



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

9/10/2024 Board Meeting

9-3

Subject

Update on proposed agreements with Western Canal Water District and Richvale Irrigation District for water transfer options and first rights of refusal during 2025 through 2027

Executive Summary

Staff has been developing water transfer agreements with Western Canal Water District (Western) and Richvale Irrigation District (Richvale) for annual north-of-Delta water transfers during 2025 through 2027. Under the proposed agreements, Metropolitan would pay an option to each agency, located in the Feather River service area, in return for the first right to annually call on each agency's available water transfer supplies during 2025 through 2027. The proposed one-time up-front option payment would secure the first right of refusal for available water transfer supplies from each agency at negotiated prices tied to the final State Water Project (SWP) allocation. The option payment would be \$250,000 for each of the two agencies. The price for water made available and called 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.

In recent years, Metropolitan has purchased water transfers from sellers north of the Delta via the collective buying groups facilitated by the State Water Contractors (Buyers Group). In the recent drought years of 2021 and 2022, Metropolitan's share of water transfer purchases via the Buyers Group was only 6,000 to 8,000 acre-feet. The purpose of the new agreements is to secure a first right of refusal on available water from two willing sellers in order to maximize the quantity of water that can be secured by Metropolitan. The ultimate goal of the agreements is to improve reliability for Metropolitan's SWP dependent area, consistent with the Board's intent to provide equitable reliability across Metropolitan's service area.

Fiscal Impact

If the Board approves the agreements, 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 SWP allocation (20 percent or less). These costs were not included in the biennial budget for Fiscal Years 2024/25 and 2025/26 and would be sourced from budgeted funds from the Water Supply Program and SWP 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.

Applicable Policy

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

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)

Staff plans to bring the proposed agreement terms with Western and Richvale to the Board for approval in October 2024.

Details and Background

Background

Over the past few years, staff has been exploring water transfer partnerships to help improve dry-year reliability for the SWP-dependent area. The Board has supported the pursuit of water transfers with various parties through annual authorizations, and most recently 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). 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 first right of refusal on 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 to 56,000 acre-feet. 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.

Environmental Compliance

In 2018, Western and Richvale certified the Final Environmental Impact Report for the Western Canal Water District and Richvale Irrigation District Water Transfers from 2018 to 2022. In 2022, the districts approved an addendum to the Environmental Impact Report (EIR) to extend the covered period for water transfers another five years, from 2023 to 2027. The term lengths of the proposed agreements are coincident with the environmental coverage provided by the addendum. The proposed option payment of \$250,000 to each agency (\$500,000 total) is sized to help defray costs incurred by Western and Richvale to prepare the EIR and addendum.

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. Key provisions proposed include:

- *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.
- *Available Supply*
 - Western may transfer up to 33,600 acre-feet of water via crop idling up to 11,200 acres.
 - Richvale may transfer up to 19,200 acre-feet of water 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.

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.

Benefits to Metropolitan

The proposed agreements benefit Metropolitan by enhancing dry-year reliability for the SWP-dependent area. They offer exclusive first-right access to purchase water that may be made available by two major sellers in the Feather River service area ensuring a dependable source when water is typically scarce. 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 service to its customers.

Upcoming Milestones

Staff will obtain board feedback and finalize negotiations with Western Canal Water District and Richvale Irrigation District. Staff anticipates bringing the proposed agreements to the board for approval in October.



Brandon J. Goshi
Interim Manager,
Water Resource Management

9/4/2024
Date



Deven Upadhyay
Interim General Manager

9/6/2024
Date