

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

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December 23, 2013

Regarding: Water Resource Planning Update Report

To Advisory Committee:

Pete Nichols, Northcoast Environmental Center
Bill Thorington, Humboldt Watershed Council
Dave Feral, Mad River Alliance
Jacqueline Debets, Humboldt County Economic Development Department
Dennis Mullins – State of California Employment Development Department
Michelle Fuller - Blue Lake Rancheria
David Lindberg – Eureka Chamber of Commerce
Dave Varshock - Humboldt County Association of Realtors
Jim Smith – Central Labor Council
Dennis Mayo, Verne Frost, Mark Wheetley- HBMWD Municipal Customers

Dear Advisory Committee Members,

Thank you once again for reconvening on August 28, 2013 to receive a status report regarding our Water Resource Planning activities. We appreciated the opportunity to share work accomplished to date to advance the top-tier water-use options the District is considering: 1) local sales, 2) transport to another public Municipality, and 3) an instream flow dedication in the Mad River. We very much appreciated the discussion and input you provided.

At that meeting, you suggested we develop a written status report to communicate our activities to date and next steps. I am pleased to report we have just completed an Update Report which is attached for your information and use. We are sending a copy of this report to the stakeholder groups from which the Advisory Committee was formed.

Last month, we provided a briefing to the Northcoast Environmental Center. We would be happy to provide briefings to any other stakeholder group or interested party. Please let me know if you would like to schedule this.

Thank you once again for your continued involvement in our planning process.

Sincerely,

A handwritten signature in cursive script that reads "Carol Rische".

Carol Rische

General Manager

cc: Stakeholder Groups from which Advisory Committee formed:

- Environmental - Northcoast Environmental Center and Humboldt Watershed Council
- Watershed/Fisheries - Mad River Alliance and other fisheries professionals
- Economic Development – RREDC, SBDC, Economic Development Forum
- Business – Arcata, Eureka and McKinleyville Chambers of Commerce
- Real Estate – Humboldt County Association of Realtors
- Tribes – Blue Lake Rancheria and Wiyot Tribe
- Labor – Central Labor Council and Building and Trades
- Wholesale Municipal Customers – Water Task Force

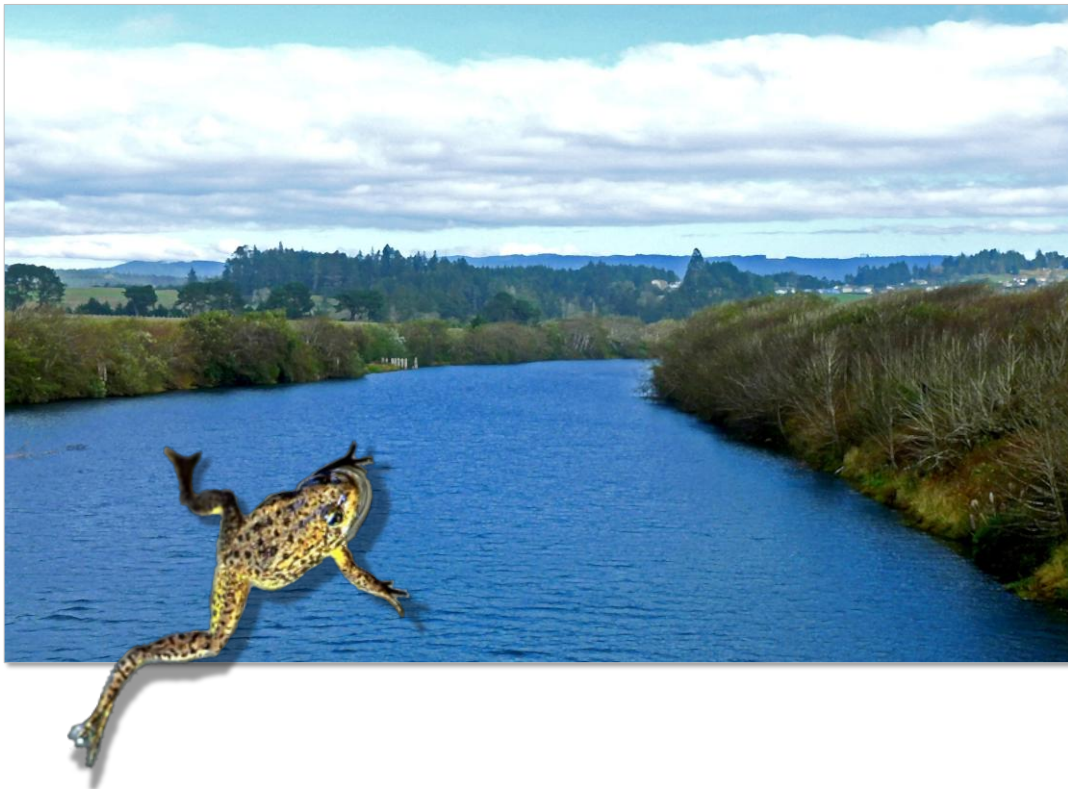
Mary Gelinas

Enclosure: Humboldt Bay Municipal Water District Update Report on its Water Resource Planning

Humboldt Bay Municipal Water District Update Report on its Water Resource Planning

**Prepared for
WRP Advisory Committee, Affiliated Stakeholder Groups,
and Members of the Public**

December 2013

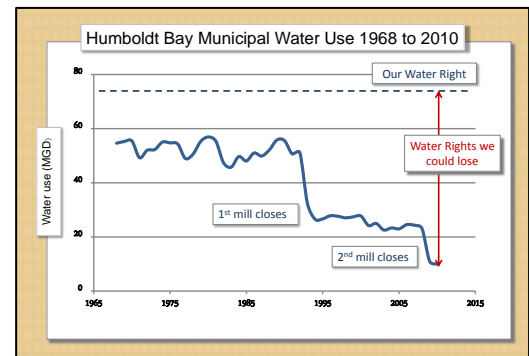


Humboldt Bay Municipal Water District's Update Report on its Water Resource Planning

Prepared for the WRP Advisory Committee, Affiliated Stakeholder Groups, and Members of the Public
December 2013 — Summary

Loss of two pulp mill customers has presented the District with two potential problems, 1) loss of revenue, resulting in higher water rates for domestic water users, and 2) loss of water rights, potentially resulting in non-local entities obtaining Mad River water rights, if they can show a beneficial use.

To address these problems, the District conducted a Water Resource Planning (WRP) process. The WRP process was hugely successful because it allowed numerous and various community members to discuss and agree on closely held values as they pertain to water uses. Important community values relating to water uses are local control, local use for economic development, revenue generation for the District, Mad River watershed enhancement, and local community access to water. Another successful outcome of the WRP was that numerous water use options were formulated and discussed. Upon completion of the WRP process, the District selected three broad water use options to pursue.



The water use options currently being investigated are:

- Use water locally
- Transfer water to another public agency located in northern or central coastal California
- Allow water to be used for environmental benefit (the “instream flow” option)

While moving forward with pursuing the three water use options, the District has endeavored to keep these community values in the forefront of their considerations. Local water use supports the values of local control and local economic development, but as of today, local use will be unable to approach the volume used by the former pulp mills; an economic study concluded that even if numerous water intensive industries were to locate within District boundaries, their total water use would be a very small percentage of that used by the two mills. Transport of water to another public agency would support the important value of local control of the District’s water rights granted by the State of California; however, the mode of water conveyance could affect the degree of local control during the term of a transfer contact. Marine transport was initially assumed to allow more flexibility regarding the quantity and transfer terms, thus lending more control over the water use, but we now know that at this time, marine transport is not cost competitive with other sources of water available to public agencies. Further, the headworks and distribution systems of most northern and central coastal California water agencies are located in the eastern portions of their watersheds. To utilize marine-transported water, they would have to pump water from west to east, to the “start” of their systems at higher elevations. The third water use options, using the water for instream flow and environmental benefit, may still be feasible and it might directly support the value of enhancing the Mad River watershed; however, no revenue is likely to be generated.



Stakeholders active in the WRP process were re-convened to inform them of the District’s findings. The next steps that they recommended include continuing efforts on developing the local use and instream flow options; these efforts are detailed in this report and more generally in the District’s “Implementation Plan” for advancing water use options. For the transport option, they expressed understanding and support for the District now exploring a pipeline to convey water to either public agencies in northern California or to established systems to lessen adverse environmental effect.

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Suggested Citation:

Humboldt Bay Municipal Water District 2013. Update Report on HBMWD’s Water Resources Planning. December 2013. Eureka, California.

1 Introduction, Purpose, and Background

The purpose of this Update Report is to summarize: 1) the outcomes of the Water Resources Planning (WRP) process for readers new to this issue, 2) the District's activities since the WRP process ended in August 2010, and 3) findings that support continuing investigations of water use options. For more on the WRP process and its implementation, please visit <http://www.hbmwd.com/>.

One of the earliest yet most enduring and important results of the WRP was the community's identification of its values and goals pertaining to water use. The most important of these closely held values was a strong desire to maintain local control of Mad River water. Other values, in no order of importance or preference, are enhancing the Mad River watershed, maintaining our community's access to water, supporting economic development, providing some means of revenue for the District, and maintaining our "quality of life."

The District has endeavored to keep these community values in the forefront of our considerations while continuing the WRP process. In this report, we will frequently refer back to these community values.

Readers of this report will likely range from those who are new to the WRP process, to those who have been participating since its beginning in 2008. Those very familiar with the WRP and who need no background or summary information may wish to skip forward to Sections 3, 4, and 5, which are the updates on the three water use options of local water use, transfer to another public agency, and instream flow. Sections 1.1 and 2 provide background and summary information.

1.1 Background

The Humboldt Bay Municipal Water District was formed in 1956 pursuant to the California Municipal Water District Act. The District was created to develop a regional water system that provides a reliable supply of drinking and industrial water to customers in the greater Humboldt Bay area of Humboldt County. From its beginning, the revenues from the industrial users (that is, two pulp mills on the Samoa peninsula) were a large portion of the District's income.

The distinction between treated drinking water and untreated surface water is an important aspect of the District's water system, and is central to understanding the water use issue. The District operates and maintains two separate and distinct water supply and delivery systems:

1. an Industrial Water System, capable of supplying 60 million gallons per day (MGD) of untreated water that formerly served two pulp mills located on the Samoa Peninsula, and
2. a Domestic Water System, capable of supplying about 20 MGD of treated drinking water to the cities of Arcata, Eureka, and Blue Lake, and the Community Service Districts of Fieldbrook-Glendale, Humboldt, Manila, and McKinleyville. The District serves treated drinking water to 75,000 to 80,000 people.

The two systems were designed for their respective uses only; in other words, *the industrial system (in its current state) cannot supply drinking water*. So although the District has ample water supply available under permit from the State, the District can only provide about 20 MGD of drinking water unless we greatly expand the domestic water system infrastructure.

The key challenge facing the District is the loss of its entire industrial customer base (Figure 1). This has resulted in:

1. a significant loss in revenues that shifted substantial costs to the District's municipal customers who, in turn, increased water rates to ratepayers;
2. non-use of the industrial water system; and
3. under-utilization of the District's water rights, which will be lost in the future if not used again.

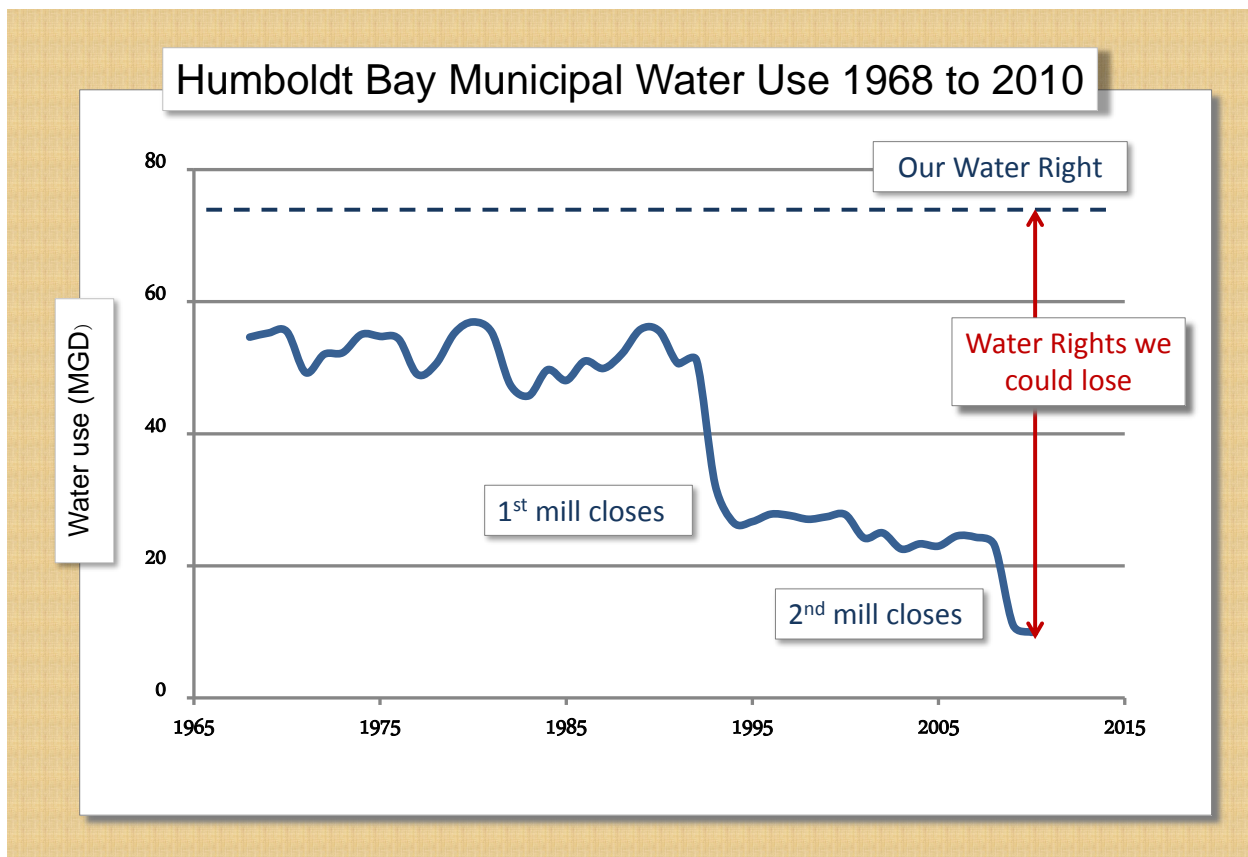


Figure 1. Annual average municipal and industrial water used (MGD) over the last 40+ years.

The District's storage and diversion water rights allow the District to provide the highly reliable year-round supply of water to the Humboldt Bay region. The District holds appropriative water rights permits to store water at Ruth Lake and divert water at the District's pumping facilities on the Mad River at Essex, located between Arcata and Blue Lake. These permits allow the District to store 48,030 acre-feet of water at Ruth Lake and to divert 75 million gallons per day (MGD).

A key question relating to water rights is how much control a permittee (in our case, the District) will have compared to the State Water Resources Control Board (SWRCB) or others. In general, as long as the permittee is complying with the terms of its permit, the permittee has full control over its water rights. However, if the permittee fails to put all of the water under permit to use, then the SWRCB will, at the end of the permit period, reduce the quantity of water under the right to the amount that the permittee has actually used. This situation is simplified by the phrase “use it or lose it.” In addition, if a permittee does not use the water under permit, new parties may obtain rights to the unused water if they can put it to beneficial use.

The District’s storage and diversion water rights permit for 75 MGD expires in 2029. The District is currently using less than 20% of the amount permitted. No water is being used through the industrial system, and approximately 10 MGD (annual average) are being used through the domestic system. Therefore, to address revenue loss and to avoid the likely future loss of water rights, the District must find uses for the untreated “industrial” water. In 2009, the District Board of Directors turned to the community to identify possible water use options; the process of engaging the community and identifying water use options was termed “Water Resource Planning.”

2 Summary of WRP Outcomes

The Water Resource Planning (WRP) process was developed to provide a communications pathway between the District Board of Directors, its customers, and the community. The District’s outreach to the community was both wide-ranging and in-depth. To lead the process, the Board created an Advisory Committee (AC) comprised of three representatives from its Municipal Customer group, nine citizens representing multiple stakeholder perspectives, and two members of the Board. The AC began its work in June 2009. During its 14-month process, the AC gathered input and feedback from the public at 11 meetings, conducted an educational Water Workshop, and formed a Citizen’s Study Group comprised of invited stakeholders and citizens randomly selected and invited from voter rolls. The District used television, radio, print media, and the internet to further communicate with the community. For example, 29 articles appeared in eight newspapers or newsletters. The District also gave 22 presentations to various stakeholder groups throughout Humboldt County. These activities are documented in meeting minutes and in the final WRP Report located online (<http://www.hbmwd.com/>).

An early achievement of the WRP process was the synthesis of a list of values and priorities expressed by the public, the Citizen’s Study Group, and the AC, as they pertain to possible water uses. The values and priorities are that a water use option should:

- Maintain local control of the District’s water rights
- Be legally viable
- Support the preservation or enhancement of Mad River watershed
- Maintain the community’s access to water
- Support economic development

- Provide District cost recovery
- Preserve or maintain our “quality of life”

The first two values were deemed important enough that they were elevated to thresholds, that is, a water use option must maintain local control and be legally viable.

The AC identified six distinct achievements of the WRP process. The AC:

1. Created a “Framework for Evaluating Water Resource Planning Options,” which is a list of criteria by which one can evaluate water use options
2. Identified options evaluated by the public and the AC
3. Created detailed descriptions of the options
4. Provided public outreach and education
5. Analyzed options
6. Provided recommendations to the District Board

Results 2, 3, and 4 of the WRP process (that is, identifying, describing, researching, and publicizing water use options) occurred over six months from January to June 2010. Many options were slight variations on a concept, and the AC ultimately defined and analyzed 12 water use options. Result 5 was accomplished by using the “Framework for Evaluating Water Resource Planning Options”, and considering all of the public input from meetings, letters, and emails; the AC was able to narrow the water use options to 10. One option, developing micro-hydro electricity, was added late in the process. Following extensive consideration, the AC tiered its final recommendations, which are presented in Table 1. The only option on which the AC was unable to reach consensus was Option B3, building a pipeline to Sonoma in the North Coast Railroad right-of-way.

Table 1. Summary of the AC’s Tiered Recommendations

| Option | Immediately pursue | Passively pursue |
|---|------------------------------|------------------|
| A1. Actively pursue companies that use water | X | |
| A2. Expand District boundaries | X | |
| A3. Develop Lake in Blue Lake | | X |
| A4. Develop aquaculture for appropriate species | | X |
| A5. Divert water to Mad River fish hatchery | | X |
| A6. Develop aquaculture for algae | | X |
| B1. Sell untreated water to another municipality | X | |
| B2. Sell untreated water to a private entity | | X |
| B3. Build a pipeline in NCRA right-of-way to Sonoma | AC unable to reach consensus | |
| C1. Transfer water (in Mad River watershed) for environmental restoration/enhancement (also called in-stream flow option) | X | |
| D1. Develop micro-hydro in watershed | | X |

The District Board of Directors received the AC's WRP report, adopted goals, identified "top-tier" options, and prepared an Implementation Plan (HBMWD August 2011). The three water use goals, in no order of importance or desirability, are to:

- Protect the District's water rights by increasing water use
- Generate revenues to cover current operations and maintenance, and future capital improvements
- Preserve the Mad River environment, and to enhance it if possible.

The Board then divided the AC's water use options into two tiers. The three options in the top tier are:

- Local sales to commercial, industrial or agricultural interests. This option is highly preferred and meets several of the community's values, such as maintaining local water control and providing a revenue source for the District. However, an economic study performed during the WRP process found that it will be very difficult for future local industries to use as much water as the former pulp mills did. The study authors estimated that even if numerous water intensive industries (such as breweries, soda/beverage producers, and gypsum wallboard manufacturers) began manufacturing in Samoa, their combined water use would be a small percentage of that historically used by the pulp mills.
- Transfer to another public agency for an authorized beneficial use, under a strict contract to protect water rights and local interests. This option allows the District to maintain local control of the District's existing water rights on the Mad River, and also to generate revenues thereby offsetting current and future costs that existing ratepayers are otherwise paying. The selection of potential public agencies was limited to those that are geographically close (along the northern and central California coast). The District retained Special Counsel with extensive experience in California water law, including transfers. He confirmed that this option would protect the District's water rights, and that a transfer would only occur pursuant to a stringent contract that protects the water right and long-term water supply needs of our community.
- Instream flows for defined environmental benefit(s) via a California Water Code "Section 1707" transfer. This option was recognized as one that is unlikely to generate revenues, but has a possibility of providing environmental benefit while allowing the District to maintain local control.

Besides relying on the community's expressed values for water use options, the District is also considering these values as we think about water volumes. The District has 40 to 50 million gallons per day (MGD) of untreated water available year-round. This is equivalent to 45,000–56,000 acre-feet/year. It is highly unlikely there will be a single water use option that can utilize all of the available water supply, similar to when the District served the two pulp mills. A reasonable outcome is water use through a combination or "suite" of water use options.

To determine the volume of water available for a specific water use proposal, especially the transfer option summarized above, the District will be very protective of our local interests, as guided by the values of local control, enhancement of the Mad River watershed, and supporting local economic development. Long term municipal water supply needs, as well as new and future commercial, industrial, agricultural or aquaculture needs, will be considered first before any transfer volume is proposed.

Further, the volume available for a longer term use will be depend on its proposed use as well as its proposed term. For example, the District would generally be willing to offer a larger volume for a shorter term, but would limit the volume available for longer terms so as to protect local interests.

For the water transfer and instream flow options, two ad-hoc committees were formed to research and investigate the options and to report back to the full Board. The District's General Manager is assigned to both committees; assisting District staff in a consultant capacity are staff of three consulting firms (GHD for engineering, Stillwater Sciences for ecology, and Downey Brand on an as-needed basis for specialized water law services).

3 Update on Local Water Use Options

In keeping with the value and priority of water sales to local industrial users, the District initiated extensive outreach to potential local water users and to economic development professionals. The District hosted several meetings with state and local economic development professionals, and sent letters to all cities and community services districts in Humboldt County, and to numerous agricultural and farming organizations and interest. The District made numerous presentations to stakeholder and service organizations informing them of the availability of water and implications if not used.

The District is initiating another round of meetings and informational briefings with the Humboldt County Board of Supervisors, the Humboldt County Planning and Building Department, the Humboldt Local Agency Formation Commission (LAFCO), and representatives of the Farm Bureau and the Agricultural Commissioner, to discuss local opportunities.

The Humboldt Bay Harbor, Recreation, and Conservation District (the "Harbor District") has acquired one of the former pulp mill sites, and plans to proceed with site clean-up and to form new long-term public-private partnerships. The District has supported the Harbor District by contributing to two potential projects that could use water on the Samoa peninsula; they are 1) the Humboldt Aquaculture Innovation Center (HAIC), which is trying to determine the operational and business feasibility for an aquaculture business park on the Samoa peninsula, and 2) the Pressure Retarded Osmosis Feasibility Project, which is a "capstone" project for HSU Environmental Resources Engineering graduating seniors. Pressure retarded osmosis is an emerging renewable energy that uses the chemical potential energy between freshwater and seawater to create electricity. If feasible, this could provide a renewable energy source and compliment the HAIC. In both projects, the District has provided information and guidance to the project developers as students and as graduated professionals.

The WRP AC met again in August 2013, and offered some ideas that had been previously discussed, such as expanding District boundaries to include Trinidad; the AC recommended that the District first consider the whole County. They also offered new ideas for local water users, including cities and communities currently outside of District boundaries, agricultural purposes, and transfer needed during emergencies.

4 Update on Transfer to Another Public Agency Option

Transferring water to another public agency was determined to be an option worthy of consideration. The District desires to transfer water to a public agency as “close to home” as possible, for example in northern California and ideally within the north coast region. The District also desires to transfer water to an agency that does not intend to use the water as “base load” to support new development, and has demonstrated water conservation practices and achievements. Transfer to another public agency meets the criterion of providing a revenue source.

The mode of transfer was initially envisioned as via marine transport. Marine transport has the benefits of much less need to construct extensive infrastructure, and potentially greater control of water supply to the public agencies than if a permanent infrastructure is constructed.

The District performed three sometimes simultaneously occurring tasks toward defining the feasibility of transferring water to another public agency. The first task was to create a “Term Sheet”, which is a document that broadly summarizes the terms under which the District would be willing to consider a transfer to another municipality. The Term Sheet states that we are considering transfer of 30 to 40 MGD of raw water in 5 MGD increments. It states that the District is interested in long term (30- to 40-year) transfers. Regarding pricing, the price would need to cover the District’s fixed and variable costs for its industrial system, contribute to the costs of running the municipal system, and compensate the District for water use outside of Humboldt County. The Term Sheet is included in the WRP Final Report ([click here for WRP final report](#)).

The second task was to publicize our water availability to selected public agencies in the north and central California coast. The District sent a letter to northern California water agencies and districts located north of Monterey on or near the coast, including San Francisco Bay; the letter included the Term Sheet.

The third task was to gather information. The District contracted Kennedy/Jenks Consultants to evaluate Urban Water Management Plans prepared by larger northern California water districts with service territories near the coast, to determine which may need additional water supplies. The District also contracted with GHD (then Winzler and Kelly Consulting Engineers) to perform a “reconnaissance evaluation” of the financial viability of marine water transport. The Water Transfer committee then met with public water suppliers within the North Coast and Bay Area.

The first major finding of these meetings was that their domestic water systems are generally designed to provide water from the east, given that the source of supply comes from higher elevations. Providing water at lower elevation, as would be the case for marine transport, would require significant infrastructure to get the water into their existing transmission, treatment and storage systems.

The second major finding was that marine transport of water will be much more expensive than agencies’ current water costs, and potentially more expensive than desalination (Table 2).

Table 2. Water costs from “reconnaissance level” survey and meetings with Agencies

| Location | Water cost per acre-ft |
|---|--|
| Tug and Barge transport to San Francisco Bay Area (5-8 MGD) | \$7,600 to \$8,100 |
| Tanker transport to San Francisco Bay Area (10-19 MGD) | \$8,900 to \$10,100 |
| Marin Municipal estimated cost for desalinated water | \$3000 - \$5000 |
| San Diego County Water Authority contract with Carlsbad Desalination Project (first desalination plant in CA) | approximately \$2000 |
| Four Bay Area water districts <ul style="list-style-type: none"> • Raw (untreated) • Treated drinking water | <ul style="list-style-type: none"> • as low as \$190 • \$400 - \$2,000 |

When the WRP AC met again in August 2013, they were apprised of the developments in the water transfer option. Several ideas were provided for consideration; ideas (in no particular order) were to consider:

- Possible collaboration with east/west rail group, broadband interests, and/or trails advocates
- A north-south collaboration based on political and cultural connections
- Conveyance to communities along the Eel River and Highway 101 via a pipeline
- Connecting to the California Water Project via a pipeline
- Conveyance to the Trinity and Klamath systems for environmental enhancement

Several concerns with pipeline conveyance were discussed, and they were similar to those previously voiced during the AC’s discussion of a pipeline to Mendocino or Sonoma Counties via the North Coast Railroad Authority’s right of way. The priority value of maintaining local control continues to be a fundamental requirement for any option, and the perceived risk of losing local control if a pipeline were constructed must be carefully studied and evaluated. The value of providing revenue to the District would be met with a pipeline conveyance, but at this point in exploring water use options, the amount of revenue is unknown. One physical consideration is that a pipeline would start at or near Essex, where the existing direct diversion is. A pipeline diversion at Ruth Lake would not provide the necessary quantity of water, and would likely introduce adverse environmental effects in the Mad River.

5 Update on Instream Flow Option

The instream flow option meets the values of maintaining local control, and it potentially meets the value of enhancing the Mad River watershed; however, this option does not provide revenue. Further, when the District committed to considering the instream flow option, it also committed to shield the municipal customers and ratepayers from funding expensive environmental studies. To this end, the District applied for and received a \$52,000 Fisheries Restoration Program Grant (FRGP) from the CA Department of Fish and Wildlife (CDFW). The grant covers five scoping meetings with resource agencies and other resource professionals, who will be key to defining the environmental benefits and impacts of an instream flow option. The grant also covers a final report documenting the outcomes of the scoping meetings.

Five scoping meetings have been held, and much was accomplished during preparations for the meetings and in the meetings themselves. Topics on which information was gathered and then discussed are:

- Regulatory requirements and constraints of an instream flow water use
- The hydrology of the Mad River watershed
- The species likely to be present and their potentially conflicting habitat requirements
- Water quality
- Estuarine processes
- Proposed studies needed to address data gaps
- Flow release scenarios

At the end of the final scoping session, each participant was asked to state his or her opinion on whether instream flow for environmental benefit is feasible. Some participants stated that they could not yet say whether environmental benefit is possible, but that investigating the feasibility of this water use option should continue. Notably, two of the resource agencies, CDFW and the National Marine Fisheries Service, stated that they believe that the instream flow option for environmental benefit is feasible.

When the WRP AC met in August 2013, they encouraged the District to continue its consideration of the instream flow option and offered their support in any way possible.

6 Next Steps

Next steps for continuing our investigations into water use options are presented here and in the District's August 2011 "Implementation Plan to Consider, Evaluate, and as appropriate, Advance Recommended Water-use Options" ([click here for the Implementation Plan](#)). We encourage readers to refer to the Implementation Plan, but important next steps, by water use option, include:

Local water use. Continue conversations with local economic development agencies and other potentially interested parties. Because of the strong support and community value of using water locally, pursuing local water use will always be one of the District's top tier water use options.

Transfer to another public agency. Transferring water meets some community values (local control of the water right and revenue generation) but potentially undermines others (local community access to water, enhancement of the Mad River watershed) without careful and thorough evaluation and implementation. The mode of conveyance is an important part of this water use option; at this time, marine transport is not cost competitive. The AC supported the District's recommendation to investigate pipeline conveyance, recognizing that transfer via pipeline may not support all of the community's values, but that further investigation is warranted to support exploration of all options and to determine if pipeline conveyance is/ cost competitive.

Instream flow. One immediate next step is to review and distribute the final report documenting discussions and findings of the recently completed instream flow scoping process. A technical advisory group will likely be formed to provide scientific feedback and review on studies needed to determine the

extent, if any, of environmental benefit from instream flows. Although this option does not meet the community value of providing revenue to the District, this option, if feasible, does meet the value of enhancing the Mad River watershed, and the AC encouraged the District to continue investigating this water use option.