

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

March 11, 2008 Board Meeting

9-3

Subject

Review funding agreement terms for Drop 2 reservoir for Colorado River supplies

Description

This board letter reviews the terms and conditions of a funding agreement for the proposed Lower Colorado River Drop 2 Storage Reservoir to be constructed adjacent to the All-American Canal in Imperial County, California. Metropolitan has the opportunity to acquire 100,000 acre-feet of Colorado River supplies by partially funding construction that would be accomplished by the Bureau of Reclamation if it provides formal notification to do so by May 1, 2008. In return for a \$28.7 million payment, Metropolitan would receive 100,000 acre-feet of Colorado River water.

Available Water Supply

In December 2007, the Secretary of the Interior established new guidelines for operation of the Colorado River system. Those guidelines include the ability for agencies to create and store new water supplies, known as “Intentionally Created Surplus” (ICS). One of the methods that ICS can be created is through developing and funding system efficiency projects – projects that conserve or more efficiently manage existing Colorado River supplies for the benefit of all of the states. The Drop 2 Reservoir project qualifies as ICS, and a portion of the water saved would be made available to entities funding the project. Metropolitan would receive the ICS credit upon payment regardless of any potential construction delays.

The Drop 2 Reservoir is located near the All-American Canal in Imperial County, California ([Attachment 1](#)). The planned storage capacity of the reservoir is 8,000 AF and, by cycling the storage and capturing water that would otherwise be lost, it is estimated that an average of 70,000 AF of water can be conserved annually. At the estimated capital project cost of \$172 million, Reclamation would make available 600,000 AF of water supply assigned as ICS water credits for use by the proposed funding partners: Southern Nevada Water Authority; Central Arizona Water Conservation District; and Metropolitan. The respective amounts of water are shown in the following table:

Southern Nevada Water Authority	400,000 AF
Central Arizona Water Conservation District	100,000 AF
Metropolitan Water District	100,000 AF
Total	600,000 AF

Even though the reservoir is not estimated to be completed until 2010, Metropolitan would be able to begin recovering its ICS credits as early as 2008.

Funding Agreement

The Southern Nevada Water Authority, Colorado River Commission of Nevada and Reclamation entered into an agreement in 2007 to fund and construct the Drop 2 Reservoir. The total capital cost is estimated at \$172 million. Southern Nevada Water Authority made an initial payment to Reclamation for its capital contribution in the amount of \$10 million for construction, and expects to make full payment by April 4, 2008. If needed, the Southern Nevada Water Authority would increase its payment to as much as \$206 million to cover any potential cost overruns. The funding agreement allows up to 200,000 AF of the total ICS water credits made available by

Reclamation to be shared equally between Metropolitan and Central Arizona Water Conservation District should they elect to participate. Participation requires a capital contribution of \$28.7 million by each agency as a reimbursement to Southern Nevada Water Authority. Upon making the payment, there are no further approvals required to receive the water supply. Metropolitan would not be liable for cost overruns should they occur. Metropolitan would need to execute a Notice of Election to Participate by May 1, 2008 to secure the 100,000 AF ICS water credit. The Central Arizona Water Conservation District has already expressed its intent to participate.

Benefits

A maximum of 34,000 AF per year can be delivered to Metropolitan between 2008 and 2010 before construction of the Drop 2 Reservoir is completed. Only Metropolitan can recover Drop 2 ICS water supply during this period. Full delivery of the 100,000 AF is allowed by 2010 provided that the Secretary of the Interior does not declare a Colorado River shortage during that time period, which is unlikely given current reservoir conditions. Metropolitan may defer recovering the ICS water until later years. In that event, the water would remain in Lake Mead until it is recovered and would not be subject to evaporation loss or risk of spill should reservoirs refill. Metropolitan can also elect to take the water at a later date as well.

Payment Schedule

If Metropolitan elects to participate in the funding of the project, Metropolitan’s capital contribution of \$28.7 million is due to Southern Nevada Water Authority by May 4, 2008. A 5 percent annual interest charge would be applied to any portion of Metropolitan’s capital contribution not paid by that date.

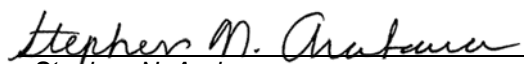
Policy

By Minute Item 43344, dated January 2, 1999, the Board recognized that the price of water will differ depending upon whether it is from supplies subject to allocation by the Federal Government or secured under other rights.

By Minute Item 47327, dated December 11, 2007, the Board adopted multiple agreements collectively referred to as the “Colorado River Agreements” including the creation of ICS credits and the ability to store water in Lake Mead.

Fiscal Impact

Potential \$28.7 million cost based on future board decision. Metropolitan’s ability to recover the 100,000 AF within the next three years or store the water in Lake Mead through 2036 at no risk of spill or loss due to evaporation provides for a unit cost of \$287 per acre-foot.

 2/27/2008
 Stephen N. Arakawa Date
 Manager, Water Resource Management

 2/28/2008
 Jeffrey Kightlinger Date
 General Manager

Attachment 1 – Location Map

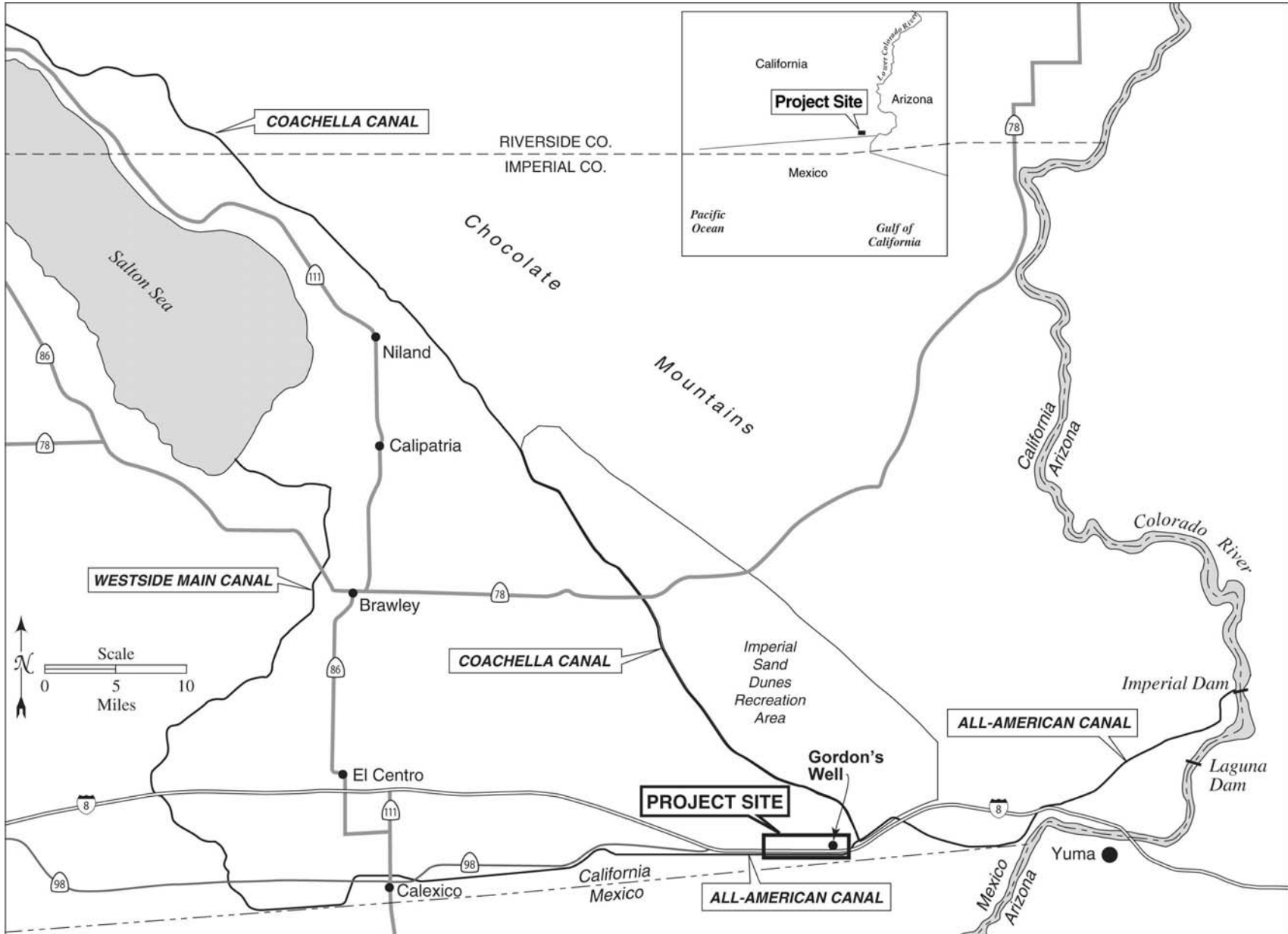


Figure ES-1. Project Location