

May 6, 2021

California Water Commission
P.O. Box 942836
Sacramento, CA 94236-001

RE: Chino Basin Program Early Funding Request

Dear Commissioners,

Thank you for this opportunity to request early funding for the Chino Basin Program (CBP) under the regulations adopted by the California Water Commission (CWC) for Proposition 1 Water Storage Investment Program (WSIP). As required under Section 6010(c) of these regulations, this submittal includes a scope of work, schedule, and budget for the CBP to serve as a basis for this early funding request. We have also included a description of the financial need for the funding, including an explanation of why the funding is critical to the project; viability of the project in the absence of the funding; and how the project will proceed once early funding is expended. These materials will also be presented to the CWC during your May 2021 monthly meeting.

Additional emergency regulations recently approved by the CWC and the Office of Administrative Law (OAL) are aimed at mitigating the impacts of the COVID-19 pandemic on projects that have successfully received a Maximum Conditional Eligibility Determination (MCED) from the CWC. In July 2018 the CBP successfully received an MCED of \$206,900,000. In January 2021, the CWC updated the MCED for the CBP to \$212,072,500 as part of a 2.5% inflation adjustment to MCEDs for all seven active WSIP projects. The emergency regulations allow for applicants that did not previously request early funding to request up to 5 percent of their MCED, which equates to a \$10,603,625 early funding maximum for the CBP from the CWC to support tasks reasonably related to obtaining permits and environmental documentation. An implementation risk score of 7 or higher is mandated for eligibility. CBP received an implementation risk of 10 and meets this requirement.

Background and Financial Need for Early Funding

In 2018, the Inland Empire Utilities Agency (IEUA) was conditionally awarded \$206,900,000, increased in 2021 for inflation (2.5%) to \$212,072,500 for the CBP by the CWC through WSIP. The CBP will develop 15 thousand acre-feet per year (TAFY) of advanced purified water in southern California that would be used locally in exchange for a corresponding amount of water to be released in northern California. This exchanged water would subsequently be released during dry years (a “call” year) as multi-day pulse

flows (pulse flows) to benefit anadromous fish populations in the Feather River and the Sacramento - San Joaquin Delta. The exchange would continue for 25 years, thus providing California a water resource to protect the health of this vital ecosystem.

The advanced water treatment in southern California helps address local salinity challenges threatening IEUA's continued beneficial reuse of its recycled water and creates a new drought resistant local water supply, reducing the Region's reliance on imported water. Water would be stored in the Chino Groundwater Basin and extracted for local use during call years when water is released for the purpose of pulse flows. After the 25-year term, the CBP infrastructure would be available exclusively for meeting local water quality and supply needs.

Since receiving notification of the conditional award from the CWC, IEUA has been working diligently with our member agencies, Metropolitan Water District of Southern California (Metropolitan), and stakeholders to evaluate alternative design configurations and complete an economic evaluation for the CBP. The support of our constituents and regional partners in the design of a program that strikes the right balance with benefits to the State, our region, and our local communities is foundational to the success of the CBP. IEUA has progressed through detailed analyses of the CBP and met several key milestones. IEUA and agency partners continue to work together to define program elements on a schedule consistent with the proposed commitments to achieve local and statewide public benefits. This includes plans for completing the necessary WSIP requirements to secure a final funding agreement from the CWC in 2022 and completing the remaining elements of the program required to commence program operations in 2026, as originally proposed.

Through the effort of working with our member agencies and local stakeholders, a significant issue that has been raised is the current economic hardship faced by residents of the Inland Empire and corresponding revenue shortfalls for IEUA and its member agencies. In response to the fiscal impact of COVID-19 to our ratepayers, IEUA and several of its member agencies have deferred rate increases for the current fiscal year. IEUA and local parties are carefully evaluating the financial conditions associated with the CBP and the associated performance requirements, and the resulting impacts to local rate payers. Contributing factors to the anticipated financial conditions include the following:

- The CBP would produce highly reliable water supplies for ecological benefits through advanced water purification of recycled water. This high degree of reliability comes at a higher cost for both capital facilities and ongoing operations and maintenance requirements relative to other WSIP projects that are dependent on hydrology to provide surplus flows for diversion and storage.
- The WSIP conditional award for the CBP did not provide for escalation in project construction costs between the time of award and project implementation. As a result, ongoing inflation continues to escalate the financial burden on local agencies (and rate payers), while financial performance requirements by the State remain static.

- The burden of additional economic risks associated with developing the program, such as future treatment costs associated with drinking water regulatory requirements, construction loan rates, energy costs, and projected levels of revenue from ratepayers, also fall primarily on local agencies. Given the current state of economic uncertainty in the country as a result of COVID-19, this risk is much greater today than at the time of the WSIP conditional award for the CBP.

IEUA is committed to implementing regional programs that are cost effective, sustainable, and environmentally responsible. Moreover, IEUA continues to believe that the conceptual partnerships that are foundational to the CBP could provide mutual benefit to local parties, the southern California region, and the State as a whole, while serving as an innovative model for future multi-benefit and multi-party projects. However, in the absence of early funding, the increasing financial burden and economic risk placed on local agencies must be addressed for the CBP to be successful.

Given these concerns, IEUA respectfully requests that the CWC award early funding in the amount of \$8,919,000 (4 percent of MCED). This early funding will reinforce the State as a partner in developing the CBP and help alleviate some of the immediate economic hardship faced by IEUA and its member agencies.

Scope of Work, Schedule, and Budget for the Early Funding

Task 1: Project Management

This task includes project management activities for environmental documentation and permitting tasks and other reasonably related support tasks. These project management activities include invoicing, administration, past and future development of quarterly reports to the CWC, and future development of a project completion report.

Estimated Cost: \$632,000

Task 2: Environmental Documentation

California Environmental Quality Act (CEQA) requirements for the CBP will be met by incorporating elements of the program into various environmental documentation. Short-term storage of recycled water associated with the CBP requires an amendment of the Safe Storage Capacity of the Optimum Basin Management Program (OBMP) for the Chino groundwater basin. CEQA requirements for this element have been addressed through a second addendum to the OBMP Program Environmental Impact Report (PEIR), though no reimbursable costs are associated with this effort and it is not included with this request. CEQA requirements associated with the physical infrastructure associated with the CBP will build upon the previously adopted 2017 IEUA Facilities Master Plans Final PEIR, which included all planning activities evaluated under the 2015 IEUA Integrated Resources Plan (IRP). In addition, elements

of the CBP will be incorporated into a Subsequent Environmental Impact Report (SEIR) for the OBMP Update, though similarly no reimbursable costs are associated with this effort and it is not included with this request. Finally, a specific CBP PEIR will be developed that will build upon these previously adopted environmental reports and will include project specific elements, analysis of long-term storage requirements, analysis of impacts, and identification of mitigation measures. A separate environmental document for the delivery of pulse flows will also be prepared by the California Department of Water Resources (DWR). The estimated costs associated with the CBP PEIR and the environmental documentation for the delivery of pulse flows are provided below.

Task 2.1: CBP PEIR

A specific CBP PEIR which builds upon previously adopted environmental documentation will be prepared in late 2021. The CBP PEIR will address project specific elements and their associated impacts and mitigation measures, as well as long-term storage requirements associated with the CBP.

Estimated Cost: \$375,000

Task 2.2: Environmental Documentation for Delivery of Pulse Flows

It is likely that CEQA coverage will be needed for delivery of pulse flows into the Feather River. While the level of coverage that will be needed is unclear, DWR will act as the state's lead agency, with IEUA supporting DWR as needed. Potential support tasks include additional analyses or technical studies, meeting attendance, and coordination time and costs associated with supporting DWR staff.

Estimated Cost: \$100,000

Task 3: Permits and Agreements (or Easements)

Task 3.1: Permits

Permits may be required for planned pipelines that cross Waters of the United States or Waters of the State of California. A National Pollutant Discharge Elimination System (NPDES) permit will be required under the State Construction General Permit. Authorization to store the advanced treated recycled water within the Chino groundwater basin may require a permit from the Chino Basin Watermaster. There is also a remote possibility that consultation and acquisition of an incidental take permit may be required from the U.S. Fish and Wildlife Service (USFWS) and the California Department of Fish and Wildlife (CDFW) for unavoidable take of listed species. In most cases this would be processed as a Section 7 permit through the U.S. Army Corps of Engineers, but it is possible that a Section 10 permit could be required through direct consultation with USFWS. Lastly, a permit might be required from the South Coast Air Quality Management District. Permits needed for the CBP may include but are not limited to

those provided in Table 1. All necessary permits and agreements will be obtained prior to construction of facilities and prior to initiating operations, as appropriate.

Estimated Cost: \$852,000

Table 1. List of Permits Required for the CBP

Permit/Approval	Agency
Encroachment Permit	City/County – TBD
Clean Water Act Section 404 Permit	U.S. Army Corps of Engineers
Clean Water Act Section 401 Certification	Santa Ana Regional Water Quality Control Board
Section 1600 Streambed Alteration Agreement	California Department of Fish and Wildlife
NPDES California Construction General Permit	California State Water Resources Control Board
Authorization to Store Recycled Water in the Chino Basin ¹	Chino Basin Watermaster
Incidental Take permit	California Department of Fish and Wildlife
Section 7 Consultation	U.S. Fish and Wildlife Service
For direct combustion power generation (TBD)	South Coast Air Quality Management District

¹ Developed as part of the storage and recovery application as detailed in Task 3.2.7.

Task 3.2: Agreements

A number of agreements will be required among multiple parties, including agreements to fund design, construction, and operation of CBP facilities; secure local sources of wastewater effluent for advanced water treatment; local production and performance agreements between IEUA and its member agencies; complete water exchanges between IEUA and Metropolitan and between Metropolitan and DWR, owner and operator of the SWP; and possibly to dedicate supplies secured through the Feather

River Ecosystem Water Exchange to environmental purposes. While these agreements could take many forms, the potential agreements and their basic purposes are summarized in [Table 2](#) and described in further detail below. All necessary agreements, as appropriate, are expected to be prepared by the end of 2021. Other agreements, such as those for administering the public benefits, will be developed during 2022 and 2023.

Task 3.2.1: CBP Partner Funding Agreements

Agreements among IEUA and partnering agencies participating in the CBP will be necessary to describe commitments for funding the design, construction, and operation of CBP facilities in the Chino Basin/IEUA service area. These agreements could include commitments of funds, wastewater effluent water supplies, rights for use of existing facilities, or other assets. The agreements should also describe allocation of CBP non-public benefits and responsibilities for achieving the targeted non-public benefits.

Task 3.2.2: CBP Water Sources Agreements

Agreements may be necessary among IEUA and other local agencies to secure wastewater effluent water supplies for advanced water treatment to implement the CBP. These agreements should describe commitments for providing effluent considering a variety of hydrologic conditions and future regional water use scenarios.

Task 3.2.3: Water Exchange Agreement

An agreement between IEUA and Metropolitan will be required to describe commitments and terms for use of CBP water supplies stored in the Chino Groundwater Basin in lieu of water deliveries from Metropolitan, as well as direct delivery of CBP water supplies from the Chino Groundwater Basin to the Metropolitan water distribution system.

Task 3.2.4: State Water Project Water Exchange Agreement

An agreement will be required between Metropolitan and DWR to describe commitments and terms for Metropolitan to forego delivery of Table A water supplies under Metropolitan's SWP Water Supply Contract in "call" years. This agreement must be consistent with current SWP Water Supply Contracts or an amendment to SWP Water Supply Contracts may be necessary. The agreement should describe terms under which DWR is willing to implement the exchange and Metropolitan is willing to accept CBP water deliveries in lieu of SWP deliveries.

Table 2. List of Potential Agreements Required for the CBP

Type of Agreement	Parties	Purpose
CBP Partner Funding Agreements	IEUA, local agencies	Describe commitments for funding the design, construction, and operation of CBP facilities
CBP Water Sources Agreements	IEUA, CBP partners, local agencies	Secure water supplies for advanced water treatment to implement the CBP
Water Exchange Agreement	Metropolitan, IEUA, CBP partners	Describe commitments and terms for use of CBP water supplies stored in the Chino groundwater basin in lieu of water deliveries from Metropolitan
SWP Water Exchange Agreement	Metropolitan, DWR	Describe terms under which DWR is willing to implement the water exchange and Metropolitan is willing to accept CBP water deliveries in lieu of SWP deliveries
Feather River Ecosystem Water Exchange Agreement	CDFW, DWR, possibly others	Describe commitments and terms for implementing the Feather River ecosystem water exchange
Proposition 1 WSIP Public Benefit Agreements	CDFW, State Water Resources Control Board (SWRCB), DWR	Describe terms for IEUA and CBP Partners to deliver ecosystem improvement, water quality improvement, and emergency water supply public benefits.

Task 3.2.5: Feather River Ecosystem Water Exchange Agreement

An agreement will be required among CDFW, DWR, and possibly other parties to describe commitments and terms for implementing the Feather River Ecosystem Water Exchange. This agreement should describe conditions under which DWR is willing to implement the exchange and either reference the Metropolitan – DWR SWP Water Exchange Agreement to describe conditions under which Metropolitan is willing to accept CBP water deliveries in lieu of SWP deliveries, or explicitly include Metropolitan and its terms in the agreement.

Task 3.2.6: Proposition 1 WSIP Public Benefit Agreements

Agreements with CDFW, the SWRCB, and DWR are required by Proposition 1 to secure commitments and describe terms for IEUA and CBP Partners to deliver ecosystem improvement, water quality improvement, and emergency water supply public benefits, respectively. These agreements must be completed prior to completing a Proposition 1 WSIP Funding Agreement. The Public Benefit Agreements will detail responsibilities of parties in carrying out actions necessary to produce the specified public benefits, as well as responsibilities for monitoring and reporting progress in achieving the targeted public benefits.

Task 3.2.7: Storage and Recovery Application

A Storage and Recovery Application (application) will be completed by the CBP and filed with the Chino Basin Watermaster. The application will describe the conditions under which IEUA will implement the CBP within the Chino Basin consistent with the Chino Basin Watermaster Storage Framework, OBMP, and Stipulated Judgment (issued in 1978 as Chino Basin Municipal Water District vs. the City of Chino et al. [SBSC Case No. RCV 51010]). The application will also describe the CBP facilities and their operation and administration.

Estimated Cost: \$852,000

Task 4: Feasibility, Design and Technical Studies

WSIP regulations require all feasibility studies be completed by January 1, 2022, to maintain eligibility. Dating back to August 14, 2017, IEUA has advanced several efforts to assess the overall technical, environmental, economic, and financial feasibility of the CBP, which will ultimately inform institutional agreements and the development of environmental documentation.

Task 4.1: Preliminary Design Report and Accompanying Technical Memoranda

The CBP Preliminary Design Report (PDR) is a critical ongoing effort being performed to assess the feasibility of the CBP. The PDR involves the identification and evaluation of program alternatives to identify a preferred CBP approach and the conceptual design for elements of the recommended program. While analysis and documentation associated with the PDR is ongoing, three accompanying

technical memoranda (TM) have been completed to date in support of the PDR. TM1 documents the assumptions and approach used to develop and evaluate the program alternatives. TM2 presents the development and evaluation of the program alternatives and the selected program alternative for the CBP. TM3 documents the proposed brine disposal system. Additional refinements to the design of CBP groundwater extraction facilities and water distribution system facilities are ongoing as water exchange terms are developed between IEUA, IEUA member agencies, and Metropolitan.

The PDR is slated for completion in late 2021.

Estimated Cost: \$4,319,000

Task 4.2: Economic and Financial Analysis

Using information developed through the preliminary design effort and input obtained through engagement with IEUA's member agencies, an economic and financial analysis was performed on CBP program alternatives and compared with regional planning alternatives. This required development of an integrated decision-support tool combining water-banking, exchange operations, and a benefits and costs net present value (NPV) calculator. The tool provides a relative economic comparison of alternatives using cashflow and NPV life cycle costs to consider the economic feasibility of alternatives and effects on ratepayers. Benefits and costs of alternatives compared to baseline conditions, and compared to one another, provides information about the relative costs and benefits to the region. Preliminary findings were documented in a draft technical memorandum that was shared with agency partners for review and input.

Economic and financial analyses are ongoing and will be ultimately documented in a final program economic analysis TM, estimated to be completed in late 2021. The tool is currently being used to explore the relative costs and benefits of the CBP preferred alternative and associated refinements, and to support ongoing studies to evaluate how best to meet local needs and meet performance requirements. Preliminary findings are used to support ongoing review and discussion with IEUA member agencies, Metropolitan, and State resource agencies. Input from these discussions helps shape further refinement and evaluation, which can be fed back through the economic tool for further analysis and consideration. The economic evaluation will also help inform financial analysis that will be performed for the alternatives to describe projected cash flow conditions and effects on rate payers and associated institutional agreements.

Estimated Cost: \$400,000

Task 4.3: DWR Feasibility Study

A feasibility study will be completed for the project in accordance with the WSIP regulations by January 1, 2022. The feasibility study will be informed by numerous IEUA planning and technical efforts, some of

which are discussed above. The feasibility study will identify relevant problems and opportunities in the region, inventory existing conditions and forecast future conditions, describe and evaluate the alternatives for meeting water quality and long-term water supply needs of the Chino Basin region, and identify the preferred CBP alternative. The feasibility study will also provide benefits and costs associated with each alternative, as well as an assessment of the technical, environmental, and financial feasibility of the preferred alternative, which will be presented to the CWC prior to a final award hearing.

IEUA began drafting documentation to inform portions of the DWR feasibility study in 2020, as informed by the draft economic and financial analysis TM and PDR TM1 and TM 2. Together with the PDR and final program economic analysis TM slated for completion in late 2021, the DWR feasibility study will be completed in late 2021 ahead of the January 1, 2022 deadline, as required by the WSIP regulations.

Estimated Cost: \$500,000

Task 5: Communication and Engagement

IEUA has regularly engaged local, regional, and State agencies to develop a clear understanding of interests, needs, and concerns related to the CBP. Communication and engagement has taken on various forms, which to date have included ad hoc board committees, charets, special workshops, General Manager meetings, and requests for additional and targeted analyses. It is anticipated that these efforts will continue through, at least, the permitting phase of the project. These communication efforts provide IEUA with valuable stakeholder insights and feedback on the CBP and related IEUA efforts.

Numerous outreach activities have occurred since August 14, 2017. This includes outreach to IEUA member agencies, stakeholders, and engagement with Metropolitan and other State agencies, such as, CDFW, SWRCB, and DWR. This outreach and engagement were performed through various means, including CBP work groups, IEUA water resources workshops, technical committee meetings, and reoccurring meetings with the CBWM, Metropolitan, and other State agencies.

IEUA will continue outreach, communication, and engagement efforts with IEUA member agencies, stakeholders, Metropolitan, and other agencies that are responsible for administering the public benefits and regulatory agencies responsible for permit and related approvals. These efforts are expected to continue through 2023.

Estimated Cost: \$889,000

Provided below in Table 3 is a summary of the projected cost for Tasks 1 through 5 along with the anticipated schedule.

Table 3: Total Projected Cost for Tasks 1-5 and Associated Schedule

Task	Cost	Schedule
Task 1: Project Management	\$632,000	2023
Task 2: Environmental Documentation	\$475,000	January 1, 2022
Task 3: Permits and Agreements (or Easements)	\$1,704,000	2023*
Task 4: Feasibility, Design and Technical Studies	\$5,219,000	January 1, 2022
Task 5: Communication and Engagement	\$889,000	2023
Total Eligible Cost	\$8,919,000	--

* As appropriate, funding agreements that describe financial commitments of partnering agencies will be completed by January 1, 2022 consistent with WSIP regulations.

Summary

For successful implementation, it is critical that IEUA have strong local support for the CBP and establish an equitable and flexible partnership between all the stakeholders, including the State. IEUA is hopeful that we can continue advancing the CBP by working with the State to address funding challenges and establish more equitable terms that will allow for successful implementation of both the CBP and WSIP.

Sincerely,

INLAND EMPIRE UTILITIES AGENCY



Shivaji Deshmukh, P.E.
General Manager