



● Board of Directors
Water Planning and Stewardship Committee

3/12/2019 Board Meeting

9-2

Subject

Information on Exchange Agreements with Desert Water Agency and Coachella Valley Water District

Executive Summary

This letter describes potential amendments to water exchange agreements among Metropolitan, Desert Water Agency (Desert), and Coachella Valley Water District (Coachella) to provide operational benefits for the parties and to consolidate all prior agreements and amendments.

Details

Background

Desert and Coachella are both State Water Project (SWP) contractors with a combined total allocation of 194,100 acre-feet (AF) of Table A water. Also, like Metropolitan, Coachella has a contract with the United States for the delivery of Colorado River water. Because of their remote locations, Desert and Coachella did not build a physical connection to the East Branch of the SWP. Thus, no conveyance exists to directly deliver their SWP supplies. In 1972, instead of constructing a connection to the SWP, Desert and Coachella entered into agreements with Metropolitan to deliver their SWP supplies to Metropolitan, and in exchange, Metropolitan delivers a like amount of Colorado River water from the Colorado River Aqueduct into the Northern Coachella Valley.

The exchange agreements have been amended many times over the past few decades. An important amendment was the creation of a storage account in Coachella Valley allowing Metropolitan to store up to 800,000 AF of Colorado River water in advance of receiving Desert and Coachella's SWP supplies. Another amendment transferred 100,000 AF of Metropolitan's SWP Table A water to Desert and Coachella along with the associated annual fixed and variable costs. Metropolitan can call back that water in any year when Metropolitan needs the additional supply. If called back, Metropolitan would reimburse Desert and Coachella for those SWP costs in that year.

The current exchange agreements expire when the original SWP contract was set to expire in 2035. With the SWP contract extension amendment and interest in securing long-term deliveries, the parties desire to extend the agreements to the SWP contract extension date and to incorporate greater operational flexibility, including more equal sharing of benefits and risks from participation in the SWP.

Finally, in 2003, as a result of the Quantification Settlement Agreement, Metropolitan entered into an additional exchange agreement with Coachella. Under the terms of that agreement, Metropolitan provides up to 35,000 AF of SWP supplies to Coachella and exchanges that water for Colorado River supplies. Coachella reimburses Metropolitan for the cost of delivery from the SWP. Coachella and Metropolitan desire amending this agreement to provide flexibility, certainty, and to simplify the payment structure.

Proposed Amendments in 2019

The parties are proposing to make additional amendments to the exchange agreements. The proposed amendments are as follows:

- **Consolidate the exchange agreement amendments among Coachella, Desert, and Metropolitan into one agreement.** The exchange agreement has been amended multiple times, and the parties desire to have one new agreement listing all of the terms and conditions for easy reference.
- **Extend the term of the agreement.** Extend the term to match the termination date of the SWP contract extension amendment.
- **Eliminate the 100,000 AF Table A SWP call-back provision.** Metropolitan has not called back the Table A transfer since its inception, as more cost-effective options have been available. However, the call-back provision makes it more difficult for Desert and Coachella to plan future water reliability.
- **Provide Metropolitan the flexibility to defer deliveries in dry years.** In consideration for eliminating the 100,000 AF call-back provision, Metropolitan would gain the right to defer up to 200,000 AF of deliveries to Desert and Coachella in dry years.
- **Share SWP operational risks and benefits.** Currently, different categories of SWP water have different levels of risk and reliability under the existing agreement. The new agreement would allow each of the agencies' water supplies to more equally share in the risks and benefits of participation in the SWP.
- **Desert and Coachella participate with Metropolitan sharing water management costs.** Under the existing agreement, Metropolitan manages water in wet years by storing it in the Central Valley and incurs those storage costs. Under the proposed agreement, Desert and Coachella would share in the costs to manage all of the agencies' water in wetter years.
- **Amend the Coachella 35,000 AF exchange agreement to provide greater flexibility in making exchange deliveries.** Change from annual delivery amounts to allowing a total of 280,000 AF to be delivered through 2026, giving Metropolitan flexibility in making its delivery commitment to Coachella.

Benefits of Proposed Amendments

The proposed amendments would build upon the existing benefits of the exchange agreements to all of the parties involved. The amendments provide greater certainty for water supply and financial planning, they simplify implementation of the exchanges, and they improve dry year water supply reliability for Metropolitan.

Next Steps

Staff will continue to negotiate the proposed amendments with input from the Board. Staff will return in the upcoming months with an action letter seeking authorization for the General Manager to amend agreements with Desert and Coachella.

Policy

By Minute Item 42820, dated February 10, 1998, the Board approved a policy principle to protect Metropolitan's interests and its entitlements to Colorado River water, while collaborating with other water agencies.

Fiscal Impact

Under the proposed amendments, Desert and Coachella would pay to help Metropolitan manage its State Water Project storage costs.

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3/5/2019
Date

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Jeffrey Kightlinger
General Manager

3/6/2019
Date

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