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SAN GORGONIO PASS WATER AGENCY LEASES NICKEL WATER FROM AVEK

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San Gorgonio Pass Water Agency ("SGPWA") has entered into an agreement with Antelope Valley–East Kern Water Agency ("AVEK") to lease 1,700 AF for 20 years, with a right-of-first refusal to renew the lease for another 20 years, subject to agreement and consultation between the parties.

The price for the lease is based on three components—a water charge, a replenishment charge, and an administrative charge. The water charge and the replenishment charge will both escalate annually by the greater of 3% or the Consumer Price Index for Los Angeles, Orange, and Riverside Counties. The administrative charge does not escalate. For 2017, the price for the lease was \$1,021.29/AF, based on a water charge of \$716.29/AF, a replenishment charge of \$300/AF, and an administrative charge of \$5/AF. The charges include delivery to the Tupman Turnout, a specific point on the California Aqueduct in Kern County. SGPWA must pay the additional cost to deliver the water to its service area. In 2017, the cost to deliver the water to the SGPWA service area totaled approximately \$247/AF.

SGPWA will use the water to meet municipal water needs. The agency reports that this supply of water will meet the needs of 3,000 to 5,000 homes, depending on home and lot size. AVEK, who has sufficient water supplies from its SWP Table A amount to meet water demands at least through the end of the contract term, will use the funds to develop its local water supplies.

The water provided under the agreement is a portion of the "Nickel Water," a 100% reliable supply of water. The Nickel Water comes from a 2001 contract in which Nickel Family, LLC exchanged its Kern River Lower River water rights with Kern County Water Agency ("KCWA") for 10,000 AF/year of marketable water. (For more detail on the agreement between Nickel Family, LLC and KCWA, see "Transactions," *Water Strategist* April 2001).

In 2007, Nickel Family, LLC and DMB Communities II ("DMB") entered into an option agreement to lease 8,393 AF of the Nickel Water for 35 years with the potential to renew for another 35 years. Option payments, which totaled \$1,231,265 (including \$50,000 to initiate due diligence, \$300,000 for the initial option term through end of 2007, and \$881,265 for the extended option term through the end of 2008), were applicable toward lease payments. In 2009, DMB exercised its option. The price for the water under the lease was set at \$525/AF as of the effective date of the agreement in 2007 and escalated annually by the greater of 3% or the Consumer Price Index for Los Angeles, Orange, and Riverside Counties. The DMB/Nickel agreement allowed for DMB to assign this water to up to five additional parties.

In 2013, DMB executed an option agreement with CV Communities ("CV") for 1,700 AF of the Nickel Water. The CV/DMB agreement, which stated that CV's intended to assign the water to AVEK or Los Angeles County Waterworks District 40 ("District 40"), was structured with three option periods, with an initial option payment of \$680,000. The second and final option periods had option payments of \$1,233,000 and \$1,267,000, respectively. These figures were estimates of DMB's costs to maintain control of the water. If DMB's actual costs were higher, CV was responsible for the difference. The agreement also included a \$5.1 million option exercise price that was payable within 5 days of submitting an option exercise notice. CV exercised its option in 2016 and assumed, for the 1,700 AF, the payments and responsibilities outlined in the DMB/Nickel agreement.

CV assigned its 1,700 AF of Nickel Water to AVEK effective January 1, 2017. AVEK assumed responsibility for payment of the water charges and any power charges associated with the supply of water. AVEK agreed to considerations related to CV's planned developments. For the 794-acre Joshua Ranch planned development in Palmdale, AVEK credit CV with payment of the capacity charge for 528 connections and will make 567 AF/year available to District 40 to provide retail water service to the development. AVEK will also make 620 AF/year available for CV's 237-acre Avanti North planned development in Lancaster or other CV projects in AVEK's service area. For the first five years of the agreement, CV will reimburse AVEK for any costs incurred to obtain and deliver the 620 AF designated for Avanti North, including the costs assumed from the DMB/Nickel agreement.

The entire 10,000-AF block of Nickel Water has been marketed. DMB leased its remaining 6,693 AF to Tejon Ranchcorp in 2013, and Nickel Family, LLC leased the remaining 1,607 AF of its 10,000 AF to Newhall Land and Farming. (For details on the lease to Newhall Land and Farming, see "Transactions," *Water Strategist* February 2003).

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