

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

November 14, 2006 Board Meeting

7-6

Subject

Authorize amendments to water exchange agreements with Coachella Valley Water District and Desert Water Agency

Description

This letter seeks authority to amend the water exchange agreements between Metropolitan Water District of Southern California, Desert Water Agency (Desert), and Coachella Valley Water District (Coachella) to provide additional operational benefits for the parties. The amendments would benefit Desert and Coachella by allowing them, under certain conditions, to exchange increased amounts of State Water Project supplies with Metropolitan. The amendments would benefit Metropolitan by increasing its existing storage capacity and recovery capability in the Upper Coachella Valley groundwater basin.

Background

Desert and Coachella are State Water Project contractors that, because of their remote locations, did not build a physical connection to the East Branch of the State Water Project. In 1972, in lieu of a State Water Project connection, the two agencies entered into an exchange agreement with Metropolitan to deliver their SWP supplies to Metropolitan in exchange for a like amount of Colorado River water. Any party could terminate the exchange agreement upon five years written notice. This five-year period was agreed to because it was believed at the time that Desert and Coachella could build a physical connection to the SWP in that time frame. In 1983, the agreement was amended to allow Metropolitan to deliver Colorado River water to Desert and Coachella in advance of receiving SWP supplies. This advanced delivery provision became a storage account for Metropolitan with a capacity of 600,000 acre-feet. Finally, in 2003, the exchange agreement was amended which allowed for the transfer of 100,000 acre-feet of Metropolitan's SWP contracted amount (Table A water) to Desert and Coachella, with the provision that Metropolitan could call back the transferred water in years when Metropolitan needed the additional supply. As a result, Desert and Coachella become responsible for approximately \$18 million of annual SWP capital and operating costs for the 100,000 acre-feet, with Metropolitan reimbursing those costs when it exercises its callback provision.

Due to the loss of surplus Colorado River supplies in 2003 and the fact that the Quantification Settlement Agreement transfers were in their infancy, the 2003 agreement amendments included interim operating criteria, effective through 2009, designed to protect Metropolitan from exchanging more Colorado River water than it needs to meet operational blending requirements. These criteria include a cap on the amount of SWP water that Metropolitan would be obligated to exchange in any year, and the ability for Metropolitan to temporarily borrow water from Desert and Coachella, if needed to meet its operational goals. In addition, an operating committee was established among the agencies to coordinate water supply operations among the agencies. This interim operating criteria helped Metropolitan meet water quality requirements and maintain water storage.

With the implementation of the SWP transfer agreement, Desert and Coachella's current contracted amount of SWP supplies is 171,100 acre-feet in any one year, although 100,000 acre-feet of that amount is subject to being recalled by Metropolitan. Desert and Coachella have plans to purchase additional SWP supplies to meet their water management planning goals. The proposed amendments to the exchange agreement would allow Desert and Coachella to increase the amount of water they exchange with Metropolitan to a maximum of 216,000 acre-feet per year beginning in 2010. To help provide Metropolitan the operational flexibility to implement the larger exchange program, the Advanced Delivery Storage Account limit would be increased over

time to a maximum of 800,000 acre-feet. Metropolitan would continue to store water in the account at no cost nor incur any storage losses.

Proposed Amendments

While the proposed amendments would not take effect until 2010, Desert and Coachella desire to execute the amendments in 2006 in order to demonstrate additional future water supplies in their water reliability assessment reports. The proposed amendments to the exchange agreement are as follows:

- The term of the amendments would be from 2010 through 2035;
- Metropolitan would agree to exchange up to a maximum of 216,000 acre-feet per year of State project water with Colorado River water; however, in any year Metropolitan has the right to recall up to 100,000 acre-feet of SWP Table A allocated water;
- Desert and Coachella would agree to schedule deliveries of exchanged Colorado River water to its service area, and accepts the responsibility if it cannot take deliveries of scheduled water;
- The storage capacity in the Advanced Delivery Account for Metropolitan would increase in phases from 600,000 acre-feet to a maximum of 800,000 acre-feet;
- Any new turnout facilities requested by Desert and Coachella along the Colorado River Aqueduct would require a subsequent agreement;
- The termination clause in the exchange agreement would be extended from five years to ten years; however, in the unlikely event that the Quantification Settlement Agreement transfer programs do not develop as planned, the termination clause would revert to five years.

The remaining terms of the exchange agreement, as amended, would remain in full force and effect.

Policy

By Minute Item 45550, dated Oct. 5, 2003, the Board approved the State Water Project entitlement (Table A water) transfer to Desert Water Agency and Coachella Valley Water District.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, the Coachella Valley Water District, acting as lead agency, prepared and processed an initial environmental study and negative declaration for the establishment of the advance delivery program within the framework of the existing exchange agreement and construction of related facilities. The negative declaration was approved by the lead agency on July 26, 1983. On August 17, 1983, Metropolitan, acting as a responsible agency under CEQA, certified that it had reviewed and considered the information in the approved negative declaration. With the current board action, there are no substantial changes proposed to the program. Hence, the previous environmental documentation in conjunction with the program fully complies with CEQA and the State CEQA Guidelines. Accordingly, no further CEQA documentation is necessary for the Board to act with regards to the proposed action.

Furthermore, the proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. In particular, the proposed action consists of the negligible expansion of use of existing facilities beyond that existing at the time of the lead agency's determination. In addition, it will not have a significant effect on the environment. Accordingly, this proposed action qualifies as a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action has been previously addressed in the approved negative declaration and that no further environmental analysis or documentation is required, and that the proposed action qualifies under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize the General Manager to enter into amendments to the exchange agreements with Desert and Coachella as described in this letter.

Fiscal Impact: None

Business Analysis: The proposed amendments would help meet Metropolitan's Colorado River storage goals and provide additional dry-year supplies at no additional cost.

Option #2

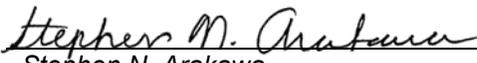
Do not approve proposed amendments and instruct staff to negotiate a different contract amendment.

Fiscal Impact: None

Business Analysis: Metropolitan would pursue other water management programs in accordance with its Integrated Water Resources Plan.

Staff Recommendation

Option #1



Stephen N. Arakawa
Manager, Water Resource Management

10/23/2006

Date



Jeffrey Kightlinger
General Manager

10/24/2006

Date

BLA #4774