

## PROCEDURE for EVALUATING 2007 YAKIMA REVERSE AUCTION BIDS

### **PHASE I: Solicitation and opening of bids**

- 1<sup>st</sup> Step. Invite bids from Yakima irrigators in prioritized streams by mailing auction materials including bid forms. Timeline from the date of solicitation mailing to the due date is 30 days and returned bids must be postmarked by 05/25/07.*
- 2<sup>nd</sup> Step. Open bid envelopes at Ecology office on 05/31/07*
- 3<sup>rd</sup> Step. Ensure consistency with auction bid conditions and terms*

#### Filter #1.

- 1) If the answer to *any* of the auction conditions is “No”, do not evaluate the offer and reject bid. Go to Phase I, 4<sup>th</sup> Step.
- 2) If the answer to *all* of the auction conditions is “Yes”, go to Phase II

*4<sup>th</sup> Step: Send first round of rejection letters.*

### **PHASE II: Internal Review and estimation of water quantities**

*1<sup>st</sup> Step. Internal review of water right based on priority date and availability*

1. What is the relative priority of the right on the tributary stream?
2. Does the right enjoy full-season availability?
  - a. If the right enjoys full-season availability, go to Phase II, 2<sup>nd</sup> Step using the water volume and acreage from Phase II, 1<sup>st</sup> Step.
  - b. If the right DOES NOT enjoy full season availability:
    - i. What is the estimated availability in a normal year?
    - ii. What is the estimated availability in a water-short year?  
(threshold of pro-rationing, e.g 2004)
    - iii. What is the water availability in a severe drought year?  
(e.g 2001, 2005 -- Use any source metering/stream measuring records that may be available.)

*2<sup>nd</sup> Step. Estimate primary & secondary reach water quantities*

1. Compare acreage on bid to Ecology-accessible aerial photos:
  - a. Donations – summer photos 2006, 05, 04, 03, 02
  - b. Leases – summer photos 2006, 05, 04, 03, 02 or up to the CFO date
  - c. Sales – summer photos 2006, 05, 04, 03, 02 or up to the CFO date
2. What is the acreage eligible for lease or sale (include results from Phase II, 1<sup>st</sup> Step)?
3. What is the quantity of acre-feet eligible (CU & NCU total) for lease or sale (include results from Phase II, 1<sup>st</sup> Step)?
4. What is the consumptive (CU) volume eligible on that acreage?
  - a. Ecology CU formula using WIG with highest water usage (eg. alfalfa):
    - i. normal yr: [ ]

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- ii. drought yr: [\_\_\_\_\_]
- b. Calculate CU water with eligible acreage for (i) normal yr, and (ii) dry yr
- c. Calibrate to adjust for season of availability (see Phase II, 1<sup>st</sup> Step)
- d. Results:
  - iii. Dry Year: What is the CU (Qa) eligible amount?
  - iv. Split Season: Given the preferred lease period, what is the CU (Qa) eligible amount?
  - v. Sale: What is the CU (Qa) eligible amount?
5. What is the non-consumptive (NCU) volume eligible on that acreage?
  - a. Take the gross amount (Phase II, 3<sup>rd</sup> Step), then minus the calculated CU volume = NCU volume eligible
  - b. Results:
    - vi. Dry Year: What is the NCU (Qa) eligible amount?
    - vii. Split Season: Given the preferred lease period, what is the NCU (Qa) eligible amount?
    - viii. Sale: What is the NCU (Qa) eligible amount?

### Filter #2

- 1) Enter the water rights, stream name, acreage, Qa for CU & NCU into the database.
- 2) Run their bid offer through the Site Review Value worksheet with Phase II volumes, using highest of CRVI range
- 3) If our total (adjusted) value equals or exceeds the offer, go to Phase III.  
If our total (adjusted) value is below the offer, the bid is rejected. Go to Phase II, 3<sup>rd</sup> Step

*3<sup>rd</sup> Step: Send second round of rejection letters*

### PHASE III: Determination of Ecological Value

*1<sup>st</sup> Step: Ecological assessment*

1. WDFW biologists conduct field assessments (as needed) with information from Phase II.
2. WDFW biologists provide data for CRVI model – input to **Site Review Values**.

*2<sup>nd</sup> Step: Determine the final bid value (final filter)*

1. From **Site Review Value (SRV)** worksheet and Phase III, 1<sup>st</sup> Step (Appendix 2), identify the  $SRV_{pri}$  and  $SRV_{sec}$
2. Select the appropriate stream from the list on Appendix 1, the ranges of the Combined Resource Value Index (CRVI) for Yakima River tributary streams.
  - a. Calculate the  $CRVI_{pri}^1$  and  $CRVI_{sec}^2$ :

$$i. CRVI_{pri} = CRVI_{range\ median} + ((SRV_{pri} - 2.0) * 0.3)$$

$$ii. CRVI_{sec} = CRVI_{range\ median} + ((SRV_{sec} - 2.0) * 0.3)$$

- b. Calculate the value based on the reserve price adjusted by the CRVI:

<sup>1</sup> "PRI" is abbreviated for *primary reach*

<sup>2</sup> "SEC" is abbreviated for *secondary reach*

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- iii. Multiply the  $\text{Volume}_{\text{pri}} \times \text{CRVI}_{\text{pri}} \times \text{Reserve Price}_{\text{pri}}$ <sup>3</sup>
- ix. Multiply the  $\text{Volume}_{\text{sec}} \times \text{CRVI}_{\text{sec}} \times \text{Reserve Price}_{\text{sec}}$
- v. Sum (i) + (ii) = total value ("VALUE")

### **PHASE IV: Ranking bids**

#### *1<sup>st</sup> Step: Ranking value of bids*

1. If the VALUE is less than the offer the bid is rejected. Go to Phase IV: 2<sup>nd</sup> Step
2. If the VALUE equals or exceeds the offer the bid is accepted for final ranking.

#### *2<sup>nd</sup> Step: Final Ranking*

1. Bids are segregated by purchase, split-season lease and dry-year lease option.<sup>4</sup>
2. Bids are ranked by the ratio of the VALUE to the total price on the bid ( $\text{VALUE} / \text{Bid} = \text{ratio}$ )
  - a. If acceptable bids for sale total \$625,000 or more, all funds will be used for purchases and no funds will be available for leases.
  - b. If accepted bids for sale total less than \$625,000, funds will be available for leases.
  - c. The total amount to be paid for accepted dry-year options *and* leases will not exceed a *combined* total of \$250,000<sup>5</sup>
  - d. If at any time in the auction the cumulative bids meeting Ecology's criteria totals more than the available funds, then Ecology will select among the bids based upon the ratio of the VALUE to the total price on the bid<sup>6</sup>

#### *3<sup>rd</sup> Step: Send third round of rejection letters.*

### **Phase V: Contracts, external review and Ecology approval process**

#### *1<sup>st</sup> Step: Initiate the contracting and TWR processes for accepted bids*

1. Letters of Intent (LOI) are sent by WRC and WWI to the landowners of the accepted bids for signature. Signed LOI's will be sent to WRC and WWI by landowners
2. WRC and WWI representatives will meet with landowners' to complete the Trust Water Right (TWR) applications and obtain any additional landowner information.

<sup>3</sup> In this equation, "Volume<sub>pri</sub>" represents both CUwater & NCUwater. "ReservePrice<sub>pri</sub>" represents only NCUwater. This is because if only the volume of the NCU were reflected in the "Volume<sub>pri</sub>", then the volume that pricing was based on (both CUwater & NCUwater) would not be reflected (the VALUE would be under calculated). Thus, the opposite method was used, with the result of the CUwater contributing to the total VALUE twice, but only reflecting NCU reserve prices. This is an acknowledged imperfection of the model.

<sup>4</sup> Leases will only be ranked and compared according to their *annual* values. In ranking, dry-year leases will include their annual \$10/af-CU premium.

<sup>5</sup> Payment for exercising the lease option 2 years within the lease period Dry-year leases will be debited against the budget (The debiting process will not reflect adjustments for inflation, even though the contract provisions will include an inflation adjustment). The *total* premium on dry-year leases will be debited against the budget.

<sup>6</sup> Further explanation: First, if purchases alone exceeded \$625k, Ecology would select by VALUE among purchases alone. If purchases alone did not exceed \$625, but leases *did* then exceed the balance, Ecology would finish the purchases first, and then select by VALUE among *all* of the leases. When selecting by VALUE among the purchase or leases, Ecology will order all the purchase and lease bids (separately) and their corresponding VALUES, identify the ratio of VALUE to bid price, and rank highest to lowest. The highest would be accepted *first* until the corresponding bid prices fully utilized our allocated budget. This method allows for us to choose those "deals" where we are getting the largest marginal value

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3. TWR applications (marked as Yakima Tributary Reverse Auction applications), additional information and signed LOI's returned to Ecology for approval.

### *2<sup>nd</sup> Step: Report of examination*

1. Additional due diligence on water rights is conducted if necessary and Ecology staff starts drafting Reports of Examinations (ROE's). Additional information may include:
  - a. meter records
  - b. electrical records
  - c. crop records
2. Ecology delivers draft ROE's and they are posted on website.

### *3<sup>rd</sup> Step: Contracts*

1. Purchase and lease contracts are sent to water right holders for signature.
  - a. Include dry-year lease conditions & triggers<sup>7</sup> within contract

### *4<sup>th</sup> Step: Payment for contracts*

1. Purchases will be paid in total within 60 days upon completion of signed contracts.
2. Split-year leases will be paid in total within 60 days upon completion of signed contracts.
3. Dry-year leases will be paid a premium of \$10/af-CU/yr in one lump sum. Payment for the water being called on a dry-year lease option will be paid only when dry-year leases are exercised by Ecology. Payments will be made upon conveyance of the water right to the TWR program in drought seasons.<sup>8</sup>
4. Contracts and ROE's will be recorded with the County of Record within 45 days of payment.

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<sup>7</sup> Dry-year lease triggers will be based on March 1<sup>st</sup> Total Water Supply Available (TWSA) figures reported from Bureau of Reclamation. When TWSA is projected as *less than* 75%, this will trigger Ecology to exercise the dry-year lease. Ecology must notify dry-year lease holders by March 15<sup>th</sup>, otherwise Ecology cannot exercise the dry-year lease.

<sup>8</sup> Dry-year lease payments will be adjusted for inflation based on Seattle area Implicit Price Deflator; <http://www.ofm.wa.gov/economy/econtopics/inflation/default.asp#h3>

APPENDIX 3 – Reserve Prices by Bid Type

	Split season lease	Dry year option	Sale
$\$/ac-ft_{sec}^1$	\$60	\$120	\$1250
$\$/ac-ft_{pri}^1$ (gross – CU)	\$10	\$15	\$75

1 Actual water availability considering the priority of the right

Upper Kittitas one acre example -- assumes full yield/availability and  $CRVI_{pri, sec} = 1.0$ :

No-name River -- split season lease:

$$\begin{aligned}
 CU_{Aug - Sept} &= 0.7 \text{ ft} \\
 \text{Gross diversion}_{Aug-Sept} &= 2.4 \text{ ft} \\
 [(0.7 * 1.0 * 60) + (1.7 * 1.0 * 10)] &= \$59/\text{yr}
 \end{aligned}$$

No-name River – dry-year lease option:

$$\begin{aligned}
 \text{Gross (May 1 – Sept 30) diversion} &= 6 \text{ ft} \\
 CU_{May - Sept} &= 1.9 \text{ ft} \\
 [(2.0 * 1.0 * 120) + (4.0 * 1.0 * 15)] &= \$300/\text{yr}
 \end{aligned}$$

No-name River – purchase:

$$\begin{aligned}
 \text{Gross (May 1 – Sept 30) diversion} &= 6 \text{ ft} \\
 CU_{May - Sept} &= 1.5 \text{ ft} \\
 [(1.5 * 1.0 * 1250) + (4.5 * 1.0 * 75)] * 1.0 &= \$2212.50
 \end{aligned}$$

