

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

March 13, 2007 Board Meeting

8-10

Subject

Authorize amending the water management program agreement with Kern Delta Water District to improve water supply reliability and water quality

Description

Summary

The Board is requested to authorize the General Manager to amend the Water Management Program Agreement (Program) with the Kern Delta Water District (Kern Delta) that was originally entered into on May 27, 2003. The original agreement established a partnership between the two districts to coordinate the use of resources and facilities. Recently Metropolitan has learned that the program costs have increased as a result of rising land costs and Cross Valley Canal construction costs. Metropolitan now has the decision to either increase program funding to cover the capital shortfall or to optimize the Program within the original capital costs.

Recommendation

Metropolitan can make the existing Program more cost effective and increase the program yield by amending the agreement while keeping within the original capital costs. By optimizing certain key elements and extending the term an additional six years, the amended agreement would further improve Metropolitan's water supply reliability and contribute toward the implementation of the Integrated Resources Plan. With the proposed amendment, over the life of the program, it is estimated that there will be an increase in yield of 50 thousand acre-feet (TAF) at an increased extraction cost of about \$5.3 million. The capital cost and payment terms for extraction of stored water will remain unchanged. The specific program principles are discussed in

[Attachment 1](#).

Background

The Program consists of several components, including a storage and delivery system, exchange of supplies, and supplying water to Metropolitan. Metropolitan would store its available SWP water in a storage account of 250 TAF within the groundwater basin underlying Kern Delta. At Metropolitan's call, Kern Delta would return a minimum of 50 TAF of water to Metropolitan in a given year. Water would be returned to Metropolitan through the following: (1) an exchange of stored water for SWP water in the California Aqueduct, (2) an exchange of stored water for other surface water and groundwater supplies deliverable to the California Aqueduct, and (3) the recovery of stored water directly from the Kern Delta groundwater basin and deliverable to the California Aqueduct. In addition, Metropolitan has transportation rights to move water through the Kern Delta Facilities to facilitate water transfers. The original storage Program was to be implemented over a 25-year term.

The original capital construction budget would not change under the amendment and most of the payment terms would remain the same. However, instead of making the minimum payments specified under the original Program, Metropolitan would pay the actual cost of construction. The new approach is similar to the method currently used for conjunctive use programs within Metropolitan's service area. Kern Delta would then eliminate the \$105 per acre-foot payment to store ("put") the first 250 TAF of water. There would still be a payment of \$40 per acre-foot to extract the supplies. After the initial 250 TAF of water have been stored, the Program cost would be \$90 per acre-foot (\$50 per acre-foot for put and \$40 per acre-foot for extraction). Metropolitan would adjust these payments based on inflation factors and pay the actual operation, maintenance and power costs for the Program facilities as per the original Program.

Metropolitan and Kern Delta have jointly developed a strategy to manage the projected cost increases while improving the overall yield of the Program. By reducing the most expensive program elements and extending the program term an additional six years, Metropolitan can maintain reliability and improve the expected dry-year yield from the Program. Kern Delta can manage its costs by reducing the spreading facilities from 50 TAF per year down to 30 TAF per year and changing the first priority rights on the Cross Valley Canal from 200 cfs to 100 cfs. To minimize the impacts of these reductions, Kern Delta and Metropolitan have agreed to operate the Program to complete the initial fill of 250 TAF within the next ten years. Although a reduction of the put and Cross Valley Canal capacities will impact the ability to store water, the extension of the program term an additional six years provides for increased program operation. Metropolitan also has priority access to additional capacity when available. The net result of the amendment will be an improvement to the Program's operational dry-year yield.

Policy

By Minute Item 44394, dated March 13, 2001, the Board authorized entering into Principles of Agreement with the Kern Delta Water District and to proceed with environmental studies and final negotiations on a dry-year supply program.

By Minute Item 45082, dated November 19, 2002, the Board authorized the General Manager to enter into a Program Agreement with Kern Delta.

Metropolitan Water District Administrative Code Section 4203: Metropolitan will vigorously pursue the development of water transfers to meet its public water supply objectives in the future.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, Kern Delta Water District (Kern Delta), acting as Lead Agency, prepared and processed a Final Environmental Impact Report (Final EIR) for the proposed project. The Final EIR was certified and the project was approved by the Lead Agency on November 12, 2002. The Lead Agency also approved the Findings of Fact, the Statement of Overriding Considerations (SOC) and the Mitigation Monitoring and Reporting Program (MMRP). On November 19, 2002, Metropolitan, acting as a Responsible Agency under CEQA, certified that it has reviewed and considered the information in the certified Final EIR and adopted the Lead Agency's findings, SOC and MMRP. The current board action is based solely on amending the Water Management Program Agreement with Kern Delta in order to manage projected cost increases while improving yield in accordance with the provisions of the Final EIR. Hence, the previous environmental documentation acted on by the Board in conjunction with the proposed action fully complies with CEQA and the State CEQA Guidelines. Accordingly, no further CEQA documentation is necessary for the Board to act on the proposed action.

The CEQA determination is: Determine that the proposed action has been previously addressed in the certified 2002 Final EIR along with the adopted findings, SOC and MMRP and that no further environmental analysis or documentation is required.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize the General Manager to amend the Program agreement with Kern Delta based on the contractual principles of this letter, all in a form approved by the General Counsel.

Fiscal Impact: Increased expenditures are estimated at \$5.3 million plus inflation adjustments attributable to the increased production during the six-year extension.

Business Analysis: Approval will improve dry-year reliability, cost-effectiveness, and contribute toward the implementation of the Integrated Resources Plan.

**Metropolitan/Kern Delta Water Management Program
Proposed Principles**

PRINCIPLE	DESCRIPTION
I. Cross Valley Canal Capacity	Metropolitan will accept first priority right to 100 cfs in the expanded Cross Valley Canal so long as Metropolitan has priority access to the remaining 100 cfs, as the capacity becomes available.
II. Put Capacity	Kern Delta will provide Metropolitan a minimum of 30,000 acre-feet per year within the original capital budget. Within the next ten years, Kern Delta and Metropolitan will operate the program to complete the initial fill of 250,000 acre-feet given the available facility capacity and supply conditions.
III. Take Capacity	Metropolitan has the right to utilize all actual program take capacity, at a minimum of 50,000 acre-feet per year.
IV. Agreement Term	The term of the Regulation Program shall be extended to the same date utilized as the term of the Transportation Program – November 4, 2035
V. Minimum Payments	The minimum payments will not exceed the original amount of program construction or facility costs. Upon request, Kern Delta will provide the construction schedule, budget projections, and trust bank account balances to Metropolitan. The minimum payments will be structured according to the projected budget and the trust bank account balance.
VI. Future Program Expansion	Metropolitan has the first consideration for future program expansion.