

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

September 14, 2004 Board Meeting

9-6

Subject

Approve paying initial fees for pursuing one-year water transfer option agreements with Central Valley water districts

Description

Approval is requested to pursue up to 125,000 acre-feet of one-year water transfer option agreements with Central Valley water districts. These agreements would provide about 100,000 acre-feet of supplies for Metropolitan's service area after providing for Delta conveyance losses, estimated at 20 percent. The agreements also would provide additional resource options to mitigate potential dry-year conditions in 2005, consistent with Metropolitan's water resource strategy outlined in its 2003 Integrated Resources Plan Update. To the extent possible, these agreements would be pursued under a phased Department of Water Resources (Department) 2005 Dry Year Water Purchase Program. The Department would serve as a clearinghouse for both buyers and sellers. Phase 1 of the Program would conclude in November 2004, at which time staff would seek board approval to authorize executing agreements with sellers. Phase 2 of the Program, if necessary, would begin once more information is known about hydrologic conditions in 2005.

The proposed agreement terms are shown in [Attachment 1](#). These terms were developed by the Department in consultation with potential buyers, including Metropolitan, and were issued to potential sellers in July 2004. It is anticipated that some of these terms would be modified during negotiations. Staff would brief the Board on such changes in November 2004. The water costs are consistent with the Sacramento Valley Phase 8 Water Management Agreement's market-based water transfer component and the option agreements secured by Metropolitan in 2003. While the terms vary slightly based on the manner in which the seller makes the water available, all agreements would include a \$10/acre-foot initial option payment and an additional payment of approximately \$90-115/acre-foot if the water is purchased during drier years. After accounting for Delta conveyance losses, the effective unit cost for water would be approximately \$125/acre-foot or \$150/acre-foot if water year 2005 is classified as "critical".

At this time, Metropolitan needs to provide a \$5/acre-foot administrative fee and a \$10/acre-foot initial option payment to further develop supply opportunities. The latter payment is refundable if the Board does not ultimately authorize executing agreements with sellers or if the supplies are not secured.

The one-year transactions proposed here provide water supply insurance in 2005 while providing a basis for discussion of longer-term opportunities that could be brought to the Board for consideration next year. Staff intends to develop proposed long-term agreements consistent with the 2003 Integrated Resources Plan Update and in coordination with other water supply agencies and the Environmental Water Account. Staff would seek board approval to execute agreements in November 2004.

Policy

Metropolitan Water District Administrative Code § 4203: Water Transfer Policy

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). The payment of initial administrative fees does not commit Metropolitan to any definite course of action. It does not dictate how funds would be spent, or in any way narrow the field of options and alternatives available to Metropolitan to seek supplemental water sources. In essence, there is no binding commitment to spend in a particular manner before requiring environmental review. 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). Prior to formal approval of the agreements by the Board, CEQA documentation would be prepared by the Lead Agency and processed in accordance with CEQA and the State CEQA Guidelines.

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(4) 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 paying initial fees to pursue up to 125,000 acre-feet of one-year water transfer option agreements with Central Valley water districts based on the terms in [Attachment 1](#).

Fiscal Impact: The only fiscal impact associated with this action is paying the non-refundable \$5/acre-foot administrative fee of \$625,000. If the Board authorizes executing agreements with sellers at the November 2004 Board Meeting, Metropolitan's total maximum payment to secure this water would be \$12.5 million in "dry" or "below normal" hydrologic conditions or \$18.75 million under "critical" hydrologic conditions.

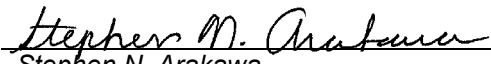
Option #2

Do not authorize paying initial fees to pursue up to 125,000 acre-feet of one-year water transfer option agreements with Central Valley districts based on the terms in [Attachment 1](#).


Fiscal Impact: None

Staff Recommendation

Option #1


 Stephen N. Arakawa
 Manager, Water Resource Management

8/25/2004
 Date


 Ronald R. Gastelum
 Chief Executive Officer

8/26/2004
 Date

Attachment 1 – The 2005 Dry Year Water Purchase Program: Agreement Terms

**THE 2005 DRY YEAR WATER PURCHASE PROGRAM:
PROPOSED AGREEMENT TERMS**

Programmatic Terms for all Agreements

1. Buyer will pay seller a \$10 per acre-foot initial option payment for each acre-foot made available, within 30 days of executing the contract.
2. Buyer will call on the transfer water no later than May 1, 2005.
3. Buyer will incur an estimated 20 percent carriage water loss for any transfer water pumped at Banks Pumping Plant for delivery to their service area.
4. Seller agrees to make all water under the contract available to buyer if buyer calls on the transfer water. The contract shall include provisions for penalties if water under option is not made available.

Specific Terms for Crop Idling and Crop Substitution Agreements

5. Buyer will pay seller an additional \$10 per acre-foot incremental option payment on March 15, 2005, and April 15, 2005, if buyer has not yet called on the transfer water, but wants to maintain the option past these dates.
6. If buyer calls on the transfer water at the time the year is classified as Dry or a wetter year type, seller will receive a total payment of \$100 per acre-foot for the transfer water. The previous option payments made under Terms 1 and 5 will be credited towards the total payment of \$100 per acre-foot. Year type is based on the 40-30-30 Sacramento River Index in SWRCB Decision-1641.
7. If buyer calls on the transfer water at the time the year is classified as Critically Dry, seller will receive a total payment of \$125 per acre-foot for the transfer water. The previous option payments made under Terms 1 and 5 will be credited towards the total payment of \$125 per acre-foot.

Specific Terms for Groundwater Substitution Agreements

8. The buyer's payments will be based on the Sacramento Valley Water Management Program (shown in the table below) for whichever year type classification is in place at the time the transfer water is called. Year type is based on the 40-30-30 Sacramento River Index in SWRCB Decision-1641. The previous option payment made under Term 1 will be credited towards the total payment for the transfer water.

Year Type	Price per Acre-Foot
Wet	\$ 25
Above Normal	\$ 50
Below Normal	\$ 75
Dry	\$100
Critically Dry	\$125

Specific Terms for Reservoir Reoperation Agreements

9. To be developed on a case-by-case basis.