



- Board of Directors
Water Planning and Stewardship Committee

11/10/2015 Board Meeting

8-6

Subject

Authorize entering into storage and exchange agreements with Antelope Valley-East Kern Water Agency; and approve payment of up to \$16.6 million for funding the agreements

Executive Summary

Authority is requested for Metropolitan to enter into agreements with Antelope Valley-East Kern Water Agency (AVEK) to develop exchange and storage programs for State Water Project (SWP) supplies. Through the proposed uneven (2:1) exchange program, AVEK would provide at least 30,000 acre-feet (AF) over ten years of its unused Table A to Metropolitan and Metropolitan, at its discretion would return half the exchange water to AVEK at Banks pumping plant. Under the Storage Program, Metropolitan, at its discretion, could store at least 30,000 AF of its SWP Table A or other supplies in the Antelope Valley Groundwater Basin in an account designated for Metropolitan. Metropolitan would pay \$300/AF upon return of the water to Metropolitan. The agreements will be for a ten-year term, expandable if necessary to recover the water in storage. The total cost of the programs is estimated at \$16,600,000.

Details

Metropolitan and AVEK have identified exchange and storage programs that can provide mutual benefits. The two programs would improve water supply reliability for each agency by coordinating operation of existing facilities for mutual benefit.

AVEK is a SWP contractor that provides water to the Antelope Valley. Its 2,400-square-mile service area includes northern Los Angeles County, east Kern County and a small portion of Ventura County. AVEK has the third largest Table A contract amount of the 29 SWP contractors in California. Only Metropolitan and Kern County Water Agency have larger Table A contract amounts. AVEK's maximum Table A amount is 144,844 AF with annual average Table A deliveries of 49,000 AF in recent years. During the last 15 years, AVEK turned back and/or left unused a cumulative 326,000 AF. Recently, the Department of Water Resources created the Multi-Year Water Pool Demonstration Program where SWP Contractors can purchase another SWP Contractor's unused Table A. AVEK could in the future market their unused supplies through the program. Also, in recent years AVEK has executed separate exchange agreements at market conditions with SWP Contractors to help AVEK manage its supplies. AVEK is served by the SWP East Branch of the California Aqueduct and delivers both treated and untreated water to its customers. AVEK is also strategically located along the East Branch of the California Aqueduct, downstream of Edmonston pumping plant, a major SWP facility that could be significantly impaired by a major earthquake.

Proposed Acquisition/Exchange Program

Through the proposed exchange program, Metropolitan would acquire additional supplies and reliability for its service area. AVEK would provide at least 30,000 AF over ten years of its SWP Table A to Metropolitan. For every two AF provided to Metropolitan as part of the exchange, AVEK would receive back one AF in the future. For the one AF that is retained by Metropolitan, Metropolitan would pay AVEK under a set price schedule based on the SWP Allocation at the time. The payment would range from \$587/AF under a 5 percent SWP Allocation

to \$38/AF under an 86 percent SWP Allocation (**Attachment 1**). The price schedule is based on historic market value of the water and is competitive with the water transfer market and the Multi-Year Water Pool Demonstration Program. A key term to the agreement is that the exchange is initiated by mutual agreement. AVEK would have discretion on how much of its SWP Table A supplies would be available in a given year and Metropolitan would then have the option to accept the available supplies. Metropolitan would manage the program to accept water when supplies can be cost effectively managed and reduce impacts to other supplies. The exchange would be operated considering available storage for Metropolitan Table A supplies, SWP Interruptible Water Service (Article 21), and transfer supplies.

Under the uneven (2:1) exchange program, Metropolitan would deliver the return water to Banks pumping plant. If AVEK calls the water to meet its consumptive needs, Metropolitan would not be required to pay any costs to AVEK for the return water. However, Metropolitan, at its discretion, can choose to return the exchange water in other years at Banks pumping plant. Metropolitan would pay AVEK the SWP transportation cost to deliver the water from Banks pumping plant to AVEK's turnout, at a cost of \$300/AF (or higher if the SWP transportation costs or direct return costs exceed \$300/AF.) In addition, Metropolitan may meet the exchange obligation by using water stored under the storage program. Metropolitan would return all exchange water to AVEK no later than ten years of the initial exchange, consistent with Department of Water Resources policy.

Proposed Storage Program

Under a proposed Storage Program, Metropolitan, at its discretion, would store its SWP Table A or other supplies in the Antelope Valley Groundwater Basin in an account designated for Metropolitan. Similar to other groundwater storage programs, Metropolitan would be assessed a one-time 10 percent loss. There are no put costs to store the water. However, Metropolitan would pay AVEK \$300/AF (or higher if the SWP transportation costs or direct return costs exceed \$300/AF) to cover the SWP transportation costs to AVEK's turnout or the direct return costs for stored water returned to the California Aqueduct. The minimum storage capacity available to Metropolitan is 30,000 AF, which may be increased at AVEK's discretion. The storage program could be used to meet Metropolitan's return exchange obligation. The initial term would be ten years from the first put and could be extended upon mutual agreement or would be automatically extended to cover water remaining after ten years.

In summary, both the proposed exchange and storage programs with AVEK would provide Metropolitan with improved water supply reliability for the region consistent with Metropolitan's Integrated Water Resources Plan. The programs would also result in increased cash flow and increased reliability to AVEK's customers because of the compensation AVEK receives when water is stored or exchanged at Metropolitan's call. Additionally, AVEK could be provided returned exchange supplies when needed, improving its water supply reliability. The coordination of each agency's water supply resources strengthens our ability to respond to future droughts and improves our partnership with a key SWP contractor. The agreements would be executed based on the term sheet included in **Attachment 1**.

Fiscal impact is estimated at \$16,600,000 over ten years for the exchange and the storage programs assuming 30,000 AF stored and 30,000 AF exchanged at a 60 percent SWP allocation.

Policy

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Administrative Code Section 4207: Exchange of Water

By Minute Item 48449, dated October 12, 2010, the Board adopted the Integrated Water Resources Plan Update

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed action involves an Agreement associated with the leasing, licensing, and operating of existing public water conveyance facilities with negligible or no expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed action qualifies for a Class 1, Categorical Exemption (Section 15301 of the State CEQA Guidelines).

The CEQA determination is: Determine that pursuant to CEQA, the proposed action qualifies under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines).

CEQA Determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination that the proposed action is categorically exempt, and

- a. Authorize the General Manager to enter into storage and exchange agreements with Antelope Valley-East Kern Water Agency consistent with the terms outlined herein and in a form approved by the General Counsel;
- b. Approve payment of up to \$16.6 million for funding the storage and exchange agreements with Antelope Valley-East Kern Water Agency; and
- c. Approve additional payments from the Supply Program Budget should the exchange or storage programs exceed the initial allocated 30,000 AF.

Fiscal Impact: Up to \$16.6 million over ten years for the exchange and the storage programs assuming 30,000 AF stored and 30,000 AF exchanged at a 60 percent SWP allocation. Should program costs exceed the estimated costs, additional funds will be used from the Supply Program Budget.

Business Analysis: Increases Metropolitan supplies and storage south of the Edmonston Pumping Plant

Option #2

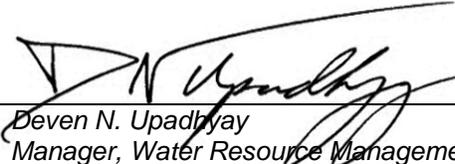
Do not authorize entering into agreement with Antelope Valley-East Kern Water Agency.

Fiscal Impact: Undetermined

Business Analysis: Metropolitan may miss the opportunity to increase water supplies for the service area.

Staff Recommendation

Option #1


 _____ 10/27/2015
 Deven N. Upadhyay Date
 Manager, Water Resource Management


 _____ 10/27/2015
 Jeffrey Kightlinger Date
 General Manager

Attachment 1 – Term Sheet - Metropolitan/Antelope Valley – East Kern Water Agency Storage and Exchange Program Agreements

Term Sheet
Metropolitan/Antelope Valley – East Kern Water Agency
Storage and Exchange Program Agreements

Acquisition/Exchange Program

- Ten-year initial term. Extension upon mutual agreement. Water exchanged to Metropolitan shall be returned no later than ten years of the initial exchange consistent with Department of Water Resources Policy.
- Allows AVEK to exchange at least 30,000 AF with Metropolitan upon mutual agreement.
- The exchange will be uneven 2:1 exchange. AVEK shall receive back 50 percent of the water.
- For the 50 percent water, Metropolitan pays a set price based on the following schedule:

SWP Allocation	Price (\$/AF)
1-5%	587
6-10%	552
11-15%	518
16-20%	483
21-25%	449
26-30%	414
31-35%	380
36-40%	345
41-45%	311
46-50%	276

SWP Allocation	Price (\$/AF)
51-55%	242
56-60%	207
61-65%	173
66-70%	150
71-75%	69
76-80%	69
81-85%	53
86-90%	38
91-95%	38
96-100%	38

- If AVEK calls the water to meet its consumptive needs, Metropolitan would not be required to pay any costs to AVEK for the return water. However, Metropolitan, at its discretion, can choose to return the exchange water in other years at Banks Pumping Plant. Metropolitan would pay AVEK the SWP transportation cost to deliver the water from Banks Pumping Plant to AVEK’s turnout, at a cost of \$300/AF (or higher if the SWP transportation costs or direct return costs exceed \$300/AF.)
- If there is sufficient water in the storage program, Metropolitan can choose to meet the exchange obligation by using pre-delivered supplies.
- Agreement shall terminate in ten years, unless previously terminated or extended upon mutual agreement.

Storage Program

- Ten-year term with some extensions to return remaining water if AVEK return capability is limited or upon mutual agreement.
- Allows Metropolitan to store at least 30,000 AF of Metropolitan’s supplies with AVEK.
- Metropolitan has no put payments to AVEK for storage of the water.
- Metropolitan will compensate AVEK \$300/AF (or higher if the SWP transportation costs or direct return costs exceed \$300/AF) on the return of each acre-foot stored.
- Assumes 10 percent storage losses.
- Agreement shall terminate in ten years, unless previously terminated or extended upon mutual agreement, or extended to recover stored water.