



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

4/13/2021 Board Meeting

7-3

Subject

Authorize the General Manager to: (1) secure one-year water transfers with various water districts north of the Sacramento-San Joaquin River Delta for up to 65,000 acre-feet of additional supplies; (2) secure storage and conveyance agreements with the Department of Water Resources and various water districts to facilitate these transfers; (3) pay up to \$44 million from the State Water Project Budget for such transfers; and grant final decision-making authority to the General Manager subject to the terms set forth in this letter; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Staff requests authorization to allow the General Manager to secure one-year water transfers with north of the Sacramento-San Joaquin River Delta water districts for up to 65,000 acre-feet (AF) of additional supplies and to secure storage and conveyance agreements with the Department of Water Resources (DWR) and various water districts as needed to facilitate these transfers, including Sacramento Valley water districts and the Yuba County Water Agency (YCWA). The maximum payments to purchase these supplies would be up to \$44 million from the State Water Project Budget. Staff also requests that the Board grant the General Manager final decision-making authority to determine whether to move forward with these transfers, subject to the terms and conditions set forth below.

Details

Background

The water transfer market has changed significantly over the last twenty-five years. The market has shifted considerably from when water transfers were marketed almost exclusively to urban water districts. More recently, agricultural water districts have shifted to high-value permanent crops that require water in dry years to maintain the farmer's investment. To further complicate the water transfer market, increased regulations limit the transfer window and available capacity to move the supplies. In normal and wet years, transfer prices may be lower, but there is little, if any, capacity to move these supplies. Additionally, buyers must take certain risks by agreeing to purchase transfer water before knowing the scope of conveyance losses that may occur as the water travels across the Delta. In the drier years, there is plenty of capacity to move transfer supplies through the system, but there is not much supply available for purchase, and prices are higher. In 2014 and 2015, some transfer prices rose above \$1,500/AF. Dry conditions in 2021 ensure that capacity to move transfer supplies is available, but prices do not appear to have reached the heights of the previous drought cycle.

Demand for water transfers leads to both cooperation and competition among parties. A water district that develops a more flexible water resource mix and the capability to respond to changed conditions can perform better in this new environment. Metropolitan is positioned well with its surface water storage, water supply, and demand management programs. As shown in this month's Water Surplus and Drought Management Report, Metropolitan has supplies to make it through 2021 while meeting all member agency demands. However, participating in the transfer market this year would allow Metropolitan to preserve some water stored in surface water reservoirs on the State Water Project system for next year, should the critically dry pattern continue into 2022. This would provide additional security for the regions within Metropolitan's service area that rely more heavily on State Water Project supplies. Staff is requesting the Board grant final decision-making authority to the General Manager to determine whether to move forward with water transfers as outlined below.

Discussion

2021 State Water Contractors Dry Year Water Transfers Program

In February 2021, the Board authorized the General Manager to enter into an agreement with the State Water Contractors, Inc. (SWC) to pay up to \$500,000 in administrative costs to pursue up to 100,000 AF of Sacramento Valley water through the 2021 State Water Contractors Dry Year Water Transfers Program. The SWC is serving as the participating contractors' facilitator in pursuing these water transfers. These funds cover the administrative, environmental, and other regulatory costs associated with developing the transfers. Metropolitan staff, in partnership with other contractors acting through the SWC's agreement, have been negotiating one-year water transfers with sellers. The final price for transferable water has not been determined, but staff expects the price to be between \$600/AF to \$675/AF. Unfortunately, as a result of curtailment of deliveries in the Feather River service area, the amount of water available to transfer will be substantially reduced. Staff does not expect any supplies to be made available from fallowing, which normally provides most of the water. Staff is estimating around 25,000 AF would be available from the program, which would be allocated based on the lesser of proportional Table A amounts or the administrative deposit amount. .

Yuba County Water Agency (YCWA)

In 2007, the Board authorized an agreement with DWR to purchase water supplies from the YCWA. Under the agreement and later Board-authorized amendments, YCWA provides water transfer supplies to participating State Water Contractors and the San Luis Mendota Water Authority. YCWA provides surface water supplies by re-operating its reservoirs or by using pumped groundwater instead of surface water. The surface water re-operating reservoir supplies are priced at up to \$447/AF. The groundwater substitution price is negotiated each year based on market conditions, if YCWA chooses to make this water available. Staff estimates that the price for the groundwater substitution supplies would be in a similar to slightly lower cost range compared to the Dry Year Transfer Program. Staff estimates that between 10,000 AF to 35,000 AF could be made available to Metropolitan.

Other Sellers

Separate and apart from the Dry Year Transfer Program and the YCWA transfers, Metropolitan has also been approached by other potential sellers. At this time, it is unclear as to whether negotiations with parties outside of the two arrangements described above will be successful. However, the requested authority would allow the General Manager to negotiate and execute agreements with other parties, subject to the terms listed below.

One-Year Water Transfer General Manager Delegation

Staff recommends that the Board authorize the General Manager to secure one-year water transfers with water districts for up to 65,000 AF of additional supplies. The negotiated price for these transfers would be up to \$675/AF. Metropolitan may also be responsible for documented out-of-pocket expenses, including but not limited to administrative, legal, environmental, and engineering consultants' fees. Finalizing these transfers also includes possible storage and conveyance agreements with DWR and the water districts. These storage and conveyance agreements would be consistent with Articles 55 and 56 of Metropolitan's State Water Supply Contract. Metropolitan will be responsible for all losses, including Delta carriage water losses, associated with transfer water between the sellers' points of delivery and Metropolitan's service area. The losses are expected to range from 20 percent to 30 percent.

Assuming Metropolitan purchases 65,000 AF, Metropolitan's maximum cost would be \$44 million based on \$675/AF, and would use funds available from the State Water Project Budget. These State Water Project funds are available because staff initially budgeted for delivery of a 50 percent allocation. However, it was always contemplated that funds from the State Water Project could be used for potential transfer purchases in a dry or critical year as these conditions coincide with lower State Water Project deliveries and costs.

DWR's operational projections show sufficient capacity at Banks pumping plant to convey any transfer water to Metropolitan due to the low SWP allocation. Any water transfers would help improve water supply reliability in 2021 and 2022. Accordingly, staff requests that the General Manager be granted final authority to determine

whether or not to move forward with these water transfers following completion of, and based upon, any environmental reviews that may be necessary under the California Environmental Quality Act (CEQA). No commitment to any given transfer would be made by the General Manager unless, and until all, applicable CEQA requirements have been met, and any such commitment would be subject to and consistent with the terms and conditions set forth above.

Policy

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves the tentative approval of and funding for water transfers, but does not involve a commitment to any specific transfers at this time that may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). Prior to final authorization of any water transfers by the General Manager, CEQA documentation will be prepared by the Lead Agency and reviewed and processed in accordance with CEQA and the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

1. Authorize the General Manager to:
 - (a) Secure one-year water transfers with various water districts north of the Sacramento-San Joaquin River Delta for up to 65,000 AF of additional supplies;
 - (b) Secure storage and conveyance agreements with the Department of Water Resources and various water districts north of the Sacramento-San Joaquin River Delta to facilitate these transfers consistent with Articles 55 and 56 of Metropolitan's State Water Project Supply Contract; and
 - (c) Pay up to \$44 million from the State Water Project Budget for such transfers; and
2. Grant the General Manager final decision-making authority to determine whether or not to move forward with these transfers following completion of any environmental reviews required under CEQA, subject to the terms and conditions set forth in this letter.

Fiscal Impact: Assuming Metropolitan purchases 65,000 AF at a price of \$675/AF, the cost would be \$44 million. The State Water Project Budget will be used to fund the water transfer purchase. Funds are available in the State Water Project Budget as a result of the low State Water Project allocation. Metropolitan staff currently estimates a more likely transfer amount of up to 50,000 AF, with a price range from \$447/AF to \$600/AF, which would result in a cost of \$28 million. Staff is requesting authorization for the higher amount to provide Metropolitan flexibility in obtaining all available water transfer supplies, if needed. These funds would also be used for any additional administrative and related costs to implement the transfers.

Business Analysis: Purchasing additional transfer supplies in 2021 will improve regional water supply reliability and help mitigate impacts should dry conditions extend into 2022.

Option #2

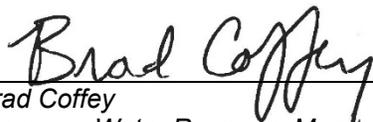
Do not authorize the General Manager to enter one-year water transfer agreements with various water districts north of the Sacramento-San Joaquin River Delta.

Fiscal Impact: None

Business Analysis: Not authorizing one-year water transfers with various water districts north of the Sacramento-San Joaquin River Delta could result in a lost opportunity to secure additional water supplies in 2021, potentially resulting in lower water supply reliability in 2021 or 2022.

Staff Recommendation

Option #1



Brad Coffey
Manager, Water Resource Management

4/7/2021
Date



Jeffrey Kightlinger
General Manager

4/8/2021
Date

Ref# wrm12680292