

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

December 13, 2005 Board Meeting

7-7

Subject

Approve a 2005/06 Supplemental Storage Program Agreement for Los Angeles Department of Water and Power

Description

This letter requests that the Board authorize the Chief Executive Officer to execute an agreement with the City of Los Angeles (City) Department of Water and Power (LADWP) to store water under the terms of the 2005/06 Supplemental Storage Program. As established by this agreement, Supplemental Storage Program water stored by LADWP would be in addition to water delivered under Metropolitan's Replenishment Program.

Background

Calendar year 2005 has been a particularly abundant year for water supplies. At its October 2005 meeting, the Board approved a Supplemental Storage Program for 2005/06 to take advantage of available supplies this year. The basic parameters of this program, in which any member agency may participate, are:

- Minimum purchase.** The member agency would agree to purchase all of the water the agency had planned for storage – either through the Replenishment Program at current rates or to be put into an existing conjunctive use account. In other words, water stored under this Program would be in addition to water that would otherwise be sold.
- Measurable call.** The member agency would agree to allow Metropolitan to withdraw the water from storage for a period of up to five years. The withdrawal must be quantifiable and measurable.
- Interruptible deliveries.** Water to be delivered under the 2005/06 Supplemental Storage Program would be fully interruptible and all participating agencies recognize that water would only be delivered under the program if other storage options were not available.
- Separate accounting.** All water delivered in the Supplemental Storage Program would be accounted for separately. In this manner, all stored water will be available for call in future years.
- No losses.** The water would be stored and would not be charged for losses (e.g., evaporation or basin losses.)
- Discounted rate.** All water delivered under the Supplemental Storage Program would be sold at a discounted rate of \$254 per acre-foot for in-lieu treated delivery.

Since all groundwater basins and surface storage facilities operate in different ways, the details of each storage program depend on the operating rules and the member agency's particular circumstances. As a result, each participating agency is required to execute a letter agreement, approved by the Board that outlines the particular details of that storage program.

Description of Proposed Agreement with LADWP

The City owns water rights in three Upper Los Angeles River Area (ULARA) groundwater basins: San Fernando, Sylmar, and Eagle Rock. The City also has water entitlements in the Central and West Coast Basins, although it does not exercise its pumping rights in the West Coast Basin at this time.

The City's entitlements in the ULARA basins vary from year to year based on the amount of return flows credited to the basin and the City's right to all native water (Pueblo Rights), and are estimated at about 90,755 acre-feet annually. In water year 2004, the City pumped 68,626 acre-feet from the San Fernando Basin and 3,033 acre-feet from the Sylmar Basin.

The City's entitlements in the ULARA basins were established by a Judgment. The Judgment was based on maintaining a safe yield operation for the basins so that groundwater extractions over the long-term are maintained in a way that does not create an overdraft condition in the basin. Under the Judgment, any portion of the City's entitlement that is not produced in a given year is credited as stored water. Stored water credits may accumulate over time, and can be used by the City to supplement its annual San Fernando Basin entitlement. As of October 2004, the City had a stored water credit of approximately 286,000 acre-feet in the San Fernando Basin and approximately 6,000 acre-feet in the Sylmar Basin.

The City's entitlements in the Central and West Coast basins were also established by Judgments. The City has an annual entitlement to 15,000 acre-feet per year in the Central basin. Under the Judgment, the City can carry over up to 20 percent of its entitlement (or 3,000 acre-feet) not produced in any given year, thereby increasing its entitlement for the following year up to 18,000 acre-feet. The City uses its carry-over storage for operational flexibility.

Recharge of the San Fernando Basin is accomplished by return flow credits and spreading native water at groundwater spreading ground facilities. Because the ULARA basins rely on native water for recharge, groundwater producers are not required to provide replenishment water. The City only recently started participating in Metropolitan's Replenishment program. Its average certified replenishment in-lieu deliveries for the two most recent fiscal years are 24,972 acre-feet. The Water Replenishment District manages recharge of the Central basin.

Proposal

The proposed rate for water sold under the Supplemental Storage Program is \$254 per acre-foot for treated in-lieu deliveries in 2005/06, as approved by the Board in October 2005.

As more fully described in the principles for a letter agreement included in [Attachment 1](#), in exchange for the lower rate:

- For a period of up to five years, Metropolitan would be able to call upon LADWP to increase its groundwater production as much as 10,000 acre-feet above its Annual Operating Plan for the ULARA and Central basins. Metropolitan would have the right to ask for increased pumping until September 30 of each year, providing Metropolitan with the opportunity to assess water supply conditions before making a call on this water.
- If LADWP declines to perform or pumping does not achieve the target levels, the water will be repriced at the applicable Tier 2 Full Service rate in effect at the time the water is called.
- The Supplemental Storage Program water would be delivered in-lieu and the deliveries to LADWP are fully interruptible.
- Metropolitan will not reimburse LADWP for any operations and maintenance or electric costs associated with a call on the Supplemental Storage Program water.
- There are no basin losses or storage fees on the Supplemental Storage Program water.
- Metropolitan would work through an Operating Committee, which will be established, to coordinate, reconcile and manage the program.

This program provides regional benefits to other member agencies as well as benefits to LADWP. The regional benefit is the ability to deliver water in a surplus supply year for use in a future dry year. The local benefit is the ability to move more water into the basin today, increasing basin levels at a favorable cost.

Policy

Metropolitan Water District Administrative Code Section 4206: Carryover Storage

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed actions involve the storage of supplemental water at the ULARA and Central basins involving negligible or no expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed actions qualify under a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspects of the Supplemental Storage Program agreement with LADWP are not subject to CEQA because they involve 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 CEQA determination is: Determine that pursuant to CEQA, the proposed actions qualify under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspect of the Supplemental Storage Program agreement is not subject to CEQA (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to execute an agreement with LADWP to purchase and store water under the Supplemental Storage Program based on the principles in [Attachment 1](#).

Fiscal Impact: Approximately \$5.1 million in additional sales revenue if 20,000 acre-feet of water is stored at the Supplemental Storage Rate

Option #2

Do not authorize the Chief Executive Officer to execute a supplemental storage agreement with LADWP, and direct staff to modify the proposal.

Fiscal Impact: Fiscal impact would depend on resulting changes.

Staff Recommendation


Option #1



Brian G. Thomas
Chief Financial Officer

11/17/2005

Date



Debra C. Man
Interim CEO/General Manager

11/21/2005

Date

Attachment 1 – Principles for a Letter Agreement between Metropolitan Water District of Southern California and City of Los Angeles Department of Water and Power

**PRINCIPLES FOR A LETTER AGREEMENT BETWEEN
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AND
CITY OF LOS ANGELES DEPARTMENT OF WATER AND POWER
FOR A 2005-2006 SUPPLEMENTAL STORAGE PROGRAM**

- 1. Minimum Purchase.** Supplemental Storage Program water will not be available pursuant to the agreement unless LADWP purchases at least 24,972 acre-feet of water during fiscal year 2005/06 under Metropolitan's Replenishment Program at board-approved Replenishment Rates to the extent that Metropolitan makes available such supplies. These purchases may be made via direct or in-lieu means.
- 2. Supplemental Storage Program Purchases.** All additional in-lieu purchases for groundwater storage by LADWP (in excess of the minimum purchase required by Section 1 and minimum delivery required by Section 8) shall be made at the Supplemental Storage Program Rate of \$254/acre-foot, up to a maximum of 20,000 acre-feet. This rate shall be effective for all in-lieu groundwater storage purchases made during the fiscal year beginning on July 1, 2005 and ending on June 30, 2006, provided the minimum Replenishment Program deliveries required by Section 1 have been accomplished. LADWP will be invoiced for delivery of Supplemental Storage Program water, including any applicable Supplemental Storage Program credits first applied against Treated Water purchases and reconciliation adjustments. If LADWP has not made the minimum purchases required by Section 1, no water will be delivered to LADWP pursuant to the agreement at the Supplemental Storage Program Rate and the agreement will automatically terminate. Total Replenishment Program and Supplemental Storage Program water purchases shall not exceed LADWP's extraction right during this year for the Upper Los Angeles River Area ("ULARA") basin and shall not exceed carryover rights in the Central Basin or the terms of an approved storage and extraction agreement with the Water Replenishment District of Southern California in Central Basin.
- 3. Administrative Procedures.** Except as expressly provided in the agreement, the practices and procedures regarding Supplemental Storage Program water will be consistent with practices and procedures under Metropolitan's Administrative Code Section 4514 (Replenishment Service) and the most current Replenishment Service Handbook.
- 4. Call Provisions.** Metropolitan shall have the right to request that LADWP increase its Basin Pumping by up to 10,000 acre-feet above the greater of LADWP's extraction right or planned groundwater production as outlined in LADWP's Annual Operating Plan in any fiscal year through June 30, 2011. LADWP shall complete and submit its Annual Operating Plan for the upcoming fiscal year to Metropolitan not later than May 1 of each year for both the Central and ULARA basins. This request shall be made after May 15, but no later than September 30 of each year. In no case shall Metropolitan's cumulative requests be for more than the amount of water purchased under the Supplemental Storage Program. During the water year, if conditions significantly change for Metropolitan after a request for an increase in Basin Pumping has been made, the Operating Committee, defined in Section 6, will convene to consider revised operations to store water. Parties will use "best efforts" to accomplish this in a timely manner.
- 5. Storage and Extraction Costs.** Metropolitan shall not be responsible for any costs related to storing water or stored water extraction, including extraction fees, basin storage fees, or basin losses.

- 6. Actual Extraction.** Actual extraction shall be reconciled by an Operating Committee, consisting of two representatives from LADWP and two representatives from Metropolitan. LADWP shall provide to the Operating Committee a report prepared by LADWP for the Watermasters in each basin detailing extractions for the year. If necessary the Operating Committee shall verify the extraction amounts using the annual reports by the appropriate Watermaster(s) and reconcile its performance assessment under the Supplemental Storage Program.
- 7. Insufficient Production.** If Metropolitan requests an increase in pumping, and LADWP does not increase pumping to the level of the request, Metropolitan shall bill LADWP, and LADWP shall pay, for all water that would have been produced at the increased pumping level requested at the bundled Treated Tier 2 Rate in effect at the time of the Call. That is, Metropolitan will bill LADWP for the difference between the then effective bundled Treated Tier 2 Rate and \$254/acre-foot.
- 8. Minimum Deliveries.** A minimum of 1,000 acre-feet of water must be purchased for groundwater storage under the Supplemental Storage Program to qualify such purchases for the Supplemental Storage Program Rate. If, after reconciliation, less than 1,000 acre-feet or additional increments of less than 1,000 acre-feet have been delivered, the amount under 1,000 acre-feet will be billed under the Replenishment Rate. Also, if less than 1,000 acre-feet of water have been delivered by June 30, 2006, which means that no water was stored under the Supplemental Storage Program, the agreement automatically terminates on July 1, 2006; provided that Sections 3, 5, 14, and 15 shall remain in force notwithstanding termination and any water delivered under the agreement will be credited to the Replenishment Program and billed accordingly.
- 9. Term of Call.** Metropolitan shall retain the right to call for an increase in pumping for a period of five years, beginning May 2007 and ending June 30, 2011, with such increase to be effective for the following fiscal year. If Metropolitan makes a call by June 30, 2011 for extraction of stored water during fiscal year 2011/12, the provisions in the Agreement are effective until June 30, 2012. If Metropolitan does not make a call for extraction of stored water by June 30, 2011, the agreement automatically terminates; provided that Sections 3, 5, 14, and 15 shall remain in force notwithstanding termination.
- 10. Record-keeping.** LADWP shall maintain records of the balance of water purchased under the Supplemental Storage Program and those amounts called. Records shall be confirmed by Metropolitan on an annual basis. The Operating Committee, established pursuant to Section 6, shall monitor and manage the Supplemental Storage Program. Reconciliation of all amounts stored and called under the Supplemental Storage Program shall be completed by the Operating Committee.
- 11. One-year Storage Program.** It is recognized that the storage component of the agreement is a one-year program, and that deliveries of Supplemental Storage Program water will not be available beyond June 30, 2006.
- 12. No Obligation to Call.** Metropolitan is under no obligation to call for an increase in pumping. But, Metropolitan has the ability to call for an increase in pumping in any year for any reason for a period of five years ending June 30, 2011, so long as that increase in pumping does not exceed the balance of water delivered under the Supplemental Storage Program. Metropolitan shall have no right to make a call after June 30, 2011 on any water remaining in the Supplemental Storage Program.
- 13. Coordination.** The Supplemental Storage Program will be coordinated with the Groundwater Producer operating plans that are developed annually to determine potential in-lieu deliveries.

- 14. Metropolitan's Administrative Code.** Except as otherwise expressly provided in the agreement, nothing in the Agreement shall alter, amend or supersede any terms, conditions provisions or practices of delivery by Metropolitan to LADWP pursuant to Metropolitan's Administrative Code or LADWP's service connection agreement with Metropolitan, both of which shall continue to apply.
- 15. Indemnification.** In addition to Administrative Code § 4502, the District, its officers, agents and employees shall not be liable for any impacts to the groundwater basin or to persons or entities using the groundwater basin alleged to have been caused by any groundwater operations by LADWP, and LADWP shall indemnify and hold harmless the District and its officers, agents and employees from any such damages or claims of damages. LADWP also shall indemnify, defend and hold harmless the District and its officers, agents and employees from any claims or disputes between LADWP and the Watermasters for the ULARA and Central groundwater basins arising from LADWP's groundwater operations.