



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**
One Water and Adaptation Committee

8/19/2025 Board Meeting

REVISED 8-3

Subject

Authorize the Local Supply Exchange Framework; delegate authority to the General Manager to enter into agreements to facilitate the exchange; and amend the Metropolitan Administrative Code to facilitate exchanges; the General Manager has determined that the proposed actions are exempt or otherwise not subject to CEQA

Executive Summary

This letter seeks the authorization of a proposed framework to facilitate the exchange of locally produced supplies between Metropolitan's member agencies. As part of Metropolitan's Business Model Process, in July of 2024, Metropolitan's Board of Directors commissioned an ad hoc working group comprised of the general managers of Metropolitan's 26 Member Agencies (Ad Hoc Working Group) to analyze Metropolitan's business model and to propose business model refinement options in five areas, one being a potential member agency local supply exchange program. The Ad Hoc Working Group created three sub-working groups: Water Resources, Finance, and Engineering, to engage in targeted discussions and develop recommendations for the Ad Hoc Working Group to forward to Metropolitan's Board. Ultimately after several months of work through the Water Resources Sub-Working Group, the Ad Hoc Working Group recommended to the Board that Metropolitan should support desired local supply exchanges between member agencies by (a) directing staff to develop a framework that incorporates the considerations identified by the sub-working group, and (b) making policy and Administrative Code changes needed to support the local supply exchanges. The proposed local supply exchange framework (Framework) is consistent with the recommendation provided by the Water Resources Sub-Working Group and Ad Hoc Working Group. The Framework was brought to the Board in an Information Letter for discussion and input, and presented to the One Water and Adaptation Committee in July 2025.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Authorize the Local Supply Exchange Framework; delegate authority to the General Manager to enter into agreements to facilitate the exchange; and amend the Metropolitan Administrative Code to facilitate exchanges.

Fiscal Impact: No fiscal impacts. From Metropolitan's perspective, it will be meeting a water sale request, with a delivery of Metropolitan supplies at a different location, which is subject to operational and resource availability like all other water sales.

Business Analysis: Metropolitan would help maximize the local supply production within the region and facilitate agreements among its member agencies by transferring local supply credits for any Metropolitan purpose. The Framework creates parameters intended to protect additional burdens on Metropolitan not present with regular demands by Metropolitan member agencies.

Option #2

None required

Fiscal Impact: None

Business Analysis: Metropolitan may miss an opportunity to maximize local supply production in the service area and increase regional reliability.

Alternatives Considered

No specific framework alternatives were considered. The proposed Framework puts Metropolitan in the role of facilitating exchanges between its member agencies. During the Business Model Water Resources Sub-Working Group discussions, two alternatives for Metropolitan's role were discussed. The first was for Metropolitan to incentivize the exchanges by making incentive payments or reducing the water rate for Metropolitan deliveries made in connection with a local supply exchange. The second was to collect revenues from the exchanges to cover any incremental costs identified in the process and generate a rate of return for the facilitation of the exchange. Neither alternative was favored by the Water Resources Sub-Working Group or by the Member Agency Ad-Hoc Group.

Applicable Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

Metropolitan Water District Act Section 130.5: Legislative Findings and Declarations Relating to Conservation

Metropolitan Water District Administrative Code Section 4201: Mission Statement

Metropolitan Water District Administrative Code Section 4205: Sale of Water By One Member Public Agency to Another

Metropolitan Water District Administrative Code Section 4207: Exchange of Water

Metropolitan Water District Administrative Code Section 4501: Obligation to Pay for Water Delivered

Metropolitan Water District Administrative Code Section 4505: Estimates of Water Requirements and Schedules of Deliveries

Metropolitan Water District Administrative Code Section 4509: Water Restricted to Use Within the District

Metropolitan Water District Administrative Code Section 4512: Sales Subject to System and Water Availability

Related Board Action(s)/Future Action(s)

Not applicable

Summary of Outreach Completed

Metropolitan held three sub-working group workshops between January and March 2025, where Metropolitan and member agency staff engaged in robust discussions on local supply exchanges, identifying a recommendation as well as considerations and unintended consequences. In addition, presentations and written information were presented to the Ad-Hoc Working Group and to the Subcommittee on Long-Term Planning and Business Modeling.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, administrative activities, and/or general policy and procedure making that will not result in a direct or indirect physical change to the environment (Public Resources Code Section 21065, State CEQA Guidelines Section 15378(b)(2) and (5)).

CEQA determination for Option #2:

None required

Details and Background

Background

Metropolitan was founded with the purpose of providing supplemental wholesale water service to its member agencies across Southern California. Metropolitan's imported supplies, together with local supplies and conservation efforts, meet the retail-level water demands in the service area. The region faces increasing challenges to regional water supply reliability, and Metropolitan has long recognized the importance of local supplies to help manage the demand for supplemental supplies from Metropolitan. Accordingly, over the past few decades, Metropolitan has played a pivotal role in supporting local agencies in developing and maximizing their local supply projects within the region through the Local Resources Program.

In recent years, Metropolitan received feedback from its member agencies and the Board that member and local agencies may have new or extra local supply production capability that may not be fully utilized, and that other member agencies may be interested in funding or purchasing those supplies. In most cases, agencies producing the local supplies are not physically connected to the interested investor/buyer and would be unable to physically deliver the local supplies to them. Since all member agencies are connected to Metropolitan's distribution system and may purchase Metropolitan supplies, Metropolitan has the unique ability to facilitate the exchange of locally produced supplies among member agencies.

In July of 2024, the Board commissioned the Ad Hoc Working Group to analyze Metropolitan's business model and propose refinements where appropriate, in five specific areas: (1) treated water cost recovery; (2) Metropolitan's role in member agency local supply development; (3) potential member agency supply exchange program; (4) proportion and components of fixed and volumetric charges; and (5) conservation program and funding source(s). The Ad Hoc Working Group formed sub-working groups by categories, and the local supply exchange discussion was taken up by the Water Resources Sub-Working Group.

Between January and March 2025, Metropolitan staff and the member agencies participated in a series of workshops and had extensive discussions in various sub-working group settings. The Water Resources Sub-Working Group developed recommendations and summarized the considerations and potential unintended consequences of those recommendations. The recommendations were provided to the Ad-Hoc Working Group for consideration and consisted of Metropolitan supporting local supply exchanges between member agencies by (a) directing staff to develop a framework that incorporates the considerations identified by the sub-working group, and (b) making policy and Administrative Code changes needed to support the local supply exchanges.

In April 2025, the Ad Hoc Working Group provided a status report and recommendations for refinements to the Business Model in the five areas mentioned above that incorporated the work of the Sub-Working Groups and also presented the considerations and concerns for potential unintended consequences discussed by the Group.

In July 2025, staff presented an informational item to the One Water and Adaptation Committee, which was well-received. Although some members of the Committee suggested that each future proposed Framework Agreement be brought individually to the Board for approval, other directors and Member Agency managers have recommended that the General Manager have the delegated authority to enter into individual Framework Agreements provided that they are consistent with the proposed Local Supply Exchange Framework. The staff recommendation is for the General Manager to have the delegated authority to enter into and implement the

Framework Agreements. Staff would keep the Board apprised of the status and activities of proposed and approved Framework Agreements by providing a written informational report on a periodic basis.

Proposed Local Supply Exchange Framework (Framework)

Metropolitan staff carefully considered member agency feedback received during the sub-working group discussions and developed the proposed Framework to establish a basis for Metropolitan to facilitate the exchange of locally produced supplies among its member agencies. **Attachment 1.** Metropolitan can currently deliver supplies from one agency to another by using Metropolitan's water infrastructure, a concept referred to as wheeling. However, this proposed Framework is not a wheeling arrangement as Metropolitan's physical infrastructure is not used to make the exchange. Instead, the Framework is intended to address circumstances when local water is not physically introduced into Metropolitan's system for wheeling. The Framework would facilitate a member agency's desire to invest or purchase locally produced supplies from another member agency through an exchange. Metropolitan would facilitate the exchange through the appropriate accounting and billing of Metropolitan deliveries used in the exchange, and correctly account for any relevant associated credits for locally produced supplies between Metropolitan's member agencies.

Under the Framework, one member agency (Seller) would sell its locally produced supply to another member agency (Buyer) via exchange with a Metropolitan water delivery. The local supply being sold would not enter Metropolitan's system. The Seller would produce and consume the local supply in the Seller's service area, offsetting an equal amount of demand for Metropolitan supplies, and exchange it for an equal amount of Metropolitan water delivery to the Buyer's service connection. The Seller would be responsible for paying the applicable full-service water rate and any other applicable charge for the deliveries made under the Framework at the time the full-service delivery is made to the Buyer, and the sales would be attributed to the Seller for determination of any other fee or charge allocated based on sales. The Seller and Buyer would arrange for any payment or other agreements between them. Metropolitan would not be involved in the negotiations between the Seller and Buyer for the sale or purchase of the local supplies. Metropolitan would make the full-service water delivery of Metropolitan water to the Buyer concurrently with the consumption of the local supplies by the Seller in its own service area.

From Metropolitan's perspective, facilitating the exchange is a matter of correct accounting and billing of deliveries and related local supply credits to the participating agencies. All member agencies have the right to produce their own supplies locally and to purchase water from Metropolitan. Therefore, a Metropolitan delivery to the Buyer will be considered by Metropolitan in its operations planning at the time Metropolitan plans full-service deliveries to that same service connection. As set forth in **Attachment 1**, the deliveries under the program are subject to availability of Metropolitan's resources and operational conditions, so long as Metropolitan is able to meet demands for water sales from its member agencies. For allocation and other purposes, Metropolitan will attribute the local supply credit to the Buyer member agency—not the producing member agency that is selling its production. The Metropolitan deliveries will be attributed to the Seller member agency for all billing purposes, even though the delivery is being made to the Buyer member agency's service connection.

Proposed Framework Process

Member agencies interested in the exchange of locally produced supplies would submit their proposal to Metropolitan for review and consideration. Upon confirmation from Metropolitan that the proposal meets the requirements of the Framework, including that the exchange can be accommodated by Metropolitan at the times and at the connections requested, then, Metropolitan and the Seller would enter into an agreement (Framework Agreement) consistent with the Framework. Under the Framework Agreement, the Seller would agree to coordinate with Metropolitan and identify the service connection(s) and delivery amount of Metropolitan supplies that Metropolitan would deliver to the Buyer. The delivery of the exchanged supply to the Buyer would not be guaranteed by Metropolitan and will be contingent upon Metropolitan's operational feasibility, supply availability, and compliance with the Metropolitan Administrative Code.

Metropolitan will invoice the Seller at the full-service water rate applicable for the water delivered at the time of delivery on the Seller's monthly bill. The delivery will also be attributed to the Seller for purposes of the determination of any other applicable fees or charges, including the Readiness-to-Serve Charge. The delivery will

be attributed to the delivery connection for purposes of the Capacity Charge or any other charge that is based on flows to a connection. The Seller has the option to request Metropolitan to deliver either treated or untreated water, provided that those connections are available for the Buyer to take delivery of the exchanged supply. Metropolitan staff, in coordination with the Seller and Buyer, will complete a yearly reconciliation of the local supply production and delivered exchanged supply.

Water Supply Allocation Plan Implementation

A key consideration for Metropolitan is to ensure that regional water supplies available to its service area are not negatively impacted by exchanges, especially during a Water Supply Allocation Plan (WSAP) implementation. The formula for Metropolitan's WSAP supply allocations for its member agencies incorporates a member agency's local supply production and consumption during a WSAP implementation. If not accounted for correctly, local supplies exchanged under the proposed Framework may not be credited to the proper member agency, and Metropolitan could end up allocating more water supply than intended. Under the proposed Framework, for the purposes of WSAP implementation, the credit and benefit of local supply production are accounted to the Buyer, not the Seller. The use of the Metropolitan supplies are accounted to the Seller, not the Buyer. Based on this accounting, Metropolitan would enforce any penalties or surcharges applicable at the time of the restriction for any parties that exceed their allocated Metropolitan supplies in the WSAP in accordance with the existing WSAP policy and procedures. In other words, Metropolitan water purchased by the Seller to effectuate the exchange would be subject to the Seller's allocation during a WSAP implementation.

Changes to Existing Policy

Amendments to Metropolitan's current Administrative Code are required to accommodate the procedures under the Framework, including facilitating the delivery of supplies to an alternative connection while appropriately billing the Seller. The proposed amendments are set forth in **Attachment 2**.

Summary

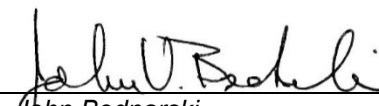
Metropolitan has long recognized the importance of supporting local supply development and encouraging production to increase regional water supply reliability and help mitigate climate change impacts. For decades, Metropolitan has been instrumental in supporting the development of regional local supply projects through the Local Resources Program. The proposed Framework is an innovative approach for Metropolitan to facilitate the exchange of locally produced supplies between member agencies and maximize regional local supply production within the region. The proposed Framework is responsive to the Board's directive and supports the desires of member and local agencies to facilitate these local supply exchanges. Staff's recommendation is for the General Manager to have the delegated authority to enter into and implement the Framework Agreements. Staff would keep the Board apprised of the status and activities of proposed and approved Framework Agreements by providing a written informational report on a periodic basis.



Blandon J. Goshi
Manager, Water Resource Management

8/4/2025

Date



John Bednarski
Interim General Manager

8/4/2025

Date

Attachment 1 – Proposed Local Supply Exchange Framework

Attachment 2 – Proposed Metropolitan Administrative Code Amendments

Ref# wrm12707048

Proposed Local Supply Exchange Framework

General Requirements:

- A member agency with locally produced supplies (Seller) may use Metropolitan full-service water deliveries as a means of selling its locally produced supplies (local supplies) to another member agency (Buyer) via exchange in the absence of a physical connection between the two agencies, so long as the exchange meets the requirements of this Framework.
- To exchange the local supplies to another member agency, the Seller would purchase treated or untreated Metropolitan full-service deliveries to be delivered at the Buyer's available connection.
- The local supplies purchased by the Buyer will be reported to, and considered by, Metropolitan as the Buyer's local supply and not as the Seller's local supply.
- The exchange is not guaranteed and is subject to Metropolitan's discretion based on operational capabilities, feasibility, and supply availability, including a determination that the exchange requested will not increase demands on Metropolitan.
- The Framework will facilitate deliveries (exchanges) of local supplies only. Exchanges do not involve the introduction of local supplies into Metropolitan's distribution system, and therefore, do not involve wheeling.
- Local Supply is defined for this Program as a water supply that is produced ~~locally in Metropolitan's service area~~ by a Metropolitan member agency or its customer ~~in Metropolitan's service area~~ and does not include water imported into the service area via conveyance system, exchanges, or otherwise.

Framework Parameters:

- Metropolitan would enter into an agreement with the Seller. Metropolitan's role in the agreement would be to facilitate the exchange by delivering Metropolitan water purchased by the Seller to the Buyer, in lieu of local supplies.
- Metropolitan will not be involved in the negotiation of the local supply purchase price between the Buyer and Seller.
- Each delivery is contingent on Metropolitan's determination that the amount of water requested for the exchange is available for delivery to the Buyer at the time requested and that the delivery is operationally feasible to the specified connections.
- The amount of Metropolitan water delivered to the Buyer will be concurrent with the local supplies being produced and consumed by the Seller. Metropolitan will not store any water for the Seller or Buyer as part of this exchange.

Seller Responsibilities:

- Provide Metropolitan with a proposed local supply production and water delivery schedule and proof that it is permitted to legally sell/exchange water with the Buyer.
- Confirm Metropolitan's ability to deliver supplies to the Buyer.
- Purchase Metropolitan water at the full-service rate in effect at the time the water is to be delivered in an amount equivalent to the local supplies produced and sold to the Buyer. The delivery will also be

attributed to the Seller for purposes of the determination of any other applicable fees or charges that are based on water sales, including the Readiness-to-Serve Charge. The delivery will be attributed to the delivery connection for purposes of the Capacity Charge and for any other charge based on flows to a connection. The Seller may request treated/untreated water if a connection is available to the Buyer, which will be charged at the rate in effect at the time, and deliveries will be assigned to the Seller for determination of any fixed fees or charges.

- Provide annual documentation to Metropolitan for local supply accounting.
- During a Metropolitan-declared water supply shortage in which Metropolitan is able to accommodate the exchange, provide documentation that demonstrates that the local supplies sold are accounted for as the Buyer's and not the Seller's local supply production submitted to Metropolitan.

Buyer Responsibilities:

- Coordinate with the Seller to develop a delivery schedule for Metropolitan.
- Arrange payment for the purchase of local supply water with the Seller, which will not involve Metropolitan.
- Provide annual documentation of Metropolitan deliveries received under the exchange to Metropolitan for local supply accounting purposes.

Metropolitan Responsibilities:

- Invoice the Seller for deliveries made pursuant to the exchange.
- Complete annual reconciliation of local supply production and consumption by the Seller.
- During a Metropolitan-declared water supply shortage, account for exchanged water as local supply to Buyer when determining water supply allocation from Metropolitan for each member agency and impose penalties in place at the time of the restriction on any parties exceeding their volumetric limit/allocation.
- There will be no losses associated with Metropolitan's delivery of water exchanged under this Framework. Metropolitan's delivery of Metropolitan water under this Framework will be subject to the Administrative Code, no different than delivery of any other water purchased from Metropolitan.

Proposed Metropolitan Administrative Code Amendments

§ 4501. Obligation to pay for water delivered

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(b) In the event that any member public agency shall request in writing a delivery of water directly by the District into any distribution system owned by some other agency which serves water within the corporate area of the requesting member public agency or to the service connection of another member public agency pursuant to the Local Supply Exchange Framework, the requesting member public agency shall be obligated to pay the District for all water so delivered at the rates and under the conditions from time to time fixed by the Board; and such delivery into such other system or to the service connection of another member public agency shall constitute delivery to the requesting member public agency for the purpose of these regulations.

* * *

§ 4505 Estimates of Water Requirements and Schedules of Deliveries.

(a) General. – Before July 1 of each year, each member public agency shall furnish the District, in form provided by the District, with an estimate of the amounts of water to be furnished to such member public agency by the District, including deliveries pursuant to the Local Supply Exchange Framework. These estimates will be used by the District in planning the construction needed to complete the District's ultimate aqueduct and distribution system; in planning the future operation of such system; and in preparing notices for submission to the State Department of Water Resources which will be used by the State to order power for pumping on the State Water Project.

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