

- **Board of Directors**  
**Water Planning and Resources Committee**

January 9, 2001 Board Meeting

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9-8

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**Subject**

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Authorize entering into a one-year Environmental Water Account demand shifting agreement with California Department of Water Resources

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**Description**

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Approval is requested to authorize the General Manager to enter into a One-Year Environmental Water Account (EWA) Demand Shifting Agreement (Agreement) with the Department of Water Resources (Department) consistent with the terms provided below and in **Attachment 1 and Attachment 2**. Depending on hydrological conditions and at Metropolitan's discretion, the Agreement would allow the Department to reschedule deliveries ranging from 100,000 to 200,000 acre-feet (AF) of Metropolitan's 2001 State Water Project (SWP) supplies to help support the EWA. The Agreement would satisfy a key prerequisite for achieving an operational EWA, which is critical to securing Endangered Species Act assurances for supply reliability during CALFED's Stage 1.

The Department and other CALFED member agency representatives have initiated staff-level discussions with Metropolitan to develop the general terms of the Agreement. During these discussions, staff has emphasized that any EWA services agreement would require management and Board approval. Accordingly, staff has not made any commitments during these discussions. Following are the key proposed Agreement terms.

- The Agreement would be for one year;
- The Department would pay Metropolitan \$10/AF up front for water Metropolitan makes available for rescheduling;
- The Department would pay Metropolitan an additional \$65/AF for water the Department notifies Metropolitan it intends to reschedule;
- If the Department fails to return the rescheduled water to Metropolitan within one year, the Department would pay a penalty payment to be negotiated;
- The Department and Metropolitan will use their best efforts to ensure that the water which the Department returns to Metropolitan is of equal or better quality to the SWP water foregone by Metropolitan; and
- All costs of the Agreement are to be paid by non-SWP funds.

In accordance with the California Environmental Quality Act (CEQA) the Department as the Lead Agency, prepared and approved a Negative Declaration for the project by January 6, 2000. As a Responsible Agency, Metropolitan is required to certify that it has reviewed and considered the information contained in the Negative Declaration and adopt the Lead Agency's findings.

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**Policy**

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The Board's Policy Direction regarding the CALFED Bay/Delta Program, adopted on July 13, 1999 instructs staff to "Develop a range of options to meet future water quality and reliability needs for the service area." This Agreement would help to ensure that CALFED's member agencies with fishery regulatory responsibilities will be able to provide a water supply reliability assurances package for Bay/Delta exporters, including Metropolitan. Further, the "Statement of Needs for the CALFED Bay-Delta Program", adopted by the Board on July 23, 1999, specifically endorses an Environmental Water Account.

**Board Options/Fiscal Impacts**

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**Option #1**

Certify that the Board has reviewed and considered the information contained in the Negative Declaration for the project (available in the Executive Secretary's office), and adopt the Lead Agency's findings relating to the Negative Declaration. Authorize the General Manager to enter into a One-Year EWA Demand Shifting Agreement with the Department consistent with the terms above and in **Attachment 1 and Attachment 2**, and in form approved by the General Counsel.

**Fiscal Impact:** As currently proposed, the Agreement could result in the Department paying Metropolitan \$75/AF of Metropolitan's SWP entitlement deliveries that are rescheduled to help support the EWA. Assuming that either 100,000 AF or 200,000 AF are rescheduled, the Department would pay Metropolitan \$7.5 million or \$15.0 million, respectively. The Agreement could result in minor increases in operational costs.

**Option #2**

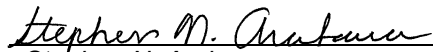
Do not authorize the General Manager to enter into a One-Year EWA Demand Shifting Agreement with the Department.

**Fiscal Impact:** None.

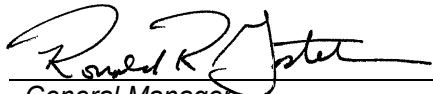
**Staff Recommendation**

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## Option #1

  
Stephen N. Arakawa  
Manager, Water Resource Management

12/15/2000  
Date

  
Ronald R. Jester  
General Manager

12/19/2000  
Date

**Attachment 1****Attachment 2**

BLA #589

<b>MWD/DWR PROPOSED EWA AGREEMENT</b>	
<b>Agreement Term</b>	<b>Description</b>
1. Service Provided by MWD	Shift the timing of MWD’s SWP deliveries to benefit fish.
2. Term	One-year.
3. Amount of MWD Water Shifted	A minimum of 100,000 AF (“Initial Water”), and at MWD’s discretion up to an additional 100,000 AF (“Additional Water”) if MWD receives 60 percent or more of its 2001 SWP delivery request.
4. Fees	\$10/AF “Option Fee”, \$65/AF “Shift Fee”. If 200,000 AF is shifted, total fees are \$15 million.
5. Payback Schedule	Initial Water: payback is due December 31, 2001.  Additional Water: payback is due April 1, 2002.
6. Penalties	If DWR fails to return water on schedule, \$75/AF is assessed annually until water is returned. MWD has the right to secure replacement supplies and invoice DWR for actual costs of replacement supplies, plus a 10 percent administrative charge.
7. Water Quality	Payback water is intended to be of equal or better quality. MWD has the right to reschedule payback supplies to protect water quality.
8. Incremental Costs	DWR agrees to recover any incremental costs (e.g. power-related) of implementing the EWA to the SWP Contractors.
9. Third-Party Impacts	MWD agrees to prepare its 2001 SWP delivery schedule based on conditions without agreement. Agreement structured to not cause adverse impacts on allocation or delivery of SWP water, including interruptible water, to other SWP contractors.
10. Funding	To be derived from non-SWP sources.

## Questions and Answers Regarding the Proposed EWA Agreement

### *How does the Agreement Work?*

Basically, if approved, CALFED would pay Metropolitan money to use its system to shift SWP deliveries at appropriate times in an environmentally sensitive manner. In essence, we would be paid up to \$15 million to help provide ESA regulatory assurances for Metropolitan and other export water users as the CALFED Framework for Action is implemented.

### *Will the Agreement adversely affect reliability or water quality?*

The Agreement is being developed in close cooperation with Metropolitan's water system operators and will not affect deliveries to any Member Agency. Further, the Agreement is being structured so that the water returned to Metropolitan is of equivalent or better quality than the water provided to the EWA. Metropolitan would be provided compensation for the small risks involved in flexing its system to accommodate the agreement.

### *Are we being paid enough?*

It is important to note that the Agreement would be an exchange and NOT a sale of water. The \$75/AF price charged for the service provided, shifting water deliveries over time, is comparable to the proposed charge for similar services to CALFED by Kern County last year. The charge is also consistent with the seasonal shift incentive Metropolitan offers its Member Agencies to shift deliveries of Metropolitan water over time. If the water is not returned as provided in the Agreement, DWR would be required to increase payments to Metropolitan by an additional \$75/AF annually until the water is returned, or Metropolitan, at its option, can acquire replacement water and bill DWR for all costs plus 10 percent.

### *Where does the money come from? Are we paying ourselves?*

The Agreement explicitly states that funding will come from non-State Water Project sources. Initially, DWR has indicated that Prop. 204 funds will be used; therefore, all funds received under this Agreement will benefit Metropolitan.

### *What's the rush?*

The CALFED Framework calls for the EWA to be in place by the end of this year. ESA water supply assurances are linked to implementation of an operable EWA.

### *Why should Metropolitan do this?*

In addition to financial benefits, this agreement would contribute substantially toward establishing the EWA -- a key objective of the CALFED Framework. With the EWA and its assurances in place, our SWP supplies are far more reliable and insulated against regulatory uncertainty.

### *Are others being asked to help the EWA?*

Yes. DWR and USBR have EWA negotiations underway with Kern County Water Agency, Yuba County Water Agency, Santa Clara Valley Water District, Oroville-Wyandotte ID, Friant Water Users, Vidler Water Company, and San Bernardino Valley Municipal Water District.