THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Information

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

1/14/2025 Board Meeting

9-3

Subject

Information on developing State Water Project water management actions

Executive Summary

Metropolitan and its service area is faced with water supply conditions that range from surplus, when supplies exceed demands, to shortage, when supplies are insufficient to meet demands. In particular, highly variable annual SWP supplies lead to challenges that can be managed with water transactions that include transfers, exchanges and the sale of available water supply. In dry years with low SWP supplies, Metropolitan has purchased annual water transfers and should continue to pursue opportunities to supplement limited SWP supplies. In wet years with high SWP supplies, challenges include low water sales revenue combined with increased water management costs due to abundant local supplies and the potential for unmanaged SWP supplies. Staff is evaluating the development of a portfolio of potential SWP water transactions to manage both drought and surplus conditions, and to generate new revenues. Sale of SWP supply outside of the service area is a new tool made possible by the 2021 Water Management Amendment to the SWP contract that can generate new revenues. Staff discussed the development of potential SWP water sales with the One Water and Stewardship Committee on December 9, 2024, including plans to request that the General Manager be granted authority to sell SWP water supply outside of the service area. Feedback from the Board and member agency managers highlighted the need for additional clarity on how the reliability of the SWP-dependent area would be ensured if SWP water sales were to proceed. The focus of this information letter will be to describe the conditions under which staff would pursue both the sale and purchase of water and the parameters that will ensure SWP-dependent area reliability.

Fiscal Impact

Staff intends to evaluate potential SWP water sales that can generate up to $120 million in new revenue over the next two calendar years, consistent with the revenues planned in the budget and rates adopted by the Board in April 2024.

Applicable Policy

By Minute item 52273, dated February 9, 2021, the Board reviewed and considered the Department of Water Resources' certified Final Environmental Impact Report, took related California Environmental Quality Act (CEQA) actions and approved the State Water Project Contract Amendment for Water Management.

By Minute item 20984, dated November 1, 1960, the Board adopted Resolution 5838 and approved execution of the State Water Project Contract with the Department of Water Resources (DWR).

Metropolitan Water District Administrative Code Section 4200: Water Availability

Metropolitan Water District Administrative Code Section 4203: Water Transfer Policy

Metropolitan Water District Act Section 132: Sale of Surplus Water

Related Board Action/Future Action(s)

Staff plans to return to the Board in February 2025 to request that the Board authorize the General Manager to execute SWP transfer and exchange agreements with parties in the SWP place of use that generate up to $120 million in revenue in the next two calendar years or that secure dry-year supply at a cost of up to $50 million.

Details and Background

Background

Since the Board adopted a budget in April 2024 assuming $120 million in new revenues, staff has been evaluating revenue-generating opportunities. Sales of water outside of the district would generate new revenues, and sales to other SWP contractors can be accomplished with SWP supplies pursuant to the Water Management Amendment to the SWP contract. Although Metropolitan's Board approved the Water Management Amendment in February 2021, sale of water outside of the district must be approved by the Board pursuant to Administrative Code Section 4200. The main concern with selling SWP water outside of the district is maintaining water supply reliability for the SWP-dependent area under a future multi-year drought. Dry-year reliability is provided by having sufficient supply and/or sufficient storage over a multi-year sequence.

Metropolitan has a long history of managing years with low Table A allocations with water transfer purchases to meet demands and preserve storage for future dry years. Traditionally, these purchases were made collectively with other SWP contractors. However, in response to an increasingly competitive transfer market, characterized by growing demand and dwindling water supplies, Metropolitan has adjusted its strategy and begun independently seeking additional water supplies.

In October 2024, Metropolitan's Board authorized an agreement with the Western Canal Water District and the Richvale Irrigation District. This agreement is particularly notable as it grants Metropolitan the first right to annually purchase up to 53,000 acre-feet of north-of-Delta transfer supplies over the next three years if needed. This potential water purchase would play a crucial role in preserving SWP storage for a potential fourth dry-year planning scenario.

The Board's authorization of expanded authority to enter into agreements to sell and exchange water would allow staff to focus on securing additional agreements with even more partners, including south-of-Delta partners, to address challenges often encountered in moving water through the Delta. These efforts aim to ensure reliable access to supplemental supplies when needed, further bolstering the region's and, in particular, the SWP-dependent area water reliability.

Parameters for Potential Water Sales and Purchases

The primary objective is to develop a flexible portfolio of water transactions—both purchases and sales—that can be quickly implemented as conditions evolve to maximize benefits. These benefits include generating revenue while ensuring water supply reliability for the region, including SWP-dependent areas.

While these objectives may seem conflicting, they can and must work together to achieve the desired outcome. To ensure this balance, specific parameters will be established, including storage targets, quantities, and pricing strategies that are aligned with hydrologic conditions and operational needs. Metropolitan's decades-long investments in storage and infrastructure uniquely position it to achieve these goals across all year types, providing a robust framework to meet the region's needs effectively.

Storage Targets

Storage for the SWP-dependent area includes carryover in San Luis, flexible storage in Castaic Lake, and banked water along the California Aqueduct in the San Joaquin and Antelope Valleys. Staff has a goal of maintaining four years of dry-year storage in SWP storage accounts. Currently, there are record-high storage volumes in Metropolitan's SWP storage accounts. There are four years of storage in Metropolitan's banking programs, except for the AVEK High Desert Water Bank, which began taking deliveries in 2023 and will be able to recover

water starting in 2027. Carryover storage managed by Metropolitan at the end of 2024 is projected to be 386,000 acre-feet, exceeding the previous high amount of 331,000 acre-feet in 2019. These storage volumes are projected to be sufficient to provide water deliveries under a three-year sequence of a 20 percent allocation followed by two 5 percent allocations (a repeat of 2020 to 2022). Additional storage would be needed to meet SWP demands if the three-year sequence were followed by another year with a 5 percent allocation. One option for additional storage is to store more water in SWP carryover. However, higher storage quantities are more likely to be "spilled" or converted to Table A supply given the already high storage levels at San Luis Reservoir.

In addition to record-high storage levels in SWP storage accounts, Metropolitan has record-high Colorado River storage. Because Metropolitan is ending 2024 with approximately 1,560,000 of water stored as Lake Mead Intentionally Created Surplus, it will have limited capacity to add to storage in Lake Mead in 2025. This means that if Metropolitan's overall water supply and demand balance indicates surplus conditions in 2025, it will likely be adding more than a fourth year of dry-year storage to SWP banking accounts in 2025.

With limited capacity to store water for dry-year recovery within the next three years, developing SWP transactions with other SWP contractors such as exchanges and water sales becomes a highly beneficial strategy. This approach not only generates new revenues but also minimizes unmanaged SWP supplies, ensuring more efficient use of resources.

Quantity

The quantity of water that Metropolitan would sell in a given year depends largely on the SWP Table A allocation, as well as Metropolitan's projected supply/demand balance and storage portfolio balance. Under higher SWP allocations, Metropolitan is projected to store more than required to meet four years of dry-year recovery. At even higher allocations, Metropolitan could have unmanaged SWP supplies, which are allocated Table A supplies that exceed Metropolitan's service area demands and capability to deliver to storage outside of the service area. In recent years, Metropolitan has had unmanaged SWP supply at allocations higher than 70 percent. For example, in 2023, a 100 percent allocation resulted in 457,000 acre-feet of unmanaged SWP supply.

Staff recommends that the Board authorize the General Manager to identify and enter into agreements to sell up to 200,000 acre-feet of SWP supplies annually in years that all service area demands are met and storage accounts have four years of dry-year storage accessible to the SWP-dependent area. This condition may be met at SWP allocations lower than 70 percent and depends on storage balances. Given record-high storage and demand levels entering 2025, unmanaged supplies could occur at SWP allocations as low as 60 percent. These conditions present a low-risk opportunity to sell water without compromising supply reliability.

Opportunities also exist to sell water at SWP allocations lower than 60 percent. In recent years, Metropolitan's overall supply and demand is roughly balanced at a 30 percent SWP allocation. At allocations of approximately 30 percent and below, staff recommends that potential water sales are limited to quantities for which there is an option to call back the water within the next four years, or Metropolitan has secured a commensurate amount of transfer supplies in future years. Being able to purchase the water in a future dry year will mitigate potential risk to SWP-dependent area reliability.

Pricing Strategy

The potential pricing for single-year SWP sales would be dependent on hydrologic conditions, time of year, and overall supply versus demand. In this past year, there were relatively few buyers and several potential sellers with above-average supplies coming off a wet 2023, and the price of Table A sales generally went down as the year progressed. This underscores the importance of being prepared to secure deals with willing buyers early in the year before improving hydrologic conditions drive prices down. Pricing in 2024 ranged from approximately $250 to $600 per acre-foot. In a wet year like 2023, there were sales at approximately $100 to 200 per acre-foot; and in a dry year like 2022, there were sales ranging from approximately $500 to $2,000 per acre-foot. Staff recommends that the price of Metropolitan SWP supply sales to outside parties exceeds the Supply Rate element charged for water sales to Metropolitan member agencies (approximately $300 per acre-foot in 2024).

Business Model Nexus

The business model discussions focus on balancing two critical goals: maintaining fiscal viability in the face of reduced sales. Born out of the need to adapt to rapidly changing hydrologic conditions, this approach leverages flexible water transactions—both purchases and sales—to maximize benefits without compromising water reliability. By capitalizing on opportunities to sell excess water while maintaining essential storage, Metropolitan can generate revenue and address the challenges of a highly competitive water market.

Although the business model process is still ongoing, there is an immediate need to develop SWP transactions to optimize Metropolitan's storage assets, enhance flexibility in managing hydrologic variability, and capitalize on current conditions. These transactions will support or improve dry-year reliability, help sustain Metropolitan's storage portfolio over time, and generate revenue. As the business model process advances, a more comprehensive, long-term approach to SWP transactions can be established.

Staff is seeking feedback on the merits of this approach to incorporate into a strategy to navigate the evolving challenges of climate change and continue to adapt our strategies for securing reliable water supplies in an increasingly uncertain future. The feedback will inform a proposed approach that will be brought back to the Board for consideration in the coming months.

12/26/2024

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12/30/2024

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