



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Information

- **Board of Directors**
One Water and Adaptation Committee (OWA)

7/8/2025 Board Meeting

9-5

Subject

Information on Local Supply Exchange Framework

Executive Summary

This letter details the development of a proposed framework to facilitate the exchange of locally produced supplies between Metropolitan's member agencies. In July of 2024, Metropolitan's Board 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 propose business model refinement options in five areas, one being a potential member agency local supply exchange program. After a series of workshops and extensive discussions, the Ad Hoc Working Group recommended that Metropolitan should support 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) responds to the recommendation provided by the Ad Hoc Working Group.

Fiscal Impact

No fiscal impact estimated at this time. Member agencies responsible for ordering water supplies using the Framework would incur the obligation to pay the applicable full-service rate for all Metropolitan water supplies delivered.

Applicable Policy

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 4501: Obligation to Pay for Water Delivered

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

Staff plans to bring the proposed Local Supply Exchange Framework to the Board for approval in August 2025.

Details and Background

Background

Metropolitan was founded with the purpose of providing supplemental water supplies to its 26 member agencies across Southern California. While Metropolitan's main supplies are imported from the Colorado River and

Northern California, local supplies and conservation efforts combine with Metropolitan's imported supplies to meet the retail-level water demands in the service area. The region faces increasing challenges to regional water supply reliability, but Metropolitan has long recognized the importance of local supplies within Metropolitan's water supply portfolio to help meet those challenges. 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.

Metropolitan received feedback from its member agencies and the Board that member and local agencies may have new or extra local supply production capability, and that other member agencies may be interested in financing or purchasing those supplies. In many cases, interested agencies are not physically connected by their local infrastructure to deliver local supplies to each other. Since all member agencies are connected to Metropolitan's distribution system, Metropolitan has the ability to facilitate the exchange of local 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).

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. During the discussions focused on local supply exchanges, the Water Resources Sub-Working Group developed recommendations that included considerations and potential unintended consequences of those recommendations, found in **Attachment 1**. The recommendations were provided to the Ad-Hoc Working Group for consideration.

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. The recommendation for local supply exchanges is for Metropolitan to support 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.

Potential Local Supply Exchange Framework (Framework)

Metropolitan staff carefully considered member agency feedback received during the sub-working group discussions and developed the potential Framework to establish a basis for Metropolitan to facilitate the exchange of local supply production among its member agencies. Although Metropolitan can deliver supplies from one agency through wheeling, this Framework is intended to facilitate deliveries (exchanges) of local supplies only. Exchanges do not involve the delivery of the local supply between participating agencies or the introduction of the local supply into Metropolitan's distribution system. Current state policy exists to support wheeling; therefore, no policy changes are needed to support wheeling or wheeling-type transactions.

Under the Framework, one member agency (Seller) would sell its local supply to another member agency (Buyer) via exchange with a Metropolitan water supply. The Seller would produce and consume its local supply in the Seller's service area in exchange for an equal amount of Metropolitan water supply (exchanged supply) to be delivered to the Buyer's service area. The Seller would be responsible for paying the applicable full-service water rate for the deliveries made under the Framework at the time the water is delivered to the Buyer. The Seller and Buyer would arrange for 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 deliver exchanged supplies to the Buyer concurrently with the consumption of the local supplies by the Seller.

Potential Framework Process

Member agencies interested in the exchange of local supplies would submit their proposal to Metropolitan for review and consideration. Proposals that meet the Framework terms as described in **Attachment 2** would be approved by Metropolitan. Upon approval from Metropolitan and execution of a separate agreement between the Seller and Buyer, Metropolitan and the Seller would enter into an agreement (Framework Agreement). Under the Framework Agreement, the Seller would agree to coordinate with Metropolitan and identify the service

connection(s) and delivery amount that Metropolitan would deliver to the Buyer. The delivery of the exchanged supply to the Buyer is not guaranteed 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 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.

Staff is considering two alternatives for the approval process. The Board, in approving the overall Local Supply Exchange framework, could delegate the approval of individual proposals to staff and require staff to report back on status and activity. Alternatively, the Board could require staff to bring individual proposals to the Board for approval. Based on the Committee's discussion and direction, staff will recommend an approval process for the Board's consideration.

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. Metropolitan's WSAP supply allocations for its member agencies are impacted by 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. 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 supplies purchased by the Seller to effectuate the exchange would be subject to allocation during a WSAP implementation.

Changes to Existing Policy


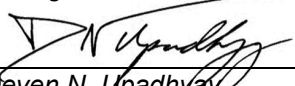
Amendments to Metropolitan's current Administrative Code Sections 4205 and 4501 will be required to accommodate the procedures under the Framework, including facilitating the delivery of supplies to an alternative connection while appropriately billing the Seller.

Summary

Metropolitan has long recognized the importance of supporting local supply development and encouraging production to increase regional water supply reliability to 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 local 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.

Next Steps

Staff will incorporate any feedback received from the One Water and Adaptation Committee and return to the Board for approval and authorization of the proposed Framework.

	6/30/2025
Brandon J. Goshi Manager, Water Resource Management	Date
	6/30/2025
Deven N. Upadhyay General Manager	Date

Attachment 1 – Considerations and Unintended Consequences for Local Supply Exchange Framework

Attachment 2 – Potential Local Supply Exchange Framework

Ref# wrm12703826

Considerations and Unintended Consequences for Local Supply Exchange Framework

Considerations

- **Policy changes needed to support indirect local supply exchanges** – Metropolitan can deliver local supplies from one member agency to another by exchange or wheeling. State policy is already in place for wheeling; therefore, no policy changes are needed. However, a policy change is needed to support indirect exchanges. Metropolitan's administrative code sections 4205 and 4501 need to be modified to allow changing the delivery location and billing for supplies purchased by a member agency.
- **Seller must consume the local supply being exchanged** – The local supply produced and consumed by the participating agency needs to be documented to ensure the exchange is balanced. Consumption of local supplies ensures that the local supply being exchanged is being beneficially used within the region and prevents an increase in demand on Metropolitan. For exchanges of pre-existing local supply, the exchange must not result in an increase in demand on Metropolitan.
- **Metropolitan should only deliver to participating agencies when Metropolitan supplies are available** – Deliveries should not impact the reliability of agencies within the State Water Project Dependent Area (SWPDA) or any part of Metropolitan's service area. Exchanges should occur in the same time period that the additional local supplies are consumed and not create a Metropolitan obligation, at the time of the production or in the future. Stored Metropolitan supplies should not be used to support the exchanges, and the availability of Metropolitan supplies should not be taken from one agency to be provided to another.
- **Exchanges should not result in an additional cost to the region** – Agencies should not be provided incentives by Metropolitan to develop exchanges. Metropolitan must recover all costs for facilitating the exchange.
- **Available capacity in the system** – Deliveries of exchange water should not be guaranteed and only be made when operationally feasible for Metropolitan. Deliveries to agencies within the SWPDA should not be impacted.

Assessment of Potential Consequences

Financial Sustainability

- **Exchanges may lower demands and impact future Metropolitan sales** – Although exchanges may lower demands for Metropolitan water, facilitation of regional local supply exchanges will increase total production in the service area. Increased local supply production can help reduce stress on imported water supplies, reduce future risks of supply allocation, and alleviate the need to purchase and/or produce more expensive supplies. Thus, the region will benefit from increased water supply reliability in a manner consistent with other local supply production.

Operational Flexibility

- **Additional demands on Metropolitan's regional water supply** – To facilitate the exchanges, Metropolitan would be delivering regional supplies to the purchasing agency. Metropolitan would only facilitate exchanges when operationally feasible and supplies are available. Exchanges do not create an obligation since deliveries will not be made if supplies are not available.

- **Potential impacts to blends as a result of the exchange** – Deliveries to support exchanges will not result in additional deliveries of Metropolitan supplies. Metropolitan should maintain the blending goals of the Colorado River and the State Water Project supplies. There should not be a negative impact on the blending of water as a result of the exchange.

WSAP Implementation

- **Counteracting purpose of WSAP** – Not appropriately allocating supplies to the exchanging agencies could result in deeper cuts to non-participating agencies during an allocation. WSAP policies and procedures would apply, and access to Metropolitan water would not be taken from one agency and provided to another. The selling agency is exchanging the local supply benefit with the buying agency. The local supply may be considered an extraordinary supply if it complies with all WSAP policies. The water delivered would be documented and accounted for to the appropriate agency.

Regional Reliability

- **Exchanges may create future obligations for Metropolitan** – Exchanges would be reasonably concurrent with local supply consumption and would not create a Metropolitan obligation at the time of the exchange or in the future. In addition, Metropolitan stored supplies would not be obligated to support exchanges. Exchanges will facilitate access to all agencies to purchase local supplies – Metropolitan would not be involved in the negotiations between agencies, thus empowering each agency to develop partnerships with each other. Costs and quantities of water will be agreed upon between the agencies. Metropolitan will enter into a separate agreement with agencies for the coordination of delivery and accounting of local supplies.

Other

- **Unforeseen unintended consequences** – The framework should allow for the ability to make future refinements to the policy.

Potential Local Supply Exchange Framework

General:

- A member agency with local supplies (Seller) may sell its supplies to another member agency (Buyer) via exchange in the absence of a physical connection between the two agencies.
- The Seller would purchase treated or untreated Metropolitan supplies at the full-service rate to be delivered to the Buyer's available connection.
- The local supplies purchased by the Buyer will be reported to 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.
- For exchanges of pre-existing local supply, the exchange must not result in an increase in demand on Metropolitan.
- The Framework will facilitate indirect deliveries (exchanges) of local supplies only. Exchanges do not involve direct delivery of local supplies or the introduction of local supplies into Metropolitan's distribution system, which is considered wheeling.

Framework Criteria:

- 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. The agreement term is on a case-by-case basis and requires Board approval.
- 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 consumed by the Seller. Metropolitan will not store any water for the Seller or Buyer as part of this exchange.

Definitions:

- Local Supply is defined as a water supply that is produced locally by a Metropolitan member agency or its customer in Metropolitan's service area.

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 Seller may request treated/untreated water if a connection is available to the buyer.
- Provide annual documentation to Metropolitan for local supply accounting.
- During a Metropolitan declared water supply shortage, provide documentation that demonstrates that the local supplies sold are separate from their respective 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 local supply received to Metropolitan for local supply accounting.

Metropolitan Responsibilities:

- Invoice the Seller for deliveries made pursuant to the exchange.
- Complete annual reconciliation of local supply production 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.