveyance of State Water Project water in accordance with paragraph 5.B(2) of these Principles; (2) new groundwater extraction facilities; and (3) new surface water delivery and/or groundwater recharge facilities.
5. Phases. The project will be implemented in two phases. Prior to the implementation of Phase 2 there will be a review of the impacts of the project on groundwater quality and supply. Phase 2 will be implemented only if the Local Participants determine that there have been no significant adverse impacts on groundwater quality or supply as a result of the project or that any significant adverse impacts have been mitigated to less-than-significant levels. The project phases are as follows:
 - A. Phase 1. Phase 1 is principally a water transfer to occur in dry and critical years, which shall include the following elements:
 - (1) Subject to the provisions of paragraph 12 of these Principles, Natomas and PGVMC will provide up to 10,000 af to Contractor Participants using existing wells and conveyance facilities. In dry and critical years, Natomas and PGVMC will pump up to 10,000 af of groundwater and release like amounts of their surface entitlements to Contractor Participants.
 - (2) Subject to the provisions of paragraph 12 of these Principles, PCWA will release for Contractor Participants up to 47,000 af from its Middle Fork American River Project, subject to the following terms and conditions:
 - a. Delivery Point. PCWA will release the water to flow into Folsom Reservoir. The Contractor Participants shall be responsible for obtaining any delivery beyond this point, including the payment of any fees or charges required for delivery beyond this point, any necessary compliance with CEQA for such deliveries and any other regulatory requirements. PCWA will assist Contractor Participants in obtaining approval for delivery beyond Folsom Reservoir.
 - b. Refill Requirements. PCWA will agree to a refill provision to protect Folsom Reservoir from following year impacts caused by any such releases, if the Bureau of Reclamation or DWR requires such a refill provision.
 - e. Term of the Agreement. PCWA is flexible with regard to the term; however, any term beyond 2013 must recognize that the PCWA Middle Fork Project will need to be relicensed by that date and a new power sale contract will have to be in effect. These could affect the quantity of water available for such an agreement.
 - d. Water Forum. PCWA's releases shall also be subject to the terms and conditions PCWA has agreed to in the Sacramento Water Forum - namely: (1) until PCWA's present power sale contract with PG&E expires in 2013, the releases are subject to PG&E's consent,

(2) PCWA gets paid for its releases, and (3) PCWA determines that releasing the water will not cause a shortage to PCWA's customers.

- B. Phase 2. Phase 2 is an expanded conjunctive use and fish screen project, the elements of which shall include the following:

- (1) Natomas Service to Northeast Are~ Natomas will design and construct distribution facilities to provide surface water service to approximately 3,200 acres of additional lands within the current place of use under Natomas¹ water rights (the "Northeast Area"), which lands are currently being served by groundwater. In dry and critical years Natomas will pump up to 14,000 afa of groundwater (over and above Phase 1 amounts) and will provide surface water via substitution to Contractor Participants in like amount. The Parties acknowledge that additional wells may be required to be constructed within the Northeast Area in order to implement Phase 2.
- (2) Storage of SWP Water. Upon further agreement by and between Natomas, PGVMWC and Contractor Participants, Contractor Participants will develop facilities to inject and/or recharge (including in-lieu recharge) State Water Project water into the American Basin and will assist Natomas in developing additional well facilities.
- (3) SSWD Siphon Enlargement. The parties will examine the feasibility of enlarging SSWD's Highway 65 siphon and other SSWD delivery facilities to improve conveyance capacity within SSWD and enhance opportunities for conjunctive use within SSWD, and the adjacent PCWA Zone 5 service area.

6. Compensation. Natomas, PGVMWC and PCWA will be compensated for transferred water at rates commensurate with its value, with appropriate escalation. The Phase 1 Agreement may provide for payment during years of transfer or it may provide for annual payments throughout the term of the Agreement or for a combination of either of these alternatives. Compensation may be in cash or through the provision of facilities, such as diversion structures, pumping plants, fish screens, wells, conveyance facilities, etc.
7. Environmental Review and Permitting. The Environmental Review Agreement shall designate one of the parties (or a joint powers agency comprised of two or more of the parties) to serve as lead agency for purpose": of compliance with the California Environmental Quality Act (CEQA) and an appropriate federal agency to serve as lead agency for purposes of compliance with the National Environmental Policy Act (NEPA). The Phase I and Phase 2 Agreements shall specify responsibility as to permitting for each phase of the Project. Natomas, PGVMWC and PCWA shall have lead responsibility in connection with any regulatory approval process that may affect their respective water rights.
8. Schedule. The parties shall use their best efforts to ensure that environmental review and permitting for the project is completed within two years following execution of the Environmental Review Agreement.

9. Water Transfers to Other Parties. During the period between execution of the Environmental Review Agreement and execution of the Phase 1 Agreement, the Local Participants may engage in the transfer or exchange of water or water rights to parties other than the Contractor Participants, subject to compliance with the terms and conditions of this paragraph 9. In the event that any Local Participant desires to transfer water to or exchange water with any party other than the Contractor Participants, the Local Participant shall first offer such transfer or exchange to Contractor Participants, on terms no less favorable than those offered by the other party. The Contractor Participants shall have 30 days from the date of such offer to elect whether to participate in the transfer or exchange. The right of first refusal shall not apply to (i) the transfer or exchange of water by Natomas or PGVMWC to other parties based on water conservation pursuant to Water Code Section 1011; or (ii) transfers of project water by Natomas or PGVMWC to the pool administered by the Sacramento River Water Contractors Association. The Environmental Review Agreement shall further specify the rights and obligations of the parties regarding such right of first refusal. The Environmental Review Agreement shall include provisions to ensure that water will be available for transfer to Contractor Participants in accordance with the terms and conditions of these Principles upon execution of the Phase 1 Agreement.
10. Deliveries to PCWA from Sacramento River. PCWA and Natomas will examine the feasibility and desirability of making an exchange of a portion of PCWA's American River water for Sacramento River water to be diverted at the Natomas point of diversion for transmission into western Placer County. Contractor Participants shall support fully the efforts of PCWA to secure entitlements to the delivery of this water diverted by Natomas from the Sacramento River, so long as there are no adverse impacts to the State Water Project as a result of such deliveries.
11. Expenses. The Environmental Review Agreement shall address the allocation of expenses and payment terms with respect to CEQA compliance, permitting, engineering, legal and administrative costs and the cost of design and construction of fish screens.
12. Adjustments to Contract Quantities. In the event that the water rights or contractual water entitlements of Natomas, PGVMWC (including rights held by shareholders of PGVMWC) PCWA are affected as a result of (i) actions taken by the State Water Resources Control Board, including but not limited to actions taken in connection with implementation of water quality requirements for the Bay-Delta (or settlement agreements entered into in lieu thereof), (ii) actions taken by the United States Bureau of Reclamation, including but not limited to actions taken in connection with contract renewal, or (iii) other action by any other regulatory agency or court, then the contract quantities available for transfer for Phases 1 and 2 shall be adjusted downward to ensure that water users within Natomas, PGVMWC and PCWA are not adversely affected as a result of participation in this project. In the event of such adjustment, the parties will agree to confer in good faith regarding the adjustment of the financial terms of the agreement.
13. Project Facilities. All project facilities shall be owned, operated, maintained and under the direct control of the Local Participants.
14. Protection of Water Rights. It is intended that neither the water rights nor the total annual water supply of the Local Participants will be adversely impacted as a result of this project.

15. Coordination with Stakeholders. In connection with the planning, design, construction and operation of the project, the parties shall consult and coordinate with all interested stakeholders within Sacramento, Sutter and Placer Counties including, without limitation, the Sacramento Water Forum.
16. Termination. The Phase 1 and Phase 2 Agreements shall include provisions for termination of the obligations of the parties under specified conditions.
17. Special Provisions in Critical Years. The Phase I and Phase 2 Agreements shall include special provisions governing the transfer of water by Natomas and PGVMWC in those years in which USBR contract supplies are reduced to 75% of regular supply, so as to ensure the full protection of Natomas and PGVMWC shareholders.