Key Facts Regarding Exchange Agreement and Benefits to SDCWA Region

Overview

- The SDCWA/Metropolitan exchange agreement is an exchange of water – SDCWA makes Colorado River water available to Metropolitan at Lake Havasu, and Metropolitan delivers Metropolitan water to SDCWA in SDCWA's service area. (It is not a wheeling or transportation agreement.)

- The exchange agreement price is based on the transportation rate components of Metropolitan's full service rate: the System Access Rate, System Power Rate, and Water Stewardship Rate. (The price is not the wheeling rate.)

- SDCWA proposed this price term. Metropolitan let SDCWA's Board make the price decision: whether it would be based on the transportation rates or remain a fixed dollar amount escalating over time. SDCWA's Board chose the price based on transportation rates.

- In exchange for this price, Metropolitan assigned to SDCWA well over $1 billion in assets: (1) 77,700 acre-feet per year of canal lining water for 110 years and (2) $235 million.

- Metropolitan is not legally required to have an exchange agreement with SDCWA. All it would be legally required to do is wheel, if and when it has available capacity in its pipes. Metropolitan's willingness to enter into the exchange agreement with SDCWA instead of wheeling provides numerous benefits.

<u>Benefits to SDCWA Region</u>

Consideration Given in Exchange for Price

- Metropolitan's assignment of its rights to 77,700 acre-feet per year of canal lining water for 110 years.

- Metropolitan's assignment of its $235 million legislative appropriation for canal lining and other projects.

Metropolitan's Willingness to Exchange Rather Than Wheel

- Metropolitan delivers the exchange water to SDCWA continually in equal monthly installments, regardless of when or if SDCWA has made water available in Lake Havasu or not, and whether Metropolitan has available capacity in its pipes or not.

- The delivered Metropolitan water is usually a blend of State Water Project and Colorado River water; thus, it is less saline and higher quality than the water SDCWA makes available in Lake Havasu.

- Metropolitan delivers the exchange water without deducting for transit losses.

- SDCWA has the benefit of long-term delivery assurance: 45 years for the exchange of the Imperial Irrigation District water and 110 years for the exchange of the canal lining water.

- The agreement price includes the System Power Rate, which is Metropolitan's average cost of pumping water; wheelers instead pay actual power costs, which are more uncertain and may be higher overall.

- SDCWA avoided the need for a federal contract; to wheel Colorado River water, SDCWA would have needed a federal contract to take water from the Colorado River.

Other Benefits

- Without Metropolitan's agreement, IID did not have the right to transfer its water to SDCWA, an entity that is not an existing Colorado River contractor; instead, Metropolitan and Coachella Valley Water District would have the right to use Colorado River water that is unused by IID.

- Metropolitan agreed to not count its deliveries under the exchange agreement against SDCWA's Readiness-to-Serve Charge base, providing SDCWA a multi-million dollar benefit each year.

Background

The 1998 Exchange Agreement

- In 1998, IID agreed to transfer up to 200,000 acre-feet of water per year to SDCWA, contingent on SDCWA obtaining Metropolitan's agreement to accept delivery of the "transfer water" from IID at Lake Havasu and wheel it to SDCWA. But SDCWA and Metropolitan were unable to agree to terms for a wheeling agreement.

- Instead, SDCWA and Metropolitan entered into a 30-year exchange agreement. Under that agreement, SDCWA was required to pay Metropolitan only $90 per acre-foot for water it delivered to SDCWA, with limited yearly increases, in the first 20 years of the contract, with a reduction in price in years 21 through 30. The agreement was conditioned on the State Legislature's appropriation of $235 million to Metropolitan to line the earthen All-American and Coachella Valley Canals, which Metropolitan estimated would conserve 70,000-80,000 acre-feet per year of water supplies.

- The State Legislature allocated the funding to Metropolitan. Between 1998 and 2003, SDCWA obtained no water from IID because of an ongoing dispute that affected IID's entitlement to Colorado River water. In 2003, state and national government agencies, Native American tribes, water agencies, irrigation districts, and local governments entered into a series of agreements (the Quantification Settlement Agreement – QSA) to quantify all parties' rights to Colorado River water, making it possible for IID to transfer water to SDCWA as contracted.

The 2003 (Current) Exchange Agreement

- In mid-2003, to address certain QSA requirements, SDCWA and Metropolitan amended the 1998 Exchange Agreement. Although there was no need to change the price term, SDCWA proposed two price options to Metropolitan. Under "Option 1," the existing price term would not change. Under "Option 2," Metropolitan would assign to SDCWA its $235 million legislative appropriation for canal lining and other projects, as well as Metropolitan's rights to 77,700 acre-feet of the resulting conserved canal lining water per year for 110 years.

- In exchange, SDCWA would pay a higher price per acre-foot for the water it obtained from Metropolitan under the exchange agreement. Instead of $90 per acre-foot (adjusted over time), SDCWA would pay Metropolitan's unbundled transportation rates (System Access Rate, System Power Rate, and Water Stewardship Rate) which, on the date of execution, totaled $253 per acre-foot. Thereafter, the price would be "equal to the charge or charges set by Metropolitan's Board of Directors pursuant to applicable law and regulation and generally applicable to the conveyance of water by Metropolitan on behalf of its member agencies."

- SDCWA understood that future prices would be based on the same rate structure, starting at $253 and escalating over the life of the exchange agreement. This price would also apply to the delivery of water in exchange for the conserved canal lining water.

- Metropolitan's Board of Directors allowed SDCWA to choose between the two options. SDCWA provided its own Board of Directors with a financial analysis of the two options, which made clear that the price term in Option 2 was the sum of Metropolitan's transportation rates. SDCWA selected Option 2. Metropolitan assigned to SDCWA its rights to the legislative appropriations for canal lining and other projects and to the conserved canal lining water, in consideration for the amended exchange agreement.

- As a result, SDCWA received $235 million and 77,700 acre-feet of water per year for 110 years, worth well over $1 billion, in return for its promise to pay a contract price equal to Metropolitan's transportation rates.

- The exchange of IID water for Metropolitan water has a 45-year term (35 years plus SDCWA may elect to extend this to 45 years), and the exchange of canal lining water for Metropolitan water has a 110-year term.

- SDCWA began receiving IID transfer water in 2003 and conserved canal lining water in 2006.