



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

1/10/2023 Board Meeting

7-11

Subject

Authorize the General Manager to: (1) secure one-year water transfers with various water districts for up to \$100 million from Water Supply Program and State Water Project budgets for such transfers; (2) secure storage and conveyance agreements with the Department of Water Resources and various water districts to facilitate these transfers; (3) 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

In December 2023, the Board declared a Regional Drought Emergency and, among other things, directed the General Manager to aggressively pursue all available short-term water transfer exchange opportunities. In this action, staff requests authorization for the General Manager to execute agreements required to secure water for one year, including agreements to purchase water and secure storage and conveyance agreements with the Department of Water Resources (DWR) and various water entities. Entities may include public water agencies, private water utilities and companies, water rights holders, and state and federal agencies. This authorization would apply to agreements made with entities North of Delta, South of Delta, the San Joaquin Central Valley, and Southern California. The maximum payments to acquire, deliver and store these supplies would be up to \$100 million from the Water Supply Program and State Water Project budgets. Since water transfers occur on a calendar year basis, payments will be covered over two fiscal year budgets. If conditions are such that there are not enough funds available from the Water Supply Program and State Water Project budgets, funds will be taken from reserves. 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

Over the past three years, California has endured the driest years on record, resulting in the lowest deliveries from the State Water Project (SWP). Constraints of SWP supplies severely impact member agencies that are heavily dependent on these supplies to meet their demands. On the Colorado River, continued drought has dropped the system's reservoirs to record low elevations. The federal government has called for significant reductions in water diversions from the Colorado River. Metropolitan's Board has taken significant actions to help manage supplies and meet member agency demands in 2022. 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.

2022 Water Transfer and Supply Programs

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 pursue up to 100,000 acre-feet (AF) of Sacramento Valley water through the SWC Dry-Year Water Transfers Program. The SWC facilitated these water transfers. Metropolitan staff, in partnership with other contractors acting through the SWC's agreement, negotiated one-year water transfers with six sellers. The price for transferable water was \$800/AF. Feather River supplies were curtailed later in the year, and that

significantly impacted the amount of supplies made available from fallowing. Metropolitan's proportionate share of dry-year transfer supplies under the program in 2022 was about 7,890 AF before losses.

2022 North of San Joaquin Delta Transfers

In April 2022, the Board further authorized 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 AF of additional supplies and to secure storage and conveyance agreements with 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 was up to \$60 million from the SWP Budget. The Board granted the General Manager final decision-making authority to determine whether to move forward with these transfers.

YCWA provides surface water by reoperating its reservoirs or by using pumped groundwater instead of surface water. Participants negotiate the groundwater substitution price each year based on market conditions, if YCWA chooses to make this water available. In 2022, before losses, Metropolitan purchased 16,223 AF of groundwater substitution supplies at a price of \$800 per AF and 3,825 AF of reservoir supplies at a price of \$447 per AF. In addition, Metropolitan exchanged about 1,647 AF (before losses) of Desert Water Agency, and Coachella Valley Water District(CVWD) allocated YCWA groundwater substitution supplies with Colorado River supplies. Metropolitan provided a payment of \$353 per AF for the exchange.

2022 SDCWA/Semitropic Partnership

In December 2021, the Board authorized the General Manager to enter into an agreement with the San Diego County Water Authority (SDCWA) to access 4,200 AF of additional water supply and 5,000 AF per year (AFY) of contractual return capacity to the California Aqueduct from SDCWA's groundwater storage program with Semitropic Water Storage District (Semitropic). Metropolitan and SDCWA negotiated a purchase price for water delivered under this agreement at \$893 per AF. This price was consistent with the price for north-of-Delta transfers authorized by the Board in April 2021. For the use of SDCWA's contractual return capacity, Metropolitan and SDCWA negotiated a price of \$100 per AF.

2022 Groundwater Storage Programs

Metropolitan has developed a large regional storage portfolio that includes groundwater storage programs in the central valley. Storage Programs enable the capture of surplus amounts of water in normal and wet hydrologic conditions that can be used in dry years and in conditions where augmented supplies are needed to meet demands. In 2022, Metropolitan requested the maximum recovery from the Semitropic Water Banking and Exchange Program and Kern Delta Water Management Program. Metropolitan also partnered with Arvin Edison Water Storage District and Friant Division (Friant) to exchange water stored in the Arvin Edison Groundwater Storage Program (Arvin Edison).

Semitropic Water Banking and Exchange Program. In calendar year 2022, Metropolitan recovered about 55,000 AF at a cost of about \$15.5 million. There are currently about 163,000 AF remaining in the bank.

Arvin Edison Groundwater Storage Program. Arvin-Edison returns water to Metropolitan through the California Aqueduct. Due to the presence of a primary drinking water contaminant (1-2-3, trichloropropane or TCP) in the Arvin-Edison groundwater basin, Metropolitan is unable to take the direct return of Program water stored in the groundwater basin at this time. In December 2021, Metropolitan entered into an exchange agreement with Arvin Edison and Friant to receive Friant surface water supplies in lieu of groundwater. Surface water was delivered to Metropolitan through the Arvin Intertie to the California Aqueduct. Metropolitan paid about \$7.4 million for 23,000 AF of recovered supplies. There are currently about 119,000 AF remaining in the bank.

Kern Delta Water Management Program. In calendar year 2022, Metropolitan recovered about 29,000 AF and paid about \$15.5 million. There are currently about 126,000 AF remaining in the bank.

Discussion of 2023 Water Transfer Opportunities

On December 1, 2022, DWR announced its initial 2023 SWP allocation to be 5 percent of Table A contract amounts. DWR is also provisionally allocating additional SWP supplies to meet Human Health and Safety needs. Metropolitan is not planning for a full Colorado River Aqueduct in CY 2023 due to low reservoir levels in Lake Powell and Lake Mead and dry conditions on the Colorado River. Given the continuation of unprecedented

drought and limited water supply, the Board adopted a resolution in December 2022 that called upon all member agencies to immediately enhance and intensify conservation actions to reduce the usage of Metropolitan's imported water supplies from the SWP and the Colorado River. The resolution also called for Metropolitan to aggressively pursue water transfer and exchange opportunities to help alleviate the current supply constraints.

Delegation of Authority to General Manager for One-Year Water Transfers

Staff recommends that the Board authorize the General Manager to secure one-year water supplies with water districts. The price for these supplies can vary depending on market conditions but would be limited to a total cost of \$100 million for the transferred supplies. Metropolitan may also be responsible for documented out-of-pocket expenses, including but not limited to administrative, legal, environmental, and professional services fees. In an effort to lock in supplies early, option agreements could be developed. These agreements could include a non-refundable fee, not to exceed 10 percent of the purchase price, in exchange for the first right-of-refusal of transfer supplies. These transfers include possible storage and conveyance agreements with DWR and the water districts. The 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. In 2022, the final conveyance loss for transfer supplies was 25 percent.

Metropolitan would use funds from the Water Supply Program budget or unused State Water Project funds. The State Water Project funds are available because staff initially budgeted for receiving a delivery of a 40 percent SWP allocation for calendar year 2023. However, it is 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. Since water transfers occur on a calendar year basis, payments will be covered over two fiscal year budgets. If conditions are such that there are not enough funds available from the Water Supply Program and State Water Project budgets, funds may be taken from reserves. Staff will regularly update the Board on the progress in securing water transfers.

Participating in the transfer market 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. Transfers would provide additional security for the State Water Project-dependent areas. Accordingly, staff requests that authorization be given to the General Manager 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

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

On December 13, 2022, the Board declared a Regional Drought Emergency, directed the General Manager to aggressively pursue all available short-term water transfer exchange opportunities, and called on member agencies to take specified actions.

California Environmental Quality Act (CEQA)

CEQA determination(s) 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

- a. Authorize the General Manager to:
 - (1) Secure one-year water transfers with various water districts for up to \$100 million
 - (2) Secure storage and conveyance agreements with the Department of Water Resources and various water districts to facilitate these transfers consistent with Articles 55 and 56 of Metropolitan's State Water Project Supply Contract.
- 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: The maximum cost would be \$100 million. Available previously budgeted funds from the Water supply program and State Water Project budget will be used to fund the water transfer purchase. These funds would also be used for any additional administrative and related costs to implement the transfers. If the State Water Project allocation increases and conditions are such that there are not enough funds available, funds will be taken from reserves.

Business Analysis: Purchasing additional transfer supplies will improve regional water supply reliability in 2023 and help mitigate impacts should dry conditions continue. Obtaining transfer supplies in 2023 could reduce the need to allocate supplies based on health and safety.

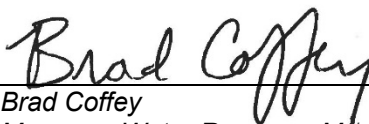
Option #2

Do not authorize the General Manager to enter one-year water transfer agreements with various water districts.

Fiscal Impact: None

Business Analysis: Not authorizing one-year water transfers with various water districts could result in a lost opportunity to secure additional water supplies in 2023, potentially resulting in lower water supply reliability in 2023.

Staff Recommendation

Option #1

Brad Coffey
Manager, Water Resource Management1/4/2023
Date

for 

Adel Hagekhalil
General Manager

1/5/2023
Date