



● **Board of Directors**
Real Property and Asset Management Committee

7/13/2010 Board Meeting

8-2

Subject

Authorize staff to pursue renewable energy development for revenue generation on Metropolitan's Palo Verde mesa land through an RFP process

Description

Metropolitan purchased 16,344 acres of land from San Diego Gas & Electric Company (SDG&E) in 2001, 9,704 acres of agricultural land in the Palo Verde Valley within the Palo Verde Irrigation District (PVID), and 6,640 acres of mesa land adjacent to and west of the southern portion of PVID. The agricultural land is currently under lease for agriculture operations and is participating in the PVID fallowing program. The mesa property, which is vacant, had initially been purchased by SDG&E for a nuclear power-generating facility that was not constructed.

Metropolitan has recently received requests from various companies interested in building renewable energy facilities on Metropolitan's mesa property. As a result, staff evaluated two options for the 6,640 acres of mesa land: (1) long-term ground leasing the land to developers for future solar energy facilities; and (2) surplus and sale of the land. **Attachment 1** depicts the mesa land and approximate location of Southern California Edison transmission lines.

Leasing the property for solar energy development would generally produce 1MW per 5 acres. Lease revenue for solar projects typically derive from two sources, a low base rent, plus a percentage/royalty fee from gross revenue produced. A 20 MW facility could produce revenue in the approximate range of \$130,000 to \$150,000, while a 100 MW facility could produce revenue in the range of \$675,000 to \$785,000 annually, depending on a number of variables such as availability of alternative sites, nearby transmissions capacity, etc. Receipt of actual proposals would be necessary to determine the value of a solar lease on this proposal site. Current land value for mesa properties range from \$1,000 - \$3,000 per acre; which would produce an estimated sales price range of \$6,640,000 to \$19,920,000 in today's market.

Metropolitan is authorized by Section 131(b) of the Metropolitan Water District Act to sell water outside its boundaries to any entity for the purpose of generating electric energy that is used, directly or indirectly, within Metropolitan's service area. Therefore, Metropolitan could provide water service to this property for renewable energy use if the generator commits to selling within Metropolitan's service area. This potentially could be done through pumping groundwater on-site that is accounted for as Colorado River water. Potential water use on the property would be easier to control if it were leased rather than sold as Metropolitan could require that any lease of the property include an obligation to provide Metropolitan with replacement water supplies for any water used on the property.

Based on this evaluation, staff recommends Metropolitan move forward with the option of ground leasing the property for solar energy facility development through a competitive request for proposal process. In the long run, a leasing approach would return more revenue to Metropolitan and provide greater control of water resources.

Policy

Metropolitan Water District Administrative Code Section 8230 – Grants of Real Property Interests

Metropolitan Water District Administrative Code Section 8240-58 Disposal of Real Property

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action to pursue renewable energy development for revenue generation on Metropolitan's Palo Verde mesa land through a Request for Proposals process is not defined as a project under CEQA because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). Subsequent actions on this land, including leases, may require compliance with CEQA.

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

The proposed actions to surplus and sell Metropolitan's Palo Verde mesa land is not defined as a project under CEQA because they involve 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 actions in question may have a significant effect on the environment, the proposed actions are not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

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

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize staff to pursue renewable energy development for revenue generation on Metropolitan's Palo Verde mesa land through an RFP process.

Fiscal Impact: Ground lease revenue and possible royalties to be determined.

Business Analysis: Leasing the property for solar generation facilities has the potential to realize the highest revenue and allow Metropolitan to maintain control over the water associated with the mesa land.

Option #2

Adopt the CEQA determination and direct staff to surplus and sell the Palo Verde mesa land.

Fiscal Impact: Sale of the property could yield between \$6 million and \$19 million

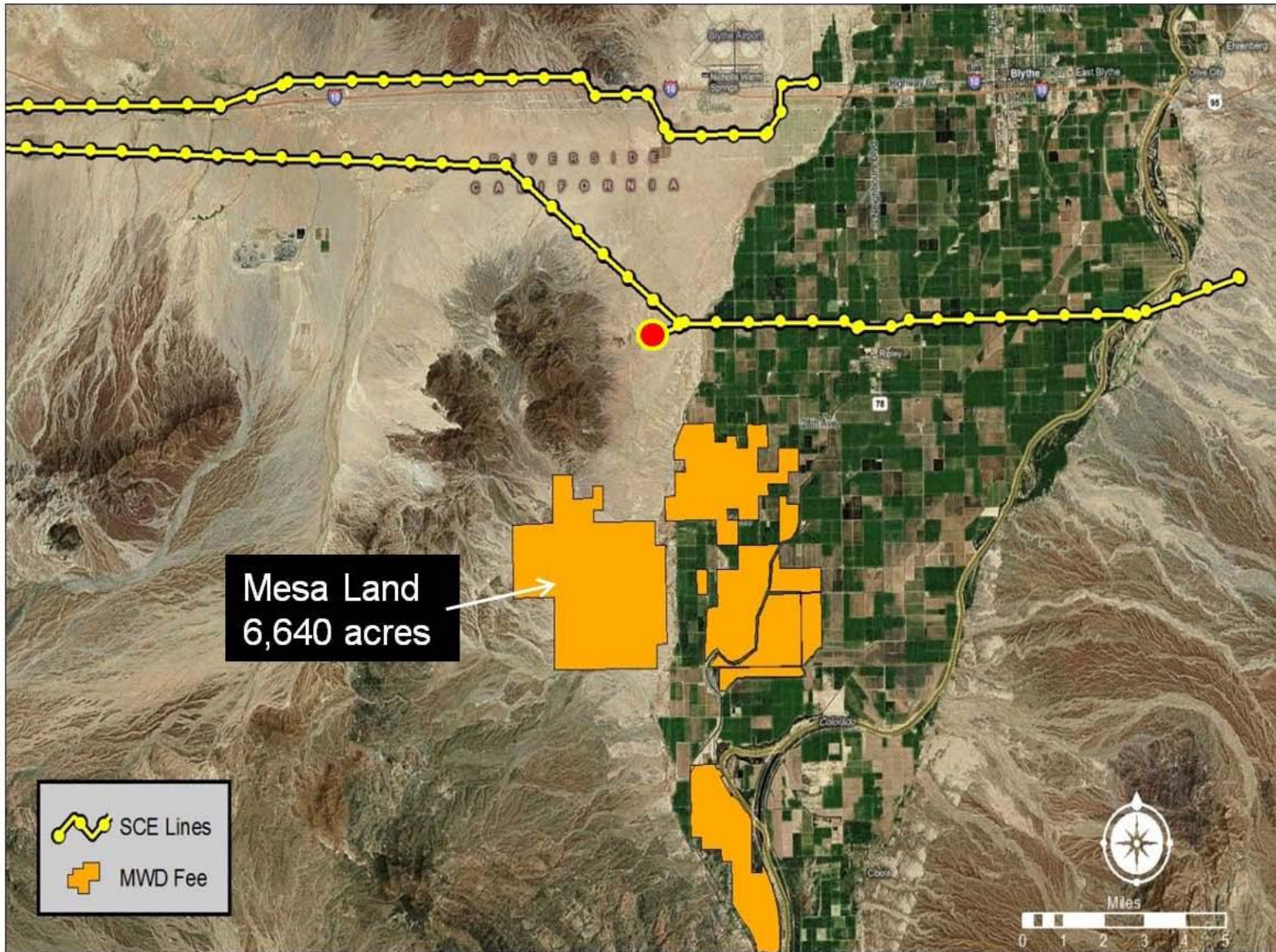
Business Analysis: Sale of the property could yield less potential revenue and result in the loss of control of the water associated with the mesa land.

Option #3

Take no action

Fiscal Impact: Forgo opportunity to generate revenue

Business Analysis: Land would remain fallow and would not produce revenue for Metropolitan.



Palo Verde Land—SCE Lines

Attachment No. 1