



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

4/14/2026 Board Meeting

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8-4

## Subject

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Authorize the Operational Shift Cost-Offset Program and delegate the General Manager authority to activate the Program and execute agreements with member agencies; the General Manager has determined the proposed actions are exempt or otherwise not subject to CEQA

## Executive Summary

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The Operational Shift Cost Offset Program (OS COP) was authorized in May 2021 with the intent to preserve the limited State Water Project (SWP) supplies during the 2020-2022 drought. Through OS COP, Metropolitan compensated the member agencies that incurred certain additional costs when they shifted their Metropolitan deliveries from SWP supplied connections to Colorado River water-supplied connections at Metropolitan's request. When OS COP was active from Calendar Years (CY) 2021 through 2023, member agencies shifted approximately 90 thousand acre-feet (TAF) in total, helping Metropolitan preserve its limited SWP supplies.

Based on the success of the original OS COP and the identified need for additional operational flexibility, staff proposes to implement a modified OS COP to allow for operational shifts in addition to those that shift between SWP and Colorado River connections. If approved, the modified OS COP would provide a payment to the member agencies to offset their incremental costs for shifts to alternative delivery points, at Metropolitan's request, during scenarios such as nitrification events, emergency and extended shutdowns, or unforeseen water quality events. The proposed modified OS COP would be an actively implemented program, meaning that the General Manager would be delegated the authority to enter into OS COP agreements with member agencies on an as-needed basis to support the operational needs of Metropolitan's system. Metropolitan would not be required to offer an OS COP modification during any event to any member agency. However, the General Manager will evaluate Metropolitan's regional service needs to determine whether an OS COP delivery modification serves Metropolitan's regional service objectives.

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

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### Staff Recommendation: Option #1

#### Option #1

Authorize the Operational Shift Cost-Offset Program and delegate the General Manager authority to activate the Program and execute agreements with member agencies.

**Fiscal Impact:** At the CY 2026 maximum credit amount of \$549/acre-foot (AF), the maximum total program cost could be \$54,900,000 for 100 TAF of shifts. However, not all operational shifts would involve the maximum per AF rate. In the past implementation of OS COP, only 712 AF of the total 90 TAF shifted qualified for the maximum payment.

**Business Analysis:** OS COP would provide Metropolitan with an efficient way to implement operational shifts on an as-needed basis to provide regional reliability and respond to emergency and/or unplanned events.

**Option #2**

Do not authorize the Operational Shift Cost-Offset Program or the proposed delegation to the General Manager.

**Fiscal Impact:** None

**Business Analysis:** Metropolitan may need to find other ways to provide reliability during emergency and/or unplanned events, such as through purchasing transfer supplies. Additionally, without the modified OSCOP, Metropolitan may forego an opportunity to minimize the water loss that occurs when flushing is required during nitrification episodes.

**Alternatives Considered**

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No alternatives were considered. However, if OSCOP were not in place, staff would need to request Board authorization for individual operational shift needs on a case-by-case basis. As an example, in 2023 Metropolitan requested and received Board approval to retroactively provide a payment to a member agency that incurred additional costs to shift their delivery connection to accommodate a Metropolitan extended shutdown. The OSCOP proposal would allow as-needed operational shifts to be implemented more effectively and consistently.

**Applicable Policy**

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Metropolitan Water District Administrative Code Section 4503: Suspension of Deliveries

Metropolitan Water District Administrative Code Section 4504: Rates of Flow

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

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

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Staff presented a Committee Informational Item on February 9, 2026, at the One Water and Adaptation Committee and prepared a Board Information Item for the March 9, 2026, One Water and Adaptation Committee.

**Summary of Outreach Completed**

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Staff presented the modified OSCOP at the February Member Agency Managers' Meeting to seek feedback from Metropolitan's member agencies. In general, the member agencies expressed positive feedback and support.

**California Environmental Quality Act (CEQA)**

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**CEQA determination for Option #1:**

The proposed actions are not defined as a project under CEQA because it will not result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (State CEQA Guidelines Section 15378(a)). In addition, the proposed actions are not defined as a project under CEQA because they involve organizational or administrative activities, such as a general policy and procedure making that will not result in direct or indirect physical changes in the environment (State CEQA Guidelines Section 15378(b)(2) and (5)).

**CEQA determination for Option #2:**

None required

**Details and Background**

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**Background**

Metropolitan's Board authorized the original OSCOP in May 2021. Through OSCOP, Metropolitan worked with its member agencies to shift the points of delivery to meet demands with Colorado River supplies in order to preserve its SWP supplies. The maximum OSCOP credit was set at \$5 per AF above Metropolitan's Treatment Surcharge Rate, since most operational changes consisted of shifts from untreated deliveries to treated deliveries. The additional \$5 per AF helped offset additional administrative, monitoring, or operational costs incurred by the

member agency due to the shift. The program was authorized for CY 2021 and 2022 and was later extended to CY 2023 through an additional Board authorization. Metropolitan executed OSCOP agreements with the Eastern Municipal Water District, the City of Los Angeles, the City of Santa Monica, and the Three Valleys Municipal Water District. Combined, Metropolitan and the participating member agencies shifted a total of approximately 90 TAF from May 2021 through March 2023, which is when the SWP Table A allocation increased and Metropolitan ended OSCOP shifts. The total OSCOP credits provided during this time period were approximately \$15 million, with individual credits ranging from \$25 to \$349 per AF.

### **Proposed Modifications**

Staff propose to reestablish OSCOP with modifications to the original program terms, as shown in **Attachment 1**. The primary modification is to expand the conditions under which OSCOP can be activated to include additional types of operational shifts taken by a member agency for Metropolitan's benefit upon Metropolitan's request. In addition to shifting from SWP supply to Colorado River supply connections, OSCOP credits would be provided to member agencies for operational shifts when Metropolitan makes a request during nitrification events, emergency shutdowns, extended shutdowns, unforeseen water quality events, or any other scenario that provides a benefit to Metropolitan.

The General Manager would continue to have authority to execute OSCOP agreements with member agencies on an as-needed basis. However, an additional change from the prior OSCOP is that staff are requesting authorization to delegate to the General Manager the authority to activate OSCOP as needed when there is an identified need for operational shifts that provide benefits to Metropolitan. Authorizing OSCOP as an active program in combination with allowing the General Manager to execute agreements will lead to the efficient implementation of operational shifts. Shifts may only be requested by Metropolitan. Metropolitan would not be required to offer an OSCOP modification during any event to any member agency. However, the General Manager will evaluate Metropolitan's regional service needs to determine whether an OSCOP delivery modification serves Metropolitan's regional service objectives.

Credits will be based on the costs incurred by the member agency. Staff proposes to continue providing a maximum credit amount up to Metropolitan's Treatment Surcharge Rate, based on costs of past operational shift arrangements with member agencies, plus an additional \$5 per AF to cover any administrative costs an agency may incur to perform the shifts. The maximum credit would update each year to match the current year's approved Treatment Surcharge Rate. Staff continue to base the maximum credit amount on the Treatment Surcharge Rate based on historical OSCOP activity, in which the participating member agencies' eligible costs to perform most of the shifts did not reach the Treatment Surcharge Rate in effect at that time. Only 712 AF of shifts were eligible to receive the maximum OSCOP credit in the previously implemented OSCOP.

Based on feedback received at the One Water and Adaptation Committee on February 9, 2026, staff proposes to return to the Board and seek feedback on continuing OSCOP authorization when the cumulative program shifts reach 100 TAF. Based on historic OSCOP activity, this target would allow for shifts similar to those seen in the 2020-2022 drought, plus additional, smaller shifts on an as-needed basis.

Other key terms include:

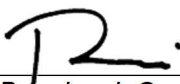
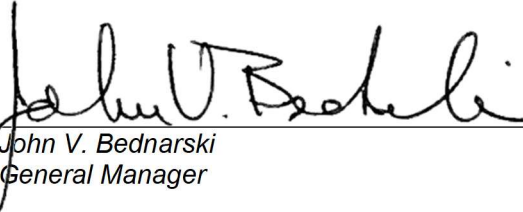
- Metropolitan has sole discretion in determining the eligible costs that are credited.
- Participating member agencies pay all components of Metropolitan's Full-Service Water Rate, including the Readiness-to-Serve charge, when the water is delivered.
- Metropolitan applies the OSCOP credit to participating member agencies' monthly invoices.
- Metropolitan performs annual reconciliations on the OSCOP deliveries and credits that may result in adjustments.
- The Water Resources Management Group Manager provides monthly OSCOP updates, when the program is active, to the Board through their monthly report.

***Financial Impact***

The maximum program cost, assuming member agencies receive the maximum credit and that all 100 TAF of shifts occur, is \$54.9 million. However, it is unlikely that all 100 TAF of shifts will be eligible for the maximum credit. The lowest credit provided under the previous OSCOP was only \$25 per AF. The shifts may also be spread out over an undetermined amount of time. Additionally, only 712 AF of the 90 TAF prior shifts qualified for the full amount under the previous OSCOP. The amount paid will depend on the circumstances of the particular shift involved.

***Next Steps***

If approved, Metropolitan will begin developing agreement templates in preparation for a scenario where the General Manager activates OSCOP.

	4/7/2026
_____ Brandon J. Goshi Manager, Water Resource Management	Date
	4/7/2026
_____ John V. Bednarski General Manager	Date

**Attachment 1 – Operational Shift Cost Offset Program Term Sheet**

Ref# wrm12703373

## **Term Sheet**

### **Operational Shift Cost Offset Program**

#### **Program Purpose**

To provide compensation through the Operational Shift Cost Offset Program (Program) for member agencies when Metropolitan determines operational shifts of their delivery connections upon Metropolitan's request would provide a regional benefit.

#### **Program Terms**

- The General Manager will activate the Program upon determining a need for operational shifts that provide a regional benefit.
- Member Agency and Metropolitan will enter into a Program agreement to provide the authorized financial compensation for Member Agency's costs to shift their delivery connection.
- Covered shifts can include any operational shift between delivery connections that Metropolitan identifies to achieve a regional benefit.
- Maximum Credit: Treatment Surcharge Rate in effect at the time of shift plus \$5 per acre-foot (AF) to cover eligible administrative costs needed to perform the shift
  - Maximum Credit in Calendar Year 2026: \$549/AF (\$544/AF + \$5/AF)
  - Member Agency receives, the lesser of, their actual costs to perform the shift or the Maximum Credit
- The General Manager has discretion to deactivate operational shifts under the Program.
- The Water Resources Management Group Manager will provide monthly OSCOP updates to the Board, while the program is active, through their monthly report.
- Metropolitan staff will seek feedback from the Board when the cumulative Program shifts reach 100,000 AF.

#### **Billing, Certifications, and Credits**

- The Program's credit is intended to help offset the additional costs incurred by the Member Agency due to the operational changes requested by Metropolitan.
- Member Agency provides Metropolitan with their normal operating costs and the costs to perform the operational shift.
- Metropolitan reviews the cost data and determines the credit amount to provide to the Member Agency. Metropolitan has sole discretion in determining the eligible costs that are credited.

- Credits are based on Metropolitan's requested operation compared to the agency's normal operation.
- All components of Metropolitan's full-service water rate, including the Readiness-to-Serve Charge, are charged at the time the water is delivered. Any operational change that affects any capacity charge determination, based solely on Metropolitan's request, will be revised to exempt OSCOP deliveries from the capacity charge determination.
- Member Agency is invoiced for monthly water deliveries to their meters.
- Member Agency certifies the amount of water shifted at their meters under the Program each month.
- The Program credit is applied to the invoiced amount of the Member Agency's meter where the shift occurred.
- Program deliveries and credits are subject to annual reconciliation that may result in adjustments to credit and delivery amounts.