

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

November 20, 2007 Board Meeting

8-12

Subject

Authorize agreement with California Department of Water Resources to purchase water transfer supplies from Yuba County Water Agency

Description

The Board is requested to authorize the General Manager to enter into an agreement with the California Department of Water Resources (DWR) to purchase water transfer supplies from Yuba County Water Agency (YCWA). The agreement would provide Metropolitan with an assured purchase of 13,750 acre-feet up to 35,000 acre-feet per year of water supplies in dry years over the next 18 years. Additional water may be available for option purchases depending on the year type. The purchase prices range from \$50 to \$125 per acre-foot. Since the water would be purchased from the Sacramento Valley, Delta conveyance losses would be applied, which are estimated at 20 percent. The amount and price of water in any year would depend on the year type, buyer participation and the amount of optional water Metropolitan purchases.

YCWA has been involved in a State Water Resources Control Board (SWRCB) proceeding in which it may be required to increase Yuba River fishery flows. As part of a comprehensive settlement, referred to as the "Yuba River Accord" (Accord), YCWA approached Metropolitan, other water contractors, DWR and the United States Bureau of Reclamation (USBR) to discuss selling a portion of the water it would be required to release, plus additional water made available by reoperation of YCWA's storage reservoirs and groundwater substitution. YCWA plans to present the Accord to the SWRCB for its approval at hearings beginning December 5, 2007.

The Accord's transfer component is comprised of three agreements, which would be operative between 2008-2025. The first agreement would be executed by YCWA, DWR and USBR to define the terms for the sale of water from YCWA to DWR and USBR. A second agreement would be executed by DWR and USBR to define the division of transfer water between DWR and USBR, which staff anticipates would be divided equally. Finally, a third agreement, which is the subject of this board letter, would be executed by DWR and its contractors to define how the water purchased by DWR would be distributed among participating State Water Project (SWP) contractors.

YCWA would make the following transfer water available to DWR and USBR:

- **Component 1 Water** - 60,000 acre-feet each year for the Environmental Water Account using Proposition 50 bond funding to compensate the SWP and Central Valley Project for export reductions due to the Wanger Decision or other future regulatory decisions.
- **Component 2 Water** - 15,000 acre-feet in dry years at \$75 per acre-foot and 30,000 acre-feet in critical years at \$93.75 per acre-foot. (Year type, as used herein, is based on the Sacramento Valley Water Year Hydrologic Classification adopted in the SWRCB's Decision 1641.) DWR would be required to purchase this water.
- **Component 3 Water** - 40,000 acre-feet of water in low SWP allocation years at prices ranging from \$50 to \$125 per acre-foot. DWR would be required to purchase this water when the April 21 SWP allocation is 40 percent or lower and would have the option to purchase this water when the April 21 SWP allocation is above 40 percent and below 60 percent.

- **Component 4 Water** - Up to 70,000 acre-feet of additional water for additional optional purchases at \$50 to \$125 per acre-foot depending on Sacramento River hydrology.

Since DWR would be required to pay for Component 2 Water in critical and dry years and Component 3 Water in years when the April 21 SWP allocation is 40 percent or lower, at least one SWP contractor must sign an agreement with DWR committing to buy the YCWA water as an assured purchase. If Metropolitan enters into this agreement with DWR, Metropolitan's likely share of assured YCWA transfer water would be at least 13,750 acre-feet in dry years and up to 35,000 acre-feet or more in other years at a cost of between \$50 and \$125 per acre-foot depending on year type, buyer participation and the amount of optional Components 3 and 4 Water Metropolitan purchases. Unlike most water purchase contracts, Metropolitan would only be required to pay for this water purchase in dry and critical years when the water is received south of the Delta. The purchase of optional Components 3 and 4 Water would be subject to Delta pumping restrictions and Metropolitan would need to consider whether sufficient Delta pumping capacity exists before purchasing these transfer supplies. SWP contractors signing agreements with DWR would be allowed to request a share of the water made available. If more water is requested than is available, it will be allocated according to Table A amounts, providing Metropolitan with at least 48 percent of the water made available to SWP contractors. The SWP contractors will be able to convey their share of the YCWA water under the same terms and for the same costs as are applied to conveyance of transfer water bought by individual contractors under the Monterey Agreement.

Staff recommends that Metropolitan enter into an agreement with DWR to purchase YCWA transfer supplies, which would provide additional resource options to mitigate potential future dry-year conditions, consistent with Metropolitan's Integrated Resources Plan. Even if no other SWP contractors sign similar agreements with DWR, Metropolitan most certainly would be able to use the 35,000 acre-feet that DWR must purchase in critical years and the 27,500 acre-feet that DWR must purchase in dry years at melded costs of roughly \$90 to \$112 per acre-foot. Signing the agreement also would give Metropolitan the option to buy additional water in many years at costs ranging from \$50 per acre-foot in above normal years to \$125 per acre-foot in critical years.

Policy

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

California Environmental Quality Act (CEQA)

CEQA determination for Option #1 and Option #2:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, the Yuba County Water agency (YCWA), acting as Lead Agency, prepared and processed a Final Environmental Impact Report (Final EIR) for the Lower Yuba River Accord (SCH No. 2005062111). The Final EIR was certified and the project was approved by the Lead Agency on October 23, 2007. The Lead Agency also approved the Findings of Fact, the Statement of Overriding Considerations, and the Mitigation Monitoring and Reporting Program (MMRP). Metropolitan, as a Responsible Agency under CEQA, is required to certify that it has reviewed and considered the information in the certified Final EIR and adopt the Lead Agency's findings, SOC, and MMRP prior to approval of the formal terms and conditions for the proposed DWR-Metropolitan water transfer agreement. The environmental documentation is available in the Executive Secretary's Office for review.

The CEQA determination is: Review and consider information provided in the certified 2007 Final EIR and adopt the Lead Agency's findings, SOC, and MMRP related to the transfer agreement.

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize the General Manager to enter into an agreement with DWR to purchase YCWA Components 2, 3 and 4 Water.

Fiscal Impact: Fiscal impacts will vary depending upon year type, buyer participation and the amount of optional water Metropolitan purchases. In the most extreme example, assuming the driest year type and no other buyers participating, Metropolitan would purchase 30,000 AF of Component 2 Water at \$93 per acre-foot (\$2,790,000), 40,000 acre-feet of Component 3 Water at \$125 per acre-foot (\$5,000,000), and 70,000 acre-feet of Component 4 Water at \$125 per acre-foot (\$8,750,000) for a maximum purchase price of \$16,540,000 per year. Under a more realistic example, assuming a critical year and anticipated high levels of participation by other buyers, Metropolitan would purchase 13,750 acre-feet of Component 2 and 3 Water at \$93 per acre-foot (\$1,278,750) and 17,500 acre-feet of Component 4 Water at \$125 per acre-foot (\$2,187,500) for a total purchase price of \$3,466,250 per year.

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

Option #2

Adopt the CEQA determination and authorize the General Manager to enter into an agreement with DWR to purchase YCWA Component 2 Water and the portion of Component 3 Water that is not optional. Require staff to return to the Board on an annual basis to purchase the optional Component 3 and 4 Water.

Fiscal Impact: Same as Option 1

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

Option #3

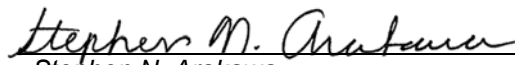
Do not authorize agreement with DWR.

Fiscal Impact: No increased costs

Business Analysis: Not entering into an agreement with DWR to purchase YCWA transfer supplies could result in a lost water supply opportunity.

Staff Recommendation

Option #1. This would provide staff with the greatest flexibility to act in a timely manner to secure the maximum amount of low cost optional Components 3 and 4 Water.


 Stephen N. Arakawa
 Manager, Water Resources Management

11/8/2007
 Date


 Jeffrey Kightlinger
 General Manager

11/8/2007
 Date