



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

4/12/2022 Board Meeting

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**7-12**

**Subject**

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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 75,000 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 \$60 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**

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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 75,000 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 \$60 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**

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**Background**

The water transfer market has changed significantly over the last twenty-five years. The market shifted considerably from when water transfers were marketed almost exclusively to urban water districts. More recently, agricultural water districts 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 2022 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. Water transfers are an important part of the current drought response and work well with Metropolitan's surface water storage, water supply, and demand management programs. As shown in this month's Water Surplus and Drought Management Report, Metropolitan requires drought actions to meet all member agency demands in 2022. Participating in the transfer market this year would help Metropolitan meet member agency demands or preserve water stored on the State Water Project system for next year, should the critically dry pattern continue into 2023. Transfers 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**

### 2022 State Water Contractors Dry Year Water Transfers Program

In February 2022, 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 2022 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, are negotiating one-year water transfers with sellers. The participants have not negotiated a final price for transferable water, but staff expects the price to range from \$700 to \$800/AF. If drought conditions curtail supplies to the Feather River service area, the amount of water available to transfer will be substantially less. A curtailment would significantly impact the amount of supplies made available from fallowing. Staff is currently estimating around 40,000 AF would be available from the program, which would be allocated based on Metropolitan's proportional Table A amount.

### Yuba County Water Agency

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 transfers water to participating State Water Contractors and the San Luis Mendota Water Authority. YCWA provides surface water by reoperating its reservoirs or by using pumped groundwater instead of surface water. The reservoir supplies are priced at up to \$447/AF. Participants negotiate the groundwater substitution price 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 similar to the Dry Year Transfer Program. Staff estimates Metropolitan could receive 10,000 to 40,000 AF.

### Other Sellers

Apart from the Dry Year Transfer Program and the YCWA transfers, other sellers are approaching Metropolitan. At this time, it is unclear if successful negotiations with these separate parties will occur. However, the requested authority would allow the General Manager to negotiate and execute agreements with these separate 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 75,000 AF of additional supplies. The price for these transfers can vary depending on market conditions but would be limited to a total cost of \$60 million. Assuming Metropolitan acquires 75,000 AF, the average cost would be limited to \$800/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. In 2021, the final conveyance loss for transfer supplies was 25 percent.

Metropolitan's maximum cost would be \$60 million, and would use funds available from the State Water Project Budget. These State Water Project funds are available because staff initially budgeted for receiving a delivery of a 50 percent SWP allocation for calendar year 2022. 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 2022 and 2023. These water transfers are key in providing water to Metropolitan's State Water Project-dependent areas. Accordingly, staff requests that authorization be given to the General Manager 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. Any such commitment would be subject to and consistent with the terms and conditions set forth above.

## Policy

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Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 52581, November 9, 2021, the Board recognized a statewide drought emergency, declared specified emergency conditions within the Metropolitan service area, and directed specified actions.

## California Environmental Quality Act (CEQA)

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### 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

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### Option #1

- a. 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 75,000 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.
  - (c) Pay up to \$60 million from the State Water Project Budget for such transfers.
- b. 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 75,000 AF at a price of \$800/AF, the cost would be \$60 million. The State Water Project Budget will be used to fund the water transfer purchase. Funds are available in the State Water Project Budget due to 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 \$358 to \$750/AF, which would result in an estimated cost of \$30 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 will improve regional water supply reliability in 2022 and help mitigate impacts should dry conditions extend into 2023. Obtaining transfer supplies in 2022 could reduce the need to allocate supplies based on health and safety.

**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.

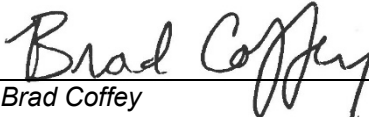
**Fiscal Impact:** None

**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 2022, potentially resulting in lower water supply reliability in 2022 or 2023.

**Staff Recommendation**

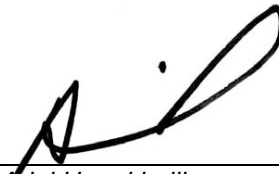
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Option #1

  
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Brad Coffey  
Manager, Water Resource Management

3/24/2022

Date

  
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Adel Hagekhalil  
General Manager

3/29/2022

Date

Ref# wrm12688897