



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

February 10, 2009 Board Meeting

8-5

Subject

Authorize principles to allocate a portion of Metropolitan's Governor's 2009 Drought Water Bank supplies to individual member agencies

Description

This month, staff is seeking authority to pursue up to 300,000 acre-feet (AF) of transfer supplies via the Governor's 2009 Drought Water Bank (Bank). At this time, it is unclear how much Bank water Metropolitan will be able to purchase. Key factors affecting the amount of Bank water Metropolitan will secure are price, environmental permitting and regulatory requirements, seller's interest, and hydrology. The Department of Water Resources (DWR) has indicated its desire for member agencies of State Water Project (SWP) and Central Valley Project (CVP) contractors to pursue 2009 north-of-the-Delta transfer supplies through SWP and CVP contractors participating in the Bank, rather than in an uncoordinated manner. This approach will help ensure efficient, cost-effective implementation of the water transfer program via the Bank.

Metropolitan will distribute Bank supplies to its member agencies consistent with existing procedures for distributing Metropolitan supplies. However, if there is member agency interest, staff has worked with member agencies to implement a 2009 Bank Pilot Project (Pilot Project) that would dedicate up to 20 percent of Metropolitan's acquired Bank supplies to specific member agencies consistent with the following principles:

Principles

- Member agencies would pay Metropolitan the full purchase price that Metropolitan pays for Bank water. Metropolitan would invoice member agencies immediately after Metropolitan makes payments to DWR for Bank water. It is anticipated that Metropolitan will pay DWR an initial payment of \$75/AF in February 2009 (\$5/AF nonrefundable administrative fee and a \$70/AF water purchase deposit) and the remaining purchase payment in 2009, as water is delivered.
- Member agencies would enter into a wheeling agreement with Metropolitan that would include Metropolitan's charges for wheeling the Bank water as specified in Metropolitan's Administrative Code Section 4405(b).
- Bank supplies that Metropolitan is securing for specific member agencies would incur the full risk of losses (e.g., carriage and conveyance losses) on the same basis as Bank supplies that Metropolitan is securing for all of its member agencies.
- Metropolitan would not carry over Bank water in Metropolitan facilities on behalf of member agencies and member agencies must be able to take delivery of Bank water for use in their service area in 2009.
- To the extent DWR stores Bank water in SWP facilities beyond 2009, Metropolitan would assume ownership of all Bank water, and Metropolitan would reimburse the member agencies' Bank water purchase costs.
- The Bank water could be considered and accounted for as an "Extraordinary Increased Production Adjustment" in the year the water is delivered for the purposes of the Water Supply Allocation Plan adopted by Metropolitan's Board on February 12, 2008.

- If Bank supplies provided under the Pilot Project are less than member agency requests, Bank supplies will be allocated based on the percentage of individual member agencies requests to the total member agency requests.
- At the conclusion of the Pilot Project, Metropolitan and the member agencies would evaluate the effectiveness of the Pilot Project.

This proposal should provide a mechanism for individual member agencies to secure water transfer supplies in 2009 in a manner that is consistent with DWR's Bank. Further, member agencies who participate in the Pilot Project will help spread the risk that Bank supplies cannot be delivered and money spent on such supplies may be lost. Metropolitan would expend funds that would otherwise have been used on the Bank water to augment regional supplies if they are available. If these supplies result in more water delivered to Metropolitan's service area, all member agencies benefit.

Policy

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy
Metropolitan Water District Administrative Code Section 4405: Wheeling Service

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize principles to allocate a portion of Metropolitan's Governor's 2009 Drought Water Bank supplies to individual member agencies.

Fiscal Impact: If member agencies purchase 60,000 AF under the Pilot Project, this reduces Metropolitan's costs by \$16.5M and Metropolitan's revenues would be reduced by \$15M (Tier 2 Rates).

Business Analysis: Adopting these principles could eliminate the potential for individual member agencies to compete for the same water transfer supplies Metropolitan and DWR are pursuing via the Bank for all of Metropolitan's member agencies. If this results in more water being purchased, all member agencies' reliability will be greater. If this proposal results in reduced Metropolitan supplies, in exchange for individual member agency shares, nonparticipating member agencies may see a reduction in reliability.

Option #2

Do not authorize principles to allocate a portion of Metropolitan's Governor's 2009 Drought Water Bank supplies to individual member agencies.

Fiscal Impact: None

Business Analysis: Not adopting these principles could increase the potential for individual member agencies to negotiate for the same water transfer supplies Metropolitan is pursuing via the Bank for all of its member agencies.

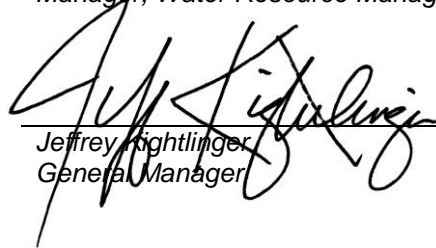
Staff Recommendation

Option #1



Stephen N. Arakawa
Manager, Water Resource Management

1/21/2009
Date



Jeffrey Lightlinger
General Manager

1/23/2009
Date