

MID WATER TRANSFER | FAQ

The Modesto Irrigation District (MID) is in the process of considering a proposal to sell water to the City and County of San Francisco (CCSF). The goal of this potential transaction is to generate revenue which will be used to improve MID's irrigation system infrastructure. The cost of these necessary improvements, along with the cost of the Don Pedro relicensing project, are expected to exceed \$140 million. MID will have to pay these costs **whether or not** a water transfer agreement is reached. However, transfers would provide new revenue to MID, relieving the burden of these necessary activities on MID customers. A key outcome of this approach is that these infrastructure improvements will allow MID to improve the efficiency of our system and the water use, using the revenue received from the sale to conserve the water within our system to serve CCSF. This model serves state policy to look at agricultural to urban water transfers as a way to improve the health of California's water resources.

1. Will transferring the water for a long term deal endanger MID's water rights?

The proposal is for selling water. Just water; MID's water rights will be retained by MID; in fact by putting water to beneficial municipal and industrial uses, MID is protecting the water right.

2. Why give the water to CCSF?

MID is **NOT** giving water to CCSF. CCSF is offering an attractive market price in this area and the potential transfer will **NOT** require any new infrastructure. CCSF has a long standing relationship with the MID and has been a good river stewardship partner.

3. Is there a guarantee or "opt out" in drought years?

Any transfer being considered will be designed to protect MID's existing customers, including the agricultural and City of Modesto water users. There are a variety of ways to satisfy this requirement and unless this issue is resolved, there will be no transfer.

4. How will sales revenues be used?

Water sales revenue will be used for water related costs including infrastructure improvements, FERC relicensing and related obligations, water conservation programs and debt retirement. Such use of the revenues will enable MID to keep water rates stable for a number of years and take some of the hydroelectric facility burdens off of electric customers.

5. Why are we considering such a long-term contract?

Long-term water contracts aren't unusual. The domestic water contract with the City of Modesto has an unlimited term. MID has also engaged in contracts for as short as one year. As a rule, a long-term contract ensures reliability for both parties, commands a higher price and allows for built in price increases over the contract term. The terms of this proposal are still under discussion.

6. Will such a transfer impact the efforts to tear down O'Shaughnessy Dam and restore the Hetch Hetchy Valley?

No. The proposal doesn't directly impact that effort. Hetch Hetchy and Don Pedro are independent projects. However, the group leading this effort opposes the water transfer proposal.

Removal of O'Shaughnessy Dam would result in CCSF being unable to serve its customers without construction of new facilities to store and divert water. Don Pedro Reservoir does not have sufficient storage capacity to replace Hetch Hetchy.

7. Will this sale jeopardize MID's ability to serve agricultural customers and recharge groundwater?

No, providing adequate water to MID agriculture customers has always been and will continue to be a priority and will not be impacted by water transfers to CCSF. MID will continue its efforts to maintain and manage groundwater conditions in our service area. In the future, if sufficient revenues are available, property could be purchased to use as groundwater recharge basins.

8. How is MID's water currently distributed?

MID's share of water from Don Pedro Reservoir is 300,000 acre-feet. Each year, approximately 185,000 acre-feet is distributed to agriculture customers and around 35,000 acre-feet to the City of Modesto. The remaining water is distributed in operational outflows, utilized for environmental stewardship, groundwater recharge and some is kept in storage in Don Pedro.

9. Will there be an economic impact analysis discussing the pros and cons of the sale?

Yes. The economic benefits of a proposed transfer and alternative uses of the water will be part of the MID Board of Directors' review process.

10. Is there any loss of hydro generated power? If so, how will this be reconciled?

Any lost hydropower, both long-term and short-term, will be fully reimbursed by the terms of the transfer. Hydropower accounts for only a small percentage – about 10% – of MID's total power generation.

11. Why doesn't MID make this water available for purchase to west side or other nearby agricultural users?

Significant infrastructure, economic and legal hurdles make this an unrealistic option at this time.

12. What is the effect of this sale on the Tuolumne River?

The Tuolumne River won't be significantly impacted by any water transfer by MID. MID remains committed to conservation and its stewardship of the river. CCSF has completed an environmental review of the potential 2,200 acre foot transfer, and before any larger arrangement moves forward a thorough environmental review process, including a full Environmental Impact Report, will be completed. If any concerns are identified, appropriate action will be recommended at that time.

13. Will the purchase price for the water be a set price?

No, the contract will include built-in price increases (escalator clause) to keep pace with market increases.

14. Why not delay a water transfer until after the Federal Energy Regulatory Commission's (FERC) relicensing process for Don Pedro is complete?

The FERC process will last five years or longer. MID can ill-afford to postpone action to improve our infrastructure. Without the needed improvements we face the likelihood of both a loss of water and loss of potential revenue. Water committed for urban use is viewed very favorably in the relicensing process and meets the "beneficial uses" standard.

Also, FERC doesn't have jurisdiction over transfers. The transfer being considered is consistent with the overall objectives of the FERC process.

15. Why has MID changed its position from the 2007 Bee story?

The circumstances around this proposal are considerably different. In this case a willing buyer and a willing seller exist. Proceeds from the transfer will relieve MID customers of hundreds of millions of dollars in improvement expenses and help pay for the Don Pedro relicensing project. The water sent to CCSF under the proposal is recovered water, conserved as a result of infrastructure improvements.

16. How will this impact the economic conditions in our community?

It protects our water rights which are the lifeblood of our community. Additional jobs could be generated by the construction activities of the infrastructure improvements. Domestic, agricultural and industrial water rates could remain stable, and some burden on electric rates could be eased, positively impacting overall job stability throughout the region.

17. What are the next steps?

- A) Negotiate terms and conditions of initial water transfer to CCSF.
- B) Public meeting, discussion and MID Board of Directors' consideration of the 2,200 acre foot transfer.
- C) Direction by MID Board to initiate environmental review and evaluation of larger water transfer subject to:
 - Protection of MID customers against any shortage of deliveries in drought years.
 - Commitment to looking at possibility of funding water conservation programs for urban and agricultural customers with proceeds from water sale.
 - Understanding that as much infrastructure improvement work as possible will be awarded to local contractors.
 - Reimbursement to MID's electric budget for any shortfall in power generation caused by the water sale.