



San Diego County Water Authority

A Public Agency

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December 11, 1997

Board of Directors

FROM Maureen A. Stapleton, General Manager

Approve the Release of the Proposed IID Water Transfer Agreement (Action)

SUMMARY

Staff is seeking permission from the Board of Directors to release for public review and comment terms of a water conservation and transfer agreement negotiated by the Authority with the Imperial Irrigation District (IID). Under the negotiated terms, IID would sell conserved Colorado River water to the Authority -- 20,000 acre-feet in the first year of the contract and up to 200,000 acre-feet in the tenth year. The contract would last 45 years, with a renewal provision for another 30 years. The water's cost would be determined by a formula that takes into account the cost of MWD water, the estimated cost of wheeling the water to San Diego County, and the actual wheeling cost (which is being negotiated with MWD). The negotiated contract builds on the extensive public input compiled during review of the summary of draft terms in 1996. The water that would be gained through the agreement would help the Authority achieve goals outlined in the Water Resources Plan. It also would help the Metropolitan Water District maintain access to surplus water from the Colorado River and would further development of California's plan to live within its Colorado River entitlement.

FISCAL IMPACT

The fiscal impact of releasing the water transfer agreement for public review is minimal, relating to development and printing of public outreach materials for the water transfer program. Funds for these purposes are included in the FY 1997-98 budget.

MEMBER AGENCIES

CITIES
• Del Mar • Escondido • National City
• Oceanside • Poway • San Diego

IRRIGATION DISTRICTS
• Santa Fe • South Bay
• Vista

WATER DISTRICTS
• Helix • Otay
• San Dieguito
• Vallecitos

MUNICIPAL WATER DISTRICTS
• Carlsbad • Ramona
• Olivenhain • Rincon del Diablo
• Padre Dam • Valley Center
• Rainbow • Yuima

COUNTY
• San Diego
(ex officio)

PUBLIC UTILITY DISTRICT
• Fallbrook

FEDERAL AGENCY
• Pendleton Military Reservation

STRATEGIC PLAN

Board action on this item is consistent with the Water Supply Goal and the organizational philosophies regarding public participation and communication.

ENVIRONMENTAL COMPLIANCE

None.

RECOMMENDATION

That the Board approve release of the proposed water transfer agreement with the Imperial Irrigation District for public review and comment.

ALTERNATIVES

That the Board not approve release of the proposed water transfer agreement with the Imperial Irrigation District for public review and comment.

DETAIL

Background

The Water Resources Plan adopted by the Board in February 1997 projects that water demand in the Authority's service area will increase by approximately 30 percent between now and 2015, from approximately 600,000 acre-feet to 780,000 acre-feet. The plan outlines actions the Authority may take in concert with its member agencies to ensure that San Diego County's water supply remains safe, reliable, and sufficient over the next 18 years. In brief, these actions call for the Authority to supplement water purchases from the Metropolitan Water District (MWD) with intensified development of local water resources and the arrangement of long-term water transfers. The plan identifies transfers as "one of the Authority's greatest potential resources."

In fact, the Authority has examined possible water transfers along with other potentially feasible new water supplies over the years. One transfer opportunity arose in 1995, when the IID Board of Directors adopted a policy to consider water conservation and transfer programs with other agencies. IID already had one conservation and transfer program in place. Under this program, MWD pays for conservation projects in the Imperial Valley and receives the water that is saved. The program will yield a maximum of 106,000 acre-feet of water per year.

In September 1995, the Authority signed a memorandum of understanding with IID concerning a long-term conservation and transfer program between the two

agencies. Since then, the Authority and IID have negotiated an agreement through which the Authority would buy from IID water conserved through extraordinary means, either by the district, its agricultural customers or both. Negotiators for the two agencies agreed to draft terms for an agreement last year. The Boards for the two agencies agreed in July 1996 to release a summary of the draft terms for public review and comment.

Summary of draft terms

Under the draft terms, the Authority would buy conserved water -- a minimum of 200,000 acre-feet and a maximum of 500,000 acre-feet per year -- at a price that included the cost of on-farm conservation plus an incentive for Imperial Valley farmers who volunteered for the program. The program would begin in 1999 with the transfer of 20,000 acre-feet of water; the quantity would increase in 20,000-acre-foot increments annually until it reached 200,000 acre-feet per year in 2008. Further increases in quantity would depend on demand in San Diego County and the ability to supply more through conservation in the Imperial Valley. The contract would last for a minimum of 75 years and include provisions to extend it for a total of 125 years.

Following public release of the summary of draft terms in July 1996, the Authority acted to ensure that all interested stakeholders were informed about the terms and had an opportunity to comment on them. Directors and staff conducted more than 100 briefings on the draft terms. Every member agency and city in the service area was briefed, as were many other interested organizations. The Authority assembled a citizen committee comprised of representatives of every member agency that reviewed the draft terms in depth and commented on them. In addition, the Board held a formal public hearing.

Staff summarized all of the public input received by the Authority for review by the Board. With this input, the Board refined parameters for staff to use in further negotiations with IID. Negotiations resumed in June 1997 and led to a proposed water conservation and transfer agreement between the Authority and IID.

Water conservation and transfer agreement with IID

Under the negotiated contract, IID would sell Colorado River water resulting from extraordinary conservation by its agricultural customers to the Authority for 45 years. Either agency would be able to extend the contract for another 30 years beyond the initial term. Deliveries in year one of the contract would total 20,000 acre-feet and increase in 20,000 acre-foot increments annually until they reach a maximum of 200,000 acre-feet per year in the tenth year. The two agencies may agree to transfer an additional 100,000 acre-feet per year after year 10. The water would result from voluntary extraordinary conservation by Imperial Valley farmers, not from land fallowing.

The Authority would pay an amount for the water that equals the cost of conserving the water, plus an incentive to encourage participation by farmers. The contract includes a formula to determine the water's price that takes into account the cost of MWD water. The water's price reflects due diligence by the Authority and IID to confirm the cost of on-farm conservation measures such as pumpback systems and the lining of earthen irrigation canals. While the price does not include the cost of conveying the water from the Colorado River to San Diego County, it does account for both the estimated cost of wheeling the water (the base wheeling rate) to San Diego County -- as based on interpretations of state law by the Authority and IID -- and the actual wheeling cost which is being negotiated with MWD. A discount is applied to the price that begins at 25 percent in year one and declines gradually over 17 years to stabilize at 5 percent for the remainder of the contract. (The discount on the transfer rate goes out of existence once the rate is redetermined in the future based entirely on the price of other similar transfer transactions; price redetermination is explained below.) An example of the formula follows (the numbers used are only examples):

MWD untreated water rate	\$349/acre-foot
Other MWD charges	<u>+51</u>
MWD "full rate"	400
Base wheeling rate	<u>-68.50</u>
	331.50
25 percent discount (year 1)	<u>-82.87</u>
Year 1 price	\$248.63/ace-foot

The contract also features a provision under which the Authority and IID would share the difference between the estimated cost and the actual cost of wheeling the water. In the example above, if the actual wheeling rate is \$10 per acre-foot higher than the estimated rate, the Authority and IID would split the \$10 difference. The Authority would subtract its \$5 from the \$248.63 total, making the transfer rate \$243.63 per acre-foot.

Under the negotiated terms, either the Authority or IID may request a redetermination of the water's price after the first 10 years of the contract and no sooner than every 10 years thereafter. Until the market for water transfers reaches a maturity threshold, the price would be redetermined based on a comparison with the cost of comparable transfers, Authority water supply projects, and MWD's water rates. Once the transfer market matures, the price redetermination would be tied to the price of eligible water transfers in the Lower Colorado River Basin. A mature market would have two primary defining elements: There must be at least 10 eligible transactions, based on criteria including reliability, legal and technical feasibility, quantity, location, duration and water quality, and the annual volume of water transferred to California

must exceed a defined minimum amount. The goals of the price redetermination process would be to ensure that the price of Authority-IID transfer water is consistent with the water's estimated market value and to limit as much as possible the scope for arbitrary decision-making concerning price.

Water transferred under the agreement would result from IID's Colorado River rights, which are among the most senior in the Lower Colorado River Basin. In recognition of the value added by this reliability, the contract requires the Authority to pay a shortage performance premium to IID for transferred water if:

- The Authority declares a water shortage and imposes mandatory conservation and rationing; or
- The State Water Project declares a critically dry year; or
- The Interior Department declares a shortage for the Lower Colorado River Basin.

The premium would apply only while the transfer price is indexed to the MWD water rate. Staff believes that while there is some probability of a shortage premium being triggered prior to the first price redetermination based on historic hydrologic conditions for the State Water Project and the Colorado River, existing and planned regional storage programs, dry-year option agreements and the availability of spot market water through the state's drought water bank will significantly mitigate this exposure.

Should the Secretary of the Interior declare a shortages in Colorado River supplies, the Authority and IID would share the cutbacks proportionally. If IID deliveries to the Authority represent 6 percent of IID's total annual Colorado River supplies, water transferred to the Authority would be reduced by 6 percent in a shortage. IID would be responsible for any reductions in its quantified third priority rights to Colorado River water. No shortage premiums would apply in such a case.

The contract would go into effect in the first year after the Authority and IID satisfy a series of contingencies. The state Water Resources Control Board and the federal Bureau of Reclamation must approve the contract. The Authority must arrange cost-effective and reliable conveyance for the water. (More on this in section below headed "Wheeling negotiations with MWD.") IID must have participation by landowners representing at least 130,000 acre-feet of water per year for the program. Both agencies must be able to reasonably mitigate environmental impacts of the transfer. IID's cost of environmental mitigation would be limited to \$30 million. The Authority's environmental mitigation responsibilities would be related to conveyance of the transferred water and would be limited to \$2 million.

Potential benefits of IID water conservation and transfer agreement

The water conservation and transfer agreement negotiated with IID offers several potential benefits to San Diego County. In general, they relate to provisions of the Authority's Water Resources Plan regarding maintenance of an adequate and reliable water supply for San Diego County. Water resulting from the agreement negotiated with IID would represent a new, long-term and reliable supply for the county that would help to meet increased future demand and serve as an insurance policy against shortages caused by drought or other factors. As the price of the transferred water would be set by contract, its price would be stable for planning purposes for a minimum of 10 years. Thereafter, the price would remain competitive with the transfer market. In addition, the securing of a long-term transfer would enable the Authority to diversify the county's water supply -- a prime objective of the Water Resources Plan. The plan envisions a San Diego County supply in 2015 that gets 55 to 60 percent of its water from MWD, 15-20 percent from local resources and 25 percent from long-term transfers.

The water transfer agreement with IID also presents potential benefits for the MWD service area and California. Water transferred from IID to the Authority would expand the overall supply available to MWD and its member agencies, which is especially important given that MWD stands to lose almost half of the water it presently imports through the Colorado River Aqueduct. This would relieve pressure on MWD's limited Colorado River entitlements and help MWD member agencies to have more secure supplies.

As to the state as a whole, an Authority-IID transfer of 200,000 acre-feet of water per year is a key component of the plan being developed by the Colorado River Board of California and Department of Water Resources Director Kennedy regarding California's future use of Colorado River water. Thanks to surplus conditions, California takes about 5.3 million acre-feet of water per year from the Colorado River -- 20 percent more than its allocation. Almost all of the use above California's 4.4 million acre-foot annual allocation goes to MWD, but the U.S. Department of the Interior and the other Colorado River Basin states have insisted that California develop and implement a plan to live within its allocation. Development of such a plan may enable MWD to maintain access to surplus supplies when available.

A transfer agreement between the Authority and IID also may benefit California in several other ways. It potentially may strengthen the Southern California economy by making San Diego County's water supply more reliable and stimulating the Imperial Valley's economy. It could reduce Southern California's need for additional State Water Project deliveries from the environmentally sensitive Bay-Delta system. It may help California avoid disputes with other states regarding Colorado River water.

Timeline for future actions

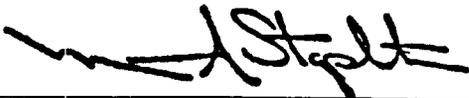
At its November meeting, the Board approved a public review process for the water conservation and transfer agreement with IID. The goal of the process is to ensure that the Authority briefs member agencies, stakeholders and interested members of the general public about the proposed agreement before the Board is asked to vote on the agreement.

Staff will contact each member agency and interested parties to schedule a briefing about the agreement. Staff also will offer a briefing to the managers of the cities within the Authority service area, key stakeholders and news media outlets. In addition, staff will hold a public informational meeting in January and a formal public hearing in January. All of these briefings and meetings will occur before staff returns to the Board at its February 12 meeting for a vote on the agreement.

Staff recommends that the Board approve release of the proposed water transfer agreement with the Imperial Irrigation District for public review and comment.



Robert R. Campbell, Executive Assistant to the General Manager



Maureen A. Stapleton, General Manager

Declaration of Vernice Rae Hartman

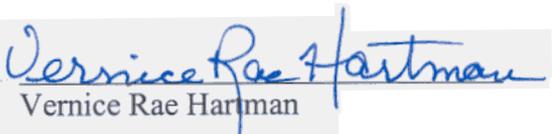
I, Vernice Rae Hartman, declare that:

1. I am the Clerk of the Board for the San Diego County Water Authority, in San Diego, California. I hereby make this declaration in my official capacity on behalf of the San Diego County Water Authority.

2. I declare that the attached exhibit dated December 11, 1997 "SDCWA Board Letter re: Approve the Release of the Proposed IID Water Transfer Agreement (Action), including attachments" is a true and accurate copy which is retained in the files of the San Diego County Water Authority, in San Diego, California.

I certify under penalty of perjury under the laws of the State of California that the above statements are true.

Dated: This 22 day of May, 2002.


Vernice Rae Hartman