

- Status of the Governor's 2009 Drought Water Bank

Summary

This report provides the status of the Governor's 2009 Drought Water Bank.

Detailed Report

On June 4, 2008, Governor Schwarzenegger issued Executive Order S-06-08 (Order) proclaiming a statewide drought and directing Department of Water Resources (DWR) to operate a 2009 Drought Water Bank (Bank). DWR implemented similar Banks in 1991, 1992, 2001 and 2002 which cumulatively secured over 1,000,000 acre-feet of transfer supplies, of which Metropolitan purchased over 300,000 acre-feet.

Staff believes the Bank provides an opportunity to secure 2009 water transfer supplies in a cost effective manner because this approach would:

- Provide California Environmental Quality Act and Endangered Species Act coverage;
- Encourage more sellers to participate in the water market as part of a statewide solution to address the serious drought conditions and water delivery limitations that currently exist in California; and
- Focus buyers and sellers on a single statewide program to acquire north-of-the-Delta water transfer supplies on a willing partner basis consistent with the Governor's Order.

Since the Order was issued, Metropolitan has worked closely with DWR to develop the Bank. Specifically, Metropolitan is participating on DWR's Water Acquisition Team, which has initiated discussions with potential sellers. Further, Metropolitan is assisting DWR with developing the initial term sheet, the requirements for Bank participation and critical needs criteria. While many details are still under discussion, the following is a brief report on key Bank developments.

- DWR will serve as the clearinghouse for all Bank transactions. DWR will enter into agreements with sellers to purchase Bank supplies and agreements with buyers to sell Bank supplies. This approach is similar to DWR's role in securing and distributing Yuba Accord transfer supplies and its role in previous Banks.
- The agreements with sellers will be option agreements, whereby buyers pay a smaller upfront payment for the right to purchase the water at a later date. Buyers will be able to assume other buyers options if they become available.
- Buyers are expected to have and implement an adopted water management plan including conservation measures designed to result in a minimum 20 percent overall savings.
- A portion of the Bank supplies will be allocated based on meeting critical health and safety needs, including residential, institutional and emergency uses. To receive critical needs water, an applicant must be able to demonstrate they have less than 60 gallons-per-person-per-day available for their service area.
- The remainder of Bank supplies will be available to the Bank participants, primarily State Water Project and Central Valley Project contractors purchasing Bank supplies on behalf of their members. The buyers would commit to use the Bank exclusively for all 2009 one-year, north-of-the-Delta water transfers.
- DWR's current operational studies indicate that there is a 50 percent chance that there will be capacity at the SWP's Banks Pumping Plant to convey Bank supplies. If the winter 2008-09 hydrology ranges from average to relatively wet, export capacity may be limited to deliver Bank supplies. If Metropolitan is unable to receive some or all of its Bank supplies, these supplies may be stored in upstream reservoirs for delivery next year, but will be subject to spilling depending on the hydrologic conditions of 2009-10.

Board Report (Status of the Governor's 2009 Drought Water Bank)

Following are key Bank milestones.

- October 15, 2008 – Deadline for buyers to notify DWR of the amount of water they are interested in pursuing under the Bank. No financial commitments are necessary.
- November 1, 2008 – Deadline for sellers to notify DWR of their interest to participate in the Bank and the amount of water they could sell the Bank under acceptable financial terms.
- Early December 2008 – DWR will finalize Bank environmental documentation and collect an initial payment of \$75/AF from buyers (\$5/AF is a non-refundable payment for administrative costs and \$70/AF is a deposit towards the cost of the water, including any initial option payment).
- January- March 2009 – DWR will conclude negotiations, enter into seller agreements, collect remaining money from buyers, and make option payments to sellers.
- April-May 2009 – Deadline for buyers decision to purchase water.
- May-September 2009 – Sellers deliver Bank supplies.

Metropolitan's staff will continue to work with DWR to ensure the Bank is developed in a manner which provides the greatest opportunity for Metropolitan to secure 2009 water transfer supplies for its member agencies. Metropolitan currently anticipates requesting 300,000 AF of Bank supplies, however, Metropolitan will not know if the Bank will be able to meet this request until more is known about buyer and seller participation, which will be greatly affected by future water supply conditions and price. DWR management has conveyed its strong preference for member agencies of SWP and CVP contractors to pursue 2009 north-of-the-Delta transfer supplies through SWP and CVP contactors rather than competing with the Bank.