

Topic: **Sites Reservoir Project, Phase 1** **2017 Apr 14**

Subject: **Participation in Acre-ft. of Water & Its Allocation**

Proposed Recommendations

Purpose: Recommend a set of principles or rules that, once adopted by the Reservoir Committee, will be used as the basis for rebalancing the participation, which is currently measured in acre-ft. of water.

NOTE 1: The rebalancing is required prior to starting Phase 2 and needs to incorporate the State’s participation under WSIP and potential federal participation under WIIN.

NOTE 2: If changes result in a material change as defined in the Bylaws, Section 12, then the authority’s approval would be required.

Context: The following has been developed by the Finance and Economics Work Group to address only the near-term issues related to completion of the 2016 onboarding process (aka Round 3 per Recommendation #1) and to allow additional participation through the remainder of Phase 1 (i.e. up to the start of the Phase 1 rebalancing process).

Revisions: It is anticipated that additional issues will arise during Phase 1. Their resolution will be documented as a revision to this document.

<u>Rev</u>	<u>Effective Date</u>	<u>Status or Authorizing Action</u>
A	2017 March 15	Initial working draft. Issued for comment

Foundational Principles:

1. Continue to maximize participation while preserving eligibility to maximize State’s Prop 1 and/or Federal investment.
2. Highest priority is the time of participation. Participants joining later in time receive the benefit created by the early participants’ efforts to advance the Sites Reservoir Project to better manage (and to a certain extent lessen) the risks and uncertainties.

3. Continue to use an inclusive and equal participation process - all participants will pay the same \$/acre-ft. for Class 1 & Class 2, respectively and regardless of geographic location.
4. The governance will evolve as the Project evolves through each phase of the project. This includes the delegations and responsibilities of the Reservoir Committee. Today's working assumption is the reservoir Committee would ~~be have responsibility the financing entity~~ for construction oversight and ~~responsible for~~ repayment through the Authority.

Recommendations:

1. Define participation "rounds" throughout Phase 1:

Round 1: Ending with execution of Authority's Agreement in August 2010.

Round 2: Signatory to the newly created Reservoir Committee's Project Agreement (version 1), which went into effect on April 11, 2016.

NOTE 1: This includes members who became signatory to Amendment #1 to the Authority's Agreement in August, 2015.

NOTE 2: May 29, 2016 was the start of the formal Request to Participate process, which closed on August 1, 2016. At the June 13 Board meeting, the Authority formally approved requests from existing members to change their participation amounts.

Round 3: Signatory to the Amended Reservoir Committee Project Agreement (version 2) to, in part, add new participants, which went into effect on November 21, 2016.

NOTE 1: From August 1, 2016, through March 15, 2017 no formal requests to participate have been received. During this time, two requests to increase participation were received.

NOTE 2: The Project Agreement (via Exhibit A1) lists the parties and their participation. Adding new participants requires Authority approval and then the Reservoir Committee to approve an amendment to the Project Agreement. Currently, California Water Service, Metropolitan Water District of S. CA, and Placer County Water Agency/City of Roseville are not listed and are not signatories to the agreement.

Round 4: Signatory to an Amended (and Restated) Reservoir Committee Project Agreement before the close of California Water Commission's Application submittal window on August 14, 2017.

Round 5: Signatory to an Amended (and Restated) Reservoir Committee Project Agreement before the California Water Commission issues its initial Public Benefits Ratio, which is expected to occur in January, 2018.

Round 6: Signatory to the Amended (and Restated) Reservoir Committee Project Agreement before the California Water Commission issues its Maximum Conditional Determination of Eligibility, which is expected to occur in June, 2018.

2. Define priorities in time within each participation "round":

Priority:

2.1 Changes approved by the Authority's Board on June 13, 2016 (i.e. before the August 1, 2016 deadline).

NOTE: The revised quantities for Colusa County Water District and LaGrande Water District were discussed at the May 9 Authority Board meeting and were incorporated in Exhibit A that was released on May 24 as part of the onboarding package.

3.1 Reallocation of 10,000 acre-ft. of Class 1 water with an expiration date (see Recommendation #3).

3.2 Offer additional Class 2 to those participants who have formally requested to increase their participation and have executed the Amended Reservoir Committee Project Agreement (version 2). An expiration date (see Recommendation #3).

3.3 Continue to work with other participants who, in their formal response to the Request to Participate process, specified an acre-ft. to use as the basis of their participation and the counteroffer was to participate solely in Class 2 water. An expiration date will be established (see Recommendation #3).

3.4 Continue to work with other participants who, in their formal response to the Request to Participate process, elected to not specify an acre-ft. to use as the basis of their participation. An expiration date will be established (see Recommendation #3). However, they did propose to provide in-kind services with the potential these services could be credited towards an eventual participation on an acre-ft. basis.

The resulting impact on acre-ft. for each participant is summarized in Attachment A.

3. Timeline to complete the onboarding of all Round 3 participants:

If the respective governing board has not acted by the following dates, their amount Class 1 and Class 2 water available to the respective (and pending) participant will be multiplied by the following percentages:

<u>Date:</u>	<u>Class 1</u>	<u>Class 2</u>	
By COB ¹ Friday April 28:	50%	35%	
By COB Wednesday May 31:	0%	0%	Counteroffer will become void.

The resulting balance will become available for others. Should other (existing or new) participants receive such Reservoir Committee approval, the incremental amount will be considered as participating in the Round in which the Reservoir Committee approved such requests.

Context: Completion of the onboarding process was anticipated to occur within approximately 60 days from approval of the Amended Phase 1 Work Plan for inclusion into the Amended Reservoir Committee Project Agreement (version 2). The Amended Work Plan was approved on Dec 5, 2016. Continued delays will affect the cash flow for planned studies. The impact of delays in executing the Agreement is summarized as follows:

<u>Affected Agencies include:</u>	<u>Class 1</u>	<u>Class 2</u>	<u>Total</u>
✓ California Water Service		35,000.	35,000.
✓ Westlands Water District	12,570.	7,430.	20,000.
✓ Carter MWC		1,000.	1,000.
Total Acre-ft.	12,570.	43,430.	56,000.
Invoice Value: (Initial Payment)	\$ 412,801.	\$ 713,119.	\$ 1,125,921.

4. Reallocation of 10,000 acre-ft. (Priority 3.1):

- a. To be offered first to those participants who accepted a counter-offer resulting in a blend of Class 1 and Class 2 water. Then, to other participants who are eligible to receive Class 1 water.
- b. Exhibit A1 and C will be revised to remove RD 2035.

Methodology: Pro-rated based on original request as summarized below. If an agency does not elect to accept the respective amount by April 30, it

¹ [COB means Close of Business](#)

will be re-offered to this group until the 10,000 acre-ft. has been fully allocated.

ID Agency	Requested Participati	Class	P.ct	Counter-offer			
				Class 1	Reallocated	Pct	Class 2
08 Santa Clara Valley Water District	24,000	1	14.3%	13,656	1,429	62.9%	8,916
09 Westlands Water District	20,000	1	11.9%	11,380	1,190	62.9%	7,430
10 Antelope Valley-East Kern Water Agency	2,000	1	1.2%	1,138	119	62.9%	743
11 Castaic Lake Water Agency	5,000	1	3.0%	2,845	298	62.9%	1,857
12 Coachella Valley Water District	26,500	1	15.8%	15,078	1,577	62.9%	9,845
13 Desert Water Agency	6,500	1	3.9%	3,698	387	62.9%	2,415
15 San Geronio Pass Water Agency	14,000	1	8.3%	7,966	833	62.9%	5,201
16 San Bernardino Municipal WD	30,000	1	17.9%	17,069	1,786	62.9%	11,145
17 Wheeler Ridge-Maricopa Water SD	20,000	1	11.9%	11,380	1,190	62.9%	7,430
18 Zone 7 Water Agency	20,000	1	11.9%	11,380	1,190	62.9%	7,430
Revenue:	374,411		100%	240,000	10,000	56.9%	124,411
Total Eligible for Reallocation of 10,000 acre-ft. of Class 1:			168,000			6.0%	

- Invoices for the difference will coincide with the 2nd cash call planned for later this year. Invoice amount will be the price difference (Class 1 – Class 2) times the respective amount being converted.
- Any resulting request to further increase participation in Class 2 water will have the same priority in time as the Round in which the Reservoir Committee approved such requests.

5. Cap the amount of Class 2 water:

Limit amount of Class 2 available to not exceed 170,000 acre-ft. = 250,000 acre-ft. - ~80,000 acre-ft. (which is the difference in annualized water available between Alt A” 1.2 MAF reservoir and Alt D: 1.8 MAF reservoir).

Total Available = Class 1 + Class 2 = 420,000 acre-ft.

6. Requested increase in Class 2 Water (Priority 3.2):

- Accept Pacific Resources 2016 Nov 21 request for + 10,000 acre-ft.
- Accept City of American Canyon’s 2017 Feb 21 request for + 2,000 acre-ft.

7. Conditional Request to Participate (Priority 3.3):

Within the timelines established in Recommendation #3, work with California Water Service to define a participation level applicable for Phase 1. Should this process not be completed by the last date in Recommendation #3, any eventual participation will be based on the

applicable round they execute an Amended Reservoir Committee Project Agreement (refer to Round 3, Note 2).

NOTE: Further discussion is needed to address the likelihood that CPUC approval occurs in Phase 2 – after the Phase 1 rebalancing process has been completed. Currently, there is no process in place to manage participation beyond Phase 1

8. Participation by In-Kind Services (Priority 3.4):

Due to the current waiting list to participate in Class 1 water, only Class 2 water is available.

- a. Work with prospective Reservoir Committee participants who have expressed an interest in providing in-kind services to define the specifics for the Reservoir Committee's consideration. The goal is to have any approvals and agreements executed by the latest date provided in Recommendation #3.
- b. Any in-kind services eligible for such consideration need to be beyond the due diligence efforts and studies that a participant would normally perform to ensure the project aligns with their value proposition.
- c. Any in-kind services need to be formally documented, using a master-services contract process having agreed upon scope, schedule, and budget.
- d. Any formula to convert in-kind services to an amount of Class 2 water needs to be developed and will require amendment to this document.

Context: Exhibit B, Section 3.2 allows the use of in-kind services to advance the Sites Reservoir Project. Currently, no signatories to the Reservoir Committee's Project Agreement have requested to provide such services. However, the following respondents to the Request to Participate in Phase 1 included an alternative request (than participating on an acre-ft. basis) to provide in kind services; either directly or indirectly via studies.

- a. Metropolitan Water District of S. CA (MWD): At the January 20 Reservoir Committee, MWD presented a concept to provide in-kind services, which was generally accepted in principle and with a request for specifics. Recent discussions include the concept to also participate using an acre-ft., which would enable MWD to become signatory to an Amended (and Restated) Reservoir Committee Project Agreement (refer to Round 3, Note 2).
- b. Placer County Water Agency/City of Roseville: Their proposal includes supporting studies focused on Folsom Reservoir's operations; primarily for ecosystem benefits. This is in addition to their request to become

an Authority Member. They also expressed interest in how Sites reservoir could support a long-term conjunctive use project that would primarily provide benefits the lower American River watershed via an intake off the Sacramento River.

9. Managing Risk of Stranded Investment:

From now through completion of the Phase 1 re-balancing process, should the Reservoir Committee and/or Authority request a participant to withdraw from continuing to participate in Phase 1, the amount previously paid to the Authority for use by the Reservoir Committee will be refunded. However, no refund will be approved:

- a. for participants who were found to not be in "good Standing" as defined in the Bylaws, Section 8.1.
- b. should the public benefits participation by the State and/or Federal result in a combined total of less than or equal to 25% (i.e. 125,000 acre-ft.). Under this unanticipated scenario, the Project would need to be re-formulated and all participants would need to re-evaluate their position.

In developing the Phase 2 work plan, a budget amount will be established for the sole purpose to refund those participants whose continued participation is significantly reduced or terminated due to the re-balancing process.

Context: Participants solely in Class 2 water are at greatest risk of not being able to continue to participate in the Project after Phase 1. The re-balancing process cannot be fully defined until the CA Water Commission makes its decisions and Reclamation, via the federally-mandated feasibility study, can elect to decide what, if any, level of participation they should request.

Estimated range of State and/or Federal Participation in capital costs:

- State under Prop 1: 0% to 50%
- Federal WIIN Act represents 0% to 25% as a non-federal project.

The current working assumption is 35% to 50%