

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

November 19, 2002 Board Meeting

9-4

Subject

Approve principles for entering into one-year water transfer option agreements with various Sacramento Valley water districts

Description

Approval is requested to pursue up to 205 thousand (TAF) acre-feet (AF) of one-year water transfer option agreements with various Sacramento Valley water districts (Districts) based on the principles in [Attachment 1](#). Staff has developed one-year water transfer option agreements in the Sacramento Valley to lay the foundation for long-term agreements to develop water supplies, and to provide additional resource options to mitigate dry-year risks and uncertainties on the Colorado River consistent with existing board policy. Staff has reached agreement with the Department of Water Resources (Department) to pursue the one-year agreements under the Department's Dry-Year Water Transfer Program.

Although agreement regarding the Quantification Settlement Agreement (QSA) process was reached recently, we recommend that Metropolitan pursue these Sacramento Valley water transfer opportunities as a supply option as a contingency in the event the QSA is not executed and the Interim Surplus Guidelines are suspended. They can also be evaluated as a possible hedge against supply shortfalls resulting from a reduced State Water Project allocation in 2003. The currently anticipated initial allocation is about 20 percent. Staff will present the option agreement terms to the Board for approval before executing them.

The proposed terms of such transfers are shown in [Attachment 1](#). The water costs are consistent with the Sacramento Valley Phase 8 Water Management Agreement's market-based water transfer component and include: a \$10/AF option payment; an additional \$90/AF payment if Metropolitan calls on the water; an additional \$25/AF payment if Water Year 2003 is classified as "critical"; and a \$5/AF third party impacts payment that would be administered by a local agency. Based on these terms, Metropolitan has received proposals from 14 Districts to transfer up to 205,000 AF to Metropolitan in 2003, primarily through idling of rice acreage ([Attachment 2](#)). After accounting for Delta conveyance losses, the effective unit cost for water made available to Metropolitan is expected to be approximately \$125/AF, except under a critical year type.

The one-year transactions proposed here provide water supply insurance and protect Metropolitan against political and hydrological risks in 2003, while providing a basis for discussion of longer-term opportunities that could be brought to the Board for consideration next year. Due to current hydrological conditions on the Colorado River, additional water from transfers is likely to be needed in 2004, even if the Interim Surplus Guidelines are not suspended. All of the selling Districts have indicated a strong interest in pursuing multi-year water transfer agreements with Metropolitan. Staff intends to develop proposed long-term agreements consistent with the Integrated Resources Plan Update and in coordination with other water supply agencies and the EWA.

Policy

Metropolitan Water District Administrative Code § 4203: Water Transfer Policy

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action, i.e., approval of principles for entering into one-year water transfer agreements, is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2)) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines). At a future meeting, the Board will review and consider the lead agencies' environmental documentation prior to entering into final agreements.

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize pursuit of up to 205,000 AF of one-year water transfer option agreements with various Districts, based on the principles in [Attachment 1](#).

Fiscal Impact: Assuming Metropolitan pays the option fee for 205,000 AF and does not call on the water, Metropolitan's payment would be \$2.05 million. Assuming Metropolitan calls on 205,000 AF under "dry" or "below normal" hydrologic conditions, Metropolitan's maximum payment would be \$21.525 million. If Water Year 2003 is "critical", Metropolitan's maximum payment would be \$26.650 million.

Option #2

Do not authorize pursuit of up to 205,000 AF of one-year water transfer option agreements with Districts based on the principles in [Attachment 1](#).

Fiscal Impact: None

Staff Recommendation

Option #1


 Stephen N. Arakawa
 Manager, Water Resource Management

10/30/2002

Date


 Ronald R. Gastelum
 Chief Executive Officer

11/1/2002

Date

[Attachment 1 – Principles For Entering Into One-Year Water Transfer Option Agreements With Sacramento Valley Water Districts](#)

[Attachment 2 – Proposed Sacramento Valley One-Year Water Transfer Options](#)

**PRINCIPLES FOR ENTERING INTO ONE-YEAR
WATER TRANSFER OPTION AGREEMENTS WITH
SACRAMENTO VALLEY WATER DISTRICTS**

1. Metropolitan will pay transferor a \$10/AF “option payment” within 30 days of executing contract for each AF made available in contract.
2. Metropolitan will call on the transfer water no later than February 15, 2003.
3. Metropolitan will pay transferor an additional \$90/AF “call payment” within 30 days of release of transfer water to Metropolitan.
4. Metropolitan will pay transferor an additional \$25/AF “critical year payment” for each AF “called”, if the May 1, 2003 forecast for Water Year 2003 using the 40-30-30 Sacramento River Index in D-1641 is “critical”.
5. Metropolitan will pay a \$5/AF “third party economic impact payment” to an appropriate local governmental agency to be determined for each AF “called” under the contract in cooperation with the transferor.
6. Water made available by transferor to Metropolitan will be measured at the transferor’s point of delivery that would have occurred absent the transfer.
7. Transferor shall identify the means through which transfer water is made available and cooperate to the maximum extent in seeking necessary approvals from DWR, USBR, SWRCB and other agencies.

**PROPOSED SACRAMENTO VALLEY
ONE-YEAR WATER TRANSFER OPTIONS**

Sacramento River Watershed Sellers		
District	Action	Amount
Glenn Colusa Irrigation District	Crop Idling	60,000 AF
Other Sacramento River Settlement Contractors: Reclamation District 108 Sutter Mutual Water Company Natomas Water Company River Garden Farms Meridian Farms Water Company Pelger Mutual Water Company Pleasant Grove-Verona Mutual Water Company Provident Irrigation District Princeton-Codura-Glenn Irrigation District	Crop Idling and Groundwater Substitution	50,000+ AF
SUBTOTAL: Sacramento River Watershed		110,000+ AF

Feather/Yuba River Watershed Sellers		
District	Action	Amount
Western Canal Water District	Crop Idling	20,000 AF
Butte Water District	Crop Idling	10,000 AF
Richvale Irrigation District	Crop Idling	15,000 AF
Yuba County Water Agency	Storage Releases and Groundwater Substitution	50,000 AF
SUBTOTAL: Feather/Yuba River Watersheds		95,000 AF

TOTAL: Sacramento/Feather/Yuba River Watersheds	205,000+ AF
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