



- **Board of Directors**  
***One Water and Stewardship Committee***

10/8/2024 Board Meeting

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7-7

## Subject

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Authorize the General Manager to enter into agreements with Western Canal Water District and Richvale Irrigation District for water transfer options and first rights of refusal during 2025 through 2027; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

## Executive Summary

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Staff is seeking authorization to enter into agreements with Western Canal Water District (Western) and Richvale Irrigation District (Richvale) for single-year water transfers during 2025 through 2027. Staff brought the proposed agreements to the Board as an information item in September 2024 and received feedback on term, budget, and water availability. Under the proposed agreements, Metropolitan would pay a one-time upfront option payment to each agency, located in the Feather River service area, for the first right to annually call on each agency's available water transfer supplies during 2025 through 2027. The proposed option payment would secure the first right to purchase available water transfer supplies from each agency at fixed prices tied to the final State Water Project (SWP) allocation. The option payment is \$250,000 for each of the two agencies. The call price for water made available is \$965 per acre-foot at SWP allocations of 20 percent or less and \$600 per acre-foot at SWP allocations greater than 20 percent. Western and Richvale may annually transfer up to a combined 52,800 acre-feet.

Staff has been exploring new water transfer partnerships to improve access to limited north-of-Delta water transfer supplies for use during dry years. The purpose of the new agreements is to secure exclusive first-right access to the available water to help maximize the quantity of water that Metropolitan can purchase. Maximizing access to these transfer supplies will improve dry-year reliability that can reach the entire service area, including Metropolitan's SWP-dependent area over the next three years as Metropolitan pursues infrastructure projects to expand the reach of Colorado River and locally stored supplies. The proposed agreements will help meet the Board's commitment to providing equitable reliability across Metropolitan's service area by increasing the potential availability of SWP supplies.

## Proposed Action(s)/Recommendation(s) and Options

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### Staff Recommendation: Option #1

#### Option #1

Authorize the General Manager to enter into agreements with Western Canal Water District and Richvale Irrigation District for water transfer options and first rights of refusal during 2025 through 2027.

**Fiscal Impact:** The fiscal impact in the current 2024/25 fiscal year would be the one-time option payment of \$500,000, and up to \$51 million annually for water purchases in the event the maximum amount of water were purchased under a low State Water Project allocation (20 percent or less). These costs were not included in the biennial budget for fiscal years 24/25 and 25/26 and would be sourced from budgeted funds from the

Water Supply Program and State Water Project budget. Potential purchases in fiscal years beyond the current biennium would be considered in the requested budget for Water Supply Programs for those future years.

**Business Analysis:** These agreements would provide first-right access to up to 52,800 acre-feet of north-of-Delta water transfer supplies, that if purchased, would improve drought reliability for the SWP-dependent area.

### Option #2

Do not authorize the General Manager to enter into agreements with Western Canal Water District and Richvale Irrigation District for water transfer options and first rights of refusal during 2025 through 2027.

**Fiscal Impact:** Not authorizing the agreements could result in unspent funds in the Water Supply Program and SWP budget that would have otherwise been used to fund the option payments and potential water purchases in dry years.

**Business Analysis:** Metropolitan would likely purchase fewer north-of-Delta water transfer supplies, have decreased flexibility in responding to future drought conditions, and increased challenges in meeting equitable reliability for all member agencies.

### Applicable Policy

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Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Administrative Code Section 8121: General Authority of the General Manager to Enter Contracts

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 52946, dated August 16, 2022, the Board adopted a resolution committing to regional reliability for all member agencies.

### Related Board Action(s)/Future Action(s)

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None

### California Environmental Quality Act (CEQA)

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#### CEQA determination for Option #1:

The proposed action is exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed action involves entering into agreements with Western Canal Water District and Richvale Irrigation District to pursue water transfer supplies for 2025 through 2027 associated with the operation of existing public water conveyance facilities with negligible or no expansion of use and no possibility of significantly impacting the physical environment. (State CEQA Guidelines Section 15301).

#### CEQA determination for Option #2:

None required

### Details and Background

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#### Background

Staff has been exploring water transfer partnerships to help improve dry-year reliability, particularly for water that can be delivered to the entire service area and help meet the needs of the SWP-dependent area. The Board has supported the pursuit of water transfers with various parties through annual authorizations and authorized the General Manager to secure up to \$100 million of water transfer supplies in 2022 and up to \$50 million of water transfer supplies in 2023. Since 2008, Metropolitan has purchased dry-year water transfers from sellers north of the Delta via a buyers group facilitated by the State Water Contractors (SWC). However, during the recent drought years of 2021 and 2022, Metropolitan's share of purchases via the SWC buyers group was only 6,000 to 8,000 acre-feet. To maximize the potential water transfers available to Metropolitan, staff proposes entering into option agreements with Western and Richvale for the exclusive first right to purchase their available water transfer supplies from 2025 through 2027.

### ***Sellers***

Western and Richvale are agricultural water districts in the Feather River service area in Butte County with pre-1914 surface water rights. The districts have a diversion agreement with the State of California Department of Water Resources (DWR) to receive their water supplies via Thermalito Afterbay, downstream of Oroville Reservoir. Land in these districts is irrigated primarily for rice production. Water is made available for transfer solely by crop idling (fallowing) participating fields during May through December.

Both agencies have historically sold water transfer supplies to SWP contractors, including Metropolitan, via the SWC buyers group. In recent years, Western and Richvale sold transfers in 2008 to 2010, 2012, 2014, and 2018, with total combined volumes ranging from approximately 13,000 acre-feet in 2009 to over 56,000 acre-feet in 2014. Notably, the districts did not sell water in 2015, 2021, or 2022 because DWR curtailed contract deliveries to the districts by 50 percent pursuant to the drought provisions in their diversion agreement. These drought provisions allow for DWR to reduce diversion quantities by up to 50 percent in one year and no more than 100 percent in any series of seven consecutive years. Because the districts were curtailed in 2021 and 2022, it is now less likely that they will face a drought-related reduction in supplies through the end of 2027 and thus more likely that they will have water available for transfer.

### ***Proposed Agreements***

Staff is proposing two separate option agreements, one with each agency, that will provide the framework for Metropolitan having the first right to annually call on available transfer supplies from 2025 through 2027. Under the framework, Western and Richvale would decide each year whether to offer any water for sale. Metropolitan would then have the first right to purchase any of the water offered in each year. Key provisions of the proposed agreements include:

- *Term* – The term is through 2027 to coincide with the covered period for water transfers in the Addendum to the Final Environmental Impact Report for the Western Canal Water District and Richvale Irrigation District Water Transfers from 2018 to 2022. The Addendum was certified by Western and Richvale in 2022 and extended the covered period for water transfers for five years, from 2023 to 2027.
- *Option Payment* – Metropolitan will pay Western and Richvale \$250,000 each (a total of \$500,000) for the exclusive first right to purchase water offered by Western and Richvale from 2025 to 2027. The option payment of \$250,000 to each agency (\$500,000 total) is sized to help defray costs already incurred by Western and Richvale to prepare the Environmental Impact Report and Addendum, which enable them to transfer water.
- *Available Supply*
  - Western may make up to 33,600 acre-feet of water available for transfer via crop idling up to 11,200 acres.
  - Richvale may make up to 19,200 acre-feet of water available for transfer via crop idling up to 6,400 acres.
- *Notification Dates*
  - By February 28 of each year, Metropolitan will notify Western and Richvale of its interest in acquiring transfer supplies for that year, and upon notification, Western and Richvale will solicit landowner interest in participating in a transfer on the terms set forth in the agreement.
  - By March 31 of each year, Western and Richvale will notify Metropolitan of the amount of water, if any, offered during the year.
  - By April 15 of each year, Metropolitan will notify Western and Richvale of the amount of water, if any, it will purchase during the year.

- *Water Purchase Price*
  - Metropolitan will pay Western and Richvale \$965 for each acre-foot Western and Richvale deliver to point of delivery (Thermalito Afterbay) when the SWP allocation as of June 30 is less than or equal to 20 percent.
  - Metropolitan will pay Western and Richvale \$600 for each acre-foot Western and Richvale deliver to point of delivery (Thermalito Afterbay) when the SWP allocation as of June 30 is greater than 20 percent.
- *Conveyance Risk*
  - Metropolitan will bear the conveyance risk for water purchased by the April 15 call date that the sellers have provided at Thermalito Afterbay. This risk includes the inability of DWR to export transfer supply from the Delta during the “transfer window” or the potential spilling of any backed-up transfer supply temporarily stored in Lake Oroville. Staff will monitor DWR’s monthly studies as the SWP supply develops during the water year.
  - Metropolitan will be responsible for any carriage losses that DWR assesses to convey transfer supply from the point of delivery at Thermalito Afterbay through the Delta. This loss is a share of the transfer supply that contributes to Delta water quality and flow objectives and has historically ranged from 20 to 35 percent.
- *Reductions in Available Supply*
  - Western and Richvale will not make water available during a year in which their surface water allocations are reduced, including if reduced pursuant to the shortage provisions in their diversion agreement with the State of California.
  - Western and Richvale are potential participants in the Agreements to Support Healthy Rivers and Landscapes (Voluntary Agreements) under consideration as part of the State Water Resources Control Board’s planned update to the Bay-Delta Water Quality Control Plan; if Voluntary Agreements are adopted and implemented during the term of the proposed agreements, Western and Richvale’s available transfer supplies will be reduced in Above Normal, Below Normal, and Dry water year types.
- *Minimum Performance/Refund of Option Payment*
  - Western and Richvale anticipate being able to offer water for sale at the negotiated prices. If Metropolitan notifies Western and Richvale of its interest in purchasing water in a given year, and is offered less than 1,000 acre-feet for sale, the district offering less than 1,000 acre-feet for sale will refund to Metropolitan a pro-rata share of the upfront option payment (\$83,333.33).

If Metropolitan were to call on available supplies in future years, in addition to the proposed agreements with Western and Richvale, Metropolitan would need to enter into annual storage and conveyance agreements with the sellers and DWR.

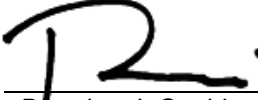
Metropolitan’s decision to purchase transfer supplies under the proposed agreements will be consistent with and informed by Metropolitan’s Water Surplus and Drought Management plan. As with any decision to purchase annual water transfers via the SWP, Metropolitan will consider the developing hydrologic conditions, the need for and capacity to store the supplemental water supply, and the DWR’s ability to convey the transfer supplies through the Delta. Staff will continue to seek annual board authorization for purchasing additional water transfers beyond the scope of the proposed agreements.

***Funding of Proposed Agreements***

If the transfers are placed into effect, the funding for the water transfer purchases contemplated in the proposed agreements would come from Water Supply Program and SWP funds in the upcoming biennium. Staff anticipates calling on the water under the proposed agreements in dry years, such as when the SWP allocation is 0 to 20 percent. Staff anticipates unspent budget funds will be available to fund the transfers in these types of years. Low SWP allocations correspond with lower than budgeted costs for SWP supplies since the budgets for these two programs assumes funding for a 50 percent SWP allocation.

***Benefits to Metropolitan***

The proposed agreements benefit Metropolitan by enhancing dry-year reliability with water delivered through the State Water Project, which can reach the entire service area, including the SWP-dependent area. The agreements offer exclusive first-right access to purchase water from two major sellers in the Feather River service area ensuring a dependable source when water is typically scarce, at a fixed price. Additionally, these agreements increase Metropolitan’s flexibility in managing water resources, allowing for better planning and response to fluctuating hydrologic conditions. By securing available water supply from trusted sources, Metropolitan can reduce the risk of shortages and maintain consistent and reliable water service to its member agencies.

  
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Brandon J. Goshi  
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9/26/2024  
Date

  
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Deven N. Upadhyay  
Interim General Manager

10/1/2024  
Date