



● **Board of Directors**  
***Water Planning and Stewardship Committee***

2/8/2022 Board Meeting

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7-9

**Subject**

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Authorize General Manager to enter into a reverse-cyclic agreement with participating agencies to preserve the availability of State Water Project supplies to Metropolitan; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

**Executive Summary**

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Metropolitan proposes a Reverse-Cyclic Program to preserve water for use in the portions of the service area where Metropolitan relies more on the State Water Project (SWP) to meet demands. The SWP allocation is currently at 15 percent and Metropolitan's surface storage of SWP supplies remains low. As such, staff recommends adopting a Reverse-Cyclic Program that allows member agencies to defer delivery of water purchased this calendar year (CY) to meet its normal demands without incurring a likely higher water purchase rate in future years, and allows Metropolitan to defer delivery of its SWP supplies to a future year (not to exceed five years) at Metropolitan's discretion, consistent with the terms in **Attachment 1**. This action would: (1) preserve SWP supplies; (2) provide current year revenue; and (3) avoid additional resource and operational costs that would be necessary for Metropolitan to meet demands in SWP-dependent areas without demand deferment. Metropolitan would implement the Reverse-Cyclic Program in CY 2022. Metropolitan would reassess the Program based on operational experience, observed costs, and other lessons learned and return to the Board for approval of any extension of the Program.

**Details**

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**Background**

Metropolitan's diverse water supply portfolio increased regional storage reserves in recent years. These reserves help buffer the region from direct impacts caused by the drought. Metropolitan benefits from storage programs within the SWP system and Central Valley and is strategically preserving storage for later use in areas where it can only deliver SWP supplies. Such actions include shifting from using SWP supplies to Colorado River supplies where possible and expanding deliveries of water stored in Diamond Valley Lake into portions of the service area that would typically only receive SWP supplies. However, the historic two-year drought on the SWP system resulted in the Department of Water Resources having very little operational flexibility to deliver requested supplies. As a result, SWP contractors, including Metropolitan, received reduced initial SWP allocations for 2022.

With consecutive years of very low SWP allocations, Metropolitan withdrew a significant amount of its SWP related storage reserves. Metropolitan is strategically working with the member agencies to reduce SWP deliveries during these drought years. These reduced deliveries help preserve SWP supplies and avoid additional resource and operational costs that would be necessary without demand deferment.

**Proposed Reverse-Cyclic Program**

Staff recommends that the Board approve a Reverse-Cyclic Program (Program) to defer deliveries and authorize the General Manager to enter into agreements with the member agencies. These agreements allow member agencies to purchase water in CY 2022 for delivery in a future wet year per the terms described in **Attachment 1**. Staff would evaluate the supply and demand conditions through the Water Surplus and Demand Management (WSDM) process. If Metropolitan needs to manage additional SWP supplies after other dry-year actions are

potentially exhausted, the General Manager would initiate deferrals under the Reverse-Cyclic Program. Metropolitan proposes offering the Program under the following conditions:

- The General Manager determined that the supply conditions warrant deferring use of SWP supplies due to the risk of shortage of SWP supplies.
- The member agency's purchase does not exceed its annual purchase for any year in the past five years at the same service connection or connections as the potential deferred delivery.
- The member agency agrees to defer Metropolitan deliveries of water purchased to allow Metropolitan to preserve its SWP supplies. Metropolitan will deliver water to the member agency no later than five full calendar years from the date of purchase.
- Metropolitan will certify that the purchase reduces SWP deliveries.
- Metropolitan will include member agency purchases under the Program as allocated supply under a Metropolitan Water Allocation Plan implementation or any other allocation or shortage program that may be implemented.

Metropolitan will consider member agency purchases under the Program to be part of the member agency's Revised Base Firm Demand for the year of the purchase. Additionally, Metropolitan would not apply any losses to the pre-purchased water.

### **Initiating Pre-Sales, Deferred Deliveries, and Reporting**

Metropolitan regularly reports to the Board on developing supply and demand conditions through WSDM Plan reports. Staff provides these monthly reports through the winter and spring and keeps the Board apprised of developing conditions, including the potential use of storage assets and the likelihood of storing or withdrawing supplies. Implementation of the Program would be incorporated into this regular reporting. Under the Program, Metropolitan will bill the member agency the full-service water rate plus the treatment charge, if applicable, at the time of the purchase. Under the Program, billing occurs before delivery is made, modifying the timing of billing under Section 4507 of the Metropolitan Administrative Code; all other aspects of Section 4507 continue to apply. Metropolitan will include purchases made under this Program to determine the member agency's Readiness-to-Serve Charge at the time of sale. Metropolitan will then deliver the water within five years at its sole discretion. Metropolitan will not count deliveries under the Program towards the member agency's capacity charge because the future water delivery is at Metropolitan's discretion.

### **Summary**

The proposed Reverse-Cyclic Program helps Metropolitan shift deliveries of SWP supplies available in dry years and avoids additional resource and operational costs that would be necessary without demand deferral. Deferring use of its SWP supplies will allow Metropolitan to improve availability of storage reserves. Metropolitan would bill member agencies the 2022 full-service rate and applicable treatment charge. In doing so, the member agency avoids paying the projected higher service rate that would be in place when Metropolitan makes the deferred delivery. With this delegation of authority to the General Manager, Metropolitan would have additional operational flexibility to save the limited SWP storage for future drought years.

### **Policy**

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Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 4209: Contracts

Metropolitan Water District Administrative Code Section 4507: Billing and Payment of Water Deliveries

### **California Environmental Quality Act (CEQA)**

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#### **CEQA determination for Option #1:**

The proposed action of entering into agreements is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines) and because it involves other government fiscal activities which do not involve any

commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). The deferred delivery of water is exempt from CEQA as it consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of existing or former use (Section 15301 of the State CEQA Guidelines).

**CEQA determination for Option #2:**

None required

**Board Options**

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**Option #1**

Authorize the General Manager to enter into reverse-cyclic agreements with participating agencies to preserve the availability of SWP supplies to Metropolitan consistent with the terms in **Attachment 1**.

**Fiscal Impact:** None. Difference of water rate increase between the time of purchase and the time of delivery, which is anticipated to be offset with savings to Metropolitan from having to acquire water during drought years.

**Business Analysis:** Metropolitan would improve regional reliability by shifting demands from years with low SWP allocation to higher allocation years. Reduced delivery of supplies results in cost savings as the SWP variable rate is estimated to be at a historic high in 2021.

**Option #2**

Do not authorize the General Manager to enter into reverse-cyclic agreements with participating agencies to preserve the availability of SWP supplies to Metropolitan.

**Fiscal Impact:** Potential loss of a full-service water sale and an increase in costs to acquire additional water for the region during drought years.

**Business Analysis:** Not implementing the reverse-cyclic agreements could decrease the SWP supplies available to the region, reduce estimated revenues from full-service sales, and potentially increase costs necessary to meet demands.

**Staff Recommendation**

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Option # 1

  
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Brad Coffey  
Manager, Water Resource Management

2/3/2022  
Date

  
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Adel Hagekhalil  
General Manager

2/3/2022  
Date

**Attachment 1 – Term Sheet Reverse-Cyclic Program**

Ref# wrm12686498

## **Term Sheet**

### **Reverse Cyclic Program**

#### **Program Purpose**

To preserve Metropolitan Water District of Southern California's (Metropolitan) State Water Project (SWP) supplies during low SWP allocation years through deferment of Metropolitan deliveries to a future wet year.

#### **Program Criteria**

- Member Agency and Metropolitan will enter into a reverse-cyclic program agreement effective January 1, 2022 and December 31, 2022 to allow for delivery deferments of water purchased by member agencies in 2022, as provided under the Program.
- Program transactions will be implemented by Metropolitan's General Manager when a Water Supply and Drought Management (WSDM) recommendation is made or the General Manager determines that it is needed.
- Metropolitan will request that the Member Agency agree to deferment of Metropolitan deliveries of a portion of normal demands to the Member Agency to allow Metropolitan to preserve its SWP supplies.
- Member Agency will purchase the water deferred at the time of the deferment in 2022.
- When SWP allocation is higher than 40%, or when Metropolitan determines water is available, Metropolitan will deliver to the Member Agency an amount equivalent to the Metropolitan-requested deferment under the Program.
  - Metropolitan, at its sole discretion, shall determine when the water shall be returned.
  - Metropolitan will deliver water to the Member Agency no later than five full calendar years from the purchase.
  - Metropolitan will make best efforts to prioritize deliveries to the Member Agency if there is a critical need, for example, the groundwater storage basin reaches low levels where wells are not operable or the basin reaches emergency storage levels.
- The reverse-cyclic purchase shall not exceed a Member Agency's annual purchase from Metropolitan for any year in the past five years at the same service connections as the deferral.
- Metropolitan will certify that the purchase reduces its deliveries of SWP supplies.
- Member Agency purchases under the reverse-cyclic program will be considered to be part of the Member Agency's Revised Base Firm Demand for the year in which the purchases are made.

- Member Agency purchases under the reverse-cyclic program are to be included as allocated supply under a Metropolitan Water Allocation Plan implementation, or under any other allocation or shortage program that may be implemented.
- There shall be no losses associated with Metropolitan's delivery of purchased water.

**Program Costs**

- Metropolitan will bill the member agency at the full service water rate for 2022, plus the treatment charge if applicable, at the time of the purchase.
- Purchases made under this program are to be included in the determination of the Member Agency's Readiness-to-Serve Charge at the time of purchase.
- The deliveries will not be counted towards the determination of the Member Agency's capacity charge because the deferred delivery of water will be made at Metropolitan's discretion.