

Discuss Framework for Lease and Sell Transactions

Reservoir Committee and Authority Board

March 2, 2023



Questions on our minds...



Today we will address:

- Review existing provisions in Sites Policies that allow Participants to lease/sell their Sites Water.
- Explore what Participants interests are in a lease/sell framework, assuming willing buyers are the wait listed agencies and Reclamation (ie within the water right permit place of use).

Background



There is strong demand for Sites Water with interest expressed by:

Existing Participants

- At least two participants desire to increase their participation levels

Interested Parties/Waitlisted Agencies

- 11 agencies throughout California

Reclamation

- Indicating interest in 16% investment in the Project

Interested Parties/Waitlisted Agencies


in addition to Reclamation

- California American Water
- City of Napa
- Dudley Ridge Water District
- Glenn County
- La Cumbre Mutual Water Company
- Madera County Groundwater Sustainability Agency
- Pacific Resources Mutual Water Company*
- Palmdale Water District
- Santa Clara Valley Water District**
- Westlands Water District
- Western Municipal Water District
- Woodland Davis Clean Water Agency
- Wheeler Ridge Maricopa Water Storage District**

*former Sites Participant

**existing Sites Participant

The Final Adopted Guiding Principles includes provisions for the leasing or sale of storage and water



Participants may share, lease, or sell their Storage Allocation [or water held in their Storage Allocation] to other Participants and with other entities

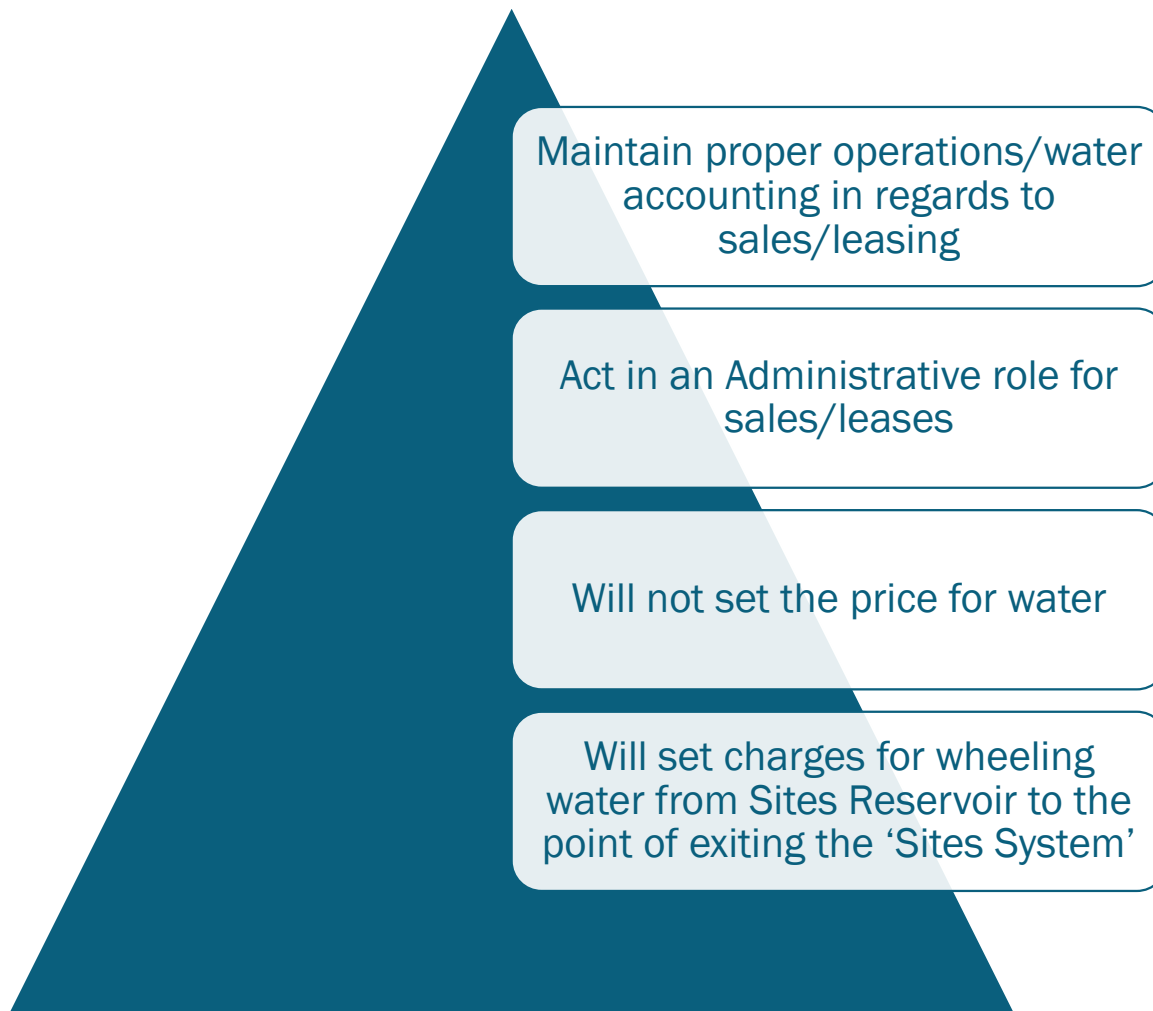
"The terms...are at the discretion of the Participant who is party to the storage or lease agreement..."

Sharing/leasing/sale must be coordinated with the Sites Authority

Participant is responsible for meeting obligations (rights/obligations cannot be transferred or assigned)

Participants will be given 'right of first refusal' with respect to the sale or lease of a Storage Allocation by another Participant

Sites Authority's Role in Sell/Lease Transactions as described in the Final Adopted Guiding Principles



Why is this a topic we are discussing now?



Reasons for Considering Lease/Sell Transactions at this juncture in the Project

- Lease/Sell transactions could be an important part of how a Participant improves its 'affordability" of the Project.
- Knowing what the framework looks like could assist Participants in making their upcoming soft call response.
- "Wait listed" agencies and Reclamation have an interest in understanding what they might be able to secure in Sites short of being a Participant.
- Today, we are generally discussing transactions involving Participants, “wait listed” agencies, and Reclamation.

Agency way of looking at affordability

Annual costs

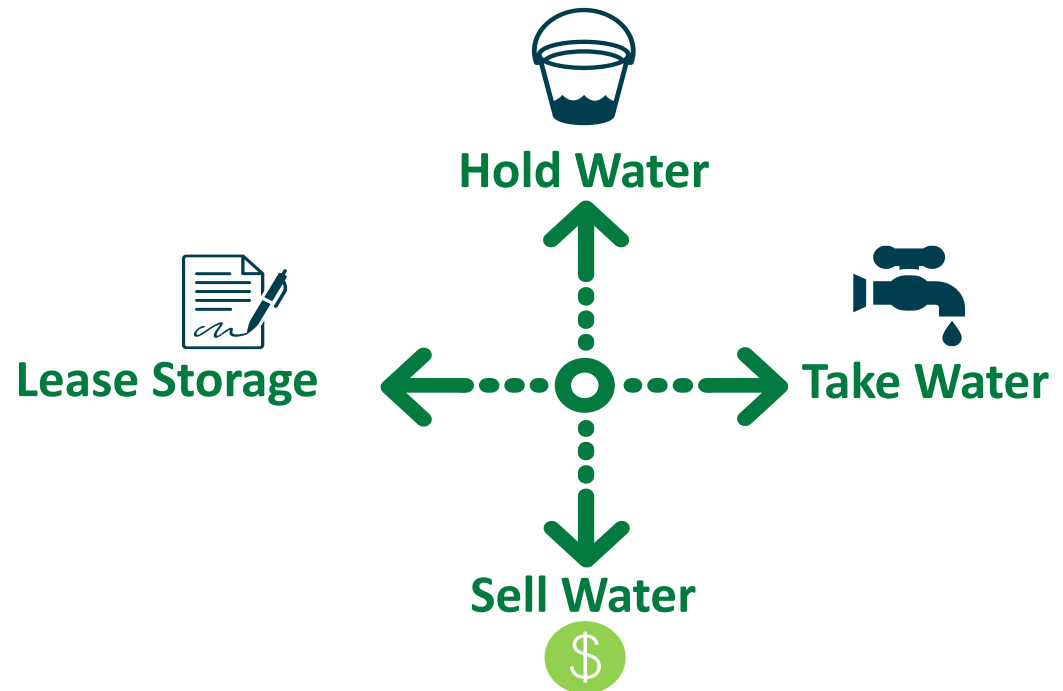
- Fixed costs
- Variable costs

Annual revenues

- Water sales
- Storage leasing
- Avoided costs

Annual benefits

- Storage: hydrology-based
- Deliveries: **operating decisions-based**



You decide.

Sample agency affordability refresher from August 2021 workshop

Westside Water District Example

1. A3 participation 5,375AF * 6.234 = storage account: **33,510 AF**
2. Share of base facilities, 2.4% of \$4.2B: **\$103M, annual debt service \$3.4M**
3. Average annual costs (financed): **\$3.9M**
4. Average delivery target: **5,375 AF**

*Westside Water District does not use Downstream Facilities (i.e. Dunnigan Pipeline)
Debt service based on case 5, all costs are in future \$*

The long-term
average cost for
water for
Westside Water
District is about
\$725/AF

Sample agency affordability “optimized” refresher from August 2021 workshop

Westside Water District Example

1. Average annual costs (financed): **\$3.9M**
2. Average annual deliveries (use): **5,375 AF**
3. High-end annual NOD transfer water: **4,500 AF**
4. Price for NOD transfer wet year water: **\$200/AF**
5. Cost offset: **\$900,000/yr, Westside out of pocket cost \$3M**

The long-term
average cost for
water for
Westside Water
District is about
\$560/AF

Higher risk of running out of water in storage!

Interested Parties Survey Results

Survey Purpose

- Obtain understanding of expectations of proposed water transfer program (interest, timing of transfers, concerns/limitations)
- Gather information to eventually "match-up" sellers and buyers with similar criteria

Responses

- Survey responses received from 9 out of 13 interested parties

Main Take Aways

- Survey responders have all expressed interest in participating as a willing buyer
- Generally, Agencies are interested in knowing
 - the price of water
 - the timing and frequency when water would be made available
- Survey results are not indicative of all Agencies that express interest

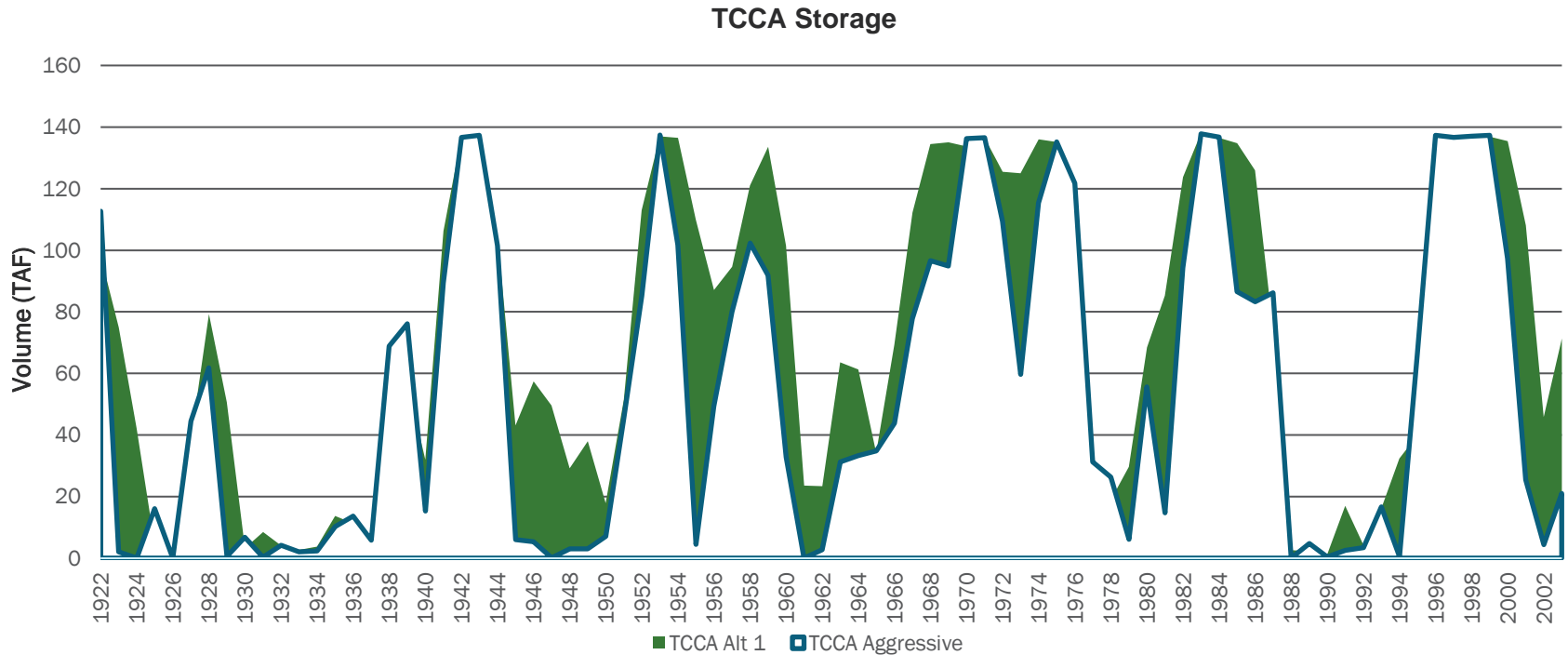
"Strawperson" Framework for a Lease/Sell Program



Considerations from a similar State Water Contract transaction

- Agreement on availability and Point of Delivery between buyer and seller
- DWRs role is facilitator and project operator, not involved in specific transaction negotiation. Assuring other contractors are not harmed.
- For routine transactions, seller is
 - leasing supplies and can reduce quantity available if needed to meet local needs with advance notice to buyer.
 - agreeing to a minimum amount of committed leased supplies that cannot be reduced.
- Water rate agreed to for all years of lease plus an escalator. Water rate not based on water year type.
- Seller continues to be responsible for losses associated with its capacity rights in the DWR system.
- Leased commitments are take or pay. Some provisions for 'force majeure' for non-delivered quantities.
- Buyer and seller agree 'up front' to any nuanced treatment regarding fixed/variable charges associated with capacity owned in the DWR system
- Include an 'estimated payment amount example" is good practice

Deliveries: operating decisions-based refresher from August 2021 workshop



Green area represents additional water released from storage

TCCA deliveries **nearly double** over the long-term

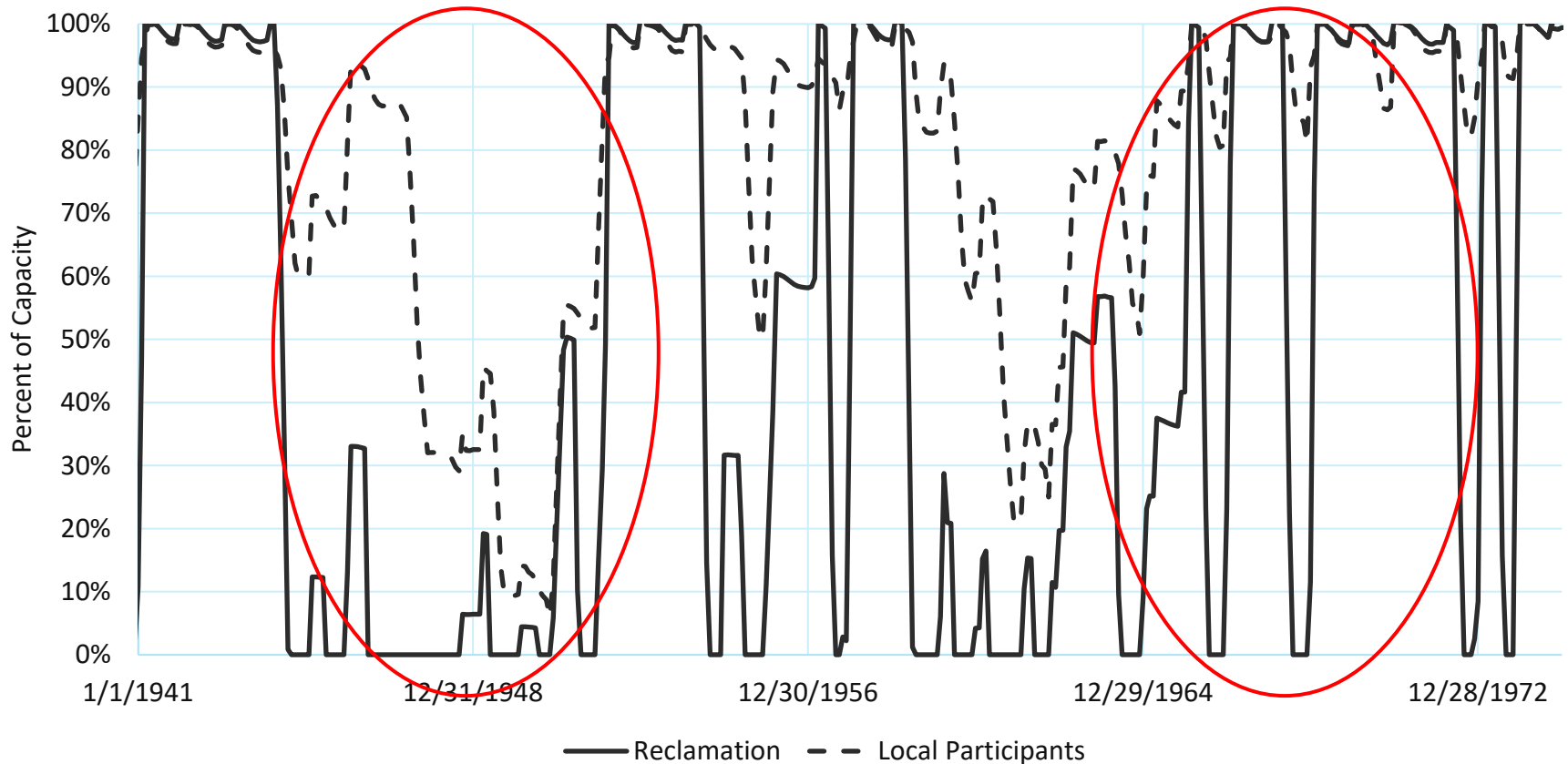
But, storage is empty more frequently and releases decrease by 20% in critically dry years

Potential Risks to the Sites Capacity Shareowner with Lease Sell Transactions

- When entering an agreement, the trailing year(s)' hydrology is unknown
 - Seller needs water in following year
 - Dry hydrology results in no/not enough supply
 - Hydrology is adequate or there is enough remaining in storage to meet supply needs (neutral)
 - Seller does not need water in the following year
 - Hydrology is adequate so that seller does not need stored supply

Potential Risk: Variable Hydrology after Sale/Lease

Sites Project Authority Accounts vs Reclamation Account - Alt 3B



*CalSim model results for 1941-1973 out of the 1922-2003 model period

Selling/Leasing Framework Concepts for consideration (slide 1 of 3)

Making Sites Water Available for Water Transfer

- parties commit to following this framework and creating a process of annually identifying needs and availability to facilitate an efficient water transfer program
- Sites Authority serves as facilitator (administrative role) and project operator. Buyers and Sellers determine price/availability

Obligations of the Parties/ First Right of Refusal

- There would be a priority among potential buyers – e.g. Participants already in Sites get 1st refusal
- Any final water transfer transaction would be voluntary - willing buyers and willing sellers.
- A framework signatory would obligate to transact within framework signatories before going outside.

Selling/Leasing Framework Concepts for consideration (slide 2 of 3)

CEQA/NEPA compliance

- Transactions between Sites Participants may be CEQA exempt
- Transactions involving others would need specific CEQA evaluation
- NEPA compliance depends on specific conditions and facilities used in each transaction
- No water right adjustments needed

Annual Administration Fee

- Non-Participant buyers pay an annual, non-refundable, fee for staff cost of the Sites Authority to support transactions.

Transfer Water Costs and Quantities

- Minimum price to be set by water year type with indexing to a standard
- Minimum Quantity to be set by water year type
- Final compensation determined between buyer and seller

Selling/Leasing Framework Concepts for consideration (slide 3 of 3)

Point of Delivery

- Seller will coordinate with Sites Authority on delivery per Storage Principles
- Primary delivery point as Funks or TRR per Storage Principles
- Consideration of losses

Others?

- **????**

Discussion Questions



Would your agency be a willing seller of Sites Water under this framework?



What additional concepts would you like to see in a selling/leasing framework?



What else would be helpful to your evaluations of your Participation in the Project?

Next Steps

Activities and Workshops

