



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

2/11/2025 Board Meeting

8-1

Subject

Authorize the General Manager to execute transfers, exchanges, and other State Water Project management transactions during 2025 and 2026; grant final decision-making authority to the General Manager subject to the terms set forth in this letter; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Staff seeks authorization for the General Manager to execute transfers, exchanges, and other State Water Project (SWP) water management transactions that will protect long-term water supply reliability while offering the opportunity to achieve Metropolitan's financial objectives for the current budget cycle. Staff have identified the potential to sell water supply in excess of currently stored water over calendar years 2025 and 2026 to other contractors, their members, and landowners that can receive transferred water from the SWP. It is estimated that SWP sales will help generate the estimated \$120 million target for new revenues identified in the Metropolitan budget and rates adopted in April 2024. On the other hand, if hydrologic conditions in calendar year 2026 turn out to be dry, thus increasing the need for additional supplies, staff have identified the potential need to purchase up to 100,000 acre-feet at a cost of up to \$50 million from sellers that can convey water via the SWP. These purchases would be used to help manage potential shortage conditions.

Staff presented information letters on this subject to the One Water and Stewardship Committee in January 2025 and December 2024 and received board feedback on the proposal to sell SWP supplies outside of the service area. Key areas of discussion included the need to ensure Metropolitan's water supply reliability and the potential to achieve current budget objectives. **Attachment 1** details staff responses to board feedback and questions received at these two meetings. Based on this feedback, staff proposes to limit outside water sales transactions only to conditions that maintain or enhance Metropolitan's water supply outlook and financial reliability. Currently, Metropolitan is in a unique position to generate new revenue from outside water sales because of record-high storage conditions at the end of 2024. Staff recommends potential single-year water sales over the next two years as long as SWP allocations are sufficient to allow Metropolitan to maintain or add to current record-high storage reserves. If hydrologic conditions do not support sufficient SWP allocations during 2025 and 2026, and Metropolitan is no longer able to maintain or add to current record storage levels, then staff will not pursue the SWP water sales. Board authorization for the General Manager to execute transfers, exchanges, and other SWP management transactions over the next two calendar years will provide Metropolitan with the flexibility to nimbly make water transactions relative to changing hydrologic, water market, and financial conditions.

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

Staff Recommendation: Option #1

Option #1

Authorize the General Manager to execute transfers, exchanges, and other State Water Project management transactions during 2025 and 2026 and grant final decision-making authority to the General Manager subject to the terms set forth in this letter.

Fiscal Impact: Revenue of up to \$120 million through sale of SWP water or cost of up to \$50 million for water purchases in 2026 to be conveyed via the SWP.

Business Analysis: Sale and exchange of potential surplus SWP supply will help generate the new revenue assumed in the budget adopted by the Board in April 2024. Obtaining transfer supplies and implementing water exchanges will improve future regional water supply reliability and help mitigate impacts should dry conditions prevail.

Option #2

Do not authorize the General Manager to enter into transfers, exchanges, and other State Water Project water management agreements during 2025 and 2026.

Fiscal Impact: Decreased likelihood of meeting new revenue targets in FY 25/26 budget and rates.

Business Analysis: Not authorizing the water transfers and exchanges with various water districts could result in a lost opportunity to generate new revenue or to secure additional water supplies in 2025 and 2026.

Alternatives Considered

Not applicable

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 Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Act Section 132: Sale of Surplus Water

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves the tentative approval of and funding for water transfers, exchanges, and other SWP management transactions in 2025 and 2026 but does not involve a commitment to any specific actions at this time that may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). Prior to final authorization of any water transactions by the General Manager, CEQA documentation will be prepared by the Lead Agency and reviewed and processed in accordance with CEQA and the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Details and Background

Background

Staff brought information letters to the Board in December 2024 and January 2025 on developing new SWP water management actions that generate new revenue via the sale of surplus supply and also potential actions that reduce the risk of future water supply shortages via water purchases. Historically, staff has come to the Board annually and on a case-by-case basis for authorizations to buy additional supply.

Staff is seeking additional authority to sell SWP water to other contractors and parties that can receive transfers of SWP water for the first time. This flexibility is primarily afforded by the Water Management Amendment to the SWP contract, approved by the Board in February 2021. Sale of Metropolitan's SWP supply is consistent with Metropolitan Water District Act Section 132 that allows for the sale of surplus water not needed for domestic or municipal use within the district. Administrative Code Section 4200 requires that the sale of water outside of Metropolitan's service area be approved by the Board. Sale of Metropolitan's SWP supply within the next two calendar years could help contribute to the estimated \$120 million in unrealized annual revenue assumed in the budget and rates adopted by the Board in April 2024.

The following discussion describes the type of transactions that staff is contemplating to pursue to meet revenue and water supply goals, possible transaction parameters, key considerations, and potential partners.

Potential Transactions under Surplus Conditions

Metropolitan can pursue several types of transactions to generate revenue, including non-permanent Table A transfers to other SWP contractors, transfers of SWP carryover supply, and transfers of previously stored SWP supply in banking programs outside of the service area. The 2021 water management amendment provides that buyers and sellers can determine the cost compensation for these types of transfers. SWP contractors can also execute balanced or unbalanced water exchanges with cost compensation determined by the buyer and seller, and DWR views these exchanges as "Transfer Packages." An example of a potential unbalanced exchange Metropolitan would consider under surplus conditions would be transfer of Metropolitan surplus SWP supply in exchange for the future return of lesser supply, with potential cost compensation to reflect the dry-year value of water. DWR also procures annual Change in Place of Use permitting that can enable additional parties to participate in transfer transactions.

Pricing for Water Sales

The potential pricing for single-year SWP sales would be dependent on hydrologic conditions, time of year, and overall supply versus demand. In general, demand and price tends to increase in drier years and decrease in wetter years. 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. 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 for Metropolitan SWP supply sales to other parties be an amount greater than the Supply Rate element charged for water sales to Metropolitan member agencies (approximately \$300 per acre-foot in 2024). Charging a price greater than the Supply Rate element will ensure the recovery of Metropolitan's overall supply cost per acre-foot and ensure that Metropolitan's member agencies have access to supply for a lower amount than outside agencies.

Protection of Water Supply Reliability

Staff is not proposing to sell water in conditions that may lead to future challenges in meeting reliability for its member agencies. Thus, Metropolitan's willingness to sell water in 2025 or 2026 would be constrained by the need to maintain water supply reliability, in particular for the SWP dependent area. Staff proposes water sales outside of the service area only if projected SWP allocations are high enough that current high storage levels are maintained and that additional puts to storage may be made. In 2025, under projected Colorado River supplies and current trend demands, balanced conditions are estimated to occur at a SWP allocation of approximately 30 percent. Therefore, water sales outside of the service area would not be pursued in 2025 unless the allocation is

at or above approximately 30 percent. In 2026, staff is proposing water sales only if Metropolitan is able to maintain current high levels of storage, and that year's supply and demand balance requires additional puts to storage. Staff recommends that the Board authorize the General Manager to sell surplus SWP supply over the next two calendar years in the event of wet conditions on the SWP to help generate revenue and minimize unmanaged SWP supplies.

Potential Partners

Potential buyers of Metropolitan SWP supply under the water management amendment are other SWP contractors, their members, or landowners. Potential sale of water to a non-SWP contractor (e.g., Central Valley Project contractor) could also occur to the extent that DWR petition the State Water Resources Control Board to allow a transfer of SWP water outside of the SWP place of use. Staff intends to identify potential partners for water sales within the SWP place of use and with partners whose place of use is compliant and consistent with State Water Resources Control Board petitions. The regulatory challenges for exchanging SWP water with CVP contractors are less onerous and managed via annual petitions to the SWRCB for consolidation of the SWP and CVP place of use. As such, staff will evaluate and potentially pursue mutually beneficial exchanges with both SWP and CVP contractors and their member agencies or landowners.

Potential Transactions under Shortage Conditions

2025 is not projected to be severely dry, and staff will not be pursuing water purchases to augment water supplies. However, if 2026 is dry, staff anticipates a potential need to purchase water transfer supplies in addition to those already approved for purchase by the Board. The Board has already authorized the potential purchase of surface water transfer supplies under the Yuba Accord through 2025, and the potential purchase of water transfer supplies from Western Canal Water District and Richvale Irrigation District through 2027. Staff requests authority to purchase single-year water transfers if needed from other sellers north and south of the Delta, including other SWP contractors as allowed under the water management amendment. Under shortage conditions, Metropolitan may also consider unbalanced water exchanges to secure dry-year supply in exchange for the obligation to return greater quantities in wetter years, with potential cost compensation to reflect the dry-year value of water. A broad portfolio of water transfer options will help Metropolitan meet its future water supply needs in the most cost-effective manner.

The quantity of water that Metropolitan would purchase under shortage conditions in 2026 would be dependent on the overall supply and demand balance, price, and whether Metropolitan purchases water from other sellers such as Yuba Water Agency, Western Canal Water District, and Richvale Irrigation District. To provide the flexibility to supplement these existing water purchase programs, staff recommends that the Board authorize the General Manager to buy up to 100,000 acre-feet of additional supply from willing sellers in 2026, if needed.

Potential partners for the purchase of water by Metropolitan include public water agencies, private water utilities and companies, water rights holders, and state and federal agencies located north or south of the Delta that can move water via SWP facilities.

Administrative Requirements for Potential Transactions

For any potential SWP water sale, Metropolitan would need to enter into at least two agreements, one with the purchasing entity covering the terms of the transaction, and another with DWR, Metropolitan, and the partner contractor (may also be the purchasing entity). For any transaction under the water management amendment, DWR will require compliance with transparency requirements enumerated in Article 57(g) of the SWP contract, including that Metropolitan provide relevant terms to all other contractors via the State Water Contractors organization. DWR will require CEQA documentation to process each transfer and exchange agreement requested by Metropolitan.

Purchase of SWP water from other entities will also likely require at least two agreements, one with the seller and another with DWR to convey the transfer supply. No commitment to any given transfer would be made by the General Manager unless and until all applicable CEQA requirements have been met.

Feedback and Questions Received from the Board

Staff received feedback and questions from the Board during the discussions pertaining to the two Information Letters delivered in December 2024 and January 2025. The following is a categorized listing of the feedback and questions. **Attachment 1** contains the questions and detailed responses.

Legal Questions and Comments:

1. Request for written legal analysis regarding the applicability of MWD Act Section 131.
2. Are any changes to the MWD Act or MWD Administrative Code necessary?
3. Metropolitan should not sell water that will be wasted.
4. Metropolitan should sell its Colorado River water to users in other states.

Price / Finance Questions and Comments:

5. Request that member agencies be able to purchase water at the same price offered to outside agencies.
6. Metropolitan's costs need to be covered.
7. Recovery of a price equal to only the budgeted supply rate for member agencies is too low. How do we maximize the value for Metropolitan?
8. Does the budgeted water supply rate cover our transportation costs, even if we don't transport the water?
9. Are we potentially selling low and buying high?
10. How would water sales impact long-term reliability and investments in DCP, Sites, and Pure Water?
11. Where are we with respect to water sales versus budget?

Approach Questions and Comments:

12. The Board should approve individual transactions and hold special meetings to approve individual transactions if needed.
13. The general public needs to know that Metropolitan is not taking chances with the future reliability of the region. The public may not understand the current status of storage conditions.
14. There seems to be a new threshold for dry-year storage reliability – four years instead of three. The Climate Adaptation Master Plan for Water planning process has not yet addressed these risk and hydrology details.

Delegation of Authority to General Manager

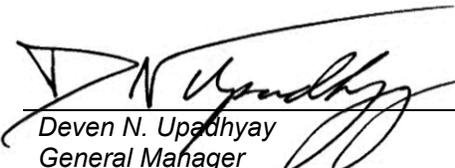
Accordingly, staff requests that the General Manager be delegated the authority to determine whether to move forward with these water sales, purchases, transfers, and exchanges following completion of, and based upon, any environmental reviews that may be necessary under CEQA. No commitment to any given transaction would be made by the General Manager unless and until all applicable CEQA requirements have been met. Any such commitment would be subject to and consistent with the terms and conditions set forth above.



Brandon J. Goshi
Interim Manager,
Water Resource Management

2/4/2025

Date



Deven N. Upadhyay
General Manager

2/4/2025

Date

Attachment 1 – Staff Responses to Metropolitan Director Questions and Comments on Proposed SWP Water Sale Transactions

Ref# wrm12700628

Staff Responses to Metropolitan Director Questions and Comments on Proposed SWP Water Sale Transactions

Written responses to feedback received from Board directors during the January 13, 2025, One Water and Stewardship Committee, summarized by subject area, are detailed below.

Legal Questions and Comments:

1. Request for written legal analysis regarding the applicability of MWD Act section 131.

Response: MWD Act section 131 does not apply to the sale of surplus water; rather, it applies to the sale of water: (a) to the United States or the State of California; or (b) to a private corporation or public agency regarding the generation of electric power. The sale of surplus water by Metropolitan is authorized by MWD Act section 132.

2. Are any changes to the MWD Act or MWD Administrative Code necessary?

Response: No. MWD Act section 132 authorizes Metropolitan to sell surplus water. Under MWD Administrative Code section 4200, Metropolitan may sell water outside of its service area as approved by the Board. See also MWD Administrative Code section 4401(b).

3. Metropolitan should not sell water that will be wasted.

Response: Article 10, section 2 of the California Constitution requires that water be beneficially used and prohibits the waste and unreasonable use of water. Individual water users are responsible for complying with these requirements.

4. Metropolitan should sell its Colorado River water to users in other states.

Response: The sale of Metropolitan's Colorado River water to users in other states is not currently authorized under the Law of the River.

Price / Finance Questions and Comments:

5. Request that member agencies be able to purchase water at the same price offered to outside agencies.

Response: Metropolitan sets rates for member agency deliveries to recover the cost of service and ensure the continued financial viability of the district. The elements of the full-service volumetric water rates for member agencies include: Supply, System Access, System Power, and Treatment Surcharge. The sale price of surplus water to outside agencies may be at a lower amount than the member agency full-service rate because the costs associated with surplus water are limited to supply costs. Metropolitan does not anticipate incurring transportation, power, or treatment costs associated with the other rate elements and therefore, is using its overall supply rate element as a guide for the selling price of its surplus water to third parties. However, any additional costs incurred by Metropolitan will also be considered in the sale price. At this time, Metropolitan does not have a program for selling surplus water to member agencies. Staff and member agencies engaged in several workshops and board discussion during 2023 to 2024 on such a program, and is now continuing to evaluate it through the ongoing CAMP4W and business model process.

6. Metropolitan's costs need to be covered.
7. Recovery of a price equal to only the budgeted supply rate for member agencies is too low. How do we maximize the value for Metropolitan?
8. Does the budgeted water supply rate cover our transportation costs, even if we don't transport the water?

Response: The price proposed for outside water sales would at a minimum recover Metropolitan's cost of water supply assumed in the rates established in the budget and rates adopted by Metropolitan's Board in April 2024 for sales to member agencies. The Supply Rate covers the cost of water supply for Metropolitan and not transportation costs, which are collected through the System Access Rate. Recovery of water supply cost is a minimum guardrail, and staff would pursue sales at higher prices than minimum cost recovery. One strategy for maximizing the price and potential revenue for Metropolitan is to execute transactions early enough in the year when potential buyers may place higher value on the certainty of supplemental water supply. In 2024, SWP contractors entered into water transactions with a price of approximately \$500 per acre-foot early in the calendar year and a price of \$250 per acre-foot late in the calendar year.

9. Are we potentially selling low and buying high?

Response: Staff is proposing outside water sales only to the extent that Metropolitan is maintaining current high storage balances and further adding to storage according to the projected water supply and demand balance for the year. With this reliability guardrail, staff does not anticipate the need to replace water being sold through future purchases or exchanges thus eliminating the potential of selling low and buying high.

10. How would water sales impact long-term reliability and investments in DCP, Sites, and Pure Water?

Response: Water sales to outside agencies over the next two years would not affect long-term reliability or future investment decisions. Staff is proposing single year water transactions over a finite two-year period to generate new revenues. Staff is proposing safeguarding water reliability by ensuring that outside water sales are surplus to member agency demands and dry-year storage targets. Staff is also proposing outside water sales only as long as Metropolitan maintains current record high levels of storage and is projecting to add to storage based on the supply and demand balance of that year. Water sales as a future long-term water management tool is being evaluated in the CAMP4W and business model process.

11. Where are we with respect to water sales versus budget?

Response: Revenues are not currently meeting the estimated revenue assumed in the budget adopted by the Board in April 2024. Water sales are also tracking lower than projected. Additional details will be provided in the February Finance and Asset Management Committee meeting.

Approach Questions and Comments:

12. The Board should approve individual transactions and hold special meetings to approve individual transactions if needed.

Response: The lead time to bring most items to the Board for action is three months. In order to negotiate favorable terms in a timely matter, it would be better if the Board granted the general manager

authority to enter into surplus SWP sales transactions subject to protections for water reliability, including meeting service area demands and regional storage targets. Staff would update the Board in future months on water transactions, if any, executed under the authority granted.

13. The general public needs to know that Metropolitan is not taking chances with the future reliability of the region. The public may not understand the current status of storage conditions.

Response: Metropolitan would not be taking chances with reliability by pursuing transactions subject to guardrails, including meeting service area demands and regional storage targets and recovering costs. The public's understanding of current water supply conditions can be challenged by the extreme ups and downs we face year after year with respect to water supply conditions. Adding surplus water sales to our water management toolbox will help Metropolitan better manage that weather whiplash.

14. There seems to be a new threshold for dry year storage reliability – four years instead of three. The Climate Adaptation Master Plan for Water planning process has not yet addressed these risk and hydrology details.

Response: Staff was considering four consecutive dry years as a conservative assumption in previous discussion. Under the proposed approach and reliability guardrail, staff will not execute agreements to sell water unless the SWP allocation is projected to be sufficient to maintain or increase the current record high storage levels. For a two-year pilot implementation of this new water management tool, this more conservative approach is proposed to ensure that water sales outside of the district do not negatively impact regional reliability.