



Topic: **Joint Authority Board and Reservoir Committee 2021 February 19**
Meeting Agenda Item 3.1

Subject: **Update of Water Storage Policy**

Requested Action:

Review and comment on the approach for updates to the Sites Water Storage Policy.

Detailed Description/Background:

In July 2020, the Reservoir Committee and Authority Board referred consideration of updates to the conditionally approved August 2019 Water Storage Policy to the Ad Hoc Reservoir Operations and Engineering Workgroup. This Workgroup established a small working group to assess changes to the Policy and bring those recommended changes back to the Workgroup. The small working group has met four times since late September 2020 to assess and discuss changes to the Policy. Proposed updates were discussed with the Ad Hoc Reservoir Operations and Engineering Workgroup in February 2021.

Updating the storage policy is foundational to strategic goal #1 – Affordability - because the policy forms the basis for potential uses of the project assets and these uses result in benefits to participants. The policy is the umbrella document that sets the framework for other documents in development. Specific contractual terms of uses and levels of service will be established in the Water Storage and Service Contracts, financial terms and payment obligations will be established in the Plan of Finance and day to day operational terms will be established in the Operations Plan. Within this context, the following goals need to be achieved in updating the Policy:

- The Storage Policy should be lasting. It should be broad enough that changes would be infrequent. Frequent changes could erode the Storage Partner's confidence in the asset they are purchasing.
- The Storage Policy should provide a foundational understanding of the asset being purchased and how that asset can be used. Storage Partners need to have a foundational understanding to continue to participate in the Project.
- The Storage Policy should establish guiding principles. Other documents including the Water Storage and Service Contracts, Plan of Finance, and Operations Plan will address financial, operational and timing considerations and details. The Storage Policy should provide a framework for these documents as described above.

With the guidance of the small working group and with these goals in mind, staff has developed a draft revision to the Storage Policy for consideration (Attachment A). The proposed updated policy was reviewed with the Operations and Engineering Workgroup and their input has been incorporated. The following key changes were made to the Storage Policy:

- Storage Partners – The State of California and the Bureau of Reclamation were combined into the definition of Storage Partners and the operation of their Storage Allocation is treated the same as all other Storage Partners.
- Priority of Operation – A new section was added to identify a priority of operations for the reservoir. In this section, the Policy identifies that Sites Reservoir will be operated for water supply and water supply related environmental benefits. Flood

control is inherent to the design. Recreation and power generation are incidental and considered secondary to the water supply and water supply related environmental benefits.

- **Priority Among Storage Partners** – A new section was added to clarify that all Storage Partners, including local, State and Federal partners, are treated equally in the operations of their portion of storage. Each partner has rights to the share of diversions and releases depending on their ability to pay associated costs and their requesting their equitable share of available water.
- **Water Storage and Service Contracts** – A new section was added to specify the Water Storage and Service Contracts as the contractual arrangement between the Authority and the Storage Partners and identify that these would be based on a Storage Allocation (storage space in the reservoir). These concepts were generally in the introduction paragraph of the August 2019 version of the Policy.
- **Point of Delivery** – A new section was added that identifies the primary point of delivery as either Funks Reservoir or the Terminal Regulating Reservoir. The section identifies that the Authority will convey water to secondary points of delivery for Storage Partners as determined in the respective Storage Partner’s Water Storage and Service Contract, and that the Storage Partner is responsible for all losses after the primary point of delivery. Text was also added that identified that the Authority would undertake all reasonable measures to manage, control and protect Sites water to prevent unlawful diversion or interference.
- **Some Details Removed** – Some of the details on operations, annual scheduling, costs, payments and similar was removed and will be included in the Water Storage and Service Contracts, Plan of Finance or Operations Plan, as appropriate. These items will be tracked separately to ensure they are not lost.
- **Governance** – The descriptions of roles and responsibilities between the Reservoir Committee and Authority Board were removed. The term Authority was defined to include both the Reservoir Committee and Authority Board. Governance and roles and responsibilities for the Reservoir Committee and Authority Board during operations will need to be further explored as it relates to financing, asset ownership and risk management.
- **Water Sharing Among Partners** – An item previously contemplated by the Reservoir Committee but not included in the Policy update was the concept that participants would, under voluntary terms and if desired, share their assets first with other participants in the project and participants with greater needs would reach out first to other participants for help in meeting their needs. The small working group and O&E workgroup was supportive but felt this concept was better addressed in the Water Storage and Services Contract.

Staff is requesting Reservoir Committee and Authority Board members review the revisions to the Storage Policy and provide any comments, questions or concerns to staff by March 1. The prior version of the Storage Policy was approved pending each agency getting their Legal Counsel’s input which has not yet occurred. It is expected that each agency will consult with the Legal Counsel so that this update can be finalized and be fully adopted. Revisions will be made based on comments received and a revised Storage Policy is expected to be provided in March 2021 for action by the Reservoir Committee and Authority Board.

Prior Reservoir Committee Action:

July 16, 2020: Review and comment on the conditionally approved August 2019 Water Storage Policy and consideration of updates to align with Value Planning. Recognize the Storage Policy serves as the foundational document to 2021 key milestones of creating a Plan of

Finance and Operations Plan and refer consideration of updates to the Ad Hoc Reservoir Operations and Engineering Workgroup.

August 26, 2019: Presented and adopted, pending minor modifications included in Attachment A and pending home board legal review.

August 15, 2019: Draft Storage Policy presented and discussed at the Joint Workshop.

July 19 & 22, 2019: Draft Storage Policy was provided to for review to the Reservoir Committee and Authority Board meetings to allow all Sites Participants to review, discuss and comment.

Fiscal Impact/Funding Source: None.

Staff Contact: Ali Forsythe

Attachments:

Attachment A: Draft Storage Policy Revisions for WG, RC, and AB Discussion and Review, dated February 8, 2021.

Draft Revisions – For WG, RC, and AB Discussion and Review
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STORAGE POLICY
BY
THE SITES PROJECT AUTHORITY

(1) This Storage Policy was adopted by the Sites Project Authority (Authority) on 26th day of August 2019 and amended on _____ 2021 to assist in the development and operation of the Sites Reservoir Project (Project) by the Authority and the Sites Storage Partners.

PURPOSE

(2) The purpose of this Policy is to identify the principles the Authority will adhere to during Project development and operations as they relate to participation in the Project as well as diversions, storage, and releases of water from the Project.

DEFINITIONS

(3) Authority – For the purposes of this Policy, the term Authority collectively refers to the Sites Project Authority and its standing Reservoir Committee. The roles and responsibilities of the Authority and the Reservoir Committee in the day-to-day operations of Sites Reservoir have not yet been defined and thus the term Authority is used to refer to both entities collectively.

(4) Available Storage – That portion of Sites Reservoir that can be filled less dead storage and any storage space intentionally left unfilled at the direction of the Storage Partner who has contracted for that storage space.

(5) Beneficiary Pays – The principle for allocating all costs associated with delivering certain benefits, including public and non-public benefits, to the party receiving said benefits (beneficiary).

(6) Operations, Maintenance and Replacement (O&M) or (OM&R) – Those costs associated with the operations of the Project. These can be broken down into: (a) Fixed operations and maintenance and replacement costs that are more predictable year-to-year and that are not significantly influenced by varying diversions or releases of water; and (b) Variable operations and maintenance costs that reflect annual operations and maintenance costs that vary based on actual operations each year, including operations and maintenance costs associated with water transfers or exchanges.

(7) Sites Reservoir Project (Project) – Sites Reservoir and associated diversion and conveyance facilities.

(8) Sites Water – Water that is appropriated under the Authority’s water right.

(9) Storage Allocation – The amount of storage space (storage volume) in Sites Reservoir allocated to a Storage Partner, as agreed upon in that Storage Partner’s Water Storage and Supply Services Contract.

(10) Storage Partners – The governmental agencies, water organizations and others who have funded and received a Storage Allocation in Sites Reservoir and the resulting water supply or water supply related environmental benefits from the Project. Storage Partners could include local agencies, the State of California, and the Federal Government.

PRIORITY OF OPERATION

(11) Sites Reservoir will provide water supply and water supply related environmental benefits (including water quality benefits) along with flood control, recreation, and power generation benefits. Sites Reservoir will be operated for water supply and water supply related environmental benefits that accrue to the Storage Partners. Flood control benefits are inherent and will accrue regardless of the other benefits. Recreation and power

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generation benefits are incidental to the operations of Sites Reservoir for water supply and water supply related environmental benefits.

ROLES

(12) Authority - The Authority will develop, own, operate, and maintain the Project. The Authority will obtain and comply with all applicable permits and approvals to construct, operate and maintain the Project. The Authority will oversee the planning, permitting, and day-to-day operations and accounting of Sites Reservoir storage, releases and losses and related activities including coordination with each of the Storage Partners. This will be done in a way that is open and transparent to all the Storage Partners.

(13) Storage Partners – The Storage Partner is responsible for managing their Storage Allocation to realize water supply and water supply related environmental benefits and paying their allocated capital, fixed O&M, and variable O&M costs.

WATER STORAGE AND SERVICE CONTRACTS

(14) The Authority will enter into Water Storage and Service Contracts with individual Storage Partners for the use of Project facilities. Each Water Storage and Service Contract will be based on a Storage Partner’s Storage Allocation.

WATER RIGHTS AND POINT OF DELIVERY

(15) The Authority will apply for and hold the water right for the Project. The Authority will be responsible for compliance with the terms and conditions in the water right and other permits and approvals that control the diversion of water to storage for the Project. The Storage Partners will be responsible for using Sites Water within the parameters allowed in the Authority’s water right and timely reporting to the Authority requested information necessary for the Authority to complete any required reporting. To the extent permitted by applicable law and with the cooperation of the Storage Partners, the Authority will undertake all reasonable measures to manage, control and protect Sites Water up to the primary or secondary point of delivery, as applicable, including initiating any appropriate enforcement proceedings to prevent unlawful diversion of or interference with Sites Water.

(16) The Authority will manage Sites Water from the points of diversion to the primary point of delivery. The primary point of delivery will be Funks Reservoir or the Terminal Regulating Reservoir. For Sites Water delivered to Storage Partners not served by the Tehama-Colusa Canal or the Glenn Colusa Irrigation District’s distribution system, the Authority will retain control of Sites Water to a secondary point of delivery. Both the primary and secondary points of delivery will be specified in the respective Water Storage and Service Contract with the individual Storage Partner. The Storage Partner will be responsible for all costs and losses between the primary and secondary point of delivery.

STORAGE OF WATER BY DIVERSION

(17) The Authority will take all actions practicable to maximize the diversion of water into Available Storage consistent with regulatory requirements, physical constraints and hydrologic conditions. Water diverted will be allocated to each Storage Partner’s contractual storage space proportional to their Storage Allocation.¹

¹ For example, if 275,000 acre-feet of water is able to be diverted to Sites Reservoir in any one year, this represents 20% of the total allocated storage space in Sites Reservoir (275,000/1.38 million acre-feet = 20%). In that year, each Storage Partner would receive an amount of water equal to 20% of their Storage Allocation, unless the Storage Partner has opted out of having water allocated to their Storage Allocation or their Storage Allocation is full. This example assumes a 1.5 million acre-foot reservoir with about 120,000 acre-feet allocated to dead pool.

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(18) The Authority will establish a process, including schedule, that allows for a Storage Partner to determine the maximum amount of water allocated to the Storage Partner’s Storage Allocation each year along with a process to make changes to this amount. A Storage Partner may opt out of having water allocated to their Storage Allocation if they so inform the Authority through the process established by the Authority.

(19) If a Storage Partner’s Storage Allocation is not available (whether due to being completely filled, a Storage Partner opting out of filling for the season, or any other reason), the available water will be allocated to the remaining Storage Partners who have available Storage Allocation space. The water will be used to proportionally fill the other Storage Partners’ Storage Allocations until all Storage Partners’ Storage Allocations are filled up to each Storage Partner’s requested amount of fill within that Storage Partner’s space.

(20) The diversion of water to storage will take priority over the release of stored water. The diversion of Sites Water to storage will take priority over the diversion of water from other sources to storage.

STORAGE OF WATER FROM OTHER SOURCES

(21) Storage Partners may request that the Authority place water from sources other than Sites Water into storage and allocate that water to their Storage Allocation. These other sources could include among other things: the re- diversion of previously stored water, water transfers, exchanges between Storage Partners, and exchanges with other entities. The Authority will take all reasonable steps to facilitate these requests. Beneficiary pays principles shall apply. Placing water into storage from other sources shall not negatively impact other Storage Partners or negatively impact overall Project operations.

(22) If there is a conflict between placing water into storage in Sites Reservoir from other sources of water and the release of water from Sites Reservoir at the same time, an “in lieu storage” option may be used by the parties involved provided the water rights issues are addressed on a case-by-case basis.

ACCOUNTING FOR LOSSES

(23) Losses of water held in Sites Reservoir storage including evaporation and seepage will be allocated proportionally to each Storage Partner based on the amount of their water in storage.

(24) Losses, if any, incurred after the primary point of delivery, including carriage costs through the Sacramento-San Joaquin Delta, are the responsibility of the Storage Partner. Losses, if any, for Storage Partners that divert off the Sacramento River and receive Sites Water by exchange with other entities shall be determined in the exchange agreement and are the responsibility of the receiving Storage Partner.

SHARING OR LEASING OF STORAGE ALLOCATION

(25) Storage Partners are allowed to share or lease their Storage Allocation with other Storage Partners or other entities subject to any conditions placed on such sharing or leasing within the terms of project financing. The terms of sharing or leasing are at the discretion of the Storage Partners but must not negatively impact other Storage Partners or negatively impact overall operations. Any sharing or leasing of Storage Allocation shall be coordinated with the Authority so that proper water accounting can be maintained. Beneficiary pays principles shall apply including costs, if any, for the Authority to comply with applicable state and federal laws. The responsibility for collecting payment for use of a Sites Storage Partner’s shared storage space will be the responsibility of the Storage Partner.

RELEASES OF WATER FROM STORAGE

(26) Storage Partners have total discretion on the amount of water held in their Storage Allocation that they request to be scheduled for release for their use. To the extent allowed by natural conditions, permit requirements and

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physical capabilities of the Project, each of the Storage Partners will have control over the use of their Storage Allocation space based on the conditions set forth in this Policy. The water supply benefits and water supply related environmental benefits derived from these Storage Allocations will depend in large part on how each Storage Partner manages the water stored and released from their Storage Allocation.

(27) Each year, the Authority will make a water storage forecast for each Storage Partner. Each Storage Partner will provide the schedule and amounts of the water they wish to be released in that year. The Authority will establish a process, including schedule, that allows for the Storage Partner to make changes to its water schedule and amounts for release throughout the year.

(28) The Authority will work with each Storage Partner, the State Water Project, Central Valley Project, Tehama Colusa Canal Authority, the Glenn Colusa Irrigation District, entities along the Colusa Basin Drain, and regulatory agencies and make all reasonable efforts to satisfy the water release schedules requested by each Storage Partner. If there is a Sites Reservoir release constraint affecting the ability of meeting the requested water release schedules from Sites Reservoir, the Authority will first work with those conflicted Storage Partners to see if accommodations can be made. If the conflict cannot be resolved, releases will be made in proportion to the Storage Allocation as divided among the conflicted Storage Partners.

PRIORITY

(29) All Storage Partners, including local, State, and Federal partners, are treated equally in the operations of the Project. Equal treatment includes, but is not limited to, priority of diversions, storage, releases, and conveyance of Sites Water.

OPERATION, MAINTENANCE AND REPLACEMENT

(30) Operation and Maintenance (O&M) costs will be divided into fixed O&M&R and variable O&M. Fixed O&M&R will cover those O&M&R costs that are generally stable from year to year such as monitoring costs, routine maintenance, Authority staff costs, repair funds, replacement of equipment funds, and similar. They will be allocated to all the Storage Partners in the same manner as the capital costs in accordance with the principles of beneficiary pays.

(31) Variable O&M costs include pumping costs to divert and convey water into storage, other costs related to the placement of water into storage and the costs, if any, of releasing water from storage. These costs will be assessed to each Storage Partner based on the amount of water allocated to their Storage Allocation that year and the amount of water released from their Storage Allocation that year. Variable O&M costs of activities that benefit one or a specific group of Storage Partners, such as pumping water from other sources, including transfers and exchanges, shall be borne by that Storage Partner(s).

(32) The allocation of power revenues, if any are generated, is not addressed in this Storage Policy.

CONFLICT RESOLUTION

(33) The Authority will develop a conflict resolution mechanism to resolve conflicts that may arise in Project operations. This conflict resolution process will be included in the Water Storage and Supply Services Contract between the Authority and the individual Storage Partner.

FUTURE STORAGE POLICY CHANGES

(34) This Policy will likely evolve and change as the Project develops. This Policy may be modified in the future by the Authority. Under the current Bylaws, such Authority approval requires a 75% affirmative vote.

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DATE

XXXXX XX, 2021 _____