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Title: Approve the purchase 2,990 Acre-Feet of Surface Water Supply from Millerton Lake for \$1,011,925.94 from the Friant Water Authority and the United States Bureau of Reclamation ("Bureau")
Sponsors: Department of Public Utilities
Indexes:
Code sections:
Attachments: 1. Attachment 1 - Friant Water Authority Purchase Agreement.pdf, 2. Attachment 2 - Friant Water Authority Invoice.pdf

Date	Ver.	Action By	Action	Result
5/21/2015	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

May 21, 2015

FROM: THOMAS C. ESQUEDA, Director
Department of Public Utilities

SUBJECT

Approve the purchase 2,990 Acre-Feet of Surface Water Supply from Millerton Lake for \$1,011,925.94 from the Friant Water Authority and the United States Bureau of Reclamation ("Bureau")

RECOMMENDATION

The Administration recommends that the Fresno City Council approve the purchase of 2,990 acre-feet of surface water supply from Millerton Lake for \$1,011,925.94 (\$338 per acre-foot) from the Friant Water Authority and the Bureau.

EXECUTIVE SUMMARY

The City relies on both groundwater and surface water to meet the daily water supply needs of the City's approximately 130,000 water accountholders. During calendar years 2013 and 2014, the City delivered 46.1 and 41.7 billion gallons of water to the community, respectively.

Given the severity of California's ongoing four-year drought, the City's surface water entitlements

from Pine Flat Reservoir and Millerton Lake have been significantly reduced.

- For Pine Flat Reservoir, the Fresno Irrigation District (FID) has notified the City that the 2015 entitlement from Pine Flat Reservoir is estimated to be 24,400 AF for the period spanning from October 1, 2014, to September 30, 2015. This is a twenty percent entitlement, as the City's entitlement during a normal precipitation year is 120,000 AF.
- For Millerton Lake, the Bureau announced zero percent allocations for the City of Fresno (and all other Friant Dam Contractors) for 2014 and 2015. The City holds a contract with the Bureau for 60,000 acre feet of water annually for a normal precipitation year.

The Administration has actively engaged in discussions with the Friant Water Authority and the USBR to identify options to allow the City of Fresno and other Friant Division Contractors to access the limited supply of water currently available at Millerton Lake. On Thursday, May 7, 2015, the Administration received confirmation from the Friant Water Authority that the City could purchase water from Millerton Lake. Under the terms of the negotiated agreement, the City may purchase 2,990 acre-feet of surface water from Millerton Lake (roughly 5 percent of normal-year allocation) in two transactions as shown below.

- The first transaction will be for 1,616 AF for a purchase price of \$943,222.19, payable to the Friant Water Authority. The purchase agreement and invoice for this transaction are included as Attachment 1 and Attachment 2.
- The second transaction will be for 1,374 AF for a purchase price of \$68,703.75, payable to the Bureau. This transaction will be completed in accordance with the existing terms and conditions of the contract between the City of Fresno and the Bureau (i.e. the Central Valley Project Contract).

The Administration recommends that the Fresno City Council approve the purchase of 1,616 AF from Millerton Lake for a purchase price of \$943,222.19 from the Friant Water Authority, and 1,374 AF from Millerton Lake for a purchase price of \$68,703.75 from the Bureau.

BACKGROUND

The City of Fresno owns, operates, and maintains a public water supply system that provides potable water to residential, commercial, industrial and institutional properties located within, and outside of, the City's municipal corporate limits. The City relies on both groundwater and surface water to meet the daily water supply needs of the City's approximately 130,000 water accountholders. During calendar years 2013 and 2014, the City delivered 46.1 and 41.7 billion gallons of water to the community, respectively. Based upon the Executive Order issued by the Governor on April 1, 2015, the City is working with the community to reduce the City's 2015 water demand to 33.2 billion gallons (28 percent reduction from the City's 2013 water demand).

The City's surface water supply resources are stored in Pine Flat Reservoir and Millerton Lake, with total combined entitlements of 180,000 acre-feet (AF) per year during a normal-precipitation year. However, given the severity of California's ongoing four-year drought, the City's surface water entitlements from Pine Flat Reservoir and Millerton Lake have been significantly reduced along with entitlements for all parties throughout the State.

- For Pine Flat Reservoir, the Fresno Irrigation District (FID) has notified the City that the 2015 entitlement from Pine Flat Reservoir is estimated to be 24,400 AF for the period spanning from October 1, 2014, to September 30, 2015. This is a twenty percent entitlement, as the City's entitlement during a normal precipitation year is 120,000 AF. In addition, FID recently announced that it would not be providing any irrigation water for its farmers.
- For Millerton Lake, the Bureau announced zero percent allocations for the City of Fresno (and all other Friant Dam Contractors) for 2014 and 2015. The City holds a contract with the Bureau for 60,000 acre feet of water annually for a normal precipitation year.

The Administration has actively engaged in discussions with the Friant Water Authority and the USBR to identify options to allow the City of Fresno and other Friant Division Contractors to access the limited supply of water currently available at Millerton Lake. Due to current severe drought conditions, the USBR has determined that the existing water supply in Millerton Lake is the property of Exchange Contractors, which hold senior water rights on the San Joaquin River. The City has expressed its concerns to the Bureau regarding this determination, and will continue to consult with the USBR on this particular matter at a later date.

On Thursday, May 7, 2015, the Administration received confirmation from the Friant Water Authority that the City could purchase water from Millerton Lake. Under the terms of the negotiated agreement, the City may purchase 2,990 acre-feet of surface water from Millerton Lake (roughly 5 percent of normal-year allocation) in two transactions as shown below.

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- The second transaction will be for 1,374 AF for a purchase price of \$68,703.75, payable to the Bureau. This transaction will be completed in accordance with the existing terms and conditions of the contract between the City of Fresno and the Bureau (i.e. the Central Valley Project Contract).

The total purchase price for the two transactions is \$1,011,925.94 for a total water supply of 2,990 AF, which equates to a unit cost rate of approximately \$338 per acre-foot. During a normal year, the City's water supply purchase cost for Millerton Lake water is \$64.19 per acre foot, so the negotiated price for 2015 is approximately five times the cost of water during a normal year. For reference purposes, the City's normal-year water supply costs for surface water from Pine Flat Reservoir is approximately \$21.40 per acre-foot (120,000 acre-feet), and this year the effective cost for surface water from Pine Flat Reservoir will be \$105.20 per acre-feet (24,400 acre feet), which is also approximately five times the cost of water during a normal year. Accordingly, the unit cost proposed for Millerton Lake surface water supply is consistent with the effective price the City is currently paying for surface water from Pine Flat Reservoir.

The surface water purchased from Millerton Lake will be used to reduce the demand on the City's groundwater system. The City will use the purchased surface water from Millerton Lake at the City's two surface water treatment facilities - the Northeast Surface Water Treatment Facility and the T3 Surface Water Treatment Facility. The City will propose to take delivery of the 2,990 acre-feet of surface water on approximately October 1, 2015, which is the current estimate of when the water supply from Pine Flat Reservoir will be exhausted for this calendar year. It is important to note that it

may be necessary to take delivery of the surface water from Millerton Lake sooner, if the water supply yield from the Pine Flat Reservoir watershed is exhausted prior to September 30, 2015. The City will take delivery of the surface water from Millerton Lake through the Friant-Kern Canal and the FID canal system.

The Administration recommends that the Fresno City Council approve the purchase of 1,616 AF from Millerton Lake for a purchase price of \$943,222.19 from the Friant Water Authority, and 1,374 AF from Millerton Lake for a purchase price of \$68,703.75 from the Bureau.

ENVIRONMENTAL FINDINGS

Staff has performed a preliminary environmental assessment of this project and has determined that it falls within the Statutory Exemption set forth in CEQA Guideline Section 15282(u), which exempts temporary changes in the point of diversion, place of use, or purpose of use due to a transfer or exchange of water or water rights as set forth in Section 1729 of the Water Code, because the purchased water will be temporarily diverted from its standard path in the San Joaquin River to senior water rights holders.

LOCAL PREFERENCE

Local preference was not considered because the purchase of surface water does not include a bid or award of a construction or services contract.

FISCAL IMPACT

There is no financial obligation for the General Fund for this surface water purchase. The funding source for this surface water purchase will be the Water Division Enterprise Fund.

Attachments:

- (1) Friant Water Authority Water Purchase Agreement
- (2) Friant Water Authority Invoice for Water Purchase