



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

7/13/2010 Board Meeting

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**8-7**

**Subject**

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Authorize executing an agreement with the Municipal Water District of Orange County for the delivery of water supplies from Irvine Ranch Water District's Central Valley Storage Program

**Description**

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The Municipal Water District of Orange County (MWDOC) and one of its member agencies, Irvine Ranch Water District (IRWD), have approached Metropolitan to facilitate delivery of procured supplies stored in the IRWD Strand Ranch Banking Project (Strand Ranch Project). These supplies may consist of third party water and some State Water Project (SWP) supplies. Non-SWP supplies would be transported using Metropolitan's existing wheeling policy and pay the applicable System Access Rate. The SWP supplies would only be obtained through unbalanced exchanges with State Water Contractors. As part of the unbalanced exchange, IRWD retains up to 50 percent of the stored water in exchange for regulating the supply in the Strand Ranch Project. Staff has developed agreement terms that are consistent with existing policies and the SWP contract while protecting Metropolitan's regional investment. The agreement, which would be between Metropolitan, MWDOC and IRWD, would allow the coordinated operation of the SWP supplies with a member agency storage program. The proposed agreement would not reduce Metropolitan's access to SWP supplies. As a result of the agreement, there will likely be an increase of SWP supplies into the service area.

**Existing Policy**

Metropolitan's wheeling policy permits the General Manager to make a determination of available system capacity on a case-by-case basis. Member agencies have used the wheeling service to have non-SWP supplies delivered into Metropolitan's service area. While there is no specific policy related to the delivery of SWP supplies into Metropolitan's service area, Metropolitan's SWP contract requires Metropolitan's consent prior to the Department of Water Resources (DWR) delivering SWP supplies originating from other SWP contractors to Metropolitan's service area. Under the proposed agreement, Metropolitan will retain its right to consent. The contract provision protects Metropolitan's investment in the SWP and allows Metropolitan to fully manage SWP supplies within its service area without interference.

**Strand Ranch Banking Project**

IRWD's Strand Ranch Project is located in the Central Valley west of Bakersfield. The Strand Ranch Project has the capability of storing up to 50,000 acre-feet of water. IRWD proposes to procure water to be stored in the Strand Ranch Project for later use. The agreement recommended in this letter deals with SWP water procured by IRWD through unbalanced exchanges. When IRWD secures SWP water, Metropolitan will have the option of immediately delivering the water to customers within its service area, storing it in any available reservoir capacity or storing it in IRWD's Strand Ranch Project. In return, Metropolitan would be obligated to deliver a like amount of water to MWDOC in future years for IRWD's benefit. Deliveries to MWDOC/IRWD would most likely occur in years in which Metropolitan's Water Supply Allocation Plan (WSAP) is triggered, and would be limited to the extraction capacity of the Strand Ranch Project. In addition, Metropolitan would be allowed to "borrow" SWP stored water in the Strand Ranch Project, subject to return within three years.

**Preliminary Terms**

The agreement terms (**Attachment 1**) with MWDOC and IRWD provide benefits for the region while providing IRWD a water supply benefit. The terms recognize that Metropolitan maintains control of all SWP supply that would ultimately be delivered to Metropolitan's service area. The member agency gains a water supply benefit by obtaining access to a new supply of water. The water delivered under the program would also qualify as an extraordinary supply if the program is operated consistent with the board-adopted principles for extraordinary supply.

The agreement terms are consistent with Metropolitan's existing policies and practices. MWDOC would obtain access to Metropolitan's unused capacity in the SWP conveyance and Metropolitan's distribution system as determined by the General Manager. Metropolitan's return of water in any year would be limited by the extraction capacity of the Strand Ranch Project and any requirements established by the DWR for the introduction of the water into the California Aqueduct, including any water quality limitations. MWDOC would pay Metropolitan's Full Service water rate at the time the water is delivered at MWDOC's service connection. If MWDOC is in Tier 2 at the time of delivery, then MWDOC will pay the Tier 2 rate. Otherwise, the water will be billed at the fully bundled Tier 1 rate.

IRWD would be responsible for its costs associated with storing and recovering the water from the Strand Ranch Project and any conveyance or storage losses. Metropolitan would be responsible for the SWP costs to deliver the water to MWDOC's service connection. By charging Metropolitan's Full Service water rate, Metropolitan would recover the SWP costs and Metropolitan system costs of delivering the water and also protect the region's investment in the SWP.

**Regional Benefits**

The proposed agreement would facilitate the delivery of additional supply into the Metropolitan service area. There would be flexibility in coordinating Metropolitan and IRWD storage assets to manage that added supply and minimize groundwater pumping costs. Metropolitan could also borrow water stored in the Strand Ranch Project paying only the actual recovery costs, if any. Metropolitan would be required to return any borrowed water within three years. Metropolitan would not pay any banking fees for borrowing the water and not incur the capital costs for the Strand Ranch Project.

The proposed policy has been structured to provide benefits to both MWDOC and IRWD and the region as a whole. The coordinated operation of the SWP supplies with member agency storage programs would allow Metropolitan another method to cost-effectively manage the region's limited resources, while protecting Metropolitan's and the region's financial interests.

**Policy**

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Metropolitan Water District Administrative Code Section 4209: Contracts

Metropolitan Water District Administrative Code Section 4405: Wheeling Service

Metropolitan Water District Administrative Code Section 4905: Program Reductions During a Shortage

Contract between The Metropolitan Water District of Southern California and the State of California DWR for a Water Supply and Selected Related Agreements, Article 15(d): Metropolitan's consent is required for State project water deliveries within its boundaries

## California Environmental Quality Act (CEQA)

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it 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 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

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### Option #1

Adopt the CEQA determination and authorize executing agreements, based on the terms described in this letter and [Attachment 1](#), with the Municipal Water District of Orange County, the Irvine Ranch Water District and the Department of Water Resources, as appropriate, for the coordinated delivery of procured State Water Project supplies with Irvine Ranch Water District's Strand Ranch Project.

**Fiscal Impact:** The agreement will provide for the more expansive use of water resources and have no negative fiscal impact to Metropolitan. The agreement will have the potential to reduce the region's costs by coordinating the SWP supplies with Irvine Ranch Water District's Strand Ranch Project. The region could benefit financially by reducing the need to operate more costly storage programs and transfer purchases.

**Business Analysis:** This option will improve the reliability of the Municipal Water District of Orange County and Irvine Ranch Water District by providing access to a new water supply. Metropolitan's reliability will also improve by gaining access to the Strand Ranch Project and the ability to borrow water during emergencies and shortages.

### Option #2

Do not adopt the policy.

**Fiscal Impact:** Potential increased water costs by operating more costly storage programs

**Business Analysis:** This option may result in lost opportunities to secure additional State Water Project supplies that would have otherwise been available for the region and member agencies.

**Staff Recommendation**

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Option #1

  
Deven N. Upadhyay  
Manager, Water Resource Management

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6/29/2010  
Date

  
Jeffrey Lightlinger  
General Manager

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6/30/2010  
Date

**Attachment 1 – Terms for Coordinated Delivery of SWP Supplies with MWDOC Program**

Ref# wrm12604551

## **Terms for Coordinated Delivery of SWP Supplies with MWDOC Program**

### State Water Project

- Metropolitan maintains control of State Water Project (SWP) supplies that will enter into the service area.
- Metropolitan needs to consent before MWDOC/IRWD may enter into agreements with other State Water Contractors to secure State project water that would be moved into Metropolitan's service area.
- Metropolitan would have the option to take delivery of the water to use, store in a reservoir, or opt to have the water stored in the member agency storage program.
- The SWP supplies acquired by MWDOC/IRWD would not be SWP supplies Metropolitan is actively pursuing and would only be obtained through unbalanced exchanges.
- The SWP supplies acquired by MWDOC/IRWD would qualify as extraordinary supply provided that the program is operated consistent with the Board adopted principles for extraordinary supply. IRWD would require an agreement with the MWDOC to pass through any increase in extraordinary production credit.
- The agreement term will not extend beyond November 4, 2035.

### Financial

- MWDOC would pay the Metropolitan Full Service water rate at the time the water is delivered to MWDOC. The water delivery would not count against MWDOC's annual Tier 1 limit, but if MWDOC was in Tier 2 at the time of the delivery, MWDOC pays the Tier 2 water rate.
- IRWD pays all its costs associated with storing and recovering the water in its program. Through MWDOC, IRWD pays the actual SWP costs when water is stored in the program and IRWD receives an equivalent credit from Metropolitan when the water is delivered to the MWDOC/IRWD service connection.
- Metropolitan would be responsible for SWP costs when the water is moved into Metropolitan's service area. Metropolitan recovers its costs through MWDOC's payment of Metropolitan's Full Service water rate.
- Metropolitan would be responsible for reimbursing IRWD for actual storage and recovery costs when using the storage program.

### Conveyance

- MWDOC/IRWD obtain access to Metropolitan's unused capacity in SWP conveyance, Kern County conveyance facilities, and Metropolitan's distribution system as determined by the General Manager.
- MWDOC/IRWD would be limited by the program annual capacity and any requirements established by the Department of Water Resources for the introduction of program water into the California Aqueduct.

### IRWD Program

- IRWD would be responsible for all capital costs associated with its storage program.
- IRWD would be responsible for any conveyance and storage losses as part of its program.
- Metropolitan can use the storage program to recover previously stored SWP supplies for Metropolitan's use. However, Metropolitan must either return the water to the storage program to repay its obligation or incur a future obligation to deliver the water to MWDOC/IRWD's service connection when the water is called by MWDOC/IRWD. Metropolitan must return borrowed water within three years.
- Non-SWP supplies stored in the program would be subject to the existing wheeling policy and would not be available to Metropolitan.