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Department of Utilities
Office of the Director

CITY OF SACRAMENTO CALIFORNIA

1395 35th Avenue
Sacramento, CA 95822-2911
phone (916) 808-1400
fax (916) 808-1497/1498

December 21, 2004

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: UPDATE ON PRINCIPLES OF AGREEMENT BETWEEN CITY, COUNTY, NATOMAS CENTRAL MUTUAL WATER CO., AND AMERICAN STATES UTILITY SERVICE

LOCATION AND COUNCIL DISTRICT: City Wide

STAFF RECOMMENDATION:

None. This item is for information purposes only.

CONTACT PERSON: Gary A. Reents, Director of Utilities, 808-1433
Dan Sherry, Supervising Engineer, 808-1419

FOR THE COUNCIL MEETING OF: January 11, 2005

SUMMARY

The Department of Utilities, County of Sacramento staff, and representatives of Natomas Central Mutual Water Company ("Company") and American States Utility Services, have been meeting to work out principles of agreement. These principles address the manner in which water service for municipal, industrial, agricultural, and wildlife habitat will be provided in the Natomas area. They also address the County's potential acquisition of water supplies from the Company, and consolidation of the Company's proposed new Elkhorn diversion facility with the regional water diversion facility in which the City is participating. The consolidation would reduce the number and potentially the capacity of diversion facilities on the Sacramento River, and would allow the City to acquire Natomas' capacity as it becomes available over time, thereby eliminating or reducing any need for redundant capacity. Any transfer of capacity would be predicated upon completion of the normal planning and environmental review



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processes. The income from the water and capacity sale would enable the Company to continue as the exclusive agricultural water provider, at reasonable rates.

COMMITTEE/COMMISSION ACTION: None

BACKGROUND

Water Service

Natomas Central Mutual Water Company is a mutual water company which has historically provided irrigation water service in the Natomas area. The Company provides agricultural water service only; its delivery facilities are open ditches and it does not have any treatment capability or experience. As portions of the Natomas area have been annexed into the City, the City Department of Utilities has taken over water service in a manner consistent with the City Charter.

The Company has entered into an agreement with American States Utility Services ("ASUS") which designates American States as Natomas' arm to develop retail Municipal and Industrial (M&I) service. The City has consistently advised Natomas and ASUS that the City will be providing M&I water service to City constituencies as the City boundaries change over time.

Natomas and ASUS plan to develop M&I water service. In light of the Company's and ASUS' proposed agreement that they will not provide any M&I retail service in the City or County, the City and County would agree that they will not provide any such service in Sutter County. The City and Sacramento County Water Agency would be the exclusive retail M&I service providers in their respective boundaries.

The City, County, and Company have a common interest in maintaining agricultural and habitat water service at reasonable rates in Sacramento County. The Company is proposed to be the exclusive provider of such service at reasonable rates. The income the Company can expect from the water and diversion capacity sales should be first dedicated to maintenance of such water service.

Consolidation into Regional Water Facility

The City has been working in conjunction with Sacramento Suburban Water Agency, the City of Roseville, and Placer County Water Agency to develop needed water facilities on the Sacramento River. This is consistent with the Sacramento Water Forum Agreement. Evaluation of such a coordinated regional project, the Sacramento River Water Reliability Study ("SRWRS"), is authorized and funded pursuant to federal law. Concurrently, the Company has been developing a project to consolidate its five existing antiquated diversions into two new diversion facilities with modern fish screens. One new diversion facility would be located adjacent to the Sutter County boundary (the Sankey Diversion). The other would be located near the intersection of Elkhorn and Garden Highway, west of the airport. The Elkhorn

diversion facility would be in relatively close proximity to the proposed SRWRS diversion facility.

Consolidation of the SRWRS and Elkhorn facilities creates the opportunity for a more efficient approach to the provision of water diversion capacity as land use changes occur in North Natomas in the future. Such changes would be predicated upon the normal land use planning and environmental review processes. Assuming that those occur, the City would have an option to acquire diversion capacity to which the Company is entitled in the regional SRWRS facility. This would avoid any redundancy of capacity, limit the number of diversion facilities in the river and the footprint thereof, and provide water infrastructure in a manner consistent with existing land use planning and environmental laws. The Utilities Department is working with the regional SRWRS partners in the interest of making available to them the ability to acquire any capacity freed up by the Company and not needed by the City.

The County is short of water supply for Zone 40 (central County). As the Company's surface water supplies become available, the County would purchase those supplies.

Representatives of City Utilities, the Sacramento County Water Agency, the Company, and ASUS have been meeting intensively to develop principles of agreement to address these intersecting interests. The parties are working towards a common vision on the following areas:

1. Water service areas;
2. Consolidation of the Company's southern most diversion facility into the larger SRWRS regional project, with capacity transitioning to the City and its partners as needed; and
3. Transition of water supplies from the Company to the County.

These principles, and the associated agreements, are intended to resolve potential disputes and create a framework for proceeding in a coordinated manner.

The Utilities Department intends to present to the Council draft principles for the Council's consideration at an upcoming Council meeting. The principles also will be considered by the Company Board of Directors and by the County Board of Supervisors. The Utilities Department believes that it is in the best interests of all concerned to resolve these issues in the near term. For example, the recommended consolidation of diversion facilities would involve changes to both the SRWRS and the Company's diversion project, which changes should be effected immediately in order to avoid project delays and possible regulatory problems. The Company and the City share an interest in the addition of modern fish screens to the Company's diversion facilities, which should be accomplished as soon as possible.

ENVIRONMENTAL CONSIDERATIONS:

This item is for informational purposes only, and does not recommend any action or approval subject to the California Environmental Quality Act (CEQA).

FINANCIAL CONSIDERATIONS:

There are no financial implications associated with this report as this is an information only report.

POLICY CONSIDERATIONS:

The information in this report is consistent with the City's Charter and with the Department of Utilities' goal of establishing a Sacramento River diversion facility as contemplated by the Water Forum, and doing so in a regional partnership approach. Consolidation of the Company's southern diversion facility into the regional facility would provide environmental, economic, and other benefits.

ESBD CONSIDERATIONS:

None, as no goods or services are being procured.

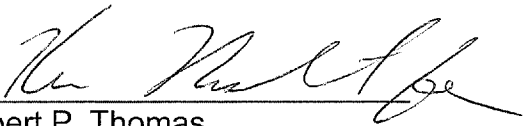
Respectfully submitted,



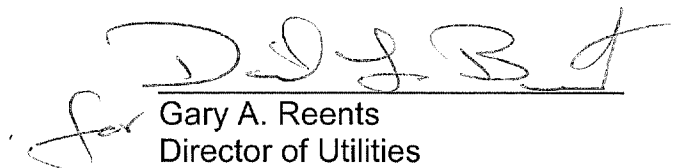
David L. Brent
Engineering Services Manager

RECOMMENDATION APPROVED

APPROVED



Robert P. Thomas
City Manager



Gary A. Reents
Director of Utilities