



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

4/11/2017 Board Meeting

8-6

Subject

Adopt CEQA determination, appropriate \$1.5 million, and authorize entering into a project agreement with the Sites Project Authority for participation in the Sites Reservoir Phase 1 process for an amount not to exceed \$1.5 million

Executive Summary

The Sites Project Authority (Sites Authority) has issued an invitation for potential participants, including State Water Project (SWP) and Central Valley Project (CVP) contractors, to participate in the proposed Sites Reservoir Project (Project) located in northern California. The proposed Project is intended to be developed by the Sites Project Authority and its project partners.

The participation will be used to assist in funding Phase 1 of the Project, which includes preparing information for completion of an application for State Proposition 1 grant funds. The funding for Phase 1 would be proportionally shared based on a water agency's initial participation level. Participation levels are based on a percentage of the overall anticipated water supply yield produced by the Project. After the Phase 1 process is completed in July 2018, staff would recommend to the Metropolitan Board whether to continue participating and funding implementation of the Sites Reservoir project.

Metropolitan staff is proposing the Board appropriate \$1.5 million and authorize the General Manager to negotiate a project agreement with the Sites Authority to participate in the Phase 1 process at a cost-share participation level calculated based on reserving an option for 25,000 acre-feet (AF) of Class 1 supplies or 50,000 AF of Class 2 supplies, or a combination thereof, for an amount not to exceed \$1.5 million.

Upon execution of a Phase 1 project agreement amendment with the Sites Authority and other project agreement members, Metropolitan would become a project participant and be committed to fund up to \$1.5 million.

Details

History: The Project proposal first emerged as part of the proposed second stage of the SWP in the 1980s, which included the original proposed peripheral canal and other northern California water-related projects. In 1996, the Project was further analyzed by the California Department of Water Resources (DWR) and the U.S. Bureau of Reclamation (USBR) as part of the CALFED Bay-Delta process. The CALFED process resulted in a Programmatic Record of Decision that recommended the Project in the Preferred Program Alternative. In 2010, the Sites Authority was formed as a joint powers authority to continue moving forward with development of the Project.

Project Location: The Project would be located in the Antelope Valley, about 10 miles west of the town of Maxwell on Interstate 5 in northern California. The Antelope Valley is separated from the greater Sacramento Valley by a low range of hills, making it suitable for off-stream storage of water pumped from the Sacramento River. Please see location map in Attachment 1.

Project Description: The potential reservoir sizes that have been evaluated in detail include a 1.3 million acre-foot (MAF) and a 1.8 MAF reservoir. In comparison, Folsom Reservoir on the American River stores about 1 MAF.

The Project would require the construction of two large dams up to 310 feet high and nine smaller saddle dams. Most of the water stored in the Project reservoir would be diverted from the Sacramento River during high flow events using existing facilities on the river at Red Bluff and north of Hamilton City. Water from these diversions would be ferried through the existing Tehama-Colusa and the Glen-Colusa canals to Project reservoir. In addition, a third river diversion and pipeline would be constructed north of Colusa. The diversions would take as much as 5,900 cubic feet per second of water from the Sacramento River to the Project reservoir. The river diversion furthest south would also operate as a discharge pipeline to convey water out of the reservoir. These discharges would move down the Sacramento River to project partners, including CVP/SWP agencies south of the Delta.

Project Phases: The Project will be developed in a series of five phases. It is anticipated that new participation agreements will be executed at the beginning of each subsequent phase. The current Phase 1 will complete the information necessary for the California Water Commission to render a decision whether to allocate grant funds under State Proposition 1. This process is expected to conclude by mid-2018. Phase 2 will be completion of the Environmental Impact Report/Statement (EIR/S), obtain regulatory permits and approvals, and complete preliminary engineering. Phase 2 is currently forecast to be completed by 2022. Phase 3 is the final design and preconstruction activities, which is estimated to take two years. Phase 4 will be construction of the facilities, which is estimated to take seven years. The construction duration may be shortened by use of alternative delivery methods, which became available to the Sites Authority through approval of state legislation (AB2551, Gallagher) in 2016. Phase 5 will initiate project operations. Prior to the start of each phase, the Sites Authority and project participants will revise or rebalance participation amounts on an acre-foot basis, approve the subsequent phase's budget target, and execute new participation agreements.

Project Yield: The modeled annual firm water yield of the project ranges from 425,000 AF to 640,000 AF (based on DWR and USBR estimates), depending on the ultimate size of the reservoir and water year. This yield was modeled independent of the implementation of the California WaterFix. DWR estimated that if the Project were operational in 2016, the reservoir could have captured over 448,000 AF of water supplies. Final project formulation and annual operations will determine how this firm yield will be divided between meeting water contracts and environmental improvements (funded by State Proposition 1 grant).

Estimated Overall Project Cost: The total project cost is estimated by DWR at \$4.4 billion to 4.8 billion (in 2015 dollars), depending on reservoir and conveyance options. The annual costs for operations, maintenance, and power are estimated at \$61 million to \$77 million. Efforts are underway by the Sites Authority to refine project cost estimates.

Definition of Class 1 and Class 2 Water Supply Yield: Based on modeling analyses, the Sites Authority is using 500,000 AF as the estimated long-term annual yield of the project. This amount is being used to apportion the costs needed to complete Phase 1. The Sites Authority is providing the state with a first right of refusal for up to 50 percent of the Project's capital costs based on state funding from Proposition 1 Bond Funds. The Sites Authority has created two classes of water, Class 1 and Class 2, each representing 50 percent of the expected annualized yield of 500,000 AF. Class 1 supplies are reserved water supplies for the project participants in the initial 50 percent of yield produced by the project (assumed at 250,000 acre-feet). Class 2 supplies are the second 50 percent of yield produced by the project, which provides supplies for the first right of refusal by the state. The percentage of Class 2 supplies that would become available to the project participants depends on the amount, if any, that the state exercises of its first right of refusal.

At this time, all 250,000 AF of Class 1 water has been reserved or requested by other participants. Metropolitan's ability to reserve an option for Class 1 water will depend on the willingness of one or more other participants to relinquish Class 1 water reservation or request. Class 2 water, which carries a 50 percent discount in price because of the uncertainty of the state's first right of refusal, remains available. For Metropolitan to potentially reserve Class 1 water supplies, in this initial Phase 1 process, the not-to-exceed contract amount is \$60 per AF while the contract amount for Class 2 supplies is \$30 per AF.

The actual amount of water supplies available to Metropolitan from the Project, if it is implemented, and the unit costs, will depend on the actual costs and yield for the Project, the state's participation, and the total dollar amount that Metropolitan elects to contribute through future phases.

Phase 1 Budget: The Phase 1 budget approved by the Sites Authority is \$15,122,000. This equates to \$48.50 per AF for Class 1 supplies, and \$24.25 per AF for Class 2 supplies. Approval to increase the budget (within the not-to-exceed contract amount) requires the approval of the Sites Reservoir Committee and the Sites Authority Board. Prior to the start of the next fiscal year, which starts January 1, 2018, the Sites Authority and its project partners will approve the 2018 budget. If necessary, any additional studies or work needed to complete Phase 1, or to start work currently planned in Phase 2, will be evaluated and approved by the Sites Authority and project partners along with the necessary adjustments in the Phase 1 budget.

Project Environmental Documentation: An initial feasibility study and Administrative Draft Environmental Impact Report (EIR) were completed in 2013 by DWR. A draft EIR is scheduled for completion in mid-2017 with a Final EIR to occur within 12 to 16 months of the California Water Commission's Proposition 1 investment decision and USBR's potential participation under the Water Infrastructure Investment for the Nation Act, which was approved in December 2016. Final environmental documentation and key permits will need to be acquired before the California Water Commission will encumber funds to allow final engineering and construction activities to begin.

State Proposition 1 Grant Investment Funding: The Sites Authority is planning on submitting an application for State Proposition 1 grant funding in mid-2018. Specifically, Chapter 8 includes \$2.7 billion for new storage projects, for which the Project is eligible. This state investment funding would pay for a portion of the reservoir cost and in return the state of California would receive a portion of the water produced by the project reserving it for Delta environmental and water quality purposes. Depending on the amount of state grant investment funding received and the level of water user funding participation, the project may be revised within the alternatives identified in the environmental documentation.

Sites Authority Members: The Sites Authority was formed under California law as a joint powers authority and currently consists of 12 public agencies: Colusa County, Glenn County, Maxwell Irrigation District, Tehama-Colusa Canal Authority, Colusa County Water District, Glenn-Colusa Irrigation District, Orland-Artois Water District, Proberta Water District, Reclamation District 108, Westside Water District, Western Canal Water District, and Placer County Water Agency/City of Roseville, with DWR (as a non-voting member) and Reclamation as a cost-share partner.

Current Participating Project Partners: Currently, there are 31 agencies that form a Reservoir Project Committee participating in funding the Phase 1 effort. This includes members of the Sites Authority, nine State Water Contractor agencies, one State Water Contractor sub-agency, one south-of-Delta Central Valley Project contractor, and others. A full list of participating agencies is attached ([Attachment 2](#)). Upon execution of a project agreement amendment with Metropolitan, Metropolitan would become a member of the Reservoir Project Committee, with certain decision-making authority in carrying out the Phase 1 effort.

Policy

By Minute Item 45753, dated May 11, 2004, and Minute Item 46637, dated April 11, 2006, the Board adopted a set of Delta policy principles to ensure a solid foundation for development of future Metropolitan positions and to provide guidance to Metropolitan staff.

By Minute Item 47135, dated June 12, 2007, the Board supported, in principle, the proposed Delta Action Plan, as set forth in the letter signed by the General Manager.

California Environmental Quality Act (CEQA)

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); involves the creation of government funding mechanisms or 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) and involves only feasibility or planning studies for possible future actions which the Board has not approved, adopted or funded (Section 15262 of the State CEQA Guidelines). In addition, the proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines because the proposed action involves basic data collection and research activities which do not result in a serious or major disturbance to an environmental resource, which may be strictly for information gathering purposes, or as part of a study leading to an action which a public agency has not yet approved, adopted, or funded (Class 6, Section 15306 of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not defined as a project under CEQA and is categorically exempt.

Option #2

None required

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not defined as a project under CEQA and is categorically exempt, and

- a. Authorize the General Manager to negotiate a project agreement amendment with the Sites Project Authority and other participants for participation in the Sites Reservoir Phase 1 process for an amount not to exceed \$1.5 million; and
- b. Appropriate \$1.5 million for Sites Reservoir Phase 1 based on reserving an option for 25,000 acre-feet of Class 1 water supply yield or 50,000 AF of Class 2 water supply yield, or a combination thereof.

Fiscal Impact: \$1.5 million

Business Analysis: Allows active participation in the development of the Sites Reservoir project, its benefits, and associated operations plan that could impact SWP supplies. Maintains option for reserving priority status in participating in future project implementation

Option #2

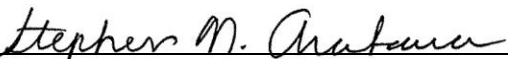
Do not authorize the General Manager to negotiate a project agreement amendment with the Sites Project Authority for participation in the Sites Reservoir Phase 1 process.

Fiscal Impact: None

Business Analysis: Vacates the option to participate in the benefits of the Sites Reservoir Project.


Staff Recommendation

Option #1



 Stephen N. Arakawa
 Manager, Bay-Delta Initiatives

4/4/2017
Date



 Jeffrey Kightlinger
 General Manager

4/5/2017
Date

Attachment 1 – Location Map

Attachment 2 – Current Participating Member Agencies

Location Map



Sites Reservoir Project

Agencies Participating in Phase 1 Process

- Colusa County
- Colusa Co. WD
- Cortina WD
- Davis WD
- Dunnigan WD
- LaGrande WD
- Glenn County
- Glenn-Colusa ID
- Maxwell ID
- Orland-Artois WD
- Proberta WD
- Reclamation District 108
- Tehama-Colusa Canal Authority
- Westside WD
- 4M WD (Mathis)
- Western Canal Water District
- Placer County WA & City of Roseville
- American Canyon, City of
- Santa Clara Valley Water District
- Westlands Water District
- Antelope Valley-East Kern Water Agency
- Castaic Lake Water Agency
- Coachella Valley Water District
- Desert Water Agency
- San Geronio Pass Water Agency
- San Bernardino Municipal WD
- Wheeler Ridge-Maricopa Water SD
- Zone 7 Water Agency
- Carter MWC
- Garden Highway MWC
- Pacific Resources MWC