



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

4/12/2022 Board Meeting

7-11

Subject

Authorize the General Manager to negotiate an agreement consistent with the draft terms of the Metropolitan Water District/Inland Empire Utilities Agency Exchange Agreement; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

California's Proposition 1 in 2014 allocated \$7.5 billion for water system investments, with \$2.7 billion dedicated to the implementation of the Water Storage Investment Program (WSIP). The California Water Commission (CWC) selected eight projects to conditionally fund under the WSIP based on their associated public benefits. Inland Empire Utilities Agency's (IEUA) Chino Basin Program (CBP) is among the conditionally funded projects within Metropolitan's region. The CBP is an innovative advanced wastewater treatment, storage, water exchange, and reliability program. The CBP would exchange advanced treated recycled water stored in the Chino Basin for an equivalent amount of State Water Project (SWP) supply to provide additional flow to improve fisheries in the Feather River.

Under the proposed program, IEUA would invest in local infrastructure to produce and store 375,000 acre-feet (AF) advanced treated wastewater over 25 years. This stored water would be exchanged for an equivalent portion of Metropolitan's SWP Table A allocation. The exchanged SWP supplies would be used for additional flows in the Feather River, providing benefit to the Chinook salmon and the surrounding ecosystem. The CBP would improve water reliability within the Chino Basin, provide environmental benefits to the Feather River in critical and dry years, and increase aquifer storage and recovery within the region.

The CBP requires that SWP supplies are exchanged to provide the environmental fishery flows in the Feather River. Because IEUA does not hold a participation right in the SWP, IEUA seeks Metropolitan's participation in the CBP as its facilitating State Water Project contractor. As such, Metropolitan would agree to facilitate the exchange of an equivalent portion of its SWP Table A allocation for stored Chino Basin groundwater in certain call years. Metropolitan's SWP Table A allocation would not be called in critical dry years.

An agreement between Metropolitan and IEUA will be required to formalize the relationship and responsibilities of each agency for this exchange and to protect Metropolitan's interests. This letter details the draft terms for this exchange. The draft terms cover the exchange quantities, operations, costs, and additional benefits provided for participation in the CBP. The MWD/IEUA Exchange Agreement is one of multiple agreements that will be necessary to facilitate the CBP.

Details

Background

In November 2014, California voters approved The Water Quality, Supply, and Infrastructure Improvement Act (Proposition 1). This state water bond provides \$7.5 billion for investment in the state's water system, dedicating \$2.7 billion specifically for investment in water storage projects through the WSIP. The California Water Commission (CWC) is responsible for administering the WSIP, and the bond funds have been continuously appropriated for that purpose. The WSIP provides funding based on a project's public benefits, which can include flood control, ecosystem improvement, water quality improvement, or emergency response and recreation. In July 2018, the CWC determined eight projects eligible for conditional WSIP funding, which combined would

increase California's water storage capacity by 4.3 million AF and provide for the public benefits identified by the WSIP. Among the projects selected for conditional WSIP funding is the CBP, proposed by the IEUA, a member agency of Metropolitan. The CBP's original conditional WSIP funding was \$206.9 million. It has since been increased twice for an inflation adjustment, with the latest funding amount totaling \$215.2 million. In June 2021 and March 2022, Metropolitan staff presented updates on the Prop 1 WSIP projects and an overview of the CB to the Board. Additionally, in 2021 Metropolitan provided a letter of intent to continue collaborating with IEUA as its potential facilitating SWP contractor.

Chino Basin Program Overview

The CBP is an innovative advanced wastewater treatment, storage, water exchange and reliability program. Under the CBP, IEUA would construct an advanced water treatment facility to treat up to 15,000 AF of wastewater per year. After treatment, the recycled water would be stored in the Chino Basin groundwater basin using distribution facilities and injection wells constructed as part of the CBP. The CBP would also include the construction of distribution facilities to pump and deliver extracted groundwater to Metropolitan's distribution system and to IEUA's member agencies.

IEUA would agree to store up to 375,000 AF of advanced treated recycled water in the Chino Basin over a 25-year period. This stored water allows for a water exchange agreement with the state. The exchange would provide a water supply for pulse flows released from Oroville Reservoir into the Feather River for the benefit of both Chinook salmon and the surrounding ecosystem. IEUA and the state would agree to exchange an equivalent amount of stored water to be delivered to Metropolitan and its service area for an equivalent amount of Metropolitan's SWP Table A allocation. That exchanged SWP supply is the physical water supply that would be used for the pulse flows released from Oroville Reservoir into the Feather River.

In a call year, IEUA would extract stored groundwater from the Chino Basin and deliver it to Metropolitan's distribution system directly or by in-lieu pumping to meet IEUA service area demands to substitute for the exchanged SWP Table A allocation. Thus, Metropolitan and its service area would remain whole in terms of water supply. The exchange would only occur during years when the Department of Water Resources (DWR) determines that SWP operations and SWP contractor supplies would not be at risk. As such, the state would not request an exchange in critical dry years.

The state could request an annual exchange, for up to three consecutive years, provided there is sufficient groundwater stored in the Chino Basin and both IEUA and Metropolitan agree to an exchange. After the 25-year term, the stored water remains under IEUA's ownership and could be used to satisfy local supply. The program also includes an emergency use provision, where up to 40,000 AF of stored Chino Basin water could be borrowed by Metropolitan for use within its service area.

Metropolitan's Role as a Facilitating State Water Contractor

The CBP requires that SWP supplies stored in Lake Oroville are exchanged and used to provide pulse flows in the Feather River. Because IEUA is not an SWP contractor, IEUA requested Metropolitan's participation in the CBP. Metropolitan would agree to facilitate the exchange of SWP supplies and stored water in the Chino Basin and participate in necessary related agreements. There are several associated agreements needed to facilitate the program, some of which Metropolitan will be party to. Agreement terms will be negotiated to ensure Metropolitan will not be negatively impacted by its participation. The CBP will provide for environmental, local, and regional benefits for multiple parties, including Metropolitan, and is being developed under a tenet of "No Harm," meaning that its development and operation cannot adversely affect any of the parties or participants in the program. This tenet extends to the SWP and its contractors, to Metropolitan and its service area, and to IEUA and its member local agencies.

Draft Terms for the MWD/IEUA Exchange Agreement

A direct agreement between Metropolitan and IEUA will formalize each agency's roles and responsibilities. Draft terms for the agreement have been developed for review and consideration by the Board and will guide staff in finalizing the MWD/IEUA Exchange Agreement.

The draft terms of the agreement can be organized into four overarching categories: Exchange Quantities, Operations, Cost, and Additional Benefits. A summary of the objectives of the terms for each of the categories is provided below. Detailed agreement term language can be found in **Attachment 1**.

Exchange Quantities

These terms specify the exchange quantities and the breakdown of how stored groundwater will be delivered to the Metropolitan service area via in-lieu and pump in.

Operations

These terms cover a number of CBP operational considerations between IEUA and Metropolitan. Notably, it includes a limitation on when an exchange year can be initiated (e. g. no call in critical dry years or when Metropolitan has an operational constraint). A CBP Operating Committee will also be established to coordinate IEUA/MWD activities, including generating an annual operating plan, detailing operation and maintenance requirements, water quality monitoring, and reporting, among other items. These terms also indicate Metropolitan's ability to withhold call year decisions should IEUA be unable to perform.

Cost

Metropolitan currently has no obligation to invest in the facilities required for the exchange. These terms include the take or pay contract commitment for IEUA and its member agencies. Additionally, the draft terms confirm that any net costs or credits resulting from the variable operation and maintenance costs on the SWP would be between IEUA and DWR, and not the responsibility of Metropolitan.

Additional Benefits

The CBP provides additional system flexibility within Metropolitan's service area. Specific terms of these supplemental benefits are covered under this category. This includes an ability to borrow up to 40,000 AF for emergency use and potential predelivery of stored groundwater against future performance requirements, as coordinated by the CBP Operating Committee.

Next Steps

Staff recommends that the Board, upon review and consideration of the draft terms for the MWD/IEUA Exchange Agreement, authorize the General Manager to negotiate an agreement with IEUA consistent with the draft terms. The General Manager would not execute this agreement separately from the full set of agreements contemplated. IEUA will continue working with Metropolitan and other necessary parties to develop the full set of agreements needed for the CBP. Staff will return for Board approval of all agreements to which Metropolitan is a party, including approval of final MWD/IEUA Exchange Agreement terms. The CWC is expected to award final WSIP funding for the CBP in Fall 2023.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By the 1999 Strategic Plan Policy Principles, Metropolitan is a regional provider of water for its service area and a steward of regional infrastructure.

By the General Manager's Business Plan for FYs 2020/21 and 2021/22, one of Metropolitan's strategic priorities is to promote sustainability.

By Minute Item 42287, dated February 11, 1997, the Board adopted a set of policy principles on water recycling.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because the proposed action will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in

question may have a significant effect on the environment, the proposed action is not subject to the provisions of CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize the General Manager to negotiate an agreement consistent with the draft terms of the Metropolitan Water District/Inland Empire Utilities Agency Exchange Agreement.

Fiscal Impact: None

Business Analysis: Participation in the CBP will improve regional reliability and system flexibility within MWD's service area, as well as critical dry-year reliability.

Option #2

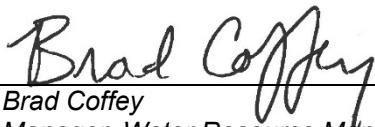
Do not authorize the General Manager to negotiate an agreement consistent with Metropolitan/IEUA Exchange Agreement draft terms.

Fiscal Impact: None

Business Analysis: This option would impact Metropolitan's ability to participate in the CBP and limit the opportunity to provide additional regional reliability.

Staff Recommendation

Option #1



Brad Coffey
Manager, Water Resource Management

4/4/2022
Date



Adel Hagekhalil
General Manager

4/6/2022
Date

Attachment 1 – Term Sheet for Water Storage and Investment Program (WSIP) Environmental Water Exchange between Metropolitan Water District of Southern California (Metropolitan) and Inland Empire Utilities Agency (IEUA)

Ref# wrm12685364

Attachment 1**Term Sheet for Water Storage and Investment Program (WSIP) Environmental Water Exchange
between Metropolitan Water District of Southern California (Metropolitan)
and Inland Empire Utilities Agency (IEUA)****Exchange Quantities**

1. WSIP is a water storage investment program funded by the California Water Commission (CWC) through Proposition 1 and Inland Empire Utilities Agency (IEUA).
2. The water exchange will total 375,000 acre-feet (AF) of water in increments (40,000 AF per call year maximum) over a 25-year agreement term.
3. IEUA will facilitate the production and storage of 375,000 AF of advanced treated recycled water supply in the Chino Groundwater Basin.
4. IEUA will deliver stored groundwater into the Metropolitan service area during call years. In exchange, Metropolitan will provide the State with water supply to facilitate the release of water from Oroville for ecosystem-improvement purposes (pulse flows).
5. When water is released from Lake Oroville for pulse flows, Metropolitan will receive an exchange of water from IEUA from water stored in the Chino Basin.
6. IEUA shall coordinate up to 40,000 AF of local production through a combination of in-lieu means (30,000 AF of capacity) and direct pumping into Metropolitan's Rialto Pipeline (10,000 AF of capacity).
7. This IEUA production fulfills IEUA's obligation under the exchange agreement.

Operations

8. The Environmental Water Exchange shall not negatively impact the water supply or system operations of the State Water Project (SWP), Metropolitan, or its member agencies.
9. Metropolitan will work in good faith to develop the operating terms and conditions and agreement with the State to facilitate the exchange.
10. California Department of Water Resources (DWR) will identify the annual capacity available for pulse flows. California Department of Fish and Wildlife (CDFW) will limit calls to below normal and dry years. DWR will preapprove the potential volume of pulse flows in any potential call year. If called by CDFW, the pulse flow release from Lake Oroville will occur in the Spring, with the water exchange between Metropolitan and IEUA taking place as agreed upon in the CBP Operating Committee.
11. Metropolitan has the ability to decline any annual call when IEUA is unable to show availability of exchange water, when Metropolitan operations limit the ability to receive exchange supplies from IEUA or when the exchange will negatively impact Metropolitan or its member agencies. Such actions shall be brought to the CBP Operating Committee for discussion.
12. A schedule for local performance and completing water exchanges will be established in the operating plan and administered by the CBP Operating Committee.
13. Pump-in/in-lieu deliveries shall be metered to account for all deliveries.
14. Pump-in water will need to comply with Metropolitan's present and future pump-in water quality and system protection requirements.

15. A “CBP Operating Committee” will be established to coordinate IEUA and Metropolitan activities. The CBP Operating Committee will generate an annual operating plan in anticipation of a call year. The operating plan will consider the amount of call water, a performance schedule, the in-lieu/pump-in split, operations and maintenance requirements, water quality monitoring, accounting, reporting, and performance certification/reconciliation.
16. Metropolitan shall have the right to withhold subsequent call year ‘go’ decisions should IEUA be unable to perform in a given year until such required performance is achieved.
17. Metropolitan will support future efforts by IEUA to obtain federal funding to offset program costs.
18. Metropolitan will work collaboratively and in a timely fashion with IEUA to explore additional benefits including opportunities for long-term storage programs in the Chino Basin.

Cost

19. Metropolitan has no obligation to invest in the facilities required for the exchange.
20. IEUA will enter into a take or pay contract committing to pay the supply rate for the potential in-lieu delivery from the CBP (30 TAF). In non-call years, IEUA would get credited that amount toward their Metropolitan water purchases. In call years, Metropolitan would refund the supply rate charges to IEUA for the certified amount of in-lieu delivery from the CBP as part of the annual reconciliation process.
21. Pulse flow releases from Lake Oroville and subsequent reduction in Table A deliveries to Metropolitan from SWP facilities will affect schedules and quantities of SWP hydropower generation and pump load requirements. IEUA and Metropolitan will work with DWR to implement equitable accounting and reimbursement procedures to the satisfaction of all parties to account for any resulting changes in the variable operation and maintenance, power and replacement (OMP&R) component of Transportation Charges as designated in SWP water supply contracts. This accounting will include consideration of real-time energy market considerations and be based on application of best practices for management of the SWP energy portfolio by DWR. Net costs or credits will be exchanged between IEUA and DWR by separate agreement and are not a responsibility of Metropolitan.

Additional Benefits

22. Metropolitan can borrow up to 40,000 AF of stored water from WSIP, consistent with the IEUA/CWC agreement. This benefit is intended to provide flexibility to Metropolitan. IEUA will be made whole for direct costs resulting from such borrowing. Execution and payback of the borrowed water shall occur by the end of the agreement and be coordinated through the CBP Operating Committee.
23. Predelivery of water against future performance requirements will be allowed by mutual agreement and coordinated/administered by the CBP Operating Committee. In-lieu vs. pump-in strategies will be determined by CBP Operating Committee.