



One Water & Stewardship Committee

Proposed Modifications to the Reverse-Cyclic Program

Item 7-4

October 7, 2024

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Reverse- Cyclic Program (RCP)

Subject

Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of purchases under various water supply conditions.

Purpose

In wet years when member agencies are unable to accept Metropolitan deliveries due to capacity limitations or in dry years when Metropolitan must preserve limited available stored supplies, member agencies may purchase supplies at that year's full-service rate for deferred delivery in a future year.

Recommendation

Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of purchases under various water supply conditions

Fiscal and Budget 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.

Reverse Cyclic Program (RCP) Overview

- When initiated, RCP allows the member agencies to purchase water at the current rate that Metropolitan will deliver in a future year.
 - Deliveries to member agencies when supplies are available, within five years
- Calendar year 2022 was a dry year and the RCP allowed the General Manager to preserve limited stored supplies.

Proposed Modification to RCP

Authorize and delegate the General Manager to offer the Program to **help manage supplies and increase revenue under various water supply conditions** such as when there is a need:

- to allow deferral of deliveries member agencies cannot temporarily accept due to capacity limitations or operational constraints
- to preserve limited Metropolitan stored water



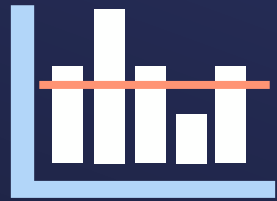
Committee and Member Agency Feedback



- Does this program decrease a future sale?
 - RCP does not decrease a future sale. Metropolitan benefits from the time value of the money by receiving revenues this year for deliveries that will be made in a future year.



- Is this program storing water for the agency?
 - No, Metropolitan would deliver supplies when they are available during higher allocations.



- The proposed baseline for Metropolitan deliveries creates a burden for agencies that don't have additional demands.
 - A baseline will no longer be considered

Why do we need the modifications now?

Saturated Service Area

- Member agencies have decreased capacity to store additional supplies due to wet year
- Decreased participation in storage programs

Capacity or Operational Constraints

- Member agencies unable to take planned deliveries due to prioritized operations or groundwater recharge basin conditions

Decreased Sales

- Metropolitan is experiencing lower sales than budgeted
- Member agencies have available budget to pre-purchase supplies due to decreased planned purchases
- Additional sales would help maintain Metropolitan's revenue base across the biennium

Proposed Modifications to the Reverse Cyclic Program

Deferral

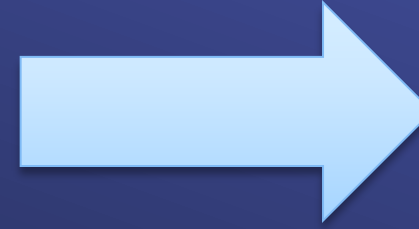


~~Low SWP allocation~~

Various water supply conditions



GM determination
(based on WSDM Recommendation)



Pre-purchase and Deferral
(billed at full-service rate, with the capacity charge waived)
with additional parameters

Delivery



~~SWP allocation above 40% or~~
Metropolitan determines it has supplies

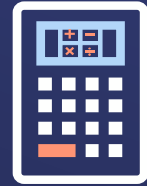


Delivery of supplies within five years *

*Metropolitan will apply losses if the member agency is unable to receive the water within 5 years

Program Terms

Program Terms



- At time of purchase, purchases would be included in the
 - Readiness to Serve Charge
 - Revised Base Firm Demand
-



- Purchases will be included as allocated supply under a Metropolitan allocation or shortage program (if/when implemented)
-



- Reverse Cyclic water shall be documented and ineligible for other Metropolitan programs
-



- Metropolitan staff to certify and reconcile deferred deliveries

Additional Proposed Modifications: Control Parameters

Proposed Modification



- General Manager to determine amount of water available for pre-sale at time of initiation
-



- 10-year agreement term with member agencies
-



- If interest exceeds water available for pre-sale, each agency may pre-purchase an amount proportional to their peak gap compared to the total of all interested agencies' peak gap amounts

Example of Interest Exceeding Water Available for Pre-Sale



Water Supply Available for Pre-Sale Under Program:
50,000 AF

Three (3) member agencies interested in purchasing supplies

Agency A

Interested in purchasing
40,000 AF

Agency B

Interested in purchasing
25,000 AF

Agency C

Interested in purchasing
20,000 AF

$85,000 \text{ AF} > 50,000 \text{ AF}$

Total Interest **Exceeds** Water Available for Pre-Sale

Example of Interest Exceeding Water Available for Pre-Sale

Agency A

Historical Purchases



Maximum 178,000 AF

— Average 139,000 AF

Peak Gap 39,000 AF

Agency B

Historical Purchases



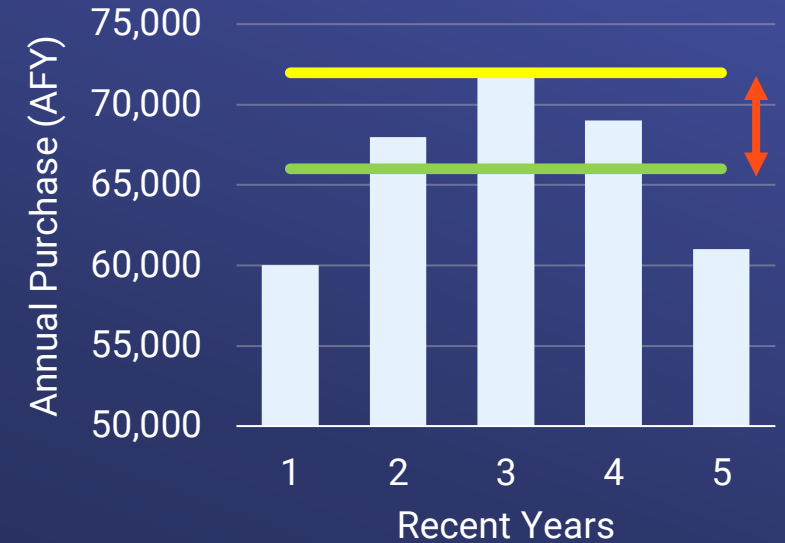
Maximum 95,000 AF

— Average 80,800 AF

Peak Gap 14,200 AF

Agency C

Historical Purchases



Maximum 72,000 AF

— Average 66,000 AF

Peak Gap 6,000 AF

*over previous 5-year period

Example of Interest Exceeding Water Available for Pre-Sale

Agency A

Agency B

Agency C

Peak Gap 39,000 AF + Peak Gap 14,200 AF + Peak Gap 6,000 AF

Sum of Peak Gaps equals 59,200 AF

Agency A

$$\frac{39,000 \text{ AF}}{59,200 \text{ AF}} = 66\%$$

Agency B

$$\frac{14,200 \text{ AF}}{59,200 \text{ AF}} = 24\%$$

Agency C

$$\frac{6,000 \text{ AF}}{59,200 \text{ AF}} = 10\%$$

Example of Interest Exceeding Water Available for Pre-Sale

Agency A

66%

Agency B

24%

Agency C

10%

Distribution of the 50,000 AF Available for Pre-Sale

50,000 AF ~~×~~ 66%

=

33,000 AF

50,000 AF ~~×~~ 24%

=

12,000 AF

50,000 AF ~~×~~ 10%

=

5,000 AF

Summary

Modifications to the Reverse Cyclic Program would:

- Allow all member agencies to purchase water at the current rate for delivery in a future year.
 - Deferral of deliveries under various supply conditions, such as when member agencies are not able to accept deliveries due to capacity, operational constraints, or limitations.
- Allow Metropolitan to collect revenue now and deliver water when supplies are available
- Include additional parameters to provide Metropolitan flexibility on the initiation of deferrals and the delivery of water.

Reverse Cyclic Program Modifications

Board Options

- Option #1
Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of purchases under various water supply conditions consistent with the terms in Attachment 1.
- Option #2
Do not authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of purchases under various water supply conditions.

Reverse Cyclic Program Modifications

Staff Recommendation

- Option #1
Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of purchases under various water supply conditions consistent with the terms in Attachment 1.

